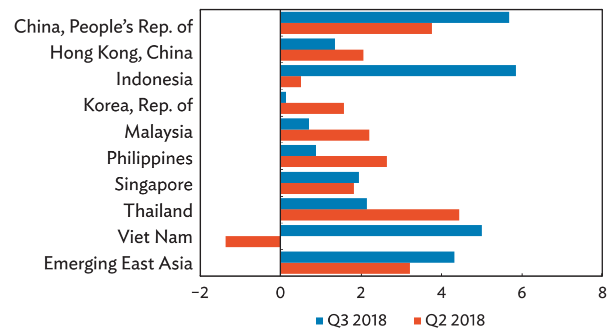
Bond Market Developments in the Third Quarter of 2018

Size and Composition

All LCY bond markets in emerging East Asia expanded in Q3 2018, with aggregate bonds outstanding rising to USD12.8 trillion.

Emerging East Asia's local currency (LCY) bond market expanded 4.3% quarter-on-quarter (q-o-q) to USD12.8 trillion at the end of September 2018.[3] Growth in the third quarter (Q3) of 2018 accelerated from 3.2% q-o-q in the second quarter (Q2) of 2018. All economies in the region posted q-o-q increases in their respective LCY bond markets in Q3 2018. However, q-o-q growth rates in most economies in the region decelerated from the previous quarter (**Figure 1a**).

Figure 1a: Growth of Local Currency Bond Markets in the Second and Third Quarters of 2018 (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 2018 currency exchange rates and do not include currency effects.
4. For Hong Kong, China, Q3 2018 corporate bonds outstanding are based on *AsianBondsOnline* estimates. For Japan, Q3 2018 bonds outstanding are as of August 2018. For the Republic of Korea, Q3 2018 government bonds outstanding are based on *AsianBondsOnline* estimates. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates. For Thailand, Q3 2018 bonds outstanding are based on *AsianBondsOnline* estimates.

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 People's Republic of China (PRC) continued to drive the region's bond market performance in Q3 2018 as most economies in emerging East Asia posted slower q-o-q increases. The PRC's LCY bond market with an outstanding size of USD9.2 trillion, comprised 72% of the regional total at the end of September, and it posted the region's second-highest growth rate in Q3 2018 at 5.7% q-o-q. This was an acceleration from the 3.8% q-o-q increase registered in Q2 2018. The strong growth was driven by a surge in quarterly issuance for both government bonds and corporate bonds. The amount of the PRC's LCY government bonds outstanding jumped 6.3% q-o-q to USD6.7 trillion, led by 12.5% q-o-q growth in local government bonds. The issuance of local government bonds doubled in Q3 2018 compared with the volume issued in the previous quarter. As part of efforts to boost growth amid a slowdown in economic activity and risks posed by the ongoing trade dispute with the United States (US), the Government of the PRC imposed a target for local governments to issue "special bonds" to be used for infrastructure projects, with such issuance to have reached 92% of the respective full-year quota by the end of September.[4] The total annual quota for local government bonds in 2018 stands at CNY1.4 trillion. Only about CNY300 billion had been issued during the first half of the year, which resulted in a surge of local government bond issuance in Q3 2018. Corporate bonds also posted robust growth of 4.1% q-o-q to reach USD2.5 trillion at the end of September, compared with a 2.1% q-o-q increase in Q2 2018. Lower borrowing costs and additional liquidity in the market after the People's Bank of China cut reserve requirement ratios in July bolstered corporate issuance in Q3 2018.

The Republic of Korea's LCY bond market remained the second largest in emerging East Asia with a regional share of about 16%. The amount of outstanding bonds at the end of September reached USD2.0 trillion, inching up 0.1% q-o-q in Q3 2018 following 1.6% q-o-q growth in the previous quarter. The stock of government bonds

[3] 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.

[4] Bloomberg LP. 2018. *China's $195 Billion Debt Splurge Has Less Bang Than You Might Think*. 22 October.

declined 0.9% q-o-q due to lower issuance volume and large maturities of Korea Treasury Bonds. The government issued a smaller amount of central government bonds in Q3 2018 compared with the previous 2 quarters in line with its frontloading policy. The Republic of Korea's LCY corporate bond market also registered minimal growth of 0.9% q-o-q in Q3 2018. Corporate bond issuers remained on the sidelines during the quarter as the direction of yield movements was uncertain given domestic and external developments.

In Hong Kong, China, the growth of LCY bonds outstanding eased to 1.4% q-o-q in Q3 2018 from 2.1% q-o-q in the previous quarter. Hong Kong, China's LCY bond market reached a size of USD250 billion at the end of September. Growth was solely driven by the corporate sector as outstanding government bonds fell 0.4% q-o-q in Q3 2018. The stocks of Exchange Fund Notes and Hong Kong Special Administrative Region bonds declined in Q3 2018 on declining issuance volume and maturing notes and bonds. Only Exchange Fund Bills registered growth in Q3 2018, but only on a marginal rate. Hong Kong, China's LCY corporate bond market expanded 3.9% q-o-q as more companies issued bonds in anticipation of higher interest rates.

The aggregate size of the LCY bond markets of Association of Southeast Asian Nations (ASEAN) economies for which data are available grew to USD1.3 trillion at the end of September on 2.2% q-o-q growth. All six economies posted q-o-q increases in their respective bond markets in Q3 2018. Government bonds continued to dominate, totaling USD916 billion at the end of September on growth of 2.3% q-o-q and accounting for a share of about 68% of ASEAN bonds outstanding. Meanwhile, outstanding corporate bonds rose 2.2% q-o-q to USD431 billion.

Thailand remained the largest LCY bond market among all ASEAN economies with USD377 billion of bonds outstanding at the end of September. Its bond market expanded 2.1% q-o-q in Q3 2018, easing from the 4.4% q-o-q growth posted in Q2 2018. Growth was supported by both the government and corporate segments. Government bonds rose 2.0% q-o-q, led by rising stocks of central government bonds and central bank bonds. The continued rise in central bank bonds was due to the Bank of Thailand (BOT) increasing the auction volume of central bank bills starting in April, which was a gradual reversal from the easing of issuance that started in 2017, to manage currency volatility. Thailand's corporate bond market also expanded 2.5% q-o-q as more companies issued bonds in anticipation of rising interest rates given the possibility of the BOT raising policy rates in the near future.

The size of Malaysia's LCY bond market was barely changed in Q3 2018 at USD333 billion on marginal growth of 0.7% q-o-q, easing from the 2.2% q-o-q increase posted in the previous quarter. The slower growth was led by a minimal expansion of government bonds of 0.4% q-o-q due to lower issuance volume and a sizable amount of maturing Malaysian Government Securities during the quarter. Growth in LCY corporate bonds also eased to 1.1% q-o-q in Q3 2018 from 1.9% q-o-q in the previous quarter as the trend of tepid issuance continued. Corporate bond issuers remained on the sidelines as the fiscal and economic policies of the new government were being firmed up.

Malaysia continued to be home to the largest *sukuk* (Islamic bonds) market in emerging East Asia in Q3 2018 with total outstanding bonds of USD200 billion at the end of September. *Sukuk* also dominate the LCY bond market with a share of about 60% of the total market, accounting for nearly 76% of the corporate bond market and about 46% of the government bond market.

Singapore's LCY bond market grew 2.0% q-o-q in Q3 2018 to USD291 billion, slightly higher than the 1.8% q-o-q increase posted in the previous quarter. Growth was driven by both the government and corporate segments. Singapore's government bond market posted growth of 1.6% q-o-q, solely driven by the rise in the stock of bills issued by the Monetary Authority of Singapore. Issuance of such bills accelerated in Q3 2018, an indication that the Monetary Authority of Singapore was continuing to mop up excess liquidity in the market. The amount of Singapore Government Securities bills and bonds outstanding declined in Q3 2018 due to low issuance volumes relative to maturities. Corporate bonds also rose 2.5% q-o-q as issuance rebounded in Q3 2018 as more quasi-government entities issued bonds in line with the government's plan to boost infrastructure development.

Indonesia was home to the fastest-growing LCY bond market in the emerging East Asian region in Q3 2018, posting growth of 5.9% q-o-q, an acceleration from the marginal increase of 0.5% q-o-q in the previous quarter.

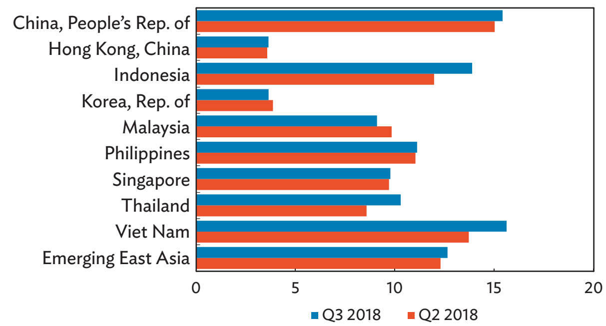
The high growth rate was driven by a rebound in issuance relative to Q2 2018, when fewer bonds were issued due to unsuccessful auctions as market participants sought higher yields. The stock of central bank bills also tripled in Q3 2018, primarily due to the reactivation of the issuance of 9-month and 12-month Sertifikat Bank Indonesia in July. The move was part of the efforts of Bank Indonesia to stabilize the rupiah as investors can purchase said instruments. Indonesia's corporate bond market remains small but posted growth of 4.1% q-o-q in Q3 2018.

The Philippines' LCY bonds outstanding were barely changed in Q3 2018 at USD107 billion at the end of September, reflecting a 0.9% q-o-q increase from the previous quarter. The growth in its bond market was primarily driven by the corporate segment as government bonds posted minimal growth of 0.04% q-o-q. The slow growth in the government bond segment was the result of a high base in Q2 2018 after a sizable amount of the Retail Treasury Bond issuance in June. Moreover, most auctions of Treasury bonds were rejected in Q3 2018 as market players sought higher yields. Treasury bills jumped 15.3% q-o-q due to successful auctions relative to longer-dated bonds, a reflection of the preference for short-term securities due to market uncertainties. Expectations of higher inflation and further rate hikes by the Bangko Sentral ng Pilipinas (BSP) continued to weigh on market participation. Corporate bonds rose 4.3% q-o-q in Q3 2018 as more companies tapped the bond market in anticipation of higher interest rates.

Viet Nam remained the smallest LCY bond market in the region at a size of USD53 billion at the end of September on 5.0% q-o-q growth, which was a reversal from the 1.4% q-o-q contraction registered in Q2 2018. The stock of government bonds rose 5.2% q-o-q, led by growth in Treasury bills and bonds, on a rebound in issuance compared with Q2 2018 when auctions were only partially awarded as traders sought higher yields. The outstanding amount of central bank bills also jumped in Q3 2018 despite less issuance by the State Bank of Vietnam than in the previous quarter. Viet Nam's corporate bond market remains small and underdeveloped but continues to expand, posting growth of 2.9% q-o-q in Q3 2018.

