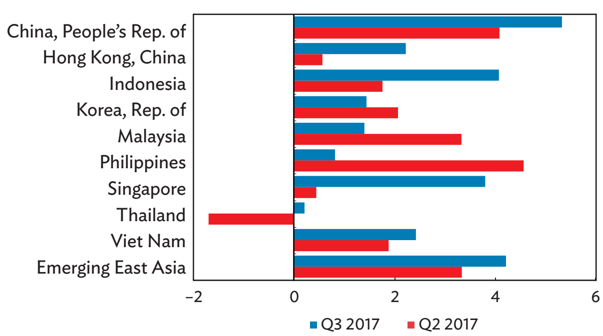
Bond Market Developments in the Third Quarter of 2017

Size and Composition

Most local currency bond markets in emerging East Asia saw faster growth in the third quarter of 2017 as total outstanding bonds reached USD11.6 trillion at the end of September.

Emerging East Asia's local currency (LCY) bond market continued to expand in the third quarter (Q3) of 2017, with the overall market size climbing to USD11.6 trillion at the end of September.[4] Growth in the region's bond markets increased to 4.2% quarter-on-quarter (q-o-q) in Q3 2017 from the 3.3% q-o-q hike posted in the second quarter (Q2) of 2017 (**Figure 1a**). The People's Republic of China (PRC) continued to drive the region's bond market growth during the review period. All markets posted positive q-o-q expansions in Q3 2017. However, q-o-q growth moderated in the Republic of Korea, Malaysia, and the Philippines.

Figure 1a: Growth of Local Currency Bond Markets in the Second and Third Quarters of 2017 (q-o-q, %)



q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. Emerging East Asia growth figures are based on 30 September 2017 currency exchange rates and do not include currency effects.
4. For Hong Kong, China, Q3 2017 corporate bonds outstanding are based on *AsianBondsOnline* estimates. For the Republic of Korea, Q3 2017 government bonds outstanding are as of August 2017. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates. For Thailand, Q3 2017 government bonds outstanding are based on *AsianBondsOnline* estimates and corporate bonds outstanding are as of August 2017.

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

The PRC maintained its status as the largest LCY bond market in emerging East Asia. Its outstanding bonds of USD8,221 billion at the end of September accounted for 71.0% of the region's aggregate bond stock, rising from a share of 69.9% at the end of June. Despite the government's continued deleveraging efforts, the PRC's LCY bond market expanded by a much faster pace of 5.3% q-o-q in Q3 2017 versus 4.1% q-o-q in the prior quarter. Much of the growth this quarter stemmed from increases in the stock of government bonds, which was driven by increases in local government bonds as municipalities continue to refinance existing obligations and issue new bonds. Local government bonds outstanding in the PRC grew 12.0% q-o-q as local governments sought to fill the annual quotas given to them by the central government. The PRC's corporate bond market also rebounded with growth of 3.3% q-o-q after declining 0.1% q-o-q in the prior quarter.

At the end of September, the Republic of Korea's LCY bond market reached a size of USD1,894 billion. Growth slipped to 1.4% q-o-q in Q3 2017, following a 2.1% q-o-q expansion in Q2 2017, due to a decline in the volume of new issuance during the review period. The q-o-q growth of the market was broadly balanced between the government and corporate bond segments. Growth in government bonds came largely from increases in the stock of Korea Treasury Bonds (KTBs). However, the government's issuance volume in Q3 2017 saw a decline in line with its frontloading policy in the first half of the year. Corporate bonds outstanding also climbed at the end of September compared with the previous quarter.

The LCY bond market in Thailand reached a size of USD330 billion at the end of September. Growth, however, was marginal at 0.2% q-o-q in Q3 2017 due to less issuance. Much of the growth resulted from increases in the stock of Treasury bills and bonds, and

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

marginal gains in state-owned enterprise bonds and corporate bonds. The decline in the stock of central bank bonds capped the overall bond market growth. The Bank of Thailand continued to limit issuance of short-term bills as part of measures to manage the Thai baht's strong appreciation. Redemptions of Bank of Thailand instruments exceeded new issuance and resulted in a significant decline in the aggregate stock of central bank bonds during the review period.

In Malaysia, total LCY bonds outstanding reached USD299 billion at the end of September, with growth largely driven by the corporate bond segment. Overall, growth moderated to 1.4% q-o-q in Q3 2017 from 3.3% q-o-q in the preceding quarter as Bank Negara Malaysia reduced its issuance of central bank bills. Much of the growth during the review period came from increases in the stock of corporate bonds.

Malaysia continues to account for the largest *sukuk* (Islamic bond) market in emerging East Asia. At the end of September, 58% of its LCY bonds were structured following shariah principles. Nearly three-fourths of Malaysia's corporate bond segment comprises *sukuk*, while government Islamic debt accounted for a 44.0% share of the total government bond stock.

At the end of September, the LCY bond market of Singapore expanded to a size of USD265 billion, based on *AsianBondsOnline* estimates. Overall growth continued to be driven by government bonds on increased issuance of Monetary Authority of Singapore (MAS) bills. The absence of redemptions of Singapore Government Securities bills and bonds during the quarter also contributed to the growth. In contrast, the corporate bond segment contracted during the review period due to a decline in issuance.

The LCY bond market in Hong Kong, China stood at USD244 billion at the end of September on growth of 2.2% q-o-q. Exchange Fund Bills drove growth as the Hong Kong Monetary Authority announced additional auctions during the quarter amid hefty demand by banks and flush liquidity in the banking system. On the other hand, both the stock of Exchange Fund Notes and Hong Kong Special Administrative Region bonds declined during the review period.

In Indonesia, the LCY bond market reached a size of USD180 billion at the end of September, with growth in both the government and corporate bond segments. Overall growth climbed to 4.1% q-o-q in Q3 2017 from only 1.8% q-o-q in Q2 2017 on increased issuance in both segments. Treasury instruments buoyed growth in the government bond segment. The government took advantage of robust demand from both foreign and domestic investors as it accepted bids above the target in 11 out of 13 auctions during the quarter. Only one government bond auction fell below the indicative target in Q3 2017. The stock of corporate bonds also rose at the end of September due to more active issuance during the quarter. Only the stock of central bank bills, known as Sertifikat Bank Indonesia, contracted during the review period, as maturities exceeded new issuance. Bank Indonesia limited its issuance of Sertifikat Bank Indonesia to shariah-compliant issues beginning in January 2017. Other instruments are now being used for its monetary operations such as Bank Indonesia deposit certificates, repurchases of government bonds, and foreign exchange bills.

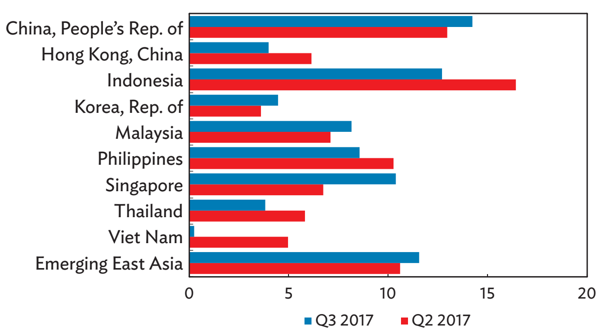
At the end of September, the Philippines LCY bond market had outstanding bonds worth USD102 billion, which was broadly unchanged from its end-June level. Growth slowed to 0.8% q-o-q in Q3 2017 from 4.6% q-o-q in the earlier quarter. The majority of growth was accounted for by corporate bonds rather than government bonds. The increase in the stock of government bonds came solely from Treasury bills. Both the stock of Treasury bonds and other government bonds posted marginal declines during the review period. The weak growth in government bonds stemmed mainly from partial awards during auctions of Treasury instruments during the quarter.

Viet Nam's LCY bond market reached a size of USD46 billion and remained the smallest market in emerging East Asia at the end of September. Growth was driven largely by an increase in the stock of central bank bills as the State Bank of Vietnam resumed issuance of bills in July, following its previous issuance in March, in a bid to increase foreign reserves. Treasury bonds also contributed to the overall growth at the end of September, albeit to a lesser extent. Following a policy rate cut in July, most Treasury auctions were only partially awarded. Corporate bonds marginally declined as redemptions exceeded issuance during the review period. A number of corporate bonds in Viet Nam are issued through private placements and some of the relevant data are not publicly available.

On a year-on-year (y-o-y) basis, emerging East Asia's LCY bond market growth inched up to 11.6% in Q3 2017 from 10.6% in Q2 2017 (**Figure 1b**). While all LCY bond markets in the region recorded y-o-y expansions in Q3 2017, five markets posted slower growth rates during the quarter compared with Q2 2017. The fastest-growing LCY bond market on a y-o-y basis was the PRC's, whose growth accelerated to 14.2% in Q3 2017 from 12.9% in the prior quarter. Next were the markets of Indonesia and Singapore, which posted y-o-y hikes of 12.7% and 10.4%, respectively, in Q3 2017.

Emerging East Asia's LCY bond market continued to be dominated by government bonds, which comprise debt securities issued by governments, central banks, and state-owned entities. Government bonds accounted for 66.5% of the region's aggregate bond stock at the end of September (**Table 1**). The total size of government bonds in the region reached USD7,701 billion at the end of September, rising at a faster pace of 5.1% q-o-q in Q3 2017 versus 4.7% q-o-q in Q2 2017. Driving regional growth were the markets of the PRC, the Republic of Korea, and Singapore. On a y-o-y basis, government bond market growth was also higher at 15.9% in Q3 2017, up from 15.5% in Q2 2017.

Figure 1b: Growth of Local Currency Bond Markets in the Second and Third Quarters of 2017 (y-o-y, %)



Q2 = second quarter, Q3 = third quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. Emerging East Asia growth figures are based on 30 September 2017 currency exchange rates and do not include currency effects.
4. For Hong Kong, China, Q3 2017 corporate bonds outstanding are based on *AsianBondsOnline* estimates. For the Republic of Korea, Q3 2017 government bonds outstanding are as of August 2017. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates. For Thailand, Q3 2017 government bonds outstanding are based on AsianBondsOnline estimates and corporate bonds outstanding are as of August 2017.

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

At the end of September, the PRC continued to have the largest government bond market in the region, with its regional share rising by 1 percentage point to an equivalent of 77.0% of the aggregate stock of government bonds. It was followed by the Republic of Korea, whose government bond market size of USD789 billion represented a 10.2% share of the regional total. The remaining 12.7% share was accounted for by all other emerging East Asian markets. The smallest LCY government bond markets in the region remained those of Viet Nam (USD44 billion) and the Philippines (USD83 billion).

