Market Summaries

People's Republic of China

Yield Movements

Between 31 August and 15 October, the People's Republic of China's (PRC) yield curve shifted slightly downward by an average of 2.3 basis points (bps) (**Figure 1**). The largest shift was for the 15-year tenor, with the yield falling 8 bps. All other tenors fell between 1 bp and 2 bps.

For much of 2018, the PRC's yields have been trending downward, largely due to the weakening of the domestic economy. In addition, the PRC has been beset by numerous corporate bond defaults and increased economic uncertainty as a result of the ongoing trade war with the United States (US).

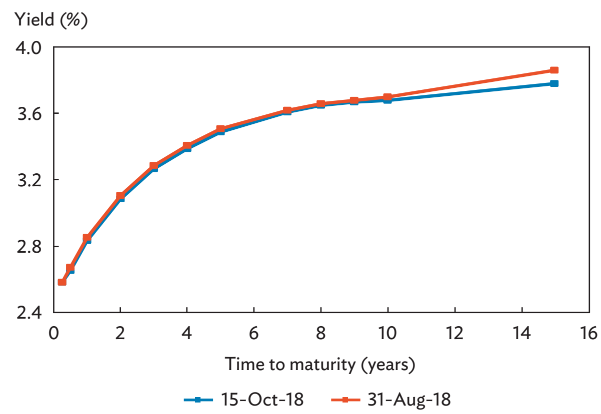
These concerns largely continued in the third quarter (Q3) of 2018, leading to a decline of 5.8% between 31 August and 15 October in the PRC's equity markets. The PRC's currency also depreciated 1.2% versus the US dollar in the same period.

In an effort to help stabilize the economy, the PRC has ceased or slowed its deleveraging activities. On the monetary side, the People's Bank of China (PBOC) released the China Monetary Policy Report Quarter Two, 2018, which reiterated that the PBOC will continue its sound and neutral monetary policy while maintaining total financing at an appropriate level. The report said that the PBOC would "strike a balance between steady growth, structural adjustments, and risk prevention," replacing the term "deleveraging" used in the first quarter report with "structural adjustments."[14]

In order to help promote liquidity, the PBOC also has made a number of reserve requirement ratio cuts, with the latest cut of 100 bps coming on 7 October.

The Government of the PRC has engaged in various stimulus measures in 2018. On 23 July, the State Council announced measures to help boost economic growth, including the increase of a previous CNY1.1 trillion tax cut to CNY1.165 trillion. The cuts for R&D expenses were expanded from applying to technology companies only to all enterprises. The government also announced that it would accelerate issuance of CNY1.35 trillion in "special bonds" by local governments.

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



Source: Based on data from Bloomberg LP.

While the yield curve of the PRC largely shifted downward during the review period, the overall decrease in the yield curve was small due to volatility over the course of Q3 2018. Yields in the PRC rose in August and September, following an increase in inflation in August when consumer prices rose 2.3% year-on-year (y-o-y) after gaining 2.1% y-o-y in July. Inflation further accelerated to 2.5% y-o-y in September.

There were initial concerns that the PRC's stimulus measures such as the increased issuance of special bonds would affect liquidity in the market. In September, interbank liquidity was strained due to cash withdrawals in preparation for the long holiday in October as well as some corporate tax payments. Nevertheless, the PRC's yields saw an overall decline during the review period.

[14] People's Bank of China. 2018. *China Monetary Policy Report Quarter Two, 2018*. http://www.pbc.gov.cn/english/resource/cms/2018/09/2018091310133940652.docx.

Ongoing trade tensions with the US have affected economic sentiment and the PRC economy continues to slow. Gross domestic product growth fell to 6.5% y-o-y in the third quarter (Q3) of 2018 from 6.7% y-o-y in the second quarter (Q2) of 2018.

Size and Composition

The PRC's local currency (LCY) bonds outstanding rose 5.7% quarter-on-quarter (q-o-q) and 15.5% y-o-y to reach CNY63.2 trillion (USD 9.2 trillion). The PRC's bond market q-o-q growth rate quickened from the previous quarter's 3.8% expansion (**Table 1**).

Government bonds. The PRC's government bond market grew 6.3% q-o-q in Q3 2018 after expanding 4.4% q-o-q in Q2 2018. The faster growth rate was driven by the rapid increase in Treasury bonds and other government bonds, which grew 8.7% q-o-q in Q3 2018, up from 5.1% q-o-q in the previous quarter.

Local government bonds, which grew 12.5% q-o-q in Q3 2018 compared with 6.9% q-o-q in Q2 2018, also contributed to the gains. More of the local government bonds issued during this period were special bonds, which are a type of project bond for local governments. Proceeds from the bonds can be used for various local government projects and earnings from the projects can be used to repay the bond, as opposed to the general revenue measures of the local government.

This type of issuance is part of the Government of the PRC's stimulus measures, which include a 2018 issuance quota of CNY1.35 trillion for local governments. However, local governments were slow to issue special bonds earlier in the year, selling only CNY360.9 billion in the first half of 2018. The government then later issued guidelines stating that local governments needed to meet 80% of their annual special bond quota by the end of September and the remainder in October. In response, local governments issued a total of CNY2.4 trillion in local governments bonds in Q3 2018, of which CNY1.3 trillion were special bonds. The remainder came largely from the local government debt-swap program, which ended in August.

There were no central bank bonds outstanding in Q3 2018 as the PBOC no longer issues such bonds.

Corporate bonds. The PRC's corporate bonds outstanding grew 4.1% q-o-q in Q3 2018, up from Q2 2018's growth of 2.1% q-o-q. While all bond categories except for state-owned enterprise bonds and local corporate bonds showed strong positive growth rates, the growth was driven primarily by capital-raising efforts by banks as well as issuances of medium-term notes, as companies took advantage of lower interest rates (**Table 2**).