At the end of Q3 2018, emerging East Asia's LCY bond market had expanded 12.7% year-on-year (y-o-y), slightly higher than the 12.3% y-o-y growth posted at the end of Q2 2018 (**Figure 1b**). Most economies posted bigger y-o-y increases, albeit only in marginal increments. The y-o-y growth in Malaysia and the Republic Korea slowed in Q3 2018, while the PRC and Viet Nam posted the largest increases at 15.5% y-o-y and 15.7% y-o-y, respectively. Viet Nam's rapid growth was consistent with the expansion of an LCY bond market that is still in the development stage. Hong Kong, China and the Republic of Korea posted the slowest y-o-y increases at 3.6% y-o-y and 3.7% y-o-y, respectively, as both economies have fairly developed LCY bond markets.

Figure 1b: Growth of Local Currency Bond Markets in the Second and Third Quarters of 2018 (y-o-y, %)



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

Notes:

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LCY government bonds outstanding in emerging East Asia reached USD8.6 trillion at the end of September and continued to dominate the region's overall bond market. Debt securities issued by governments, central banks, and state-owned entities comprised 67.3% of total LCY bonds at the end of September (**Table 1**). The outstanding amount of the region's government bonds rose 5.0% q-o-q in Q3 2018, up from the 4.0% q-o-q growth posted in the previous quarter.

Table 1: Size and Composition of Local Currency Bond Markets

	Q3 2017		Q2 2018		Q3 2018		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q3 2017		Q3 2018		Q3 2017		Q3 2018	
							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	8,221	100.0	9,026	100.0	9,195	100.0	5.3	14.2	5.7	15.5	7.3	14.5	1.9	11.9
Government	5,928	72.1	6,548	72.5	6,707	72.9	6.1	19.0	6.3	16.8	8.2	19.3	2.4	13.1
Corporate	2,293	27.9	2,479	27.5	2,488	27.1	3.3	3.5	4.1	12.0	5.3	3.8	0.4	8.5
Hong Kong, China														
Total	242	100.0	246	100.0	250	100.0	1.3	3.0	1.4	3.6	1.3	2.3	1.6	3.4
Government	143	59.2	148	60.1	147	59.0	3.7	4.6	(0.4)	3.4	3.6	3.8	(0.1)	3.2
Corporate	99	40.8	98	39.9	102	41.0	(2.0)	0.9	3.9	3.9	(2.0)	0.2	4.2	3.7
Indonesia														
Total	180	100.0	182	100.0	185	100.0	4.1	12.7	5.9	13.9	3.1	9.1	1.8	3.0
Government	153	85.2	154	84.6	157	84.8	3.4	10.7	6.2	13.5	2.4	7.2	2.1	2.6
Corporate	27	14.8	28	15.4	28	15.2	8.2	25.5	4.1	16.5	7.2	21.5	0.1	5.3
Korea, Rep. of														
Total	1,873	100.0	1,993	100.0	2,005	100.0	0.3	3.3	0.1	3.7	0.2	(0.7)	0.6	7.0
Government	769	41.0	841	42.2	837	41.7	(1.3)	2.9	(0.9)	5.5	(1.4)	(1.1)	(0.5)	8.9
Corporate	1,105	59.0	1,152	57.8	1,168	58.3	1.5	3.6	0.9	2.4	1.4	(0.4)	1.4	5.7
Malaysia														
Total	299	100.0	339	100.0	333	100.0	1.4	8.1	0.7	9.1	3.1	6.0	(1.7)	11.3
Government	159	53.1	179	52.8	175	52.6	0.1	6.2	0.4	8.1	1.8	4.1	(2.0)	10.3
Corporate	140	46.9	160	47.2	158	47.4	2.9	10.4	1.1	10.2	4.6	8.3	(1.4)	12.4
Philippines														
Total	102	100.0	108	100.0	107	100.0	0.8	8.5	0.9	11.2	0.03	3.4	(0.3)	4.6
Government	83	80.8	86	80.0	85	79.3	0.04	6.5	0.04	9.0	(0.7)	1.5	(1.2)	2.7
Corporate	20	19.2	22	20.0	22	20.7	4.2	18.1	4.3	20.1	3.4	12.5	3.0	13.0
Singapore														
Total	267	100.0	287	100.0	291	100.0	3.8	11.5	2.0	9.8	5.2	12.0	1.6	9.1
Government	162	60.8	174	60.7	176	60.5	6.7	20.6	1.6	9.3	8.1	21.1	1.3	8.5
Corporate	105	39.2	113	39.3	115	39.5	(0.4)	(0.1)	2.5	10.7	1.0	0.3	2.1	9.9
Thailand														
Total	331	100.0	361	100.0	377	100.0	0.5	4.2	2.1	10.3	2.4	8.1	4.4	13.7
Government	240	72.3	261	72.4	272	72.4	0.2	2.1	2.0	10.4	2.1	6.0	4.3	13.7
Corporate	92	27.7	99	27.6	104	27.6	1.5	10.0	2.5	10.2	3.3	14.2	4.8	13.6
Viet Nam														
Total	47	100.0	51	100.0	53	100.0	3.2	0.7	5.0	15.7	3.2	(1.2)	3.3	12.8
Government	44	94.3	48	93.4	49	93.5	2.9	0.4	5.2	14.7	2.9	(1.5)	3.5	11.8
Corporate	3	5.7	3	6.6	3	6.5	9.2	6.3	2.9	31.6	9.2	4.3	1.2	28.3
Emerging East Asia														
Total	11,563	100.0	12,592	100.0	12,796	100.0	4.0	11.3	4.3	12.7	5.5	10.8	1.6	10.7
Government	7,681	66.4	8,438	67.0	8,608	67.3	4.8	15.4	5.0	14.7	6.5	15.2	2.0	12.1
Corporate	3,882	33.6	4,154	33.0	4,189	32.7	2.5	4.0	3.0	8.9	3.8	2.9	0.9	7.9
Japan														
Total	10,171	100.0	10,445	100.0	10,319	100.0	0.4	1.7	1.4	2.5	0.3	(8.4)	(1.2)	1.5
Government	9,475	93.2	9,754	93.4	9,637	93.4	0.5	2.0	1.4	2.8	0.4	(8.1)	(1.2)	1.7
Corporate	695	6.8	691	6.6	683	6.6	(0.4)	(1.4)	1.4	(0.8)	(0.5)	(11.2)	(1.2)	(1.8)

( ) = 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 2018 corporate bonds outstanding are based on *AsianBondsOnline* estimates. For Japan, Q3 2018 bonds outstanding are as of August 2018. For the Republic of Korea, Q3 2018 government bonds outstanding are based on *AsianBondsOnline* estimates. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates. For Thailand, Q3 2018 bonds outstanding are based on *AsianBondsOnline* estimates.
2. Corporate bonds include issues by financial institutions.
3. Bloomberg LP end-of-period LCY–USD rates are used.
4. For LCY base, emerging East Asia growth figures are based on 30 September 2018 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).

The PRC (USD6.7 trillion) remained the largest LCY government bond market in the region, accounting for about 78% of the region's total government bonds outstanding at the end of September. The Republic of Korea's government bond market, at a size of USD837 billion, remained the second-largest government bond market with a regional share of about 10%. Among ASEAN economies, Thailand (USD272 billion) had the largest government bond market, followed by Singapore (USD176 billion) and Malaysia (USD175 billion). The Philippines (USD85 billion) and Viet Nam (USD49 billion) remained the smallest government bond markets in the region. In terms of growth, the PRC and Indonesia posted the fastest Q3 2018 growth rates at 6.3% q-o-q and 6.2% q-o-q, respectively.

The region's aggregate corporate bond market grew 3.0% q-o-q in Q3 2018, up from the 1.7% q-o-q pace posted in the previous quarter. The PRC also dominates the region's corporate bond market with outstanding corporate bonds of USD2.5 trillion, comprising about 60% of the region's total at the end of September. The Republic of Korea remained the second-largest corporate bond market at USD1.2 trillion and a share of about 28%. Among ASEAN economies, Malaysia (USD158 billion) and Singapore (USD115 billion) have the largest corporate bond markets. The Philippines (USD22 billion) and Viet Nam (USD3 billion) remained the smallest corporate bond markets in the region. All markets posted q-o-q increases in Q3 2018, with the Philippines registering the fastest growth at 4.3% q-o-q.

The ratio of emerging East Asia's LCY bond market to the region's gross domestic product (GDP) inched up to 73.1% at the end of September from 71.2% at the end of June (**Table 2**). The shares of the region's government and corporate bond markets to the region's GDP rose in Q3 2018 to 49.1% and 23.9%, respectively. The Republic of Korea and Malaysia continued to have the highest bonds-to-GDP ratios in the region at 127.0% and 96.7%, respectively.

In Q3 2018, the shares of foreign investor holdings in emerging East Asian bond markets stabilized as central banks in vulnerable markets raised policy rates.

Overall, the shares of foreign investor holdings in the LCY government bond markets of emerging East Asia stabilized in Q3 2018 (**Figure 2**).

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

	Q3 2017	Q2 2018	Q3 2018
China, People's Rep. of			
Total	68.1	69.1	71.3
Government	49.1	50.1	52.0
Corporate	19.0	19.0	19.3
Hong Kong, China			
Total	72.0	69.7	70.9
Government	42.6	41.9	41.8
Corporate	29.4	27.9	29.0
Indonesia			
Total	18.2	18.4	18.7
Government	15.5	15.6	15.9
Corporate	2.7	2.8	2.8
Korea, Rep. of			
Total	125.4	126.2	127.0
Government	51.5	53.3	53.0
Corporate	74.0	73.0	74.0
Malaysia			
Total	95.2	98.4	96.7
Government	50.6	51.9	50.9
Corporate	44.7	46.5	45.8
Philippines			
Total	33.7	34.7	34.6
Government	27.3	27.8	27.5
Corporate	6.5	7.0	7.2
Singapore			
Total	81.9	85.3	86.7
Government	49.8	51.8	52.5
Corporate	32.1	33.5	34.3
Thailand			
Total	72.6	74.8	78.1
Government	52.5	54.2	56.5
Corporate	20.1	20.6	21.6
Viet Nam			
Total	22.2	22.5	23.0
Government	21.0	21.0	21.5
Corporate	1.3	1.5	1.5
Emerging East Asia			
Total	70.0	71.2	73.1
Government	46.5	47.7	49.1
Corporate	23.5	23.5	23.9
Japan			
Total	210.4	210.2	207.6
Government	196.1	196.3	193.9
Corporate	14.4	13.9	13.7

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

Notes:

1. Data for GDP is from CEIC. Q3 2018 GDP figures carried over from Q2 2018 except for the People's Republic of China and Viet Nam.
2. For Hong Kong, China, Q3 2018 corporate bonds outstanding are based on *AsianBondsOnline* estimates. For Japan, Q3 2018 bonds outstanding are as of August 2018. For the Republic of Korea, Q3 2018 government bonds outstanding are based on *AsianBondsOnline* estimates. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates. For Thailand, Q3 2018 bonds outstanding are based on *AsianBondsOnline* estimates.