In the same period, the region's LCY corporate bonds outstanding reached USD3,881 billion, with the corporate segment's share slipping to 33.5% of the total aggregate bond stock. Between Q2 2017 and Q3 2017, corporate bond growth was higher on both a q-o-q and y-o-y basis. Growth in the corporate bond segment continued to lag behind that of the government bond segment, indicating the need for its further development. This is consistent with the findings of our annual bond market liquidity survey (see the chapter on the *AsianBondsOnline* Annual Bond Market Liquidity Survey for more details).

At the end of September, all markets in the region had posted q-o-q increases in their respective corporate bond segment except for Singapore and Viet Nam. The largest corporate bond markets in the region in terms of size were those of the PRC at USD2,293 billion and the Republic of Korea at USD1,105 billion. Together these two markets accounted for 87.6% of the region's aggregate corporate bond stock during the review period. The smallest LCY corporate bond markets in the region were those of Viet Nam (USD2 billion), the Philippines (USD20 billion), and Indonesia (USD27 billion).

The size of emerging East Asia's LCY bond market relative to the region's gross domestic product (GDP) inched up to a share of 70.5% in Q3 2017 from 69.0% in Q2 2017, with growth driven by government bonds (**Table 2**). The share of government bonds to GDP rose to 46.9% in Q3 2017, an increase of 1.4 percentage points from the previous quarter. The share of corporate bonds to GDP was unchanged in Q3 2017 at 23.6%. The Republic of Korea and Malaysia continued to have the bond markets with the largest GDP shares.

Table 1: Size and Composition of Local Currency Bond Markets

	Q3 2016		Q2 2017		Q3 2017		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
							Q3 2016		Q3 2017		Q3 2016		Q3 2017	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of														
Total	7,178	100.0	7,658	100.0	8,221	100.0	4.2	26.0	5.3	14.2	3.8	20.1	7.3	14.5
Government	4,969	69.2	5,480	71.6	5,928	72.1	6.0	35.1	6.1	19.0	5.6	28.7	8.2	19.3
Corporate	2,209	30.8	2,178	28.4	2,293	27.9	0.3	9.5	3.3	3.5	(0.1)	4.4	5.3	3.8
Hong Kong, China														
Total	236	100.0	239	100.0	244	100.0	4.3	18.0	2.2	4.0	4.4	17.9	2.2	3.3
Government	138	58.3	138	57.8	143	58.6	5.4	21.8	3.7	4.6	5.4	21.7	3.6	3.8
Corporate	98	41.7	101	42.2	101	41.4	2.9	13.1	0.2	3.2	2.9	13.0	0.2	2.5
Indonesia														
Total	165	100.0	175	100.0	180	100.0	7.5	27.2	4.1	12.7	8.9	42.9	3.1	9.1
Government	143	86.7	150	85.7	153	85.2	7.7	29.4	3.4	10.7	9.1	45.3	2.4	7.2
Corporate	22	13.3	25	14.3	27	14.8	6.2	14.9	8.2	25.5	7.5	29.0	7.2	21.5
Korea, Rep. of														
Total	1,886	100.0	1,869	100.0	1,894	100.0	0.6	3.9	1.4	4.4	5.2	11.8	1.3	0.4
Government	777	41.2	780	41.7	789	41.7	0.3	5.2	1.3	5.6	4.9	13.2	1.2	1.5
Corporate	1,109	58.8	1,089	58.3	1,105	58.3	0.8	3.0	1.5	3.6	5.5	10.8	1.4	(0.4)
Malaysia														
Total	282	100.0	290	100.0	299	100.0	0.4	8.6	1.4	8.1	(2.3)	15.3	3.1	6.0
Government	153	54.1	156	53.8	159	53.1	(1.9)	4.9	0.1	6.2	(4.5)	11.5	1.8	4.1
Corporate	130	45.9	134	46.2	140	46.9	3.3	13.3	2.9	10.4	0.6	20.3	4.6	8.3
Philippines														
Total	99	100.0	102	100.0	102	100.0	2.4	1.6	0.8	8.5	(0.4)	(2.0)	0.03	3.4
Government	82	82.4	83	81.5	83	80.8	1.9	0.4	0.04	6.5	(0.8)	(3.2)	(0.7)	1.5
Corporate	17	17.6	19	18.5	20	19.2	4.6	7.7	4.2	18.1	1.8	3.9	3.4	12.5
Singapore														
Total	239	100.0	252	100.0	265	100.0	0.4	0.4	3.8	10.4	(0.8)	4.7	5.2	10.8
Government	134	56.1	150	59.6	162	61.2	0.6	(2.6)	6.7	20.6	(0.6)	1.7	8.1	21.1
Corporate	105	43.9	102	40.4	103	38.8	0.1	4.4	(0.4)	(2.6)	(1.1)	8.9	1.0	(2.2)
Thailand														
Total	306	100.0	323	100.0	330	100.0	2.1	8.4	0.2	3.8	3.7	14.0	2.1	7.8
Government	226	73.8	235	72.6	239	72.5	1.3	6.9	0.1	2.0	2.8	12.4	2.0	5.9
Corporate	80	26.2	89	27.4	91	27.5	4.6	13.0	0.4	8.9	6.2	18.8	2.2	13.0
Viet Nam														
Total	47	100.0	45	100.0	46	100.0	7.2	22.5	2.4	0.2	7.3	23.5	2.4	(1.7)
Government	45	96.0	43	95.6	44	95.9	7.2	21.4	2.7	0.2	7.2	22.4	2.7	(1.8)
Corporate	2	4.0	2	4.4	2	4.1	8.5	57.2	(3.9)	2.3	8.6	58.5	(3.9)	0.4
Emerging East Asia														
Total	10,438	100.0	10,953	100.0	11,581	100.0	3.3	19.3	4.2	11.6	3.8	17.8	5.7	10.9
Government	6,666	63.9	7,215	65.9	7,701	66.5	4.8	27.0	5.1	15.9	5.0	24.6	6.7	15.5
Corporate	3,772	36.1	3,739	34.1	3,881	33.5	0.7	7.8	2.5	3.9	1.7	7.5	3.8	2.9
Japan														
Total	11,110	100.0	10,144	100.0	10,178	100.0	0.9	2.9	0.4	1.7	2.8	21.8	0.3	(8.4)
Government	10,327	93.0	9,445	93.1	9,482	93.2	0.8	3.2	0.5	1.9	2.6	22.0	0.4	(8.2)
Corporate	783	7.0	699	6.9	695	6.8	2.6	0.1	(0.4)	(1.4)	4.4	18.4	(0.5)	(11.2)

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

Notes:

1. For Hong Kong, China, Q3 2017 corporate bonds outstanding are based on *AsianBondsOnline* estimates. For the Republic of Korea, Q3 2017 government bonds outstanding are as of August 2017. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates. For Thailand, Q3 2017 government bonds outstanding are based on *AsianBondsOnline* estimates and corporate bonds outstanding are as of August 2017.
2. Corporate bonds include issues by financial institutions.
3. Bloomberg LP end-of-period LCY–USD rates are used.
4. For LCY base, emerging East Asia growth figures are based on 30 September 2017 currency exchange rates and do not include currency effects.
5. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

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

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

	Q3 2016	Q2 2017	Q3 2017
China, People's Rep. of			
Total	66.0	66.3	68.0
Government	45.7	47.4	49.0
Corporate	20.3	18.9	19.0
Hong Kong, China			
Total	74.5	72.4	72.8
Government	43.4	41.8	42.7
Corporate	31.1	30.6	30.1
Indonesia			
Total	17.7	17.9	18.3
Government	15.4	15.4	15.5
Corporate	2.4	2.6	2.7
Korea, Rep. of			
Total	128.3	127.5	129.2
Government	52.9	53.2	53.8
Corporate	75.4	74.3	75.4
Malaysia			
Total	96.9	96.2	99.3
Government	52.4	51.7	52.7
Corporate	44.5	44.5	46.6
Philippines			
Total	33.9	34.2	34.2
Government	27.9	27.9	27.7
Corporate	6.0	6.3	6.6
Singapore			
Total	80.0	82.7	87.0
Government	44.8	49.3	53.3
Corporate	35.1	33.4	33.7
Thailand			
Total	74.7	74.2	75.7
Government	55.1	53.8	54.9
Corporate	19.6	20.3	20.8
Viet Nam			
Total	23.8	21.8	21.8
Government	22.8	20.8	20.9
Corporate	1.0	1.0	0.9
Emerging East Asia			
Total	69.2	69.0	70.5
Government	44.2	45.5	46.9
Corporate	25.0	23.6	23.6
Japan			
Total	210.5	211.4	212.1
Government	195.7	196.8	197.6
Corporate	14.8	14.6	14.5

GDP = gross domestic product, Q2 = second quarter, Q3 = third quarter.
Notes:
1. Data for GDP is from CEIC. Q3 2017 GDP figures carried over from Q2 2017 except for the People's Republic of China; Hong Kong, China; Indonesia; and Viet Nam.
2. For Hong Kong, China, Q3 2017 corporate bonds outstanding data are based on *AsianBondsOnline* estimates. For the Republic of Korea, Q3 2017 government bonds outstanding data are as of August 2017. For Singapore, corporate bonds outstanding data are based on *AsianBondsOnline* estimates. For Thailand, Q3 2017 government bonds outstanding are based on *AsianBondsOnline* estimates and corporate bonds outstanding are as of August 2017.

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

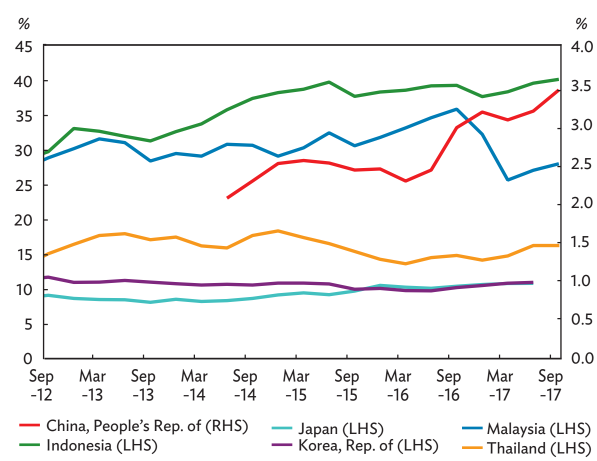
Foreign investor holdings in emerging East Asia's LCY government bond markets were stable at the end of September.

Foreign investor interest in emerging East Asia's LCY government bond market remained positive at the end of September amid the US Federal Reserve's hawkish move in its September meeting. The Federal Reserve has hinted at a rate hike before the end of 2017 and announced that it would commence balance sheet normalization in October. Offshore investor holdings of LCY government bonds continued to climb at the end of September for all markets for which data are available (**Figure 2**). The only exception was in Thailand where the foreign holdings share for government bonds held steady in Q3 2017.