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

	Outstanding Amount (billion)						Growth Rates (%)			
	Q3 2017		Q2 2018		Q3 2018		Q3 2017		Q3 2018	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**54,693**	**8,221**	**59,762**	**9,026**	**63,160**	**9,195**	**5.3**	**14.2**	**5.7**	**15.5**
Government	39,438	5,928	43,352	6,548	46,072	6,707	6.1	19.0	6.3	16.8
Treasury Bonds and Local Government Bonds	26,340	3,959	29,347	4,432	31,888	4,642	7.9	26.0	8.7	21.1
Central Bank Bonds	0	0	0	0	0	0	0.0	(100.0)	0.0	0.0
Policy Bank Bonds	13,098	1,969	14,005	2,115	14,184	2,065	2.7	7.2	1.3	8.3
Corporate	15,255	2,293	16,410	2,479	17,088	2,488	3.3	3.5	4.1	12.0
Policy Bank Bonds										
China Development Bank	7,331	1,102	7,743	1,169	7,979	1,162	2.1	4.0	3.0	8.8
Export–Import Bank of China	2,280	343	2,366	357	2,299	335	2.9	12.4	(2.9)	0.8
Agricultural Devt. Bank of China	3,488	524	3,895	588	3,907	569	4.0	11.2	0.3	12.0

( ) = negative, CNY = Chinese yuan, 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. Calculated using data from national sources.
2. Treasury bonds include savings bonds and local government bonds.
3. Bloomberg LP end-of-period LCY–USD rates are used.
4. Growth rates are calculated from an LCY base and do not include currency effects.
Sources: *ChinaBond*, *Wind Information*, and Bloomberg LP.

Table 2: Corporate Bonds Outstanding in Key Categories

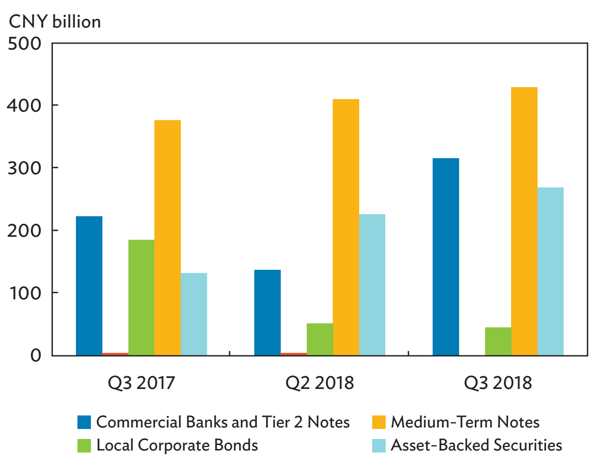
	Amount (CNY billion)			Growth Rate (%)			
				Q3 2017		Q3 2018	
	Q3 2017	Q2 2018	Q3 2018	q-o-q	y-o-y	q-o-q	y-o-y
Commercial Bank Bonds and Tier 2 Notes	2,915	3,226	3,449	1.1	22.9	6.9	18.4
SOE Bonds	508	468	443	1.0	(9.2)	(5.4)	(12.9)
Local Corporate Bonds	3,060	2,771	2,591	1.0	5.1	(6.5)	(15.3)
Commercial Paper	1,549	1,715	1,886	0.9	(34.9)	9.9	21.8
Asset-Backed Securities	672	1,020	1,184	1.1	43.3	16.1	76.1
Medium-Term Notes	4,816	5,222	5,464	1.0	4.6	4.6	13.4

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

While the PRC has eased its deleveraging stance, it continues to remain guarded against risks and is focusing on debt reduction among state-owned enterprises. On 13 September, the State Council announced that by 2020 state-owned enterprises needed to cut their debt ratios by 2 percentage points from end-2017 levels.

Among major corporate bond types, issuance in Q3 2018 grew for medium-term notes and commercial bank bonds, driven by capital-raising efforts designed to strengthen balance sheets amid uncertainty and rising debt defaults (**Figure 2**). While comprising a relatively small portion of the PRC's corporate bonds, asset-backed securities have been making a comeback and their issuance and outstanding amounts have risen rapidly since the asset-backed market was restarted in 2012. While banks have issued asset-backed securities to offload nonperforming assets, the majority of the issuances were consumer-based loans from financing companies seeking ways to free up liquidity and raise additional funds.

Figure 2: Corporate Bond Issuance in Key Sectors



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

The PRC's LCY corporate bond market continues to be dominated by a few big issuers (**Table 3**). At the end of Q3 2018, the top 30 corporate bond issuers accounted for CNY7.1 trillion worth of corporate bonds outstanding, or about 41.4% of the total market. Of the top 30, the 10 largest issuers accounted for CNY4.6 trillion. China Railway, the top issuer, had more than five times the outstanding amount of bonds as the Bank of China, the second-largest issuer. The top 30 issuers include 13 banks, which continue to dominate the list as they generate funding to strengthen their capital bases, improve liquidity, and lengthen their maturity profiles.

Table 4 lists the largest corporate bond issuances in Q3 2018. The top issuers consisted largely of banks and state-owned enterprises.

Investor Profile

Treasury bonds and policy bank bonds. Banks were the single-largest holders of Treasury bonds and policy bank bonds at the end of September, though their share declined to 64.9% from 66.8% a year earlier (**Figure 3**). In contrast, the share held by funds institutions was roughly unchanged at 16.4% versus 16.2% a year earlier.