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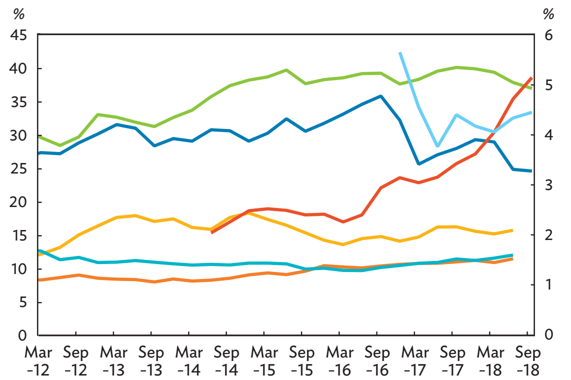
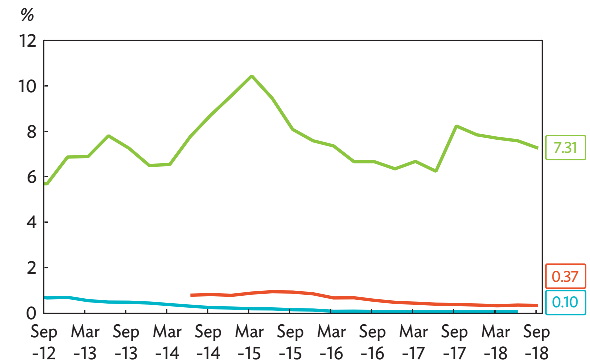
Figure 2: Foreign Holdings of Local Currency Government Bonds in Select Asian Economies (% of total)



LHS = left-hand side, RHS = right-hand side.
Note: Data as of end-September 2018 except for Japan, the Republic of Korea, and Thailand (end-June 2018).
Source: *AsianBondsOnline*.

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



Note: Data as of 30 September 2018 except for the Republic of Korea (30 June 2018).
Sources: Based on data from *Wind*, Otoritas Jasa Keuangan, and The Bank of Korea.

In Q3 2018, the largest increase in the share of foreign holdings of LCY government bonds occurred in the PRC, where foreign holdings rose to 5.1% from 4.7% in the previous quarter. The PRC is the only government bond market in which the share of foreign holdings has consistently risen since 2016, coinciding with the gradual liberalization of its bond market.

The Philippines also experienced an increase in its share of foreign holdings of LCY government bonds in Q3 2018, which increased to 4.4% from 4.3% in Q2 2018 as aggressive rate hikes by the BSP helped temper investor concerns.

In Malaysia, the foreign holdings share of LCY government bonds decreased slightly to 24.6% in Q3 2018 from 24.8% in the previous quarter. The decline was much smaller than in previous periods as investor confidence improved following the May elections, while remaining somewhat dampened by external volatility.

In Indonesia, the foreign investor share in the LCY government bond market fell to 36.9% in Q3 2018 from 37.8% in the previous quarter. Investor sentiment improved following steps taken by Bank Indonesia to defend the currency through aggressive policy rate increases. Foreign investor holdings in governments bonds actually increased, but the gains were outpaced by much faster increases in total government bonds outstanding.

Both the Republic of Korea and Thailand showed a slight increase in their respective foreign holdings shares during Q2 2018, the latest quarter for which data are available, largely reflecting strong economic fundamentals and investor perceptions that these LCY government bond markets will be among the least affected in the region by rising US yields.

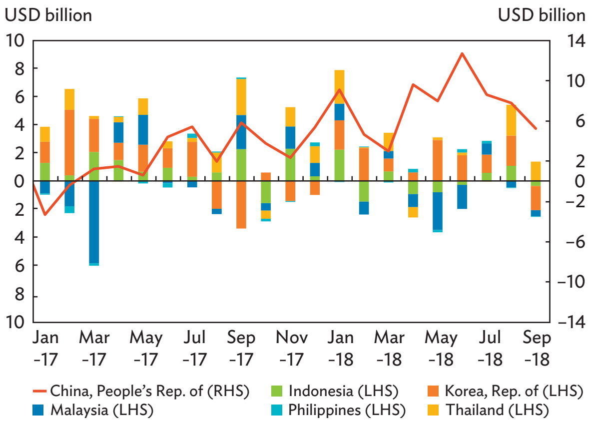
In emerging East Asian markets for which data are available, the foreign investor share of corporate bonds was broadly unchanged between the end of June and the end of September (**Figure 3**).

Most emerging East Asian LCY bond markets showed net inflows in Q3 2018, although some outflows were noted in individual markets in July and September.

Overall, emerging East Asian LCY bond markets had net inflows in Q3 2018 as investor sentiments stabilized. The strongest inflows occurred in July, when all markets showed positive inflows with the exception of Thailand, which had marginal net outflows (**Figure 4**).

All markets except the PRC and Thailand had net outflows in September, following the US policy rate hike and indications from the Federal Reserve that the US economy remained strong.

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



LHS = left-hand side, RHS = right-hand side, USD = United States dollar.

Notes:

1. The Republic of Korea and Thailand provided data on bond flows. For the People's Republic of China, Indonesia, Malaysia, and the Philippines, month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.
2. Data as of 30 September 2018.
3. Figures were computed based on 30 September 2018 exchange rates to avoid currency effects.

Sources: People's Republic of China (*Wind Information*); Indonesia (Directorate General of Budget Financing and Risk Management, Ministry of Finance); Republic of Korea (Financial Supervisory Service); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); and Thailand (Thai Bond Market Association).

The PRC recorded inflows in all 3 months of Q3 2018 and these were sizable relative to other markets in emerging East Asia. However, foreign holdings remained a small share of the overall LCY government bond market in the PRC.

Total LCY debt issuance in emerging East Asia continued to increase in Q3 2018, albeit at a slower pace than in the previous quarter.

Total LCY bond issuance in emerging east Asia in Q3 2018 increased to USD1,395 billion on growth of 13.5% q-o-q and 6.0% y-o-y (**Table 3**). The pace of growth was slower compared with 29.3% q-o-q and 12.9% y-o-y in Q2 2018. The PRC, Indonesia, Malaysia, Singapore, and Thailand experienced increased issuance in Q3 2018, while declines were observed in Hong Kong, China; the Republic of Korea; the Philippines; and Viet Nam; with declines in the latter two markets reaching as much as 35.0% q-o-q. Despite the large drops in issuance observed in some markets, the PRC's 27.4% q-o-q issuance growth rate lifted the regional total as its market comprises by far the largest share of emerging East Asia's bond market. On an annual basis, all markets registered an increase in issuance in Q3 2018 with the exception of the Republic of Korea, the Philippines, and Viet Nam.

Issuance of LCY government bonds in Q3 2018 amounted to USD983 billion on an increase of 15.7% q-o-q, moderating from growth of 38.6% q-o-q in Q2 2018. The increase was largely driven by the surge in debt sold by the PRC in order to support GDP growth. Other markets that saw increases in government bond issuance were Hong Kong, China; Singapore; Thailand; Malaysia; and Indonesia. The latter's government bond market saw issuance more than double during the quarter. On the contrary, declines in issuance were seen in the Republic of Korea, the Philippines, and Viet Nam, which collectively restrained quarterly growth in the region's total government issuance. By type of government bond, Treasury and other government securities increased 23.7% q-o-q, while central bank securities increased 0.7% q-o-q. On a y-o-y basis, government bonds grew 3.8%, which was also slower compared with 9.2% y-o-y in Q2 2018. Government bonds comprised about 70% of the total issuance in emerging East Asia in Q3 2018.

The growth of LCY corporate bonds in Q3 2018 in the region also moderated to 8.5% q-o-q to total USD412 billion. Due to the cautiousness among market participants resulting from global risk developments, issuance in Q3 2018 was less active compared with the previous quarter, which registered growth of 12.3% q-o-q. However, growth was slower compared with the growth of government bond issuance during the quarter. Positive growth in issuance was seen in Q3 2018 in the PRC, Indonesia, Singapore, and Thailand. This was partially offset by declining issuance in Hong Kong, China; the Republic of Korea; Malaysia; the Philippines; and Viet Nam. Singapore's and Viet Nam's issuance levels were the most notable during the quarter: Singapore's issuance increased almost threefold, while Viet Nam barely issued any corporate bonds. However, their respective shares are too small to influence the region's corporate bond market. On an annual basis, emerging East Asia's corporate bond issuance was up 11.6% y-o-y at the end of September.

The PRC's LCY bond issuance remained the largest in the region in Q3 2018 at USD887 billion. Growth during the quarter was slower at 27.4% q-o-q compared with 59.7% q-o-q in Q2 2018. Compared with a year earlier, issuance was higher by 5.2%. Debt issuance from the government increased 29.2% q-o-q to USD606 billion,

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

	Q3 2017		Q2 2018		Q3 2018		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q3 2018		Q3 2018	
	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	871	100.0	723	100.0	887	100.0	27.4	5.2	22.8	1.9
Government	624	71.6	487	67.4	606	68.3	29.2	0.3	24.5	(2.8)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	624	71.6	487	67.4	606	68.3	29.2	0.3	24.5	(2.8)
Corporate	247	28.4	236	32.6	281	31.7	23.7	17.4	19.2	13.7
Hong Kong, China										
Total	107	100.0	116	100.0	115	100.0	(0.9)	7.7	(0.7)	7.4
Government	98	91.7	103	89.3	104	90.3	0.2	6.1	0.4	5.8
Central Bank	98	91.6	103	88.6	104	90.1	0.8	5.9	1.0	5.7
Treasury and Other Govt.	0.1	0.1	0.8	0.7	0.2	0.2	(72.3)	200.0	(72.2)	199.3
Corporate	9	8.3	12	10.7	11	9.7	(10.2)	25.2	(10.01)	25.0
Indonesia										
Total	15	100.0	8	100.0	15	100.0	94.6	9.3	87.2	(1.2)
Government	12	78.7	6	74.7	13	85.0	121.6	18.1	113.1	6.7
Central Bank	0.5	3.3	0.2	2.1	2	13.9	1,165.4	356.4	1,116.8	312.6
Treasury and Other Govt.	11	75.3	6	72.5	11	71.1	90.8	3.1	83.5	(6.8)
Corporate	3	21.3	2	25.3	2	15.0	15.3	(23.1)	10.8	(30.5)
Korea, Rep. of										
Total	163	100.0	198	100.0	167	100.0	(16.0)	(0.7)	(15.6)	2.5
Government	73	44.8	84	42.5	75	45.2	(10.6)	0.2	(10.2)	3.5
Central Bank	35	21.6	40	20.4	34	20.7	(15.1)	(5.1)	(14.7)	(2.0)
Treasury and Other Govt.	38	23.1	44	22.0	41	24.5	(6.5)	5.2	(6.1)	8.6
Corporate	90	55.2	114	57.5	91	54.8	(20.0)	(1.4)	(19.6)	1.8
Malaysia										
Total	18	100.0	22	100.0	22	100.0	1.4	20.1	(1.1)	22.4
Government	8	43.7	13	56.1	14	61.7	11.4	69.6	8.7	72.9
Central Bank	0.2	1.3	5	20.9	6	28.8	39.5	2,550.0	36.1	2,602.6
Treasury and Other Govt.	8	42.4	8	35.2	7	32.9	(5.3)	(6.8)	(7.6)	(4.9)
Corporate	10	56.3	10	43.9	9	38.3	(11.4)	(18.3)	(13.6)	(16.7)
Philippines										
Total	6	100.0	8	100.0	5	100.0	(37.8)	(17.6)	(38.6)	(22.4)
Government	5	84.4	7	88.7	4	81.8	(42.6)	(20.2)	(43.3)	(24.8)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	5	84.4	7	88.7	4	81.8	(42.6)	(20.2)	(43.3)	(24.8)
Corporate	1	15.6	0.9	11.3	0.9	18.2	(0.3)	(3.7)	(1.5)	(9.4)
Singapore										
Total	88	100.0	103	100.0	106	100.0	3.7	21.5	3.4	20.7
Government	85	96.5	101	98.3	102	95.5	0.7	20.3	0.4	19.4
Central Bank	81	92.4	93	90.2	95	89.7	3.1	18.0	2.7	17.2
Treasury and Other Govt.	4	4.1	8	8.1	6	5.8	(25.7)	71.4	(25.9)	70.2
Corporate	3	3.5	2	1.7	5	4.5	174.4	55.7	173.5	54.6
Thailand										
Total	57	100.0	67	100.0	71	100.0	3.6	19.4	5.9	23.1
Government	47	82.1	56	83.3	59	83.1	3.4	20.9	5.7	24.6
Central Bank	40	68.9	45	67.6	51	71.5	9.7	24.0	12.2	27.8
Treasury and Other Govt.	8	13.2	10	15.7	8	11.6	(23.8)	4.5	(22.1)	7.7
Corporate	10	17.9	11	16.7	12	16.9	4.8	12.8	7.1	16.3