Malaysia posted the largest increase in its share of foreign holdings, with a gain of nearly 1 percentage point to 27.9% at the end of September. Foreign investors have returned to Malaysia's bond market due to its strong economic fundamentals.

In Indonesia, the foreign holdings share reached 40.0% at the end of September, up from 39.5% at the end of June. Offshore investors shored up their holdings of Indonesian government bonds, which have the highest yields among all government bond markets

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



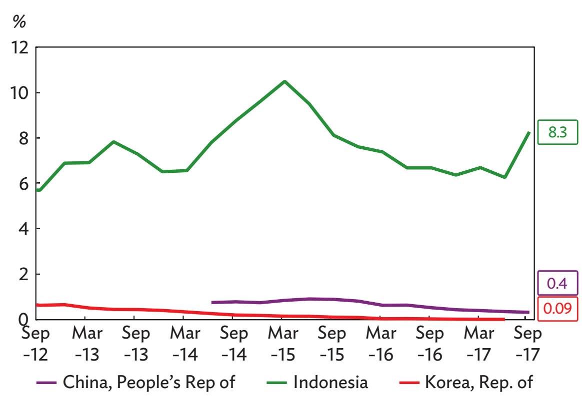
LHS = left-hand side, RHS = right-hand side.
Note: Data as of end-September 2017 except for Japan and the Republic of Korea (end-June 2017).
Source: *AsianBondsOnline*.

in emerging East Asia. The share of foreign investors reached a high of 40.5% in September, particularly after a policy rate cut by Bank Indonesia in 22 September. While economic fundamentals remain stable, cautious moves by investors led to a sell-off in the last 2 days of September amid the Federal Reserve's signaling of further tightening. Since then the foreign holdings share has steadily retreated, falling to 38.4% at the end of October.

The share of nonresident holdings in the PRC, while remaining small relative to its peers in the region, continued to trend higher in Q3 2017. Offshore investors increased their holdings to a share of 3.4% at the end of September from 3.2% at the end of June. In Thailand and the Republic of Korea, foreign holdings remained steady at 16.2% (end-September) and 10.9% (end-June), respectively.

The foreign holdings shares in emerging East Asia's LCY corporate bond markets remained low relative to government bonds, reflective of largely illiquid markets. The only significant movement in nonresident holdings of corporate bonds was seen in Indonesia, where the foreign holdings share rose by 2 percentage points to 8.3% at the end of September from 6.3% at the end of June (**Figure 3**). In contrast, the foreign holdings shares in the PRC and the Republic of Korea were broadly unchanged at less than 0.5% each.

Figure 3: Foreign Holdings of Local Currency Corporate Bonds in Select Emerging East Asian Economies (% of total)



Note: Data as of end-September 2017 except for the Republic of Korea (end-June 2017).
Sources: Based on data from *Wind*, Otoritas Jasa Keuangan, and the Bank of Korea.

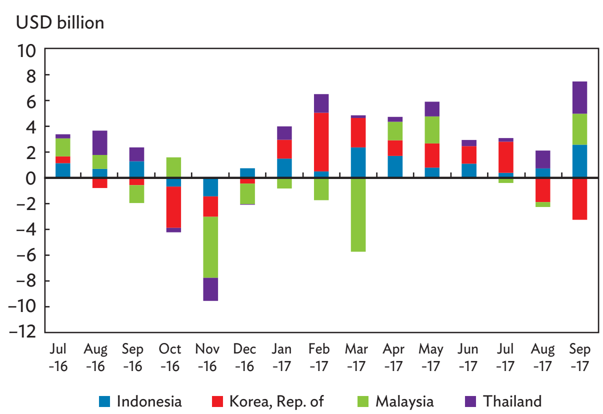
Emerging East Asia's LCY bond markets continue to attract foreign funds in Q3 2017.

The region's LCY bond markets continued to attract foreign funds in Q3 2017 as investor sentiments remained positive on the back of a strengthening global economic outlook. Except for the Republic of Korea, all markets for which data are available recorded foreign capital bond inflows during the quarter. On a monthly basis, Indonesia and Thailand benefitted the most, with both markets having consistently posted net foreign inflows since the start of the year (**Figure 4**). In October, some outflows from the region's bond market were observed.

In Q3 2017, net foreign bond inflows in the region were the largest in Thailand as it lured global funds worth USD4.1 billion. Offshore investors continued to buy Thai bonds, despite their low yields, due to positive macroeconomic fundamentals.

Indonesia also saw further gains, with offshore investors bringing in a net USD3.6 billion into the bond market during the quarter. While Indonesian bond yields have declined since the start of the year, investors continued to chase government bonds as they have the highest rates in emerging East Asia. Likewise, improving macroeconomic

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



Notes:
1. The Republic of Korea and Thailand provided data on bond flows. For Indonesia and Malaysia, month-on-month changes in foreign holdings of LCY government bonds were used as a proxy for bond flows.
2. Data provided as of September 2017.
3. Figures were computed based on 30 September 2017 exchange rates to avoid currency effects.

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

conditions, as evidenced by the S&P Global upgrade, also boosted interest in Indonesia's bond market. In October, however, a reversal in capital inflows was noted, as investors became cautious due to tightening monetary policies in the US and eurozone.

In Malaysia, foreign investment rebounded strongly in September, leading capital flows to turn positive in Q3 2017. From January through September, offshore investors recorded net sell positions valued at USD3.3 billion as monthly foreign bond outflows were noted in 6 of the 9 months.

On the other hand, the Republic of Korea was the sole market in the region that posted net foreign capital outflows in Q3 2017, resulting from heightened geopolitical risks in recent months. Nonetheless, cumulative bond flows year-to-date through September were still positive.

Emerging East Asia's total LCY bond issuance was up in Q3 2017, primarily driven by the continued recovery in issuance in the PRC, with q-o-q growth in most markets in the region.

Issuance of LCY bonds in emerging East Asia rose 22.1% q-o-q to USD1,346 billion in Q3 2017 (**Table 3**). Total government bond issuance increased 22.7% q-o-q to USD969 billion, while corporate bond issuance expanded 20.6% q-o-q to USD377 billion. The high growth was led by the continued recovery in issuance in the PRC's bond market. The PRC accounted for 65% of total LCY bond issuance in the region during the quarter. Excluding the Republic of Korea, the Philippines, and Thailand, all other markets in the region exhibited q-o-q increases in issuance.

Issuance of central government bonds—Treasury bills, Treasury bonds, and other government securities—rose 27.6% q-o-q to reach USD700 billion in Q3 2017, accounting for 52% of total LCY bond issuance in the region. The sole driver of growth was the 35.1% q-o-q jump in issuance in the PRC, which accounted for 89% of the region's total issuance of central government bonds during the quarter. The PRC saw increased issuance of Treasury bonds, local government bonds, and policy bank bonds during the quarter. The only other markets that saw q-o-q increases were Indonesia and Malaysia, albeit with minimal contributions to overall growth. All other markets in the region exhibited q-o-q contractions.

Issuance of central banks, which accounted for 20% of the region's total bond issuance, also increased in Q3 2017 by 11.4% q-o-q to USD270 billion. The rise was largely driven by increased issuance by central banks in Viet Nam; Singapore; and Hong Kong, China. In the case of Singapore and Hong Kong, China, the increase in issuance was primarily in response to demand from banks due to high levels of liquidity in these markets. Meanwhile, the Bank of Korea, which is the largest issuer of central bank bonds in the region, issued fewer bonds in Q3 2017 than in the previous quarter.

The region's total issuance of corporate bonds rose 20.6% q-o-q to USD377 billion in Q3 2017. As with the issuance of central government bonds, the higher volume was primarily driven by the continued surge in issuance of corporate bonds in the PRC. Corporate bond issuance in the PRC accounted for 66% of the region's total. The only other corporate bond markets that posted q-o-q growth in issuance in Q3 2017 were Indonesia and Malaysia.

The PRC continued to be the largest issuer of LCY bonds in emerging East Asia with its issuance comprising 65% of the regional total. Issuance for the quarter in the PRC surged 37.8% q-o-q and 21.2% y-o-y to reach USD871 billion. Both its government and corporate sectors posted high growth rates. Issuance of government bonds rose 35.1% q-o-q to USD624 billion. The largest increase in the government bond segment was observed in the issuance of Treasury bonds, which jumped 83.1% to CNY1.5 trillion in Q3 2017 from CNY819 billion in Q2 2017. In addition to its regular auction schedule, the Ministry of Finance issued CNY600 billion worth of special Treasury bonds in August to refinance maturing bonds.[5] Issuance of local government bonds also rose to CNY1.7 trillion from CNY1.4 trillion as part of the continued bond swap program. New corporate bonds surged in Q3 2017 by 45.1% q-o-q to USD247 billion. Given that the policies being implemented to manage the PRC's debt levels were only applicable to certain industries, many companies returned to the market to issue bonds. The bulk of the issuance was in short-term

[5] Reuters. 2017. *China to Roll Over 600 Bln Yuan of Special Treasury Bonds*. 28 August. https://www.reuters.com/article/china-treasuries/china-to-roll-over-600-bln-yuan-of-special-treasury-bonds-idUSL4N1LE1JG.