Table 3: Top 30 Issuers of Local Currency Corporate Bonds in the People's Republic of China

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (CNY billion)	LCY Bonds (USD billion)			
1.	China Railway	1840.5	267.95	Yes	No	Transportation
2.	Bank of China	358.9	52.25	Yes	Yes	Banking
3.	Agricultural Bank of China	358.0	52.12	Yes	Yes	Banking
4.	Industrial and Commercial Bank of China	356.0	51.83	Yes	Yes	Banking
5.	State Grid Corporation of China	336.7	49.02	Yes	No	Public Utilities
6.	China National Petroleum	320.0	46.59	Yes	No	Energy
7.	China Construction Bank	315.0	45.86	Yes	Yes	Banking
8.	Bank of Communications	255.0	37.12	No	Yes	Banking
9.	Central Huijin Investment	252.0	36.69	Yes	No	Asset Management
10.	Shanghai Pudong Development Bank	238.6	34.74	No	Yes	Banking
11.	China CITIC Bank	222.5	32.39	No	Yes	Banking
12.	China Minsheng Banking	185.1	26.95	No	Yes	Banking
13.	China Everbright Bank	180.9	26.34	Yes	Yes	Banking
14.	Industrial Bank	155.0	22.57	No	Yes	Banking
15.	State Power Investment	154.7	22.53	Yes	No	Energy
16.	Huaxia Bank	148.4	21.60	Yes	No	Banking
17.	Tianjin Infrastructure Construction and Investment Group	137.3	19.99	Yes	No	Industrial
18.	CITIC Securities	123.3	17.95	Yes	Yes	Brokerage
19.	Bank of Beijing	122.9	17.89	Yes	Yes	Banking
20.	PetroChina	105.0	15.29	Yes	Yes	Energy
21.	China Cinda Asset Management	100.0	14.56	Yes	Yes	Asset Management
22.	China Merchants Securities	98.4	14.33	No	Yes	Brokerage
23.	China Merchants Bank	96.0	13.98	Yes	Yes	Banking
24.	Datong Coal Mine Group	93.5	13.61	Yes	No	Coal
25.	Dalian Wanda Commercial Properties	93.0	13.54	No	Yes	Real Estate
26.	China Datang	88.7	12.91	Yes	Yes	Energy
27.	Shaanxi Coal and Chemical Industry Group	88.5	12.88	Yes	No	Energy
28.	China Southern Power Grid	85.5	12.45	Yes	No	Power
29.	Haitong Securities	84.6	12.32	No	Yes	Brokerage
30.	China Three Gorges	83.0	12.08	Yes	No	Public Utilities
Total Top 30 LCY Corporate Issuers		**7,076.98**	**1,030.31**			
Total LCY Corporate Bonds		**17,088.45**	**2,487.84**			
Top 30 as % of Total LCY Corporate Bonds		**41.4%**	**41.4%**			

CNY = Chinese yuan, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 30 September 2018.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Table 4: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
Central Huijin Investment		
1-year bond	3.43	9
1-year bond	3.60	11
1-year bond	4.00	9
3-year bond	3.86	7
3-year bond	4.05	7
3-year bond	4.24	7
5-year bond	4.23	2
5-year bond	4.12	13
China Railway Corporation		
5-year bond	4.09	7
5-year bond	4.15	10
5-year bond	4.18	7
10-year bond	4.53	10
20-year bond	4.65	13
20-year bond	4.65	13
China Construction Bank		
10-year bond	4.86	43
Bank of China		
10-year bond	4.86	40
Shanghai Pudong Development Bank		
10-year bond	4.96	20
10-year bond	4.96	20

CNY = Chinese yuan.
Source: Based on data from Bloomberg LP.

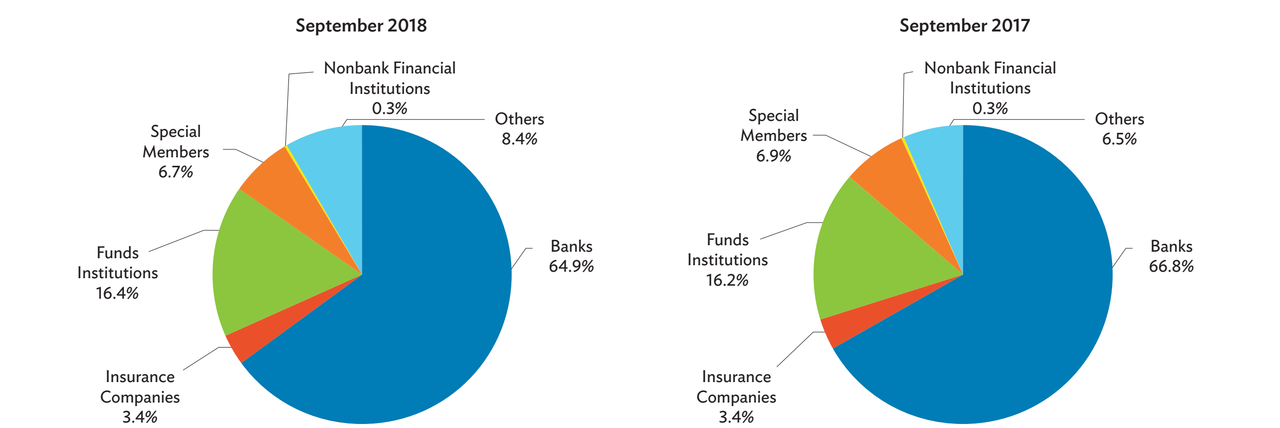
Corporate bonds. Funds institutions were the largest holders of LCY corporate bonds at the end of September with a share of 46.6% of total outstanding corporate bonds, down from 48.2% at the end of September 2017 (**Figure 4**). The share held by banks rose to 17.7% from 15.8% during the review period.

Figure 5 presents investor profiles across different corporate bond categories at the end of September. Funds institutions were the dominant buyers in the PRC of both local corporate bonds and medium-term notes, while banks were the dominant holders of commercial bank bonds.