continued on next page

Table 3 *continued*

	Q3 2017		Q2 2018		Q3 2018		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q3 2018		Q3 2018	
	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	13	100.0	10	100.0	7	100.0	(33.3)	(49.1)	(34.3)	(50.4)
Government	13	97.6	10	96.3	6	99.3	(31.2)	(48.3)	(32.3)	(49.6)
Central Bank	12	90.7	9	86.0	5	72.6	(43.7)	(59.3)	(44.6)	(60.3)
Treasury and Other Govt.	0.9	7.0	1	10.3	2	26.7	73.1	94.9	70.3	90.0
Corporate	0.3	2.4	0.4	3.7	0.05	0.7	(86.6)	(83.8)	(86.8)	(84.2)
Emerging East Asia										
Total	1,339	100.0	1,254	100.0	1,395	100.0	13.5	6.0	11.2	4.2
Government	965	72.1	866	69.1	983	70.4	15.7	3.8	13.4	1.8
Central Bank	267	19.9	294	23.5	297	21.3	0.7	10.9	1.0	11.4
Treasury and Other Govt.	698	52.1	572	45.6	685	49.1	23.7	1.0	19.8	(1.8)
Corporate	374	27.9	388	30.9	412	29.6	8.5	11.6	6.3	10.2
Japan										
Total	419	100.0	399	100.0	391	100.0	0.4	(5.8)	(2.2)	(6.7)
Government	387	92.5	364	91.1	353	90.3	(0.5)	(8.0)	(3.1)	(9.0)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	387	92.5	364	91.1	353	90.3	(0.5)	(8.0)	(3.1)	(9.0)
Corporate	31	7.5	35	8.9	38	9.7	9.6	22.0	6.8	20.7

( ) = 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 Japan and Thailand, Q3 2018 issuance data are based on *AsianBondsOnline* estimates. For the Republic of Korea, Q3 2018 government bond issuance data are based on *AsianBondsOnline* estimates. For Hong Kong, China, Q3 2018 corporate bond issuance data are based on *AsianBondsOnline* estimates.
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 2018 currency exchange rates and do not include currency effects.
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 (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).

driven by the jump in sales of special infrastructure bonds as the government attempted to buttress the PRC's slowing economy. The issuance of such bonds started slowly earlier in the year on the back of unfavorable financial conditions and measures to stabilize the PRC's public finances. However, government authorities ordered the acceleration of debt sales, which led to spikes in issuance in August and September that reached 92% of the annual target by the end of Q3 2018 (footnote 4). In the corporate sector, LCY bond issuance increased in Q3 2018 to 23.7% q-o-q, accelerating from 14.2% q-o-q in the previous quarter. The pick-up resulted from intensive policy easing and stimulus measures in recent months.

The Republic of Korea's total LCY debt sales decreased 16.0% q-o-q in Q3 2018, reversing the positive growth of 15.1% posted in Q2 2018, with all bond segments declining during the quarter. The Republic of Korea is the largest bond issuer in emerging East Asia after the PRC, with a 16% share of the region's issuance total. Issuance from the government declined 10.6% q-o-q in contrast with an increase in the previous quarter. The drop was mainly due to the high base in Q2 2018 attributed to the frontloading policy of the government that resulted in generally higher debt sales in the first half of the year. Issuance from the corporate sector was also lackluster, declining 20.0% q-o-q from an increase of similar magnitude in Q2 2018.

Hong Kong, China's total bond issuance declined 0.9% q-o-q in Q3 2018 after a marginal increase of 0.8% in the previous quarter. Growth in total government issuance was only 0.2% q-o-q in Q3 2018 on the back of a small increase in issuance of central bank bonds and a decline in Hong Kong Special Administrative Region bonds. Central bank bonds almost entirely made up total government issuance in Q3 2018. Corporate bond issuance declined 10.2% q-o-q in Q3 2018. While corporate issuance only comprised 9.7% of

Hong Kong, China's total issuance during the quarter, the decline contributed to the slight dip in total issuance.

Total issuance in Indonesia surged 94.6% q-o-q in Q3 2018, registering the highest growth in emerging East Asia. This was in contrast to the previous quarter when total issuance declined by about 55% q-o-q. The increased issuance in Q3 2018 was underpinned by growth in both government and corporate debt sales that totaled USD15 billion. Government issuance more than doubled in Q3 2018, amounting to USD13 billion, driven by both central government bonds and central bank bonds. The steep q-o-q increase was partially due to the low issuance base from Q2 2018. While in Q3 2018, the Ministry of Finance issued a larger volume of debt and accepted bids of more than the targeted amount in order to finance the budget deficit. In addition, central bank issuance surged as Bank Indonesia resumed issuance of conventional SBI beginning July. Corporate issuance in Q3 2018 accelerated to 15.3% q-o-q from 5.2% in Q2 2018. Issuance during the quarter included a dual-tranche green bond issuance from Saran Multi Infrastraktur in July amounting to IDR500 billion.

Malaysia's total debt issuance increased 1.4% q-o-q in Q3 2018, reversing the decline in the previous quarter. It was the slowest growth among emerging East Asian markets that saw increases during the quarter. Total issuance amounted to USD22 billion, mainly on the back of increased debt sales from the government as issuance activities in the corporate sector remained bleak. Government issuance increased 11.4% q-o-q, lifted by the central bank but countered by the decreased issuance from the central government. Central bank bills continued to expand, with more issuance of Bank Negara Malaysia Interbank Bills as part central bank efforts to enhance short-selling and liquidity in the bond market. On the other hand, issuance of Malaysian Government Securities and Government Investment Issues both declined by roughly 10% q-o-q in Q3 2018 as issuance targets were smaller relative to Q2 2018. Bond issuance from the corporate sector continued to edge downward in Q3 2018. Debt sales amounted to USD9 billion, reflecting a decline of 11.4% q-o-q after dipping 6.3% q-o-q in Q2 2018. The lower issuance volume was expected as corporates frontloaded their debt sales prior to the May election. After the election, corporates tapered their issuances as they adopted a wait-and-see stance following the unexpected change in government. Overall, issuance has been muted amid some uncertainty as the government pursues cost rationalization for various infrastructure projects.

In the Philippines, total issuance amounted to USD5.0 billion in Q3 2018, reflecting a decline of 37.8% q-o-q after registering an increase of 43.1% in the previous quarter. The Philippines registered the biggest q-o-q drop among all markets in the region in Q3 2018. The issuance was mainly dragged down by the government segment, whose debt sales declined 42.6% q-o-q from a high base in Q2 2018 when the government issued PHP121.8 billion (USD2.3 billion) worth of Retail Treasury Bonds. Government issuance in Q3 2018 totaled USD4.0 billion. Similarly, corporate bond issuance in Q3 2018 declined a marginal 0.3% q-o-q to USD900 million.

Singapore's total bond issuance increased 3.7% q-o-q to USD106 billion in Q3 2018, driven by both the government and the corporate segments. Issuance from the government climbed slightly, reaching USD102 billion, which accounted for about 96% of total LCY bond issuance. Compared with the previous quarter, growth was slower. Corporate bond issuance increased almost threefold to USD5 billion in Q3 2018, although it only comprised a small portion of Singapore's total issuance at a share of 4.5%. The number of corporate issuers was broadly unchanged during the quarter; however, the issuance amount was larger. Notable corporate issuances included bonds from the stated-owned Land Transport Authority and Housing Development Board amounting to SGD1.5 billion and SGD1.4 billion, respectively. Singapore had the most LCY bond issuance in Q3 2018 among the ASEAN economies.

Thailand's total bond issuance increased to USD71 billion in Q3 2018, supported by both the government and corporate segments, on growth of 3.6% q-o-q after registering a decline of 2.3% in Q2 2018. Growth in government issuance rose in Q3 2018 to 3.4% q-o-q from 2.5% q-o-q in Q2 2018, buoyed by increased debt sales from the central bank, which comprised about 72% of the total. On the other hand, issuance of Treasury and other government securities declined 23.8% q-o-q, following modest growth of 2.2% in the previous quarter. Corporate bond issuance was vibrant in Q3 2018, with sales growth rebounding to 4.8% q-o-q from a drop of 20.5% q-o-q in Q2 2018. Market participants expect higher issuance from the corporate sector in 2018, likely breaking the annual record, as firms want to lock in lower funding costs ahead of an expected interest rate hike by the BOT. Firms with debt rollover also see this as the right time to enter the market on the back of sound LCY bond market and economic fundamentals. Moreover, several merger and acquisition deals were done during the quarter, which led to larger debt sales, including Thailand's largest corporate issuance during the quarter (THB77 billion) from Thai Beverage.

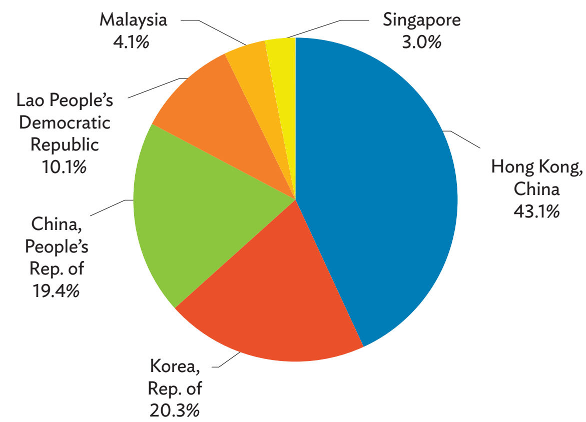
Viet Nam registered the second-largest drop in total issuance in Q3 2018 among emerging East Asian markets with a decline of 33.3% q-o-q. However, this was smaller than the 54.7% q-o-q dip in Q2 2018. Declining issuance was observed in both the government and corporate bond segments, with much of the drag coming from the government as it comprises nearly the entire LCY bond market. Within the government segment, central bank issuance continued to contract in Q3 2018, falling 43.7% q-o-q, while Treasury and government securities reversed a contraction in Q2 2018 to grow 73.1% q-o-q. Viet Nam's corporate issuance, which barely comprised 1% of its total issuance, decreased 86.6% q-o-q in Q3 2018 due to a high volume of issuance in Q2 2018.