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

	Q3 2016		Q2 2017		Q3 2017		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q3 2017		Q3 2017	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of										
Total	717	100.0	620	100.0	871	100.0	37.8	21.2	40.5	21.5
Government	491	68.5	453	73.0	624	71.6	35.1	26.7	37.7	27.0
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	491	68.5	453	73.0	624	71.6	35.1	26.7	37.7	27.0
Corporate	226	31.5	167	27.0	247	28.4	45.1	9.3	47.9	9.6
Hong Kong, China										
Total	99	100.0	107	100.0	111	100.0	4.6	12.9	4.5	12.1
Government	91	91.3	93	87.5	98	88.1	5.2	8.9	5.2	8.1
Central Bank	90	90.7	92	86.2	98	88.0	6.7	9.5	6.7	8.8
Treasury and Other Govt.	1	0.6	1	1.3	0.1	0.1	(94.4)	(87.5)	(94.4)	(87.6)
Corporate	9	8.7	13	12.5	13	11.9	0.0	54.9	(0.05)	53.9
Indonesia										
Total	15	100.0	11	100.0	15	100.0	36.7	7.3	35.5	3.8
Government	13	85.8	9	77.3	12	77.3	36.8	(3.4)	35.6	(6.5)
Central Bank	4	24.2	0.1	0.7	0.5	3.3	515.0	(85.5)	509.3	(86.0)
Treasury and Other Govt.	9	61.6	9	76.5	11	74.1	32.3	28.9	31.1	24.7
Corporate	2	14.2	3	22.7	3	22.7	36.4	71.7	35.1	66.2
Korea, Rep. of										
Total	144	100.0	176	100.0	166	100.0	(5.2)	20.3	(5.3)	15.6
Government	70	48.5	78	44.1	76	46.0	(1.3)	13.9	(1.4)	9.5
Central Bank	35	24.2	38	21.8	38	22.6	(2.0)	12.2	(2.1)	7.9
Treasury and Other Govt.	35	24.4	39	22.3	39	23.4	(0.6)	15.5	(0.7)	11.0
Corporate	74	51.5	98	55.9	90	54.0	(8.3)	26.3	(8.4)	21.4
Malaysia										
Total	16	100.0	17	100.0	18	100.0	7.8	15.6	9.7	13.3
Government	6	39.9	7	42.9	8	43.7	9.8	26.4	11.7	24.0
Central Bank	1	6.0	0.3	2.1	0.2	1.3	(33.3)	(75.0)	(32.2)	(75.5)
Treasury and Other Govt.	5	33.9	7	40.8	8	42.4	12.1	44.4	14.0	41.6
Corporate	10	60.1	9	57.1	10	56.3	6.3	8.4	8.1	6.3
Philippines										
Total	8	100.0	9	100.0	6	100.0	(31.9)	(13.5)	(32.4)	(17.6)
Government	7	87.9	8	88.3	5	84.4	(34.9)	(16.8)	(35.4)	(20.8)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	7	87.9	8	88.3	5	84.4	(34.9)	(16.8)	(35.4)	(20.8)
Corporate	0.9	12.1	1	11.7	1	15.6	(9.3)	10.9	(10.0)	5.7
Singapore										
Total	65	100.0	79	100.0	88	100.0	10.2	34.8	11.7	35.4
Government	62	95.4	76	95.7	85	96.5	11.1	36.4	12.6	36.9
Central Bank	58	89.2	70	88.9	81	92.4	14.5	39.6	16.1	40.2
Treasury and Other Govt.	4	6.2	5	6.8	4	4.1	(33.8)	(10.9)	(32.9)	(10.5)
Corporate	3	4.6	3	4.3	3	3.5	(9.6)	2.9	(8.3)	3.3
Thailand										
Total	78	100.0	67	100.0	56	100.0	(17.9)	(30.4)	(16.4)	(27.7)
Government	64	82.5	54	80.1	48	85.4	(12.5)	(28.0)	(10.9)	(25.2)
Central Bank	55	70.6	40	59.0	40	71.4	(0.6)	(29.6)	1.2	(26.9)
Treasury and Other Govt.	9	11.9	14	21.2	8	14.0	(45.8)	(18.3)	(44.8)	(15.2)
Corporate	14	17.5	13	19.9	8	14.6	(39.6)	(41.7)	(38.5)	(39.5)

continued on next page

Table 3 *continued*

	Q3 2016		Q2 2017		Q3 2017		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q3 2017		Q3 2017	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
Viet Nam										
Total	18	100.0	2	100.0	13	100.0	438.2	(29.4)	438.2	(30.7)
Government	18	99.2	2	100.0	13	99.9	437.8	(28.8)	437.8	(30.2)
Central Bank	15	83.2	0	0.0	12	93.4	–	(20.7)	–	(22.2)
Treasury and Other Govt.	3	16.0	2	100.0	0.8	6.6	(64.6)	(71.0)	(64.6)	(71.5)
Corporate	0.2	0.8	0	0.0	0.01	0.1	–	(93.6)	–	(93.7)
Emerging East Asia										
Total	1,160	100.0	1,088	100.0	1,346	100.0	22.1	16.3	23.7	16.1
Government	822	70.9	780	71.6	969	72.0	22.7	18.0	24.3	17.9
Central Bank	258	22.2	241	22.1	270	20.0	11.4	4.7	12.2	4.7
Treasury and Other Govt.	564	48.7	539	49.5	700	52.0	27.6	24.0	29.8	24.0
Corporate	338	29.1	309	28.4	377	28.0	20.6	12.2	22.0	11.5
Japan										
Total	509	100.0	413	100.0	419	100.0	1.5	(8.6)	1.4	(17.7)
Government	454	89.3	379	91.7	387	92.5	2.4	(5.3)	2.3	(14.7)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	454	89.3	379	91.7	387	92.5	2.4	(5.3)	2.3	(14.7)
Corporate	55	10.7	34	8.3	31	7.5	(8.5)	(36.2)	(8.6)	(42.5)

( ) = negative, – = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Corporate bonds include issues by financial institutions.
2. For Hong Kong, China, Q3 2017 corporate bond issuance data carried over from Q2 2017.
3. For the Republic of Korea, Q3 2017 government bond issuance data are based on *AsianBondsOnline* estimates.
4. For Thailand, Q3 2017 issuance data are based on *AsianBondsOnline* estimates.
5. Bloomberg LP end-of-period LCY–USD rates are used.
6. For LCY-base, emerging East Asia growth figures are based on 30 September 2017 currency exchange rates and do not include currency effects.
Sources: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange); Republic of Korea (*EDAILY Bondweb* and the Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bloomberg LP); Singapore (Singapore Government Securities and Bloomberg LP); Thailand (Bank of Thailand and ThaiBMA); Viet Nam (Bloomberg LP and Vietnam Bond Market Association); and Japan (Japan Securities Dealers Association).

commercial paper, local corporate bonds, and medium-term notes.

The Republic of Korea remained the second largest issuer in the region with a 12% share of the regional total. Total issuance in Q3 2017 was down 5.2% q-o-q to USD166 billion, as issuance in both the government and corporate bond segments was lower than in Q2 2017. Within the government segment, the issuance of KTBs and Monetary Stabilization Bonds were both lower in Q3 2017. The planned issuance of KTBs was lower on a q-o-q basis due to relatively more frequent auctions in Q2 2017 as part of the frontloading policy of the government in the first half of the year. Issuance of corporate bonds fell at a faster pace of 8.3% q-o-q to USD90 billion, mainly due to a high base in Q2 2017 when issuance surged as companies took advantage of low interest rates. This was in contrast to Q3 2017 when yields rose, particularly in August and September, due to heightened geopolitical risks, discouraging companies from raising funds via bonds.

In Hong Kong, China, total bond issuance rose 4.6% q-o-q to reach USD111 billion, making it the third largest issuer in the region. The sole driver of growth was the issuance of central bank bonds, particularly Exchange Fund Bills. The Hong Kong Monetary Authority auctioned more than it planned to meet banks' demand as a result of a high level of liquidity in the market. Issuance of Hong Kong Special Administrative Region bonds in Q3 2017 was lower compared to the previous quarter. On a y-o-y basis, however, issuance increased at a faster pace of 12.9%, led by growth in both central bank bonds and corporate bonds.

Total bond issuance in Singapore grew at a robust pace of 10.2% q-o-q to reach USD88 billion in Q3 2017. The growth was led by MAS bills, which rose 14.5% q-o-q to reach USD81 billion. The central bank has been issuing higher volumes of MAS bills in 2017 compared to the previous year to mop up excess liquidity in the market. Meanwhile, issuance of Singapore Government Securities and corporate bonds fell in Q3 2017. On a y-o-y basis, issuance accelerated to 34.8%, primarily driven by higher issuance of central bank bills.

In Malaysia, total bond issuance rose 7.8% q-o-q to USD18 billion as both the government and corporate sectors posted positive q-o-q growth. Issuance of central government bonds increased 12.1% q-o-q to USD8 billion, led by Malaysian Government Securities and Treasury bills, while new issuance of Government Investment Issues fell during the quarter. New corporate issues were also higher in Q3 2017, up 6.3% q-o-q to USD10 billion, as companies took advantage of the stronger ringgit and also anticipated a rise in yields. The surge in issuance was observed in unrated bonds and government-guaranteed bonds. From the same period a year earlier, issuance increased 15.6%.

Viet Nam posted the fastest q-o-q growth in the region, with issuance reaching USD13 billion in Q3 2017, almost five times the USD2 billion posted in the previous quarter. The high growth rate stemmed from new issuance of central bank bonds and corporate bonds compared to the lack of issuance of both types of bonds in Q2 2017. The State Bank of Vietnam resumed its issuance of central bank bonds in July, a mechanism intended to increase Viet Nam's foreign exchange reserves, with total issuance for the quarter reaching USD12 billion.[6] Meanwhile, the sole corporate bond issuance in Viet Nam in Q3 2017 was the VND220 billion private placement by Loc Troi Group. In contrast, Treasury bond issuance was lower in Q3 2017, as most auctions were not fully awarded. This was the case after the State Bank of Vietnam's policy rate cut. Some participants from our annual liquidity survey attributed this to investors' cautious move given the overall decline in yields. Also, it was mentioned that banks, who are primary holders of Treasury bonds, are shifting their interest toward credit expansion. Compared to the same period a year earlier, issuance in Viet Nam dropped 29.4% as both the government and corporate bond sector contracted.

Indonesia posted the second fastest q-o-q growth in issuance in the region at 36.7% q-o-q to reach USD15 billion. The bulk of the growth was from the increased issuance of central government bonds, which was up 32.3% q-o-q to USD11 billion. This was a result of higher planned auction amounts compared to Q2 2017 when the government eased its frontloading policy. The government also issued above its target in most auctions of Treasury bills and bonds during the quarter. New issues of corporate bonds also posted higher growth of 36.4% q-o-q to reach USD3 billion. However, compared to a year earlier, issuance rose at a slower pace of 7.3%.

Issuance in Thailand continued to contract in Q3 2017, falling 17.9% q-o-q and 30.4% y-o-y to USD56 billion. The slowdown was driven by the decline in issuance of central government bonds, which dropped 45.8% q-o-q to USD8 billion. The volume of new corporate issues also fell 39.6% q-o-q to USD8 billion. Meanwhile, issuance from the central bank was almost at par with the previous quarter at USD40 billion as the government has been issuing smaller volumes of central bank bills since April to manage the sharp appreciation of the Thai baht.

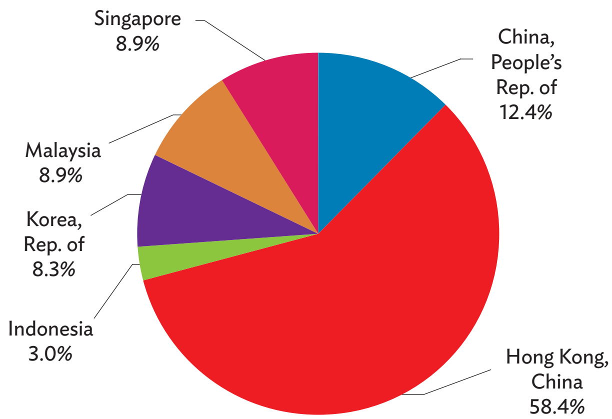
The Philippines saw the largest drop in issuance in the region, with declines of 31.9% q-o-q and 13.5% y-o-y to USD6 billion. The large drop was primarily due to a high base in Q2 2017 when the government issued PHP181 billion worth of Retail Treasury Bonds. Nevertheless, issuance of Treasury bonds and bills fell short of the auction program as the Bureau of the Treasury only partially awarded some of its auctions. Corporate bond issuance in Q3 2017 also fell 9.3% q-o-q to USD1 billion.