Liquidity

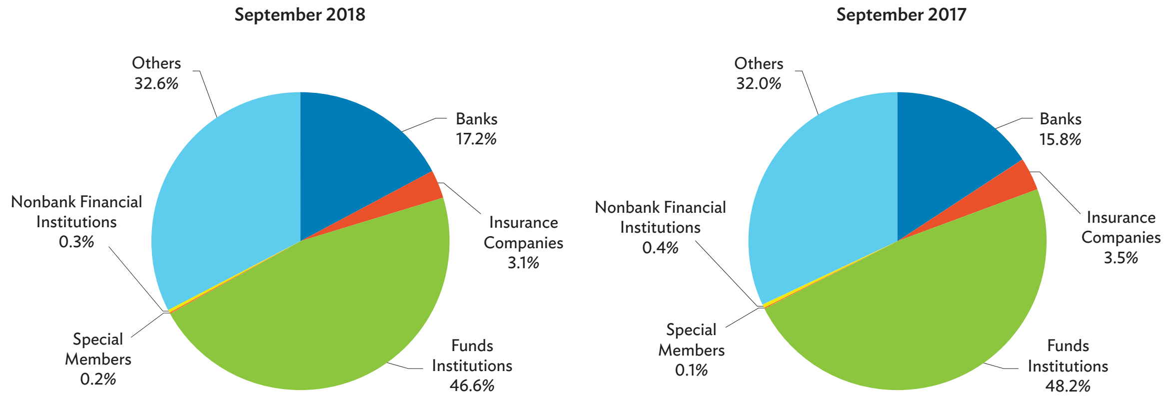
The volume of interest rate swaps fell 15.1% q-o-q in Q3 2018. The 7-day repurchase rate swaps remained the most used interest rate swap, comprising a 75.8% share of the total interest rate swap volume during the quarter (**Table 5**).

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



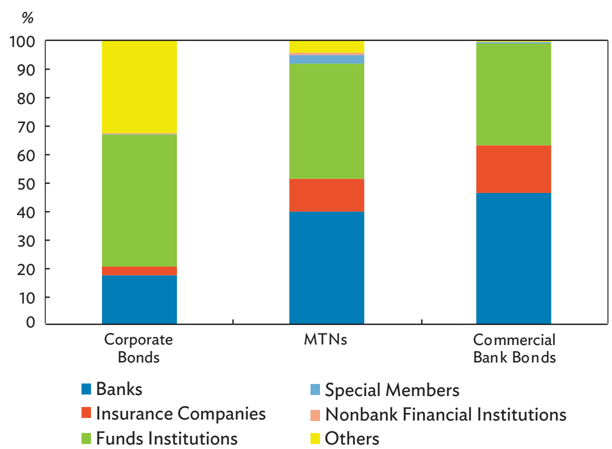
Source: *ChinaBond*.

Figure 4: Local Currency Corporate Bonds Investor Profile



Source: *ChinaBond*.

Figure 5: Investor Profile across Bond Categories



MTNs = medium-term notes.
Note: Data as of end-September 2018.
Source: *ChinaBond*.

Table 5: Notional Values of the People's Republic of China's Interest Rate Swap Market in the Third Quarter of 2018

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	Share of Total Notional Amount (%)	Growth Rate (%)
	Q3 2018		q-o-q
7-Day Repo Rate	3,786.5	75.77	(22.77)
Overnight SHIBOR	11.3	0.23	(24.67)
3-Month SHIBOR	1,109.0	22.19	30.60
1-Year Lending Rate	3.9	0.08	1,154.84
LPR1Y	5.4	0.11	126.59
3-Year Lending Rate	2.2	0.04	388.89
5-Year Lending Rate	0.1	0.00	–
10-Year Bond Yield	21.2	0.42	(44.21)
10-Year Treasury Yield	54.7	1.09	(27.76)
3-Year AAA Short-Term Notes/ Government Debt	0.6	0.01	(14.29)
Loan Interest Rate—1 Year * 1.10	2.1	0.04	20.59
Loan Interest Rate—1 Year * 1.05	0.4	0.01	(23.00)
Total	**4,997.2**	**100.00**	**(15.12)**

( ) = negative, – = not applicable, CNY = Chinese yuan, LPR1Y = 1-Year Loan Prime Rate, q-o-q = quarter-on-quarter, Q3 = third quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.
Note: Growth rate computed based on notional amounts.
Sources: *AsianBondsOnline* and *ChinaMoney*.

Policy, Institutional, and Regulatory Developments

The Government Seeks to Reduce State-Owned Debt

On 13 September, the State Council announced that state-owned enterprises must cut their debt ratios by 2 percentage points by 2020 from their levels at the end of 2017. The PRC will also help create an environment to allow firms to reduce their debt. Other measures to be taken include promoting mergers and restructuring state-owned corporations, allowing "zombie" firms to go bankrupt, promoting market-based debt–equity swaps, and banning lending by financial firms to state-owned enterprises being monitored for debt risks.

People's Bank of China Reduces Reserve Requirement Ratio

On 7 October, the PBOC reduced the reserve requirement ratio of large commercial banks, joint stock commercial banks, city commercial banks, non-country rural commercial banks, and foreign-funded commercial banks by 100 bps. In addition, the PBOC announced that maturing funds from its Medium-Term Lending Facility for that day would not be renewed, effectively using some funds freed by the reserve requirement ratio cut to repay the lending facility. The PBOC said that the net effect would be a release of CNY750 billion of funds into the banking system.

People's Bank of China to Set Up Facility for Corporate Bond Issuance

On 24 October, the PBOC announced that it would provide guidelines to establish a facility to help promote bond issuance by private companies. Funds for the facility would initially come from a loan from the PBOC. Managers of the facility would use it to provide credit enhancements such as guarantees.