Cross-border bond issuance in emerging East Asia reached USD4.2 billion in Q3 2018.

Total cross-border bond issuances from emerging East Asian economies amounted to USD4.2 billion in Q3 2018, representing declines of 19.2% q-o-q and 32.7% y-o-y. Singapore saw the largest decline of 76.6% q-o-q in its cross-border issuance to USD0.1 billion from USD0.5 billion in Q2 2018. This was followed by the PRC, which saw a decline of 64.4% q-o-q in its issuance to USD0.8 billion from USD2.3 billion. The Republic of Korea's intra-regional issuance declined about 13% to USD0.9 billion from USD1.0 billion in Q2 2018. Malaysia more than doubled its cross-border issuance to USD0.2 billion from USD0.1 billion in the previous quarter. Hong Kong, China's issuance increased about 30% to USD1.8 billion from USD1.4 billion. The Lao People's Democratic Republic (Lao PDR) resumed intra-regional issuance in Q3 2018 with a USD0.4 billion issue after a period of inactivity in Q2 2018.

Six markets engaged in intra-regional bond issuances during the quarter, with Hong Kong, China accounting for 43.1% of the region's quarterly total (**Figure 5**). This was

Figure 5: Origin Economy of Intra-Emerging East Asian Bond Issuance in the Third Quarter of 2018



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

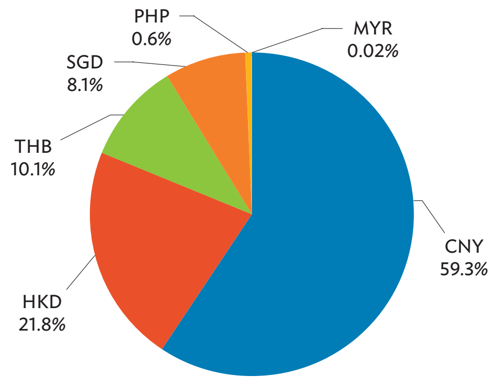
followed by the Republic of Korea with a regional share of 20.3% and the PRC at 19.4% and the Lao PDR at 10.1%. Rounding out the list of markets with intra-regional bond issuances in Q3 2018 were Malaysia (4.1%) and Singapore (3.0%).

All of Hong Kong, China's cross-border issuance in Q3 2018 was in Chinese renminbi, with more dimsum than panda bonds being issued.[5] Cross-border issuances by the Republic of Korea were denominated in both Chinese renminbi and Hong Kong dollars. The PRC issued bonds denominated in Hong Kong dollars, Malaysian ringgit, and Singapore dollars. The Lao PDR's cross-border issuance came from electricity-generation company EDL-Generation Public Company and was entirely in Thai baht. The Malaysian bond market saw issuances in Chinese renminbi, Hong Kong dollars, and Singapore dollars, while in Singapore issuances were in Chinese renminbi and Philippine pesos.

The top 10 issuers in Q3 2018 accounted for 80.9% of all cross-border bond issuances, with an aggregate value of USD3.4 billion. GLP China Holdings, a transportation and logistics company, led all issuers with a 9-year bond with a variable coupon and a 3-year bond with a 5.24% coupon, both denominated in Chinese renminbi. This was followed by renewable electricity company China Conch Venture

[5] Panda bonds are bonds denominated in Chinese renminbi and issued by foreign companies in the PRC. Dimsum bonds are denominated in Chinese renminbi and issued in Hong Kong, China.

Figure 6: Currency Share of Intra-Emerging East Asian Bond Issuance in the Third Quarter of 2018



CNY = Chinese renminbi, HKD = Hong Kong dollar, MYR = Malaysian ringgit, PHP = Philippine peso, SGD = Singapore dollar, THB = Thai baht.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Holdings, which issued a 5-year convertible zero coupon bond to enhance its working capital and strengthen its capital base and financial position.

Six currencies were utilized through intra-regional bond issuances in emerging East Asia (**Figure 6**). CNY-denominated bonds by issuers from Hong Kong, China; the Republic of Korea; Malaysia; and Singapore dominated the issuances, totaling USD2.5 billion or 59.3% of all cross-border issuances. Hong Kong dollar bonds worth USD0.9 billion (21.8%) were issued by the PRC, the Republic of Korea, and Malaysia. THB-denominated bonds from issuers in the Lao PDR amounted to USD0.4 billion, or 10.1% of all intra-regional bond issuances. Singapore dollar bonds issued by the PRC and Malaysia totaled USD0.3 billion, or 8.1% of all issuances. A small share of the pie comprised PHP-denominated bonds (USD0.03 billion, 0.6%) from Singapore and MYR-denominated bonds (USD0.001 billion, 0.02%) from issuers in the PRC.

Emerging East Asia's G3 bond issuances reached USD218.1 billion in the first 3 quarters of the year.

G3-currency-denominated bond sales slowed in the first 9 months of the year, as liquidity conditions remained tight in the global market.[6] Total G3 bond issuance reached USD218.1 billion during January–September, down 9.3% y-o-y from USD240.4 billion in the same 9-month period in 2017 (**Table 4**). The G3 issuance total for the first 9 months of the year was equivalent to only 63.8% of the full-year 2017 total.

The US dollar continued to dominate issuances as it remained the preferred currency of government and corporate issuers. Its share of the total, however, declined to 89.5% during January–September from 92.5% in the same period a year earlier. The corresponding shares of bonds denominated in euros and Japanese yen inched up to 8.0% and 2.5%, respectively. Some borrowers chose to tap deals in currencies other than the US dollar amid the greenback's broad strengthening against most other major currencies, which made US dollar borrowing costs more expensive.

The PRC remained the largest source of G3 bonds, as it accounted for nearly 60% of emerging East Asia's aggregate issuance during the review period. G3 bonds from issuers in the PRC totaled USD128.4 billion in January–September. This was lower compared with USD150.9 billion of issuance in the same 9-month period a year earlier. Investors were concerned about high-yield bonds, making it increasingly difficult for PRC-based issuers to tap G3 funding. Investors are demanding higher rates to account for higher credit risks as liquidity in the PRC tightened due to the government's deleveraging push and some corporate defaults. Adding to issuers' woes was the renminbi's devaluation, which makes borrowing in foreign currency more expensive. Monthly issuance trends, however, recovered strongly in September, with the number of issues rising to 60 from a low of 29 in July.

From January to September, the largest issuer from the PRC was CNAC HK Finbridge, which raised an equivalent of USD6.3 billion from the sale of multitranche bonds denominated in euros and US dollars in March. It was followed by Tencent Holdings, which issued USD5.0 billion of multitranche bonds in January. In the third spot was China Construction Bank (HK) with total issuance equivalent to USD2.8 billion denominated in both euros and US dollars. In Q3 2018, the single-largest issue also came from China Construction Bank (HK): a USD1.0 billion 3-year floating rate bond.

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

Table 4: G3 Currency Bond Issuance

2017			January to September 2018		
Issuer	Amount (USD billion)	Issue Date	Issuer	Amount (USD billion)	Issue Date
China, People's Rep. of	**225.4**		**China, People's Rep. of**	**128.4**	
Postal Savings Bank of China 4.50% Perpetual	7.3	27-Sep-17	Tencent Holdings 3.595% 2028	2.5	19-Jan-18
China Evergrande Group 8.75% 2025	4.7	28-Jun-17	CNAC (HK) Finbridge 5.125% 2028	1.8	14-Mar-18
Alibaba Group Holding 3.40% 2027	2.6	6-Dec-17	CNAC (HK) Finbridge 1.75% 2022	1.4	14-Mar-18
State Grid Overseas Investment 3.50% 2027	2.4	4-May-17	CNAC (HK) Finbridge 4.625% 2023	1.3	14-Mar-18
China Zheshang Bank 5.45% 2050	2.2	29-Mar-17	Tsinghua Unic 4.75% 2021	1.1	31-Jan-18
Kaisa Group Holdings 9.38% 2024	2.1	30-Jun-17	Baidu 3.875% 2023	1.0	29-Mar-18
CNAC (HK) Synbridge Company 5.00% 2020	2.0	5-May-17	Bank of China (HK) 2.89728% 2023	1.0	8-Mar-18
CNAC (HK) Finbridge Company 3.85% 2020	2.0	22-Dec-17	Bank of China (HK) 2.79728% 2021	1.0	8-Mar-18
Others	200.3		Others	117.5	
Hong Kong, China	**36.7**		**Hong Kong, China**	**24.7**	
Radiant Access Limited 4.60% Perpetual	1.5	18-May-17	CHMT Peaceful Development Asia Property 7.50% 2019	3.3	25-Apr-18
China Cinda Finance 3.65% 2022	1.3	9-Mar-17	Bank of China Hong Kong 5.9% Perpetual	3.0	14-Sep-18
Others	33.9		Others	18.3	
Cambodia	**0.0**		**Cambodia**	**0.3**	
Indonesia	**26.7**		**Indonesia**	**15.4**	
Perusahaan Penerbit SBSN *Sukuk* 4.15% 2027	2.0	29-Mar-17	Perusahaan Penerbit SBSN *Sukuk* 4.40% 2028	1.8	1-Mar-18
Indonesia (Sovereign) 4.35% 2048	1.8	11-Dec-17	Perusahaan Penerbit SBSN *Sukuk* 3.75% 2023	1.3	1-Mar-18
Perusahaan Listrik Negara 4.13% 2027	1.5	15-May-17	Indonesia (Sovereign) 1.75% 2025	1.2	24-Apr-18
Indonesia (Sovereign) 3.5% 2028	1.3	11-Dec-17	Indonesia (Sovereign) 4.10% 2028	1.0	24-Apr-18
Indonesia (Sovereign) 2.15% 2024	1.2	18-Jul-17	Perusahaan Listrik Negara 6.15% 2028	1.0	21-May-18
Others	19.0		Others	9.3	
Korea, Rep. of	**29.8**		**Korea, Rep. of**	**23.2**	
Republic of Korea (Sovereign) 2.75% 2027	1.0	19-Jan-17	Hanwha Life Insurance 4.70% 2048	1.0	23-Apr-18
Export–Import Bank of Korea 3.00% 2022	1.0	1-Nov-17	Export–Import Bank Korea 0.625% 2023	0.9	11-Jul-18
Export–Import Bank of Korea 0.50% 2022	0.9	30-May-17	Export–Import Bank Korea 2.87531% 2021	0.8	1-Jun-18
Others	26.9		Others	20.5	
Lao People's Democratic Rep.	**0.03**		**Lao People's Democratic Rep.**	**0.0**	
Malaysia	**4.4**		**Malaysia**	**1.2**	
Genting Overseas Holdings Limited Capital 4.25% 2027	1.0	24-Jan-17	Cindai Capital 0.00% 2023	0.3	8-Feb-18
CIMB Bank 1.93% 2020	0.6	15-Mar-17	Malayan Banking 3.2405% 2023	0.3	10-Aug-18
CIMB Bank 3.26% 2022	0.5	15-Mar-17	Malayan Banking 0.00% 2048	0.2	29-Mar-18
Others	2.3		Others	0.4	
Philippines	**4.0**		**Philippines**	**6.1**	
Republic of the Philippines (Sovereign) 3.7% 2042	2.0	2-Feb-17	Republic of the Philippines (Sovereign) 3.00% 2028	2.0	1-Feb-18
Others	2.0		Others	4.1	
Singapore	**12.5**		**Singapore**	**14.3**	
DBS Bank 0.38% 2024	0.9	23-Jan-17	Temasek Financial I 3.625% 2028	1.4	1-Aug-18
DBS Group Holdings 1.71% 2020	0.8	8-Jun-17	DBS Group Holdings 4.52% 2028	0.8	11-Jun-18
Others	10.9		Others	12.2	
Thailand	**2.2**		**Thailand**	**4.1**	
PTTEP Treasury Center Company 4.60% Perpetual	0.5	17-Jul-17	Bangkok Bank (Hong Kong) 4.05% 2024	0.6	19-Sep-18
Others	1.7		Others	3.5	
Viet Nam	**0.0**		**Viet Nam**	**0.5**	
Emerging East Asia Total	**341.6**		**Emerging East Asia Total**	**218.1**	
Memo Items:			**Memo Items:**		
India	**15.1**		**India**	**5.2**	
Vedanta Resources 6.375% 2022	1.0	30-Jan-17	Export–Import Bank of India 3.875% 2028	**1.0**	1-Feb-18
Others	14.1		Others	4.2	
Sri Lanka	**3.7**		**Sri Lanka**	**3.9**	