Cross-border bond issuance in emerging East Asia reached USD3.7 billion in Q3 2017.

Emerging East Asia's total cross-border bond issuance reached USD3.7 billion in Q3 2017, reflecting an increase of 57.1% q-o-q and 2.4% y-o-y. Hong Kong, China had the largest amount of cross-border bond issuance during the quarter at USD2.1 billion, or 58.4% of the total (**Figure 5**). The Bank of China (Hong Kong) topped all

[6] Vietnamnet. 2017. *Central Bank of Vietnam Issues Bills to Shore Forex Reserves*. 21 July. http://english.vietnamnet.vn/fms/business/182443/central-bank-of-vietnam-issues-bills-to-shore-forex-reserves.html

Figure 5: Emerging East Asia Intraregional Bond Issuance by Market of Origin in the Third Quarter of 2017



Note: Data as of 30 September 2017.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

other issuers during the quarter, with a 1-year bond worth CNY9.0 billion at a coupon rate of 4.4%. Four other firms in Hong Kong, China had combined cross-border bond issuance amounting to USD794.3 million issued in Chinese renminbi and Singapore dollars.

The PRC had the second most cross-border bond issuance, with a total of USD456 million issued in Hong Kong dollars and Malaysian ringgit. The PRC accounted for a 12.4% share of total intraregional bond issuance. Among PRC-owned companies, Bewg M, a water treatment company, issued the first ever MYR-denominated *sukuk* in a multitranche offering worth MYR400 million.

Other emerging East Asian economies with intraregional bond issuances in Q3 2017 include Malaysia (8.9% of the regional total), Singapore (8.9%), the Republic of Korea (8.3%), and Indonesia (3.0%).

The largest cross-border bond issuance in Malaysia was Maybank's 3-year bond worth CNY1.0 billion with a coupon rate of 4.6%, followed by Malaysia's national mortgage corporation, Cagamas, with total bond issuances worth SGD241.5 million.

In Q3 2017, four financial firms from Singapore issued cross-border bonds amounting to USD327 million denominated in Indonesian rupiah (IDR420.7 billion), Philippine pesos (PHP700 million), and Hong Kong dollars (HKD2.2 billion). Three government-related entities of the Republic of Korea issued USD305.2 million worth of cross-border notes with tenors ranging from 3 years to 7 years that were denominated in Chinese renminbi (CNY650 million), Hong Kong dollars (HKD470 million), and Singapore dollars (SGD200 million).

Ciputra Development, a property development and management firm, was the sole cross-border bond issuer in Indonesia with a 4-year bond with a coupon rate of 4.85% amounting to SGD150 million.

In Q3 2017, the leading currency in terms of intraregional cross-border issuance was the Chinese renminbi, which accounted for a share of 62.0%. All other currencies had shares of 20% or less as follows: Hong Kong dollar (19.1%), Singapore dollar (15.1%), Malaysian ringgit (2.6%), Indonesian rupiah (0.9%), and Philippine peso (0.4%).

G3 currency bond issuance in emerging East Asia in January–September surpassed full-year 2016 issuance.

G3 currency bond issuance in emerging East Asia during January–September expanded 55.8% y-o-y, totaling USD240.8 billion **(Table 4)**.[7] This amount surpassed the total value of G3 currency bonds issued in full-year 2016 by about 10%. In Q3 2017, a total of USD76.4 billion was issued in the region, down 13.2% q-o-q but up 39.8% y-o-y.

The PRC accounted for the highest share of total regional G3 currency bond issuance in January–September at 62.7%, followed by Hong Kong, China (12.3%) and the Republic of Korea (9.9%). The Association of Southeast Asian Nations (ASEAN) economies accounted for a share of 15.2%, led by Indonesia.

Of the total G3 issuance during the period, USD222.5 billion was denominated in US dollars, USD15.8 billion in euros, and USD2.4 billion in Japanese yen.

The PRC's G3 currency bond issuance in January–September amounted to USD150.9 billion, up 72.6% from the same period in 2016. In Q3 2017, issuers from the PRC

[7] G3 currency bonds are denominated in either euros, Japanese yen, or US dollars.

Table 4: G3 Currency Bond Issuance

2016		
Issuer	Amount (USD billion)	Issue Date
China, People's Rep. of	**120.0**	
China Cinda Asset Management 4.45% Perpetual	3.2	30-Sep-16
Proven Honour Capital 4.125% 2026	2.0	6-May-16
China Minsheng Banking 4.95% Perpetual	1.4	14-Dec-16
Huarong Finance 3.625% 2021	1.4	22-Nov-16
Sinopec 2% 2021	1.3	29-Sep-16
Export–Import Bank of China 2% 2021	1.3	26-Apr-16
Export–Import Bank of China 0.25% 2019	1.2	2-Dec-16
Sinopec 1.75% 2019	1.1	29-Sep-16
Others	107.2	
Hong Kong, China	**29.2**	
China Overseas Finance 0% 2023	1.5	5-Jan-16
CK Hutchison 1.25% 2023	1.4	8-Apr-16
Others	26.3	
Indonesia	**17.9**	
Perusahaan Penerbit SBSN *Sukuk* 4.55% 2026	1.8	29-Mar-16
Indonesia (Sovereign) 2.625% 2023	1.6	14-Jun-16
Indonesia (Sovereign) 3.75% 2028	1.6	14-Jun-16
Indonesia (Sovereign) 5.25% 2047	1.5	8-Dec-16
Indonesia (Sovereign) 4.35 2027	1.3	8-Dec-16
Others	10.2	
Korea, Rep. of	**28.6**	
Korea Development Bank 3% 2026	1.0	13-Jan-16
Korea Eximbank 1.75% 2019	1.0	26-May-16
Korea Eximbank 2.625% 2026	1.0	26-May-16
Others	25.6	
Lao People's Democratic Rep.	**0.3**	
Malaysia	**6.0**	
Malaysia (Sovereign) *Sukuk* 3.179% 2026	1.0	27-Apr-16
Danga Capital 3.035% 2021	0.8	1-Mar-16
TNB Global Ventures Capital 3.244% 2026	0.8	19-Oct-16
Others	3.5	
Philippines	**2.7**	
Philippines (Sovereign) 3.7% 2041	2.0	1-Mar-16
Others	0.7	
Singapore	**9.6**	
BOC Aviation 3.875% 2026	0.8	27-Apr-16
DBS Group 3.6% Perpetual	0.8	7-Sep-16
Others	8.1	
Thailand	**1.2**	
Kasikorn Bank PLC 2.375% 2022	0.4	6-Oct-16
Others	0.8	
Emerging East Asia Total	**215.6**	
Memo Items:		
India	**8.4**	
Export-Import Bank of India 3.375% 2026	1.0	5-Aug-16
Others	7.4	
Sri Lanka	**2.9**	

January–September 2017		
Issuer	Amount (USD billion)	Issue Date
China, People's Rep. of	**150.9**	
Postal Savings Bank of China 4.50% Perpetual	7.3	27-Sep-17
China Evergrande Group 8.75% 2025	4.7	28-Jun-17
State Grid Overseas Investment Ltd 3.50% 2027	2.4	04-May-17
China Zheshang Bank 5.45% 2050	2.2	29-Mar-17
Kaisa Group Holdings Ltd 9.38% 2024	2.1	30-Jun-17
CNAC (HK) Synbridge Company Ltd 5.00% 2020	2.0	05-May-17
Others	130.3	
Hong Kong, China	**29.5**	
Radiant Access Limited 4.60% Perpetual	1.5	18-May-17
China Cinda Finance 3.65% 2022	1.3	09-Mar-17
Nanyang Commercial Bank 5.00% Perpetual	1.2	02-Jun-17
Others	25.5	
Indonesia	**19.3**	
Perusahaan Penerbit SBSN *Sukuk* 4.15% 2027	2.0	29-Mar-17
Perusahaan Listrik Negara 4.13% 2027	1.5	15-May-17
Minejesa Capital BV 4.63% 2030	1.2	10-Aug-17
Others	14.6	
Korea, Rep. of	**23.8**	
Republic of Korea (Sovereign) 2.75% 2027	1.0	19-Jan-17
Export-Import Bank of Korea 0.50% 2022	0.9	30-May-17
Others	21.9	
Lao People's Democratic Rep.	**0.03**	16-Aug-17
Malaysia	**3.4**	
Genting Overseas Holdings Limited Capital 4.25% 2027	1.0	24-Jan-17
CIMB Bank 1.93% 2020	0.6	15-Mar-17
CIMB Bank 3.26% 2022	0.5	15-Mar-17
Others	1.3	
Philippines	**3.1**	
Republic of the Philippines (Sovereign) 3.7% 2042	2.0	02-Feb-17
Banco de Oro Unibank 2.95% 2023	0.7	06-Sep-17
AYC Finance Limited 5.13% Perpetual	0.4	13-Sep-17
Singapore	**9.0**	
DBS Bank 0.38% 2024	0.9	23-Jan-17
DBS Group Holdings Ltd 1.71% 2020	0.8	08-Jun-17
Others	7.4	
Thailand	**1.7**	
PTTEP Treasury Center Company 4.60% Perpetual	0.5	17-Jul-17
Siam Commercial Bank 3.2% 2022	0.4	26-Jan-17
Others	0.8	
Emerging East Asia Total	**240.8**	
Memo Items:		
India	**11.8**	
Vedanta Resources PLC 6.375% 2022	1.0	30-Jan-17
Others	10.8	
Sri Lanka	**3.7**	
Republic of Sri Lanka (Sovereign) 6.20% 2027	1.5	11-May-17
Others	**2.2**	

USD = United States dollar.
Notes:
1. Data exclude certificates of deposits.
2. G3 currency bonds are bonds denominated in either euro, Japanese yen, or US dollar.
3. For 2016 data, figures were computed based on 31 December 2016 currency exchange rates. For January–September 2017 data, figures were computed based on 30 September 2017 currency exchange rates.

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

raised USD46.6 billion from G3 currency bonds, with the single largest issuance coming from Postal Savings Bank of China in September amounting to USD7.3 billion. Despite the sovereign rating downgrade of the PRC by S&P Global in September, the state-run bank managed to sell the biggest USD-denominated bond in Asia outside Japan since 2014.[8] The perpetual bond carries a coupon rate of 4.5%. Analysts perceived that the rating cut had a minimal impact on the PRC's bond market given the favorable reception for the issuance from investors. There remains strong demand from global investors who are seeking higher yields from the PRC's USD-denominated securities while shrugging off risks flagged by rating agencies such as the PRC's soaring debt.