Hong Kong, China

Yield Movements

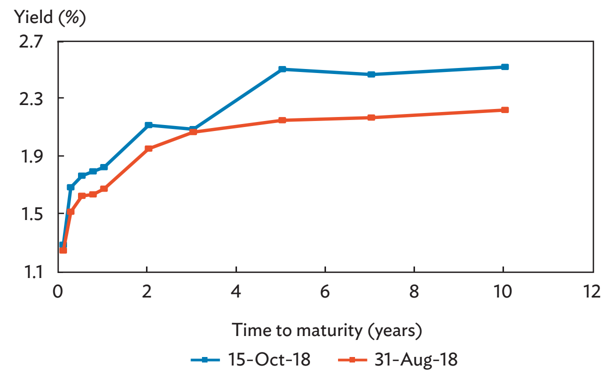
Between 31 August and 15 October, Hong Kong, China's local currency (LCY) government bond yield curve shifted upward as yields rose for all tenors (**Figure 1**). Excluding the 1-month tenor, yields for shorter-dated bonds (2 years or less) rose an average of 16 basis points (bps). Excluding the 3-year tenor, yields for longer-dated bonds (5 years or more) rose an average of 33 bps. The marginal increase of 2 bps in yields for 3-year bonds led the yield curve to gradually rise at the shorter-end, take a dip near the belly (3-year), and climb steeply toward the longer-end. With longer-dated bonds rising faster than shorter-dated bonds, the yield spread between the 2-year and 10-year tenors widened to 40 bps on 15 October from 27 bps on 31 August. The movements in Hong Kong, China's bond yields closely track the movements of United States (US) Treasury yields as the Hong Kong dollar is pegged to the US dollar. During the review period, US yields rose for all tenors, rendering the US Treasury yield curve to, likewise, shift upward.

In September, the Hong Kong Monetary Authority (HKMA) raised its base rate by 25 bps to 2.50% following a 25-bps hike in the target range for the US federal funds rate.

In contrast to the rise of the yield curve, Hong Kong, China's gross domestic product growth moderated in the second quarter (Q2) of 2018 to 3.5% year-on-year (y-o-y) from 4.6% y-o-y in the previous quarter due to a slowdown in goods exports and domestic demand. On a seasonally adjusted quarter-on-quarter (q-o-q) basis, gross domestic product contracted 0.2% in Q2 2018 after an expansion of 2.1% in the first quarter. In September, the growth of exports of goods decelerated to 4.5% y-o-y from 13.1% y-o-y in August as the impacts of the trade conflict between the People's Republic of China (PRC) and the US became more apparent.

Inflation in September rose to 2.7% y-o-y from 2.3% y-o-y in August. The upward adjustment in public housing rentals mainly contributed to the faster rise in inflation during the month. On a seasonally adjusted month-on-month basis, however, the average inflation rate from July to September held steady at 0.2%.

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



Source: Based on data from Bloomberg LP.

Size and Composition

Hong Kong, China's LCY bond market continued to expand through the third quarter (Q3) of 2018 to reach a size of HKD1,955 billion (USD250 billion) at the end of September (**Table 1**). Growth moderated to 1.4% q-o-q from 2.1% q-o-q in Q2 2018. Growth was driven by the rise in stock of corporate bonds. Year-on-year (y-o-y) growth was 3.6%, maintaining the previous quarter's y-o-y growth and driven by expansion in both the government and corporate bond segments. At the end of September, the LCY bond market comprised 59% government bonds and 41% corporate bonds.

Government bonds. LCY government bonds outstanding amounted to HKD1,154 billion at the end of September, down 0.4% q-o-q, but up 3.4% y-o-y. Contractions in Hong Kong Special Administrative Region (HKSAR) bonds and Exchange Fund Notes (EFNs) led to the q-o-q decline, but the strong issuance of Exchange Fund Bills (EFBs) kept y-o-y growth afloat. The aggregate amount of government bonds outstanding at the end of the review period predominantly comprised EFBs.

Exchange Fund Bills. EFBs outstanding amounted to HKD1,024 billion at the end of September, accounting for 89% of the aggregate government bond market. Q-o-q growth was 0.5%, the same as the previous quarter's growth rate, while annual growth decelerated to 5.2% from

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2017		Q2 2018		Q3 2018		Q3 2017		Q3 2018	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,887**	**242**	**1,929**	**246**	**1,955**	**250**	**1.3**	**3.0**	**1.4**	**3.6**
Government	1,116	143	1,159	148	1,154	147	3.7	4.6	(0.4)	3.4
Exchange Fund Bills	974	125	1,019	130	1,024	131	5.5	6.9	0.5	5.2
Exchange Fund Notes	41	5	35	4	34	4	(5.1)	(20.3)	(2.9)	(16.7)
HKSAR Bonds	101	13	105	13	96	12	(8.5)	(3.8)	(7.9)	(4.9)
Corporate	771	99	771	98	801	102	(2.0)	0.9	3.9	3.9

( ) = negative, HKD = Hong Kong dollar, HKSAR = Hong Kong Special Administrative Region, 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. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–USD rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
4. Corporate bonds for Q3 2018 are based on *AsianBondsOnline* estimates.
Sources: Hong Kong Monetary Authority.

10.4% in Q2 2018. With more bills maturing, despite the strong level of issuance during the period, issuance of EFBs reached HKD810 billion at the end of September. The HKMA has been strongly issuing EFBs to replace maturing EFNs in order to maintain the overall size of Exchange Fund papers since issuance of EFNs became limited to the 2-year tenor.