USD = United States dollar.
Notes:
1. Data exclude certificates of deposits.
2. G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.
3. Bloomberg LP end-of-period rates are used.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Borrowers from Hong Kong, China were the next largest source of G3 bonds during the 9-month review period. G3 bond sales in Hong Kong, China totaled USD24.7 billion, representing a 16.8% y-o-y decline from the same period a year earlier. CHMT Peaceful Development Asia Property was the largest issuer with a USD4.1 billion dual-tranche deal in April. Next was ICBC Asia, which tapped the market four times (March, June, July, and August) for an aggregate issuance total of USD3.2 billion. Bank of China (HK) was the third-largest issuer during the review period with bonds valued at USD3.0 billion. Its variable-rate perpetual bonds comprised the largest issue from Hong Kong, China in Q3 2018.

The Republic of Korea was the third-largest G3 issuer in the first 9 months of the year, with gross bond issuance valued at an equivalent of USD23.2 billion. Its aggregate issuance moderated compared with the same period in 2017. The lead issuer during the 9-month period was the Export–Import Bank of Korea, which raised funds in all three G3 currencies amounting to an equivalent of USD4.5 billion. Next was another state-owned lender, Korea Development Bank, which also issued in all three G3 currencies at an equivalent amount of USD2.5 billion. In Q3 2018, the Export–Import Bank of Korea's EUR-denominated bond was the single-largest issue and was valued at an equivalent of USD0.9 billion. The bond, issued in July, had a maturity of 5 years at a fixed coupon rate of 0.625%.

G3 bond sales in ASEAN member economies reached USD41.8 billion in the first 9 months of the year, up 16.5% y-o-y from the same 9-month period in 2017. Collectively, issuance of G3 bonds by ASEAN markets accounted for 19.2% of emerging East Asia's total issuance of bonds in G3 currencies during the review period. Leading the list of issuers among ASEAN member markets were Indonesia, Singapore, and the Philippines.

From January to September, issuers in Indonesia sold a total of USD15.4 billion worth of G3 bonds. Indonesia's aggregate issuance represented 36.9% of the G3 issuance volume for ASEAN member economies. The largest G3 issuer was the Government of Indonesia as it tapped bonds in all three G3 currencies, amounting to an equivalent of USD6.0 billion, as part of its plan to diversify funding sources. The government's G3 issuance accounted for nearly 40% of Indonesia's aggregate G3 bond sales during the review period. Bank Indonesia was next with aggregate issuance volume amounting to USD3.4 billion. Bank Indonesia issues USD-denominated foreign exchange bills on a regular basis as one of its monetary tools. In Q3 2018, the single-largest issue came from Bank Indonesia's USD0.6 billion worth of foreign exchange bills issued in July.

In Singapore, G3 bond issues rose 55.9% y-o-y to reach an equivalent of USD14.3 billion in the first 9 months of the year. The largest issuer from Singapore was United Overseas Bank, with total issuance amounting to the equivalent of USD2.5 billion denominated in both euros and US dollars. It was followed by Oversea-Chinese Banking Corporate's aggregate G3 issuance valued at USD1.7 billion, also in euros and US dollars. The single-largest G3 issue in Q3 2018 was Temasek Financial with a USD1.4 billion 10-year bond at a coupon rate of 3.625% in August.

The Philippines G3 bond issuance tallied USD6.1 billion in the January–September period, denominated in Japanese yen and US dollars. Its issuance volume in 2018 nearly doubled from USD3.1 billion in the same period a year earlier. The largest issuer was the sovereign government, with issuance denominated in Japanese yen and US dollars for an aggregate value of USD3.4 billion. In Q3 2018, the largest issue was the 3-year samurai bond issued by the government in August and valued at USD0.9 billion at a coupon rate of 0.38%. The Government of the Philippines tapped the samurai market in August for the first time in 8 years with a multitranche deal worth USD1.4 billion.

G3 bond sales from Thailand more than doubled in the January–September period to USD4.1 billion from USD1.7 billion a year earlier. All G3 issuances were denominated in US dollars, with Bangkok Bank (HK) as the largest issuer with total issuance worth USD1.2 billion from a dual-tranche deal. The bank's 5.5-year bond and 10-year bond issued in September amounted to USD0.6 billion each and were the largest G3 issues in Thailand in Q3 2018.

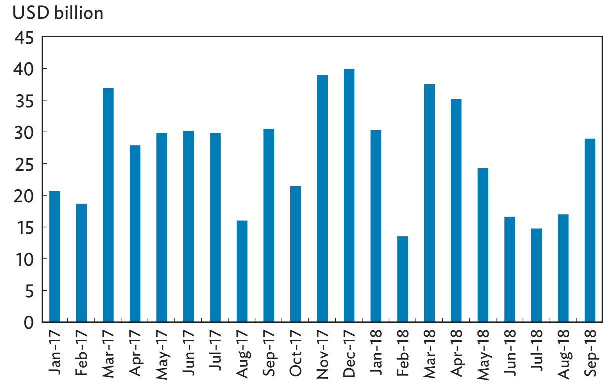
In the first 9 months of the year, issuance of G3 bonds from Malaysia totaled USD1.2 billion, reflecting a 65.7% y-o-y decline from USD3.4 billion in the same period in 2017. All bonds were denominated in US dollars except for one issue in Japanese yen. The largest issuer during the 9-month period was Malayan Banking Berhad (Maybank) with aggregate issuance valued at

USD0.7 billion. In Q3 2018, the largest issue also came from Maybank via a 5-year floating rate bond worth USD0.3 billion.

There were no new bond issuances coming from Viet Nam or Cambodia in Q3 2018. Viet Nam's G3 bond sales amounted to USD0.5 billion and comprised an April issuance from No Va Land Investment Group and a June issuance from Vinpearl. The lone issuer from Cambodia was Naga Corporation with a USD0.3 billion 3-year bond issued in May at a coupon rate of 9.375%.

Figure 7 presents the monthly trends in G3-denominated bond issuance in emerging East Asia. G3 monthly bond sales exhibited a declining trend in 2018 after peaking in March at USD37.5 billion. Bond issuance recovered in August and September as issuance trended upward.

Figure 7: G3 Currency Bond Issuance in Emerging East Asia



USD = United States dollar.
Notes:
1. Emerging East Asia comprises Cambodia; 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 2018 currency exchange rates and do not include currency effects.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Nearly all government bond yield curves in emerging East Asia rose between 31 August and 15 October, driven by the ongoing rate hikes of the Federal Reserve and other central banks in the region, as well as increased volatility.

Yields across the region moved upward between 31 August and 15 October, pressured by continued monetary tightening in the US and other advanced economies. GDP growth in advanced economies remains on track, particularly in the US where the economy has made significant gains.

The US economy posted GDP growth of 3.5% y-o-y in Q3 2018, following 4.2% y-o-y growth in Q2 2018. Other indicators of economic growth, such as labor and unemployment, remained strong; the US unemployment rate fell to 3.7% in September from 3.9% in August. Nonfarm payroll additions showed a decline in September to 118,000 from 286,000 in August due to the effects of Hurricane Florence, but the impact is largely expected to be transient.

More significantly, the Federal Reserve upgraded its economic forecast in September for full-year GDP growth in 2018 from 2.8% to 3.1%. This allowed the Federal Reserve to maintain its current pace of rate hikes by raising the federal funds rate 25 basis points (bps) at the 25–26 September meeting of the Federal Open Market Committee. The release of the minutes from the September meeting placed more pressure on yields as they indicated that some committee members felt the Federal Reserve would need to keep the policy target range above neutral to prevent inflation from overshooting the target.

In the euro area, economic growth and the outlook has moderated, with GDP expanding in Q3 2018 at an annual rate of 1.7% versus 2.2% in the previous quarter. In addition, staff projections reduced expected 2018 GDP growth to 2.0% in September from 2.1% in June. The European Central Bank announced in its 25 October monetary policy briefing that, while recent economic indicators were weaker, economic growth persisted, resulting in the central bank affirming that it would reduce monthly asset purchases to EUR15 billion from October through December, and cease these purchases thereafter.

While the Bank of Japan has not given an indication of changing its monetary policy stance, it unexpectedly reduced bond purchases on 19 September. The Bank of Japan stated that the move was not a shift in monetary policy and that a change in the yield target would be more indicative of a shift in its monetary policy stance. The move may be in line with the central bank's previously stated goal of allowing more volatility in its yield movements. Economic growth in Japan has been strong, with GDP expanding at an annualized rate of 3.0% in Q2 2018 after a 0.9% decline in the previous quarter.

In addition to the strengthening economic growth in some advanced economies, emerging East Asia's bond yields have also been driven upward by rising financial volatility; in particular, rising US yields have placed additional pressures on some emerging East Asian economies, leading to capital flight and a worsening current account deficit. Among emerging market economies, the worst hit have been Turkey and Argentina, with concerns of spillover effects in emerging East Asia.

There has also been uncertainty with regard to trade tensions between the PRC and the US, and the potential impact on global economic growth. By far, the most significant impact to date has been to the PRC, where yields have fallen over concerns that the PRC's economy will be negatively affected. Since the start of September, there has been a decline in the PRC's 2-year yield (**Figure 8a**).

There was a slight spike in yields toward the end of September due to a tightening of liquidity in the PRC as consumers withdrew funds in preparation for a long holiday in October. In addition, liquidity was strained by corporate quarterly tax payments and supply concerns, specifically, that central government bond issuance would increase following the imposition of quotas on local government bond issuance and increased fiscal spending.