Hong Kong, China was the second largest source of G3 currency bond issuance in the region, comprising 12.3% of the total sales in January–September. Its total bond issuance in the first 9 months of 2017 amounted to USD29.5 billion, registering an increase of 67.4% y-o-y, with most issuance coming from the financial sector. In Q3 2017, bond sales amounted to USD7.5 billion, down from USD13.1 billion in the preceding quarter. During the quarter, the single largest bond sale was from CK Hutchison International with an issuance amount of USD1 billion, a coupon rate of 2.25%, and a maturity of 3 years.

In the Republic of Korea, G3 currency bond issuance expanded 13.4% y-o-y in January–September to reach USD23.8 billion. Bond issuance was dominated by government-related entities including the Export–Import Bank of Korea and Korea Development Bank, which both had the largest total sales during the period. In Q3 2017, total issuance summed to USD8.7 billion, with Hyundai Capital Services as the top issuer, selling a 5-year bond valued at USD0.6 billion with coupon rate of 3.0%.

G3 currency bond issuance from the ASEAN economies totaled USD36.5 billion in January–September, up 28.4% y-o-y. Indonesia continued to lead G3 currency bond issuance among ASEAN markets. The US dollar remained the preferred G3 currency, comprising 87.0% of total G3 bond issuance in the ASEAN region in Q3 2017, followed by the euro comprising 8.9% and the Japanese yen comprising 4.1%. All ASEAN economies saw higher G3 currency issuance in January–September compared to the same period in 2016 except Malaysia and the Lao People's Democratic Republic (Lao PDR), whose issuances were lower.

Indonesia's G3 currency bond issuance was valued at USD19.3 billion and comprised 52.8% of the total in the ASEAN region in January–September. As a percentage of total G3 currency issuance in emerging East Asia, Indonesia accounted for an 8.0% share, which was nearly at par with the Republic of Korea's share. Issuances were largely from the Government of Indonesia, which included Perusahaan Penerbit's single sale of USD2 billion worth of bonds. Issuers from Indonesia sold a total of USD7.8 billion of G3 currency bonds in Q3 2017, the highest level of quarterly issuance in 2017. The single largest G3 currency bond issuance came from Minejesa Capital with its sale of a 13-year bond amounting to USD1.2 billion and carrying a coupon rate of 4.63%.

Singapore's total G3 currency bond issuance reached USD9 billion in the first 9 months of 2017, mainly from the financial sector, which predominantly comprises banks. Of the amount, USD3.1 billion was issued in Q3 2017. Singapore was the second largest G3 currency bond issuer among ASEAN economies.

Issuers from the Philippines raised a total of USD3.1 billion from the sale of G3 currency bonds in January–September. The issuances were all USD-denominated, coming from both the government and corporate segments, with the former having total issuance of USD2 billion from a single sale in February, and the latter having total sales of USD1.1 billion in September. The corporate issuances comprised BDO Unibank's sale of a 5.5-year USD0.7 billion bond with a coupon rate of 2.95% and AYC Finance's perpetual bond amounting to USD0.4 billion with a coupon rate of 5.13%. BDO Unibank's sale is the single largest issuance by a Philippine bank to date.[9] According to BDO Unibank, the issuance is part of its liability management initiative to tap long-term funding sources to support its lending operations and general corporate purposes.

In Thailand, total G3 currency bond issuance in January–September amounted to USD1.7 billion, all of which was denominated in US dollars and the bulk of which,

[8] Bloomberg. 2017. *China Bulls Ignore Downgrade in Biggest Asia Bond Since 2014*. 22 September.
[9] Reuters. 2017. *BDO to Raise $700 Mln in Largest Notes Issue by a Philippine Bank*. https://www.reuters.com/article/bdo-unibank-notes/bdo-to-raise-700-mln-in-largest-notes-issue-by-a-philippine-bank-idUSL4N1LH21D

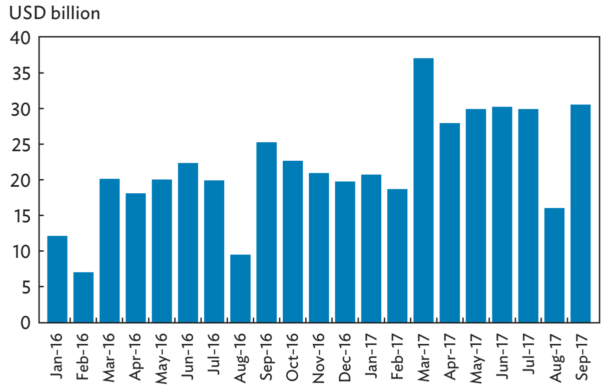
USD1.2 billion, was issued in Q3 2017. The largest issuance in the first 9 months of the year came from PTTEP Treasury Center in July when the oil exploration and production firm issued a perpetual bond of USD0.5 billion with a coupon rate of 4.6%.

Malaysia and the Lao PDR had less G3 currency bond issuance in January–September than in the same period in 2016. Malaysia's issuance dropped 16.4% y-o-y to USD3.4 billion during the first 9 months of the year. The decline can be partially attributed to the lingering effect of the clampdown on the offshore trading of the Malaysian ringgit, which had a negative impact on Malaysia's bond market. Total G3 currency bond sales in Q3 2017 registered USD0.5 billion, the lowest among its quarterly issuances in 2017, and came mostly from banks. Maybank's USD0.2 billion zero-coupon bond sale in July was the largest in Q3 2017.

The Lao PDR was not active in issuing G3 currency bonds in Q3 2017. Its sole issuance in January–September was in August when KOLAO Holdings sold a USD30 million bond with coupon rate of 5.5%. Last year, the Lao PDR issued USD312 million worth of G3 currency bonds via a multitranche sale by an energy firm.

Monthly G3 currency bond issuance from emerging East Asia has been steady at around USD29 billion since April (**Figure 6**). However, in August, a sharp drop of nearly 50% month-on-month (m-o-m) occurred, which drove down total bond issuance from the region to USD16 billion. The plunge can be attributed to a less active market in the PRC and Hong Kong, China during the month. All other economies in the region also experienced declines in bond issuances in August, ranging from about 6% m-o-m to about 93% m-o-m. These declines were reversed in September when total G3 currency bond issuance from the region surged to USD30.5 billion. In 2016, a sharp m-o-m drop was also observed in August, which was followed by a m-o-m surge in September.

Figure 6: G3 Currency Bond Issuance in Emerging East Asia



USD = United States dollar.
Notes:
1. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; the Lao People's Democratic Republic; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
2. G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.
3. Figures were computed based on 30 September 2017 currency exchange rates and do not include currency effects.

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

Government bond yield curves rose in most emerging East Asian markets as continued global growth pushed up yields in advanced economies.

The global economy is strengthening as advanced economies grow increasingly more confident that economic gains will be sustained. The US economy continues to post gains, with advanced estimates showing that Q3 2017 GDP grew at an annual rate of 3.0% after an increase of 3.1% in Q2 2017. The revised 3.1% y-o-y GDP growth in Q2 2017 was higher than the 2.6% y-o-y advanced estimate. The US labor market also continues to strengthen, with the unemployment rate declining to 4.1% in October from 4.2% in September.

In the eurozone, preliminary flash estimates indicate that GDP grew at an accelerated rate of 2.5% y-o-y in Q3 2017 versus 2.3% y-o-y in the prior quarter and the Q2 2017 GDP growth flash estimate of 2.2%.

Economic forecasts also indicate that improving trends in global economic growth are expected to continue. The Federal Reserve assessed that the recent hurricanes in the US were expected to dampen economic growth only in the short-term. In a speech given by Federal Reserve Chair Janet Yellen in October, she said that US economic growth is still expected to exceed its potential in the second half of 2017. The Federal Reserve's 31 October–1 November monetary policy meeting statement indicated that the labor market continues to strengthen and the economy is growing despite the impacts of hurricanes.

In the eurozone, the European Central Bank's macroeconomic forecasts were upgraded in September, with full-year 2017 GDP expected to grow 2.2% y-o-y versus 1.9% y-o-y in the previous forecast. The Bank of Japan similarly upgraded its 2017 forecast on 31 October, with GDP now projected to grow 1.9% y-o-y versus a prior forecast of 1.8% y-o-y.

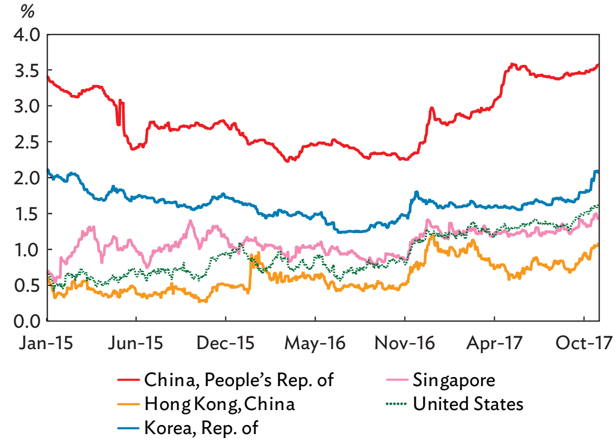
The sustainability of global economic growth has led some central banks in advanced economies, led by the Federal Reserve, to begin scaling back financial stimulus. In its monetary policy meeting in September, the Federal Reserve kept its key policy rate target unchanged but announced that the unwinding of its balance sheet would begin in October. In the 31 October–1 November meeting, the Federal Reserve again maintained its key policy rate target and noted that balance sheet normalization was proceeding.

The European Central Bank followed suit in October, announcing that it would begin to taper its monthly asset purchases from EUR60 billion to EUR30 billion starting in January 2018. The Bank of Japan, however, kept its monetary policy unchanged in its 31 October meeting.

The strong global economic growth is also translating into gains in developing economies. While Q3 2017 GDP releases have been limited, the few markets in emerging East Asia that have released data so far have been encouraging. The PRC had GDP growth of 6.8% y-o-y in Q3 2017, which was only marginally lower than the 6.9% y-o-y growth in the previous quarter despite the ongoing deleveraging. In the Republic of Korea, preliminary estimates for Q3 2017 showed GDP growing at an annual rate of 3.6% versus 2.9% in the previous quarter. In Singapore, GDP grew 4.6% y-o-y in Q3 2017, up from 2.9% y-o-y in Q2 2017. In Viet Nam, GDP growth climbed to 7.5% y-o-y in Q3 2017 from a revised 6.3% y-o-y hike in the previous quarter.