Exchange Fund Notes. EFNs outstanding continued to decline in Q3 2018, dropping to HKD34 billion at the end of September, down 2.9% q-o-q and 16.7% y-o-y. Issuance of EFNs has been limited to the 2-year tenor since January 2015 in order to minimize overlap in longer tenors of HKSAR bonds, leading to fewer issuances of notes. Only one EFN valued at HKD1.2 billion was issued between July and September.

HKSAR bonds. HKSAR bonds outstanding amounted to HKD96 billion at the end of September, down 7.9% q-o-q, reversing the 6.6% q-o-q growth in Q2 2018, and down 4.9% y-o-y after falling 5.5% y-o-y in Q2 2018. In Q3 2018, two HKSAR bonds were issued under the Institutional Bond Issuance Programme, one valued at HKD1.2 billion with a 10-year tenor and the other valued at HKD600 million with a 15-year tenor.

Corporate bonds. Corporate bonds outstanding amounted to HKD801 billion at the end of September, up 3.9% on both a q-o-q and y-o-y basis. Hong Kong, China's top 30 nonbank corporate issuers had LCY outstanding bonds amounting to HKD205 billion at the end of September, accounting for 25.9% of the total corporate bond market (**Table 2**). Financial firms took the top three spots. Government-owned Hong Kong Mortgage Corporation, the top issuer since the start of the year, had outstanding bonds of HKD31 billion. A distant second was Sun Hung Kai & Co. with an outstanding amount of HKD14 billion, followed by Haitong International Securities Group with an outstanding amount of HKD12 billion. The top 30 list was dominated by firms coming from real estate and finance industries. Of the top 30, two-thirds are listed on the Hong Kong Stock Exchange and four are state-owned corporations.

In Q3 2018, notable nonbank issuances came from a state-owned entity, a real estate company, and financial firms. Hong Kong Mortgage Corporation remained the top issuer with an aggregate issuance amount of HKD5 billion, but the largest issuance was a 10-year bond worth HKD2 billion from real estate company CK Asset Holdings through CK Property Finance MTN (**Table 3**). Financing firms Sun Hung Kai & Co. and Haitong International Securities Group were the other two top issuers with aggregate issuance amounts of HKD1.9 billion and HKD1.4 billion, respectively.

Table 2: Top 30 Nonbank Corporate Issuers of Local Currency Corporate Bonds in Hong Kong, China

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (HKD billion)	LCY Bonds (USD billion)			
1.	Hong Kong Mortgage Corporation	31.30	4.00	Yes	No	Finance
2.	Sun Hung Kai & Co.	13.75	1.76	No	Yes	Finance
3.	Haitong International Securities Group	12.39	1.58	No	Yes	Finance
4.	MTR Corporation	12.24	1.56	Yes	Yes	Transportation
5.	The Hong Kong and China Gas Company	11.61	1.48	No	Yes	Utilities
6.	The Wharf (Holdings)	9.90	1.26	No	Yes	Finance
7.	Hong Kong Land	9.69	1.24	No	No	Real Estate
8.	New World Development	9.41	1.20	No	Yes	Diversified
9.	CLP Power Hong Kong Financing	8.81	1.12	No	No	Finance
10.	Swire Pacific	7.94	1.01	No	Yes	Diversified
11.	Link Holdings	7.44	0.95	No	No	Finance
12.	Henderson Land Development	7.23	0.92	No	No	Real Estate
13.	CK Asset Holdings	6.20	0.79	No	Yes	Real Estate
14.	Swire Properties	5.93	0.76	No	Yes	Real Estate
15.	Hongkong Electric	5.84	0.75	No	No	Utilities
16.	China Merchants Port Holdings	5.70	0.73	No	Yes	Transportation
17.	Hang Lung Properties	4.61	0.59	No	Yes	Real Estate
18.	AIA Group	3.90	0.50	No	Yes	Insurance
19.	IFC Development Corporation	3.50	0.45	No	No	Finance
20.	Kowloon-Canton Railway	3.40	0.43	Yes	No	Transportation
21.	LT Commercial Real Estate	3.02	0.39	No	Yes	Real Estate
22.	Urban Renewal Authority	2.80	0.36	Yes	No	Real Estate
23.	Emperor International Holdings	2.60	0.33	No	Yes	Real Estate
24.	Wharf Real Estate Investment	2.59	0.33	No	Yes	Real Estate
25.	Champion REIT	2.54	0.32	No	Yes	Real Estate
26.	China Dynamics (Holdings)	2.36	0.30	No	Yes	Diversified
27.	ASM Pacific Technology	2.25	0.29	No	Yes	Technology
28.	The 13 Holdings	2.22	0.28	No	Yes	Industrial
29.	Hysan Development Company	2.15	0.27	No	Yes	Real Estate
30.	CK Hutchison Holdings	2.00	0.26	No	Yes	Diversified
30.	Gluon Xima International	2.00	0.26	No	No	Real Estate
Total Top 30 Nonbank LCY Corporate Issuers		**207.30**	**26.48**			
Total LCY Corporate Bonds		**800.98**	**102.32**			
Top 30 as % of Total LCY Corporate Bonds		**25.9%**	**25.9%**			

LCY = local currency.
Notes:
1. Data as of 30 September 2018.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Table 3: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
Hong Kong Mortgage Corporation		
3-month bond	0.00	0.93
3-month bond	0.00	0.75
3-month bond	1.50	0.62
3-month bond	1.69	0.48
3-month bond	1.54	0.45
3-month bond	1.49	0.39
3-month bond	0.00	0.35
3-month bond	0.00	0.35
5-month bond	1.80	0.20
3-month bond	0.00	0.20
3-month bond	1.70	0.20
3-month bond	0.00	0.20
3-month bond	1.61	0.13
3-year bond	2.63	0.07
1-year bond	2.05	0.06
CK Asset Holdings		
10-year bond	3.57	2.00
Sun Hung Kai & Co.		
10-year bond	3.51	0.35
10-year bond	3.55	0.33
10-year bond	3.55	0.30
10-year bond	3.55	0.30
5-year bond	3.35	0.30
5-year bond	3.25	0.30
Haitong International Securities Group		
1-year bond	3.00	0.80
1-year bond	3.16	0.23
1-year bond	3.39	0.21
1-year bond	3.00	0.20

HKD = Hong Kong dollar.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

Delivery-versus-Payment Settlement Fully Implemented in Bond Connect

In August, delivery-versus-payment settlement was fully implemented under the Bond Connect program. This mechanism allows for the payment and delivery of securities in real time, reduces settlement risks, and facilitates settlement efficiency, providing more convenience to international investors through Bond Connect.