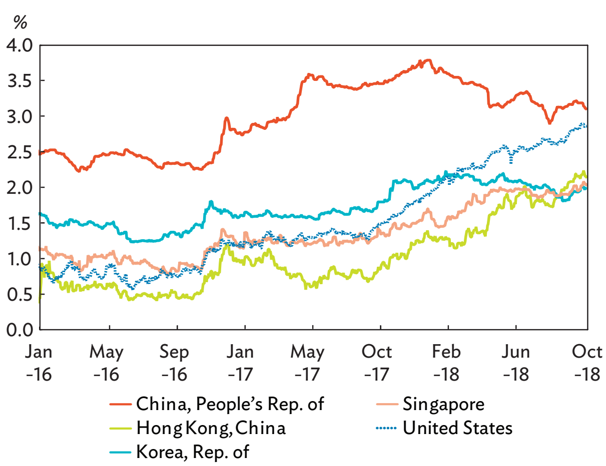
Viet Nam also saw a decline in its 2-year yield during the review period due to improved liquidity following a decline in interbank yields (**Figure 8b**).

Outside of the PRC and Viet Nam, 2-year yields have largely risen for most emerging East Asian economies. The steepest gains were noted in Indonesia and the Philippines. The rise in US yields has negatively affected both of these economies by placing pressure on their respective currencies and capital accounts.

For 10-year yields, movements during the review period largely followed the movements of the respective 2-year yield in each economy. Again, only in the PRC and Viet Nam did 10-year yields decline (**Figures 9a, 9b**).

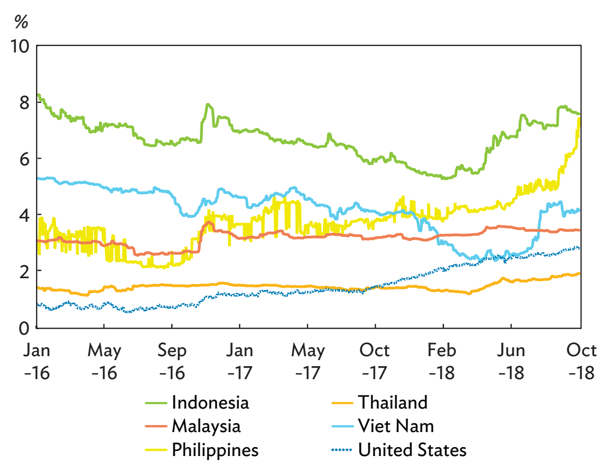
Similar to the 2-year and 10-year yield movements, emerging East Asia's government bond yield curves shifted upward for all markets with the exception of the PRC and Viet Nam, which saw downward shifts in their yield curves between 31 August and 15 October (**Figure 10**).

Figure 8a: 2-Year Local Currency Government Bond Yields



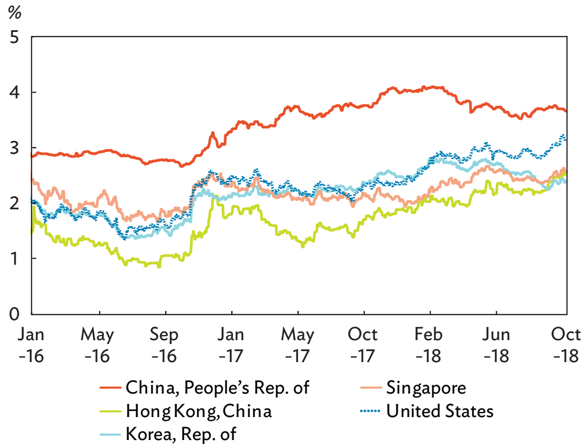
Note: Data as of 15 October 2018.
Source: Based on data from Bloomberg LP.

Figure 8b: 2-Year Local Currency Government Bond Yields



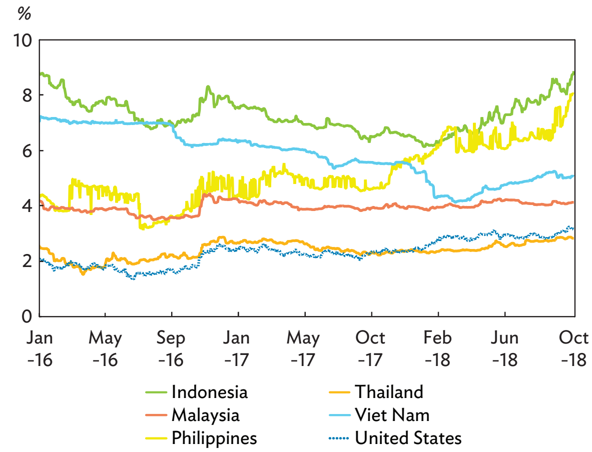
Note: Data as of 15 October 2018.
Source: Based on data from Bloomberg LP.

Figure 9a: 10-Year Local Currency Government Bond Yields



Note: Data as of 15 October 2018.
Source: Based on data from Bloomberg LP.

Figure 9b: 10-Year Local Currency Government Bond Yields



Note: Data as of 15 October 2018.
Source: Based on data from Bloomberg LP.

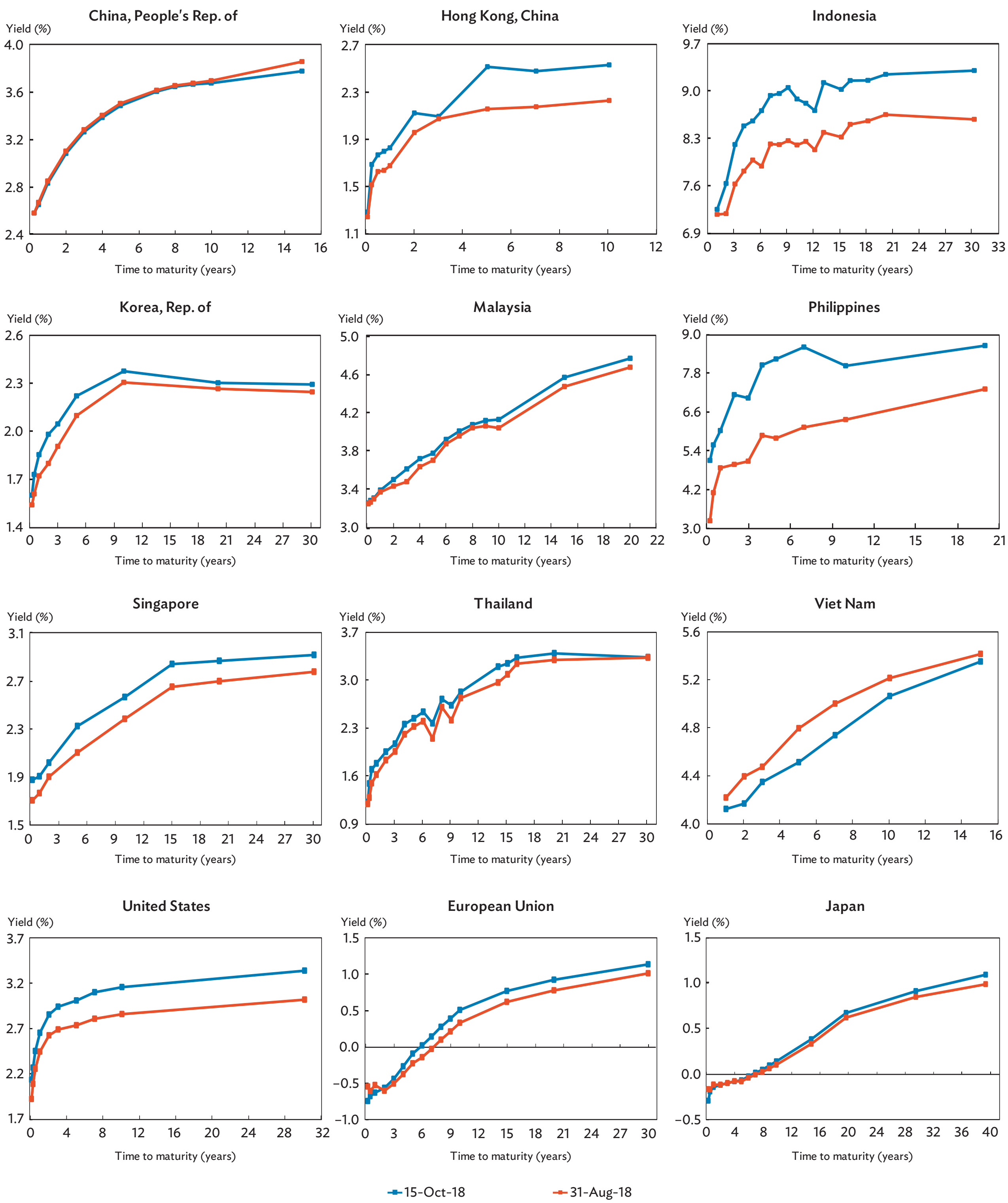
Global economic uncertainty is starting to impact emerging East Asian economies. In the PRC, GDP growth slowed to 6.5% y-o-y in Q3 2018 from 6.7% y-o-y in Q2 2018. Advance estimates in the Republic of Korea also indicated a slowdown, with GDP growth falling to 2.0% y-o-y in Q3 2018 from 2.8% y-o-y in the previous quarter. Advance estimates in Singapore showed GDP growth declining to 2.6% y-o-y in Q3 2018 from 4.1% y-o-y in the previous quarter. Viet Nam's economy has largely proven resilient, with GDP for January–September showing growth of 7.0%, down only marginally from 7.1% for January–June.

Inflation has been more mixed in Q3 2018. Despite a slowdown in the economic environment in emerging East Asia, consumer price inflation has trended upward in some markets. Singapore's inflation has risen on stronger growth in previous quarters (**Figure 11a**). The same is true in the PRC and the Republic of Korea despite weaker Q3 2018 GDP growth. While Viet Nam's inflation has trended slightly downward since August, it remains high relative to previous periods. The region's highest rate of consumer price inflation has been in the Philippines, where prices of goods and services soared 6.7% y-o-y in September (**Figure 11b**).

As a result of higher inflation in the Philippines, the BSP has been forced to aggressively raise its policy rates by 50 bps each in its last two monetary meetings on 27 September and 9 August, compared with more typical increases of 25 bps (**Figure 12a**). The BSP has also more aggressively hiked interest rates in order to defend the currency. Similar to the Philippines, Bank Indonesia has been forced to raise interest rates in order to protect the currency and improve its current account balance, raising policy rates 25 bps on 27 September (**Figure 12b**). Bank Indonesia and the BSP are the only central banks in the region to have continuously raised policy rates this year. Hong Kong, China also recently raised its base rate on 27 September, but this move was largely automatic as the Hong Kong Monetary Authority follows US Federal Reserve policy rate hikes.

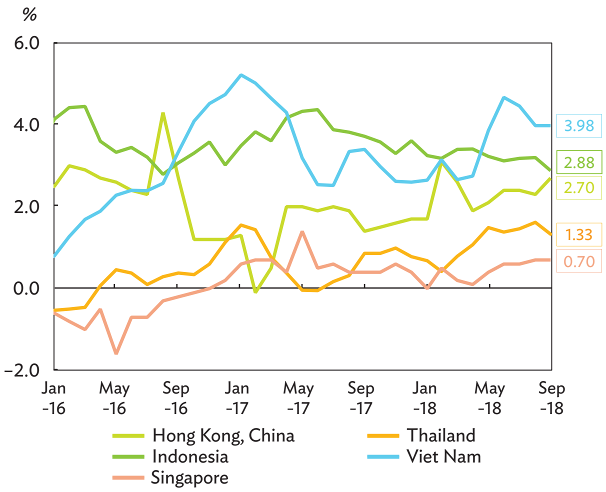
Other central banks in the region have left policy rates unchanged, but recent monetary policy meetings have indicated the likelihood of raising policy rates this year. While the BOT left its policy rate unchanged on 19 September, in its decision there were two dissenting members who voted to raise policy rates, suggesting that the BOT could turn increasingly hawkish. While the Bank of Korea left its policy rate unchanged at its 18 October meeting, there were earlier expectations of a possible rate hike within the year following comments made by the Prime Minister and the governor of the Bank of Korea in September and October.