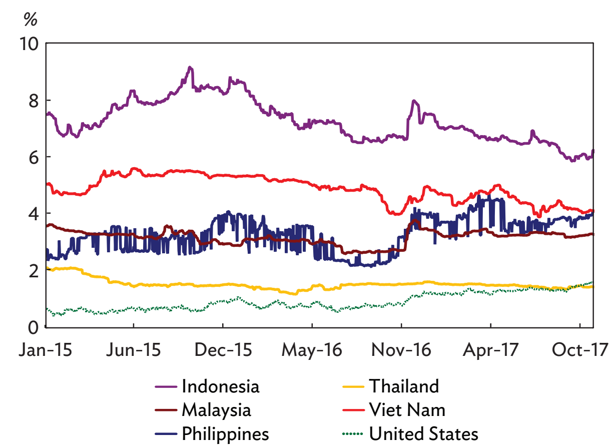
The strong global economic growth and gradual normalization of monetary policies in the US and the eurozone have pushed bond yields upward in advanced economies. Yields in emerging East Asia followed suit, tracking movements in advanced economies while also reflecting better growth prospects domestically. Hong Kong, China, whose yields closely track US yields, and the Republic of Korea showed the most dramatic rise in their 2-year yields among all emerging East Asian markets between 1 September and 31 October (**Figure 7a**). The Republic of Korea also had a steep rise due to increased expectations of a rate hike. In the PRC,

Figure 7a: 2-Year Local Currency Government Bond Yields



Note: Data as of 31 October 2017.
Source: Based on data from Bloomberg LP.

Figure 7b: 2-Year Local Currency Government Bond Yields



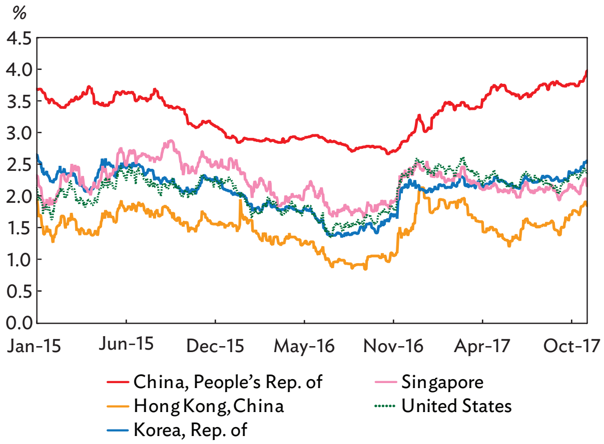
Note: Data as of 31 October 2017.
Source: Based on data from Bloomberg LP.

the yield rise was mostly driven by the government's deleveraging campaign.

Gains in the 2-year yield were noted in other markets between 1 September and 31 October. Indonesia initially experienced a decline during the review period before yields rose in the latter part of October (**Figure 7b**). The only market to experience an overall decline during the review period was Viet Nam, mostly due to monetary easing conducted by the State Bank of Vietnam.

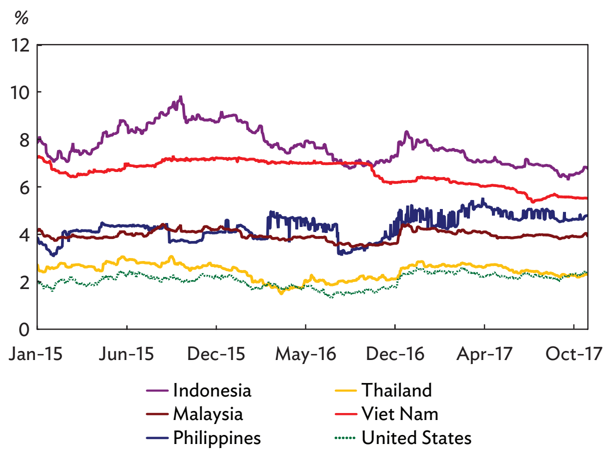
Movement in the 10-year yield was similar to that of the 2-year yield in all markets (**Figures 8a, 8b**).

Figure 8a: 10-Year Local Currency Government Bond Yields



Note: Data as of 31 October 2017.
Source: Based on data from Bloomberg LP.

Figure 8b: 10-Year Local Currency Government Bond Yields



Note: Data as of 31 October 2017.
Source: Based on data from Bloomberg LP.

Between 1 September and 31 October, nearly all government bond markets in emerging East Asia saw a rise in their yield curves (**Figure 9**). The yield curve shifted upward for all tenors in the PRC; Hong Kong, China; the Republic of Korea; and Singapore. While Hong Kong, China's and Singapore's yield movements were largely due to these markets tracking movements in the US, domestic factors pushed up yields in the PRC and the Republic of Korea. In the case of the PRC, continued deleveraging has pushed yields up, while an upgrade in the GDP growth outlook and an increase in the likelihood of a rate hike drove yield gains in the Republic of Korea.

Yields rose for most tenors in Indonesia, Malaysia, and Thailand. In the Philippines, yield movements were mixed.

Inflation has largely trended downward in Indonesia; Hong Kong, China; and Singapore (**Figure 10a**). In Viet Nam, inflation had been on a downward trend but recently has shown some spikes. Other markets saw mostly rising inflation, albeit with recent declines in the PRC and the Republic of Korea **(Figure 10b**).

Only Hong Kong, China experienced a rise in policy rates during the review period given that its monetary policy tracks changes in the US policy rate (**Figure 11a**). Both Indonesia and Viet Nam reduced their key policy rates (**Figure 11b**). Indonesia cut its key policy rate by 25 basis points (bps) in August and by another 25 bps in September, while Viet Nam cut its policy rate by 25 bps in July. While most central banks in emerging East Asia have kept policy rates unchanged, a number have indicated that domestic growth is expected to be sustained.

In particular, market participants view that the Bank of Korea is increasingly likely to raise the policy rate following an upgrade of its 2017 GDP forecast from 2.8% y-o-y to 3.0% y-o-y. In addition, a dissenting vote was recorded in favor of raising the policy rate during the central bank's recent decision to keep policy rates steady.

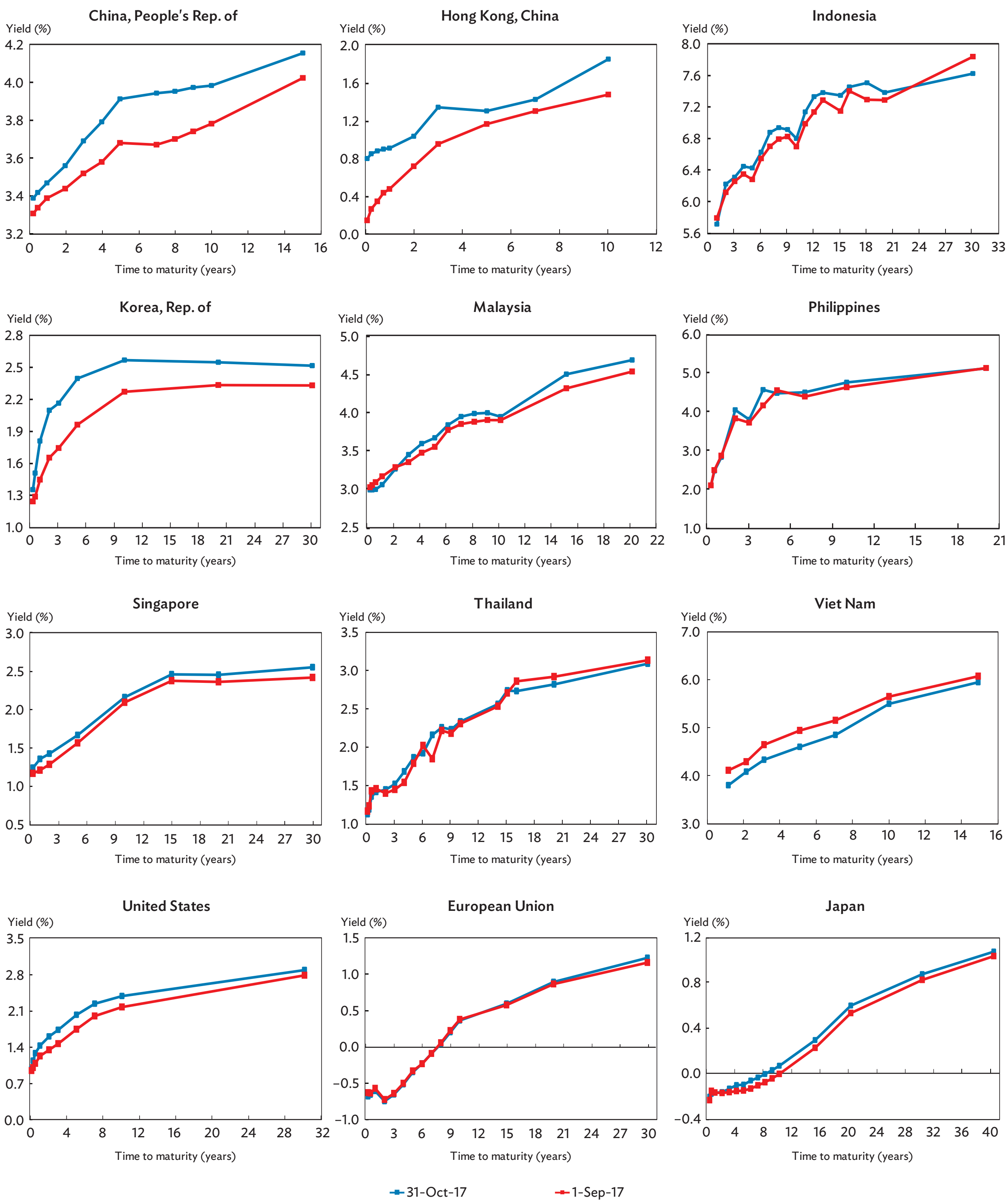
The 2-year versus 10-year yield spread rose in all markets except in the Republic of Korea, the Philippines, Singapore, and Thailand (**Figure 12**).

The AAA-rated corporate versus government yield spread fell in the PRC and rose in the Republic of Korea.

The spread between AAA-rated corporate yields and government yields narrowed between 1 September and 31 October in the PRC as investors sought AAA-rated corporates for their higher yields amid concerns over deleveraging. In the Republic of Korea, the spread between AAA-rated corporate and government yields rose, while in Malaysia movements were mixed (**Figure 13a**).

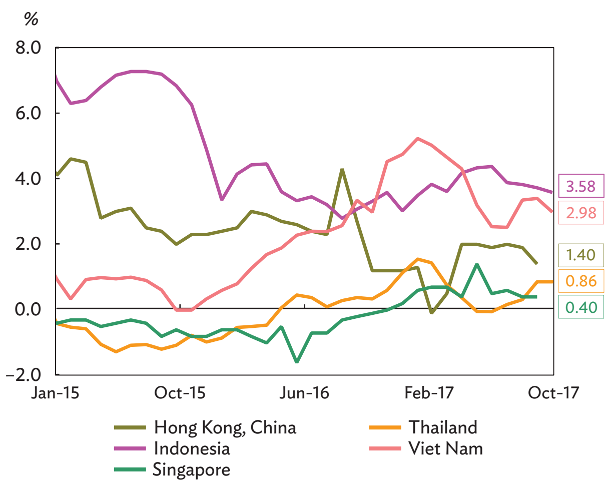
The spread between AAA-rated corporates and lower-rated corporates was broadly unchanged in the PRC and the Republic of Korea, and fell in Malaysia (**Figure 13b**).