HKMA Includes CNY-Denominated Bills in List of Eligible Collateral for Renminbi Liquidity Facility

In September, the HKMA expanded the list of eligible collateral for the Renminbi Liquidity Facility to include CNY-denominated bills issued in Hong Kong, China by the People's Bank of China. In a memorandum signed by the two government bodies, tendering and issuance of People's Bank of China bills will be done through the HKMA Central Moneymarkets Unit's bond tendering platform.

Launch of the Hong Kong Green Finance Association

In September, the Hong Kong Green Finance Association was officially launched at the Green Finance Forum held at the Hong Kong Stock Exchange. The association aims to provide greater access and opportunities for Hong Kong, China's financial institutions to participate in green financing transactions locally, in the PRC, and in markets included in the Belt and Road Initiative. It seeks to position Hong Kong, China as a leading international green finance hub in line with the global trend of implementing the United Nations' Sustainable Development Goals and the Paris Agreement.

The PRC Issues Renminbi Sovereign Bonds through HKMA

In October, the Ministry of Finance of the PRC issued two renminbi sovereign bonds through the HKMA's Central Moneymarkets Unit; this follows the issuance of two renminbi sovereign bonds in July. The first additional bond worth CNY3.0 billion and with a coupon rate of 3.65% will be consolidated with a CNY3.0 billion bond issued on 9 July and due in 2020. The second additional bond worth CNY1.5 billion and with a coupon rate of 3.8% will be consolidated with a CNY1.7 billion bond issued on 9 July and due in 2030.

Indonesia

Yield Movements

Local currency (LCY) government bond yields in Indonesia climbed for all tenors between 31 August and 15 October, shifting the curve upward (**Figure 1**). Yields gained an average of 65 basis points (bps) across the curve excluding for the 1-year tenor, which rose 7 bps. The spread between the 2-year and 10-year tenors widened from 101 bps on 31 August to 124 bps on 15 October.

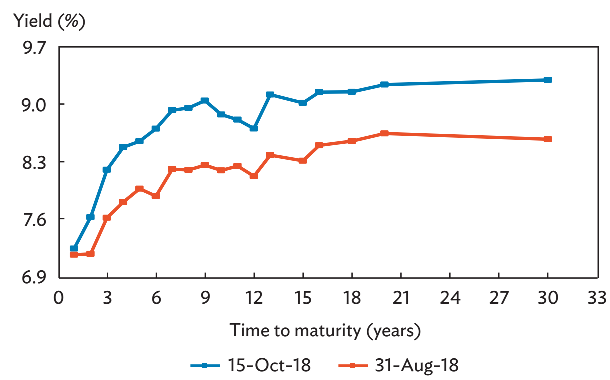
The overall rise in bond yields was largely influenced by the policy rate hikes undertaken by Bank Indonesia as a preemptive move to maintain the attractiveness of its financial market. Bank Indonesia has raised the 7-day reverse repurchase (repo) rate five times since mid-May for a cumulative increase of 150 bps. In its meeting on 22–23 October, the central bank took a pause from the hikes and held steady the 7-day reverse repo rate at 5.75%.

The Indonesian LCY bond market is highly sensitive to developments in the global market as foreign investors account for the largest investor group in government bonds. Foreign investor holdings of government bonds have been on a downtrend after accounting for over 40% of the total market at the end of January. The share of nonresident holdings declined to 37.6% at the end of August and further to 37.0% on 15 October, reflecting investors' risk-off sentiment toward emerging markets. Also, the United States (US) Federal Reserve is proceeding with the normalization of its monetary policy as previously announced, leading US Treasury rates to edge higher and the US dollar to appreciate.

As a result, the Indonesian rupiah was heavily battered, hitting the IDR15,000–USD1 mark in early October, a level last seen during the 1997/98 Asian financial crisis. Between 31 August and 15 October, the Indonesian rupiah weakened the most among all emerging East Asian currencies, with its value falling 3.4% versus the dollar. In response, Bank Indonesia has been intervening in the foreign exchange market to support the rupiah and undertaking bond buybacks to stabilize prices in the government bond market.

Despite the market sell-off, foreign investors were still attracted to Indonesian government bonds as real interest rates remained high. The government has effectively managed inflationary pressures, with year-to-date inflation reaching 1.9% as of September, well within range of the central bank's full-year 2018 target of 2.5%–4.5%. Consumer price inflation slowed to 2.9% year-on-year (y-o-y) in September from 3.2% y-o-y in both August and July.

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



Source: Based on data from Bloomberg LP.

The domestic economy remains resilient, with real gross domestic product (GDP) growth climbing to 5.3% y-o-y in the second quarter (Q2) of 2018, up from 5.1% y-o-y in the first quarter. Bank Indonesia expects economic growth to come in at the lower end of its full-year growth forecast of 5.0%–5.4%.