Figure 10: Benchmark Yield Curves—Local Currency Government Bonds



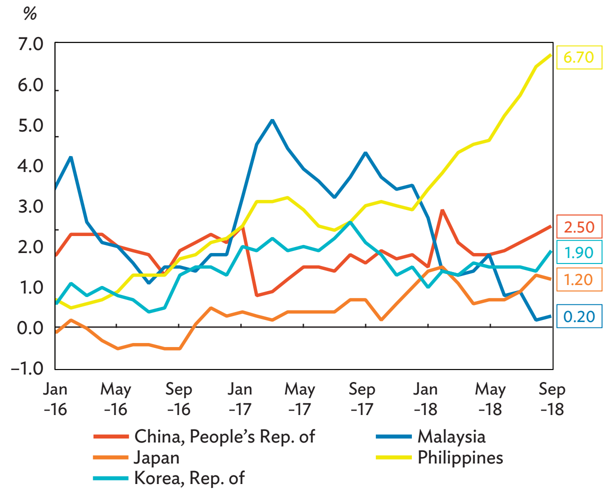
Sources: Based on data from Bloomberg LP and Thai Bond Market Association.

Figure 11a: Headline Inflation Rates



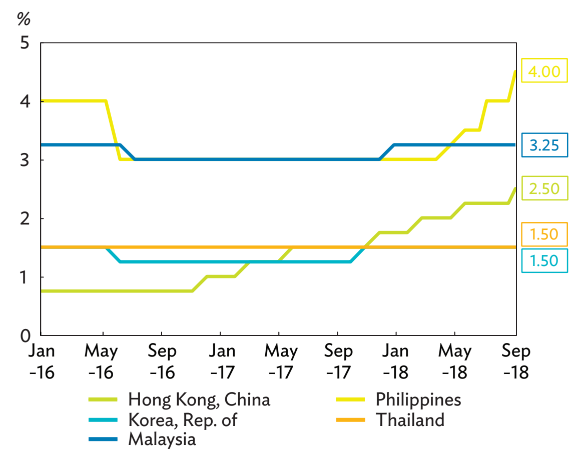
Note: Data as of September 2018.
Source: Based on data from Bloomberg LP.

Figure 11b: Headline Inflation Rates



Note: Data as of September 2018.
Source: Based on data from Bloomberg LP.

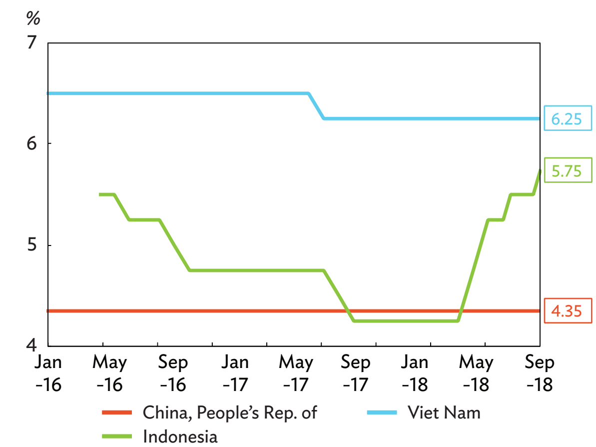
Figure 12a: Policy Rates



Notes:
1. Data as of end-September 2018.
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 12b: Policy Rates



Notes:
1. Data as of end-September 2018.
2. Bank Indonesia shifted its policy rate to the 7-day reverse repurchase rate effective 19 August 2016.

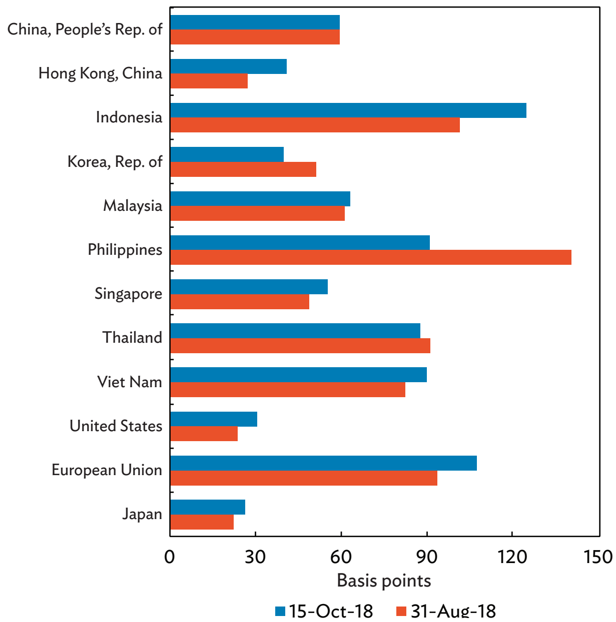
Source: Based on data from Bloomberg LP.

While Singapore does not have a monetary policy rate, it adjusted the slope of its exchange rate to a slight appreciation amid continually rising inflation.

The PRC has been the sole exception to these trends. It has adjusted its reserve requirement ratio several times this year and most recently reduced the reserve requirement ratio for banks by 100 bps on 7 October.

The 2-year versus 10-year yield spread rose in all emerging East Asian economies except the Republic of Korea, the Philippines, and Thailand (**Figure 13**).

Figure 13: Yield Spreads Between 2-Year and 10-Year Government Bonds



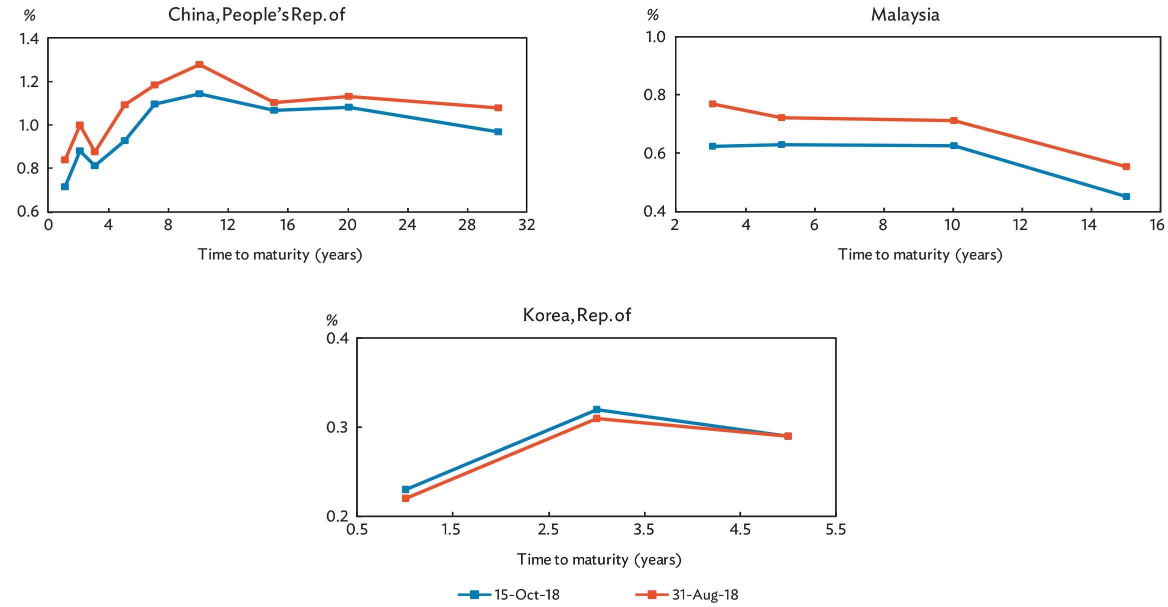
Source: Based on data from Bloomberg LP.

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

Rising risk aversion in the PRC over corporate bond defaults and an overall decline in yields led to a fall in the spread of AAA-rated corporate bonds and government bonds between 31 August and 15 October as investors demanded higher-yielding securities and avoided speculative-grade corporate bonds (**Figure 14a**). The spread also fell in Malaysia as rising global oil prices are expected to be beneficial for Malaysia's corporate bonds.

In contrast, the spread rose between AAA-rated corporate bonds and lower-rated bonds in the PRC during the review period due to the abovementioned risk aversion at the shorter-end of the yield curve. Meanwhile, the spread was unchanged in the Republic of Korea (**Figure 14b**).

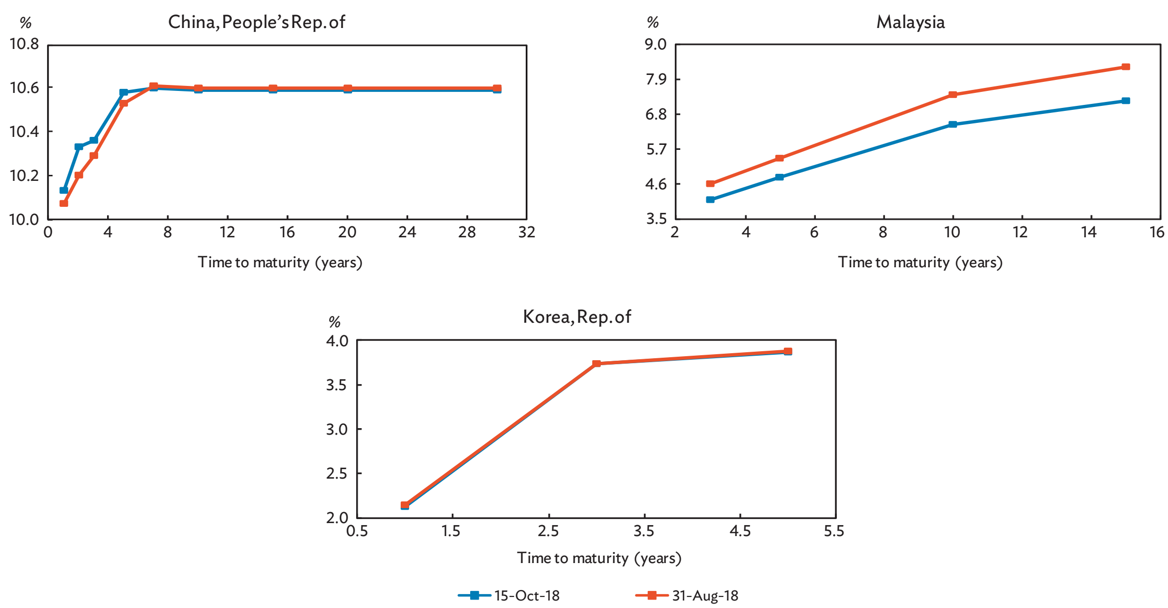
Figure 14a: Credit Spreads—Local Currency Corporates Rated AAA vs. Government Bonds



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 and 12 October 2018 while data for government bond yields are as of 30 August and 15 October 2018.

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

Figure 14b: 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. Data on corporate bond yields are as of 30 August and 12 October 2018.

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