Figure 9: Benchmark Yield Curves—Local Currency Government Bonds



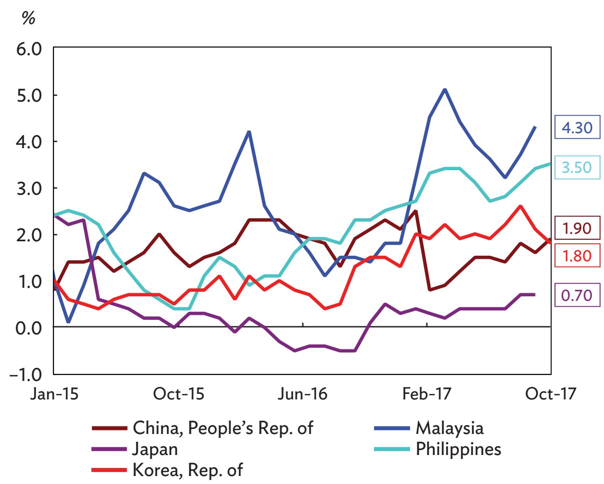
Source: Based on data from Bloomberg LP.

Figure 10a: Headline Inflation Rates



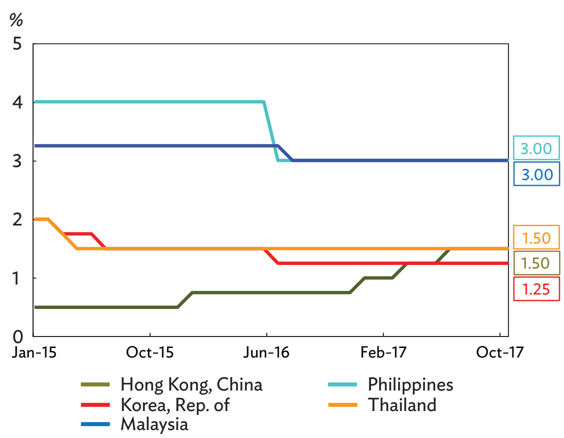
Note: Data as of October 2017 except for Hong Kong, China; and Singapore (September).
Source: Based on data from Bloomberg LP.

Figure 10b: Headline Inflation Rates



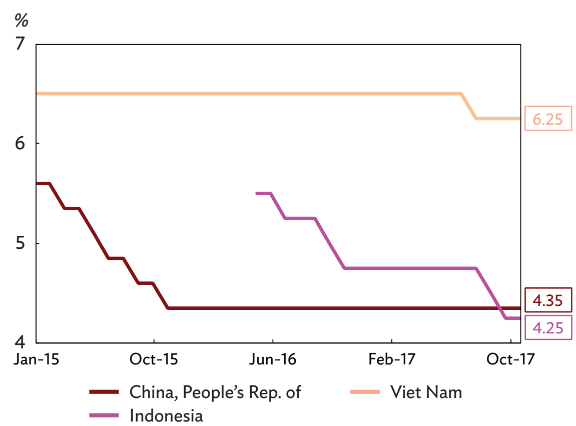
Note: Data as of October 2017 except for Japan and Malaysia (September).
Source: Based on data from Bloomberg LP.

Figure 11a: Policy Rates



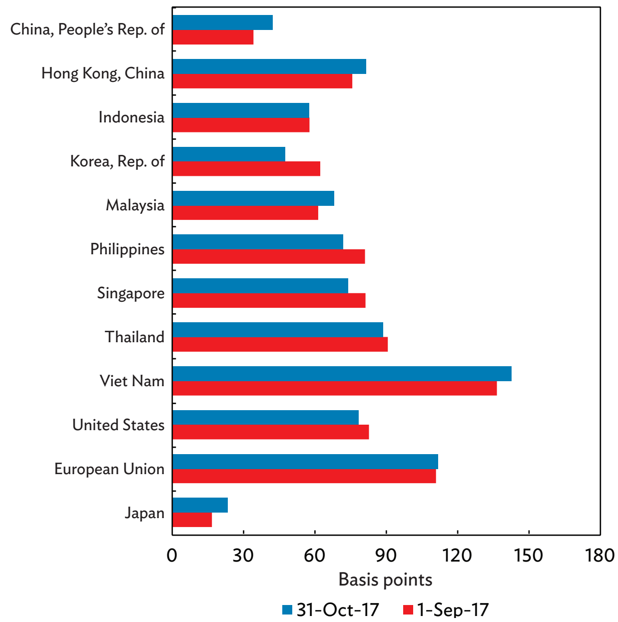
Notes:
1. Data as of 31 October 2017.
2. The policy rate of the Philippines was adjusted to 3.0% from 4.0% in June 2016 following the shift in the Bangko Sentral ng Pilipinas' monetary operations to an interest rate corridor system.
Source: Based on data from Bloomberg LP.

Figure 11b: Policy Rates



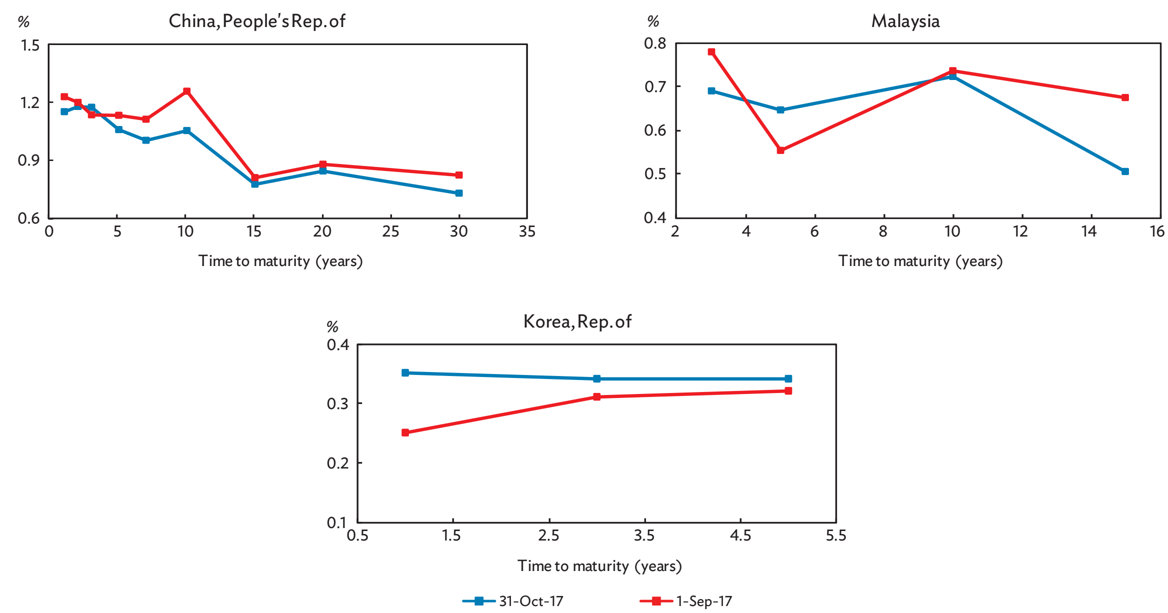
Notes:
1. Data as of 31 October 2017.
2. Bank Indonesia shifted its policy rate to the 7-day reverse repurchase rate effective 19 August 2016.
Source: Based on data from Bloomberg LP.

Figure 12: Yield Spreads Between 2-Year and 10-Year Government Bonds



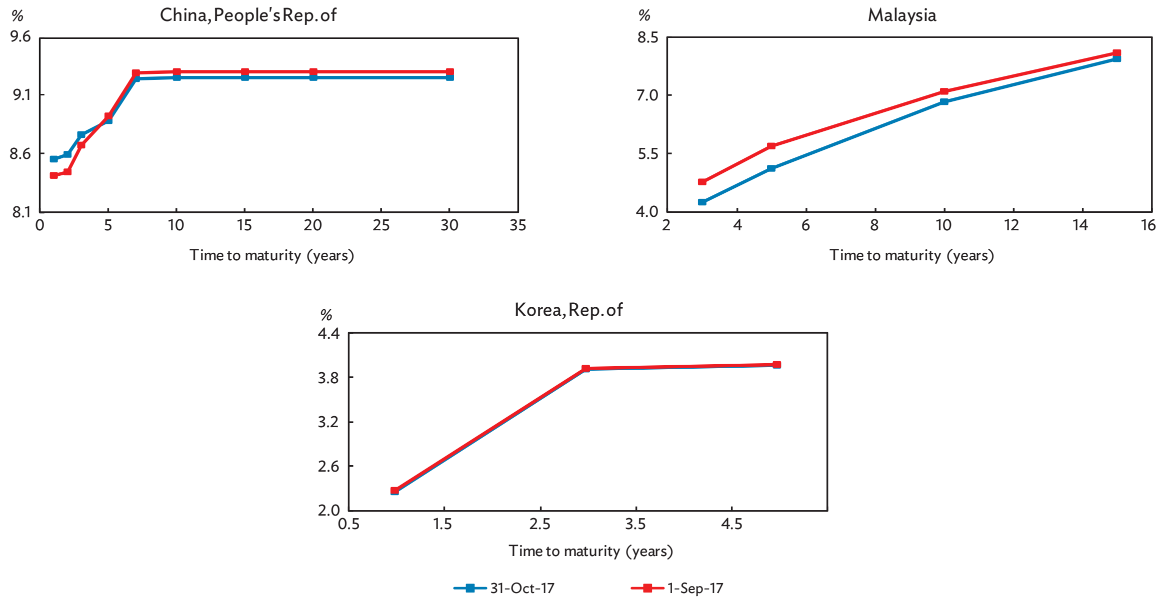
Source: Based on data from Bloomberg LP.

Figure 13a: Credit Spreads—Local Currency Corporates Rated AAA vs. Government Bonds



Notes:
1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
2. For Malaysia, data on corporate bond yields are as of 30 August 2017 and 31 October 2017.
Sources: People's Republic of China (*Wind Information*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (Bank Negara Malaysia).

Figure 13b: Credit Spreads—Lower-Rated Local Currency Corporates vs. AAA



Notes:

1. For the People's Republic of China and the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB+.
2. For Malaysia, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB.
3. For Malaysia, data on corporate bond yields are as of 30 August 2017 and 31 October 2017.

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