Size and Composition

Indonesia's LCY bond market was the fastest growing in emerging East Asia on a quarter-on-quarter (q-o-q) basis, with growth rebounding strongly to 5.9% in the third quarter (Q3) of 2018 from only 0.5% in Q2 2018. On a y-o-y basis, growth rose at a faster pace of 13.9% in Q3 2018 versus 12.0% in the previous quarter. Total bonds outstanding climbed to IDR2,764.3 trillion at the end of September (**Table 1**). Much of the growth was driven by government bonds, while corporate bonds contributed to a lesser extent.

Government bonds accounted for a growing share of the market in Q3 2018 at 84.8% of the LCY bond stock at

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2017		Q2 2018		Q3 2018		Q3 2017		Q3 2018	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,426,060**	**180**	**2,611,428**	**182**	**2,764,341**	**185**	**4.1**	**12.7**	**5.9**	**13.9**
Government	2,066,296	153	2,208,882	154	2,345,354	157	3.4	10.7	6.2	13.5
Central Govt. Bonds	2,046,933	152	2,196,915	153	2,306,641	155	4.9	17.0	5.0	12.7
of which: *Sukuk*	329,039	24	354,277	25	378,115	25	10.6	37.2	6.7	14.9
Central Bank Bills	19,363	1	11,967	0.8	38,713	3	(58.3)	(83.4)	223.5	99.9
of which: *Sukuk*	12,626	0.9	11,967	0.8	10,642	0.7	34.0	33.7	(11.1)	(15.7)
Corporate	359,763	27	402,546	28	418,987	28	8.2	25.5	4.1	16.5
of which: *Sukuk*	13,958	1	14,692	1	16,982	1	4.3	29.9	15.6	21.7

( ) = negative, IDR = Indonesian rupiah, 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. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–USD rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
4. The total stock of nontradable bonds as of end-September stood at IDR230.5 trillion.
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; and Bloomberg LP.

the end of September, broadly unchanged from 84.6% at the end of June. Conventional bonds also accounted for a bigger share of the market, also little changed at 85.3% from 85.4% of the total in the same period. The share of *sukuk* (Islamic bonds) was steady at about 15% of the total at the end of September.

Government bonds. The outstanding size of LCY government bonds climbed to IDR2,345.4 trillion at the end of September on expansions of 6.2% q-o-q and 13.5% y-o-y. Treasury bills and bonds, which are issued by the Ministry of Finance to fund the budget deficit, drove much of the growth. The stock of central bank bills, which are known as Sertifikat Bank Indonesia (SBI), also contributed to the overall growth. Growth in government bonds outstanding was buoyed by higher issuance volume in both central government bonds and central bank bills during the quarter.

Central government bonds. At the end of September, the outstanding amount of central government bonds reached IDR2,306.6 trillion on growth of 5.0% q-o-q and 12.7% y-o-y. During the quarter, the Ministry of Finance accepted bids more than the targeted amount in nearly all scheduled Treasury auctions, fulfilling its funding needs after a slowdown in issuance in Q2 2018. Issuance volume per week reached over IDR15 trillion in Q3 2018 for conventional bonds and over IDR4 trillion for *sukuk*, compared with regular volume of IDR8 trillion–IDR10 trillion for conventional bonds and about IDR4 trillion for *sukuk*.

Normally, the Ministry of Finance frontloads its issuance by opting to issue in bigger volumes in January–June. However, volatile market conditions led the government to pare most of its issuances in Q2 2018 as investors sought higher yields.

Central bank bills. The outstanding stock of SBI rose more than threefold to IDR38.7 trillion at the end of September from IDR12.0 trillion at the end of June. The faster growth stemmed from Bank Indonesia's resumption of conventional SBI issuance beginning in July to boost foreign portfolio investment in the Indonesian market. Higher foreign portfolio inflows were expected to help stabilize the Indonesian rupiah. Bank Indonesia had ceased issuance of conventional SBI beginning in January 2017. As with the trend for Treasury bonds, conventional SBI issuance tends to be higher in volume than its *sukuk* counterpart.

Corporate bonds. At the end of September, the LCY corporate bond stock reached IDR419.0 trillion on growth of 4.1% q-o-q and 16.5% y-o-y. The increase in corporate bonds outstanding stemmed from modest issuance volume and fewer bond maturities during the review period.

A total of 113 corporate entities comprised the Indonesian corporate bond market at the end of September. **Table 2** presents the 30 largest issuers of corporate bonds during the review period. Collectively, their outstanding bonds totaled IDR312.1 trillion, representing a 74.5% share of the

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

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (IDR billion)	LCY Bonds (USD billion)			
1.	Indonesia Eximbank	36,322	2.44	Yes	No	Banking
2.	Bank Rakyat Indonesia	24,445	1.64	Yes	Yes	Banking
3.	PLN	19,385	1.30	Yes	No	Energy
4.	Indosat	17,519	1.18	No	Yes	Telecommunications
5.	Bank Tabungan Negara	17,050	1.14	Yes	Yes	Banking
6.	Bank Pan Indonesia	15,427	1.04	No	Yes	Banking
7.	Sarana Multi Infrastruktur	14,400	0.97	Yes	No	Finance
8.	Waskita Karya	14,211	0.95	Yes	Yes	Building Construction
9.	Bank Mandiri	14,000	0.94	Yes	Yes	Banking
10.	Federal International Finance	12,790	0.86	No	No	Finance
11.	Adira Dinamika Multifinance	11,103	0.75	No	Yes	Finance
12.	Perum Pegadaian	9,599	0.64	Yes	No	Finance
13.	Sarana Multigriya Finansial	9,175	0.62	Yes	No	Finance
14.	Pupuk Indonesia	9,076	0.61	Yes	No	Chemical Manufacturing
15.	Telekomunikasi Indonesia	8,995	0.60	Yes	Yes	Telecommunications
16.	Bank CIMB Niaga	7,237	0.49	No	Yes	Banking
17.	Astra Sedaya Finance	7,000	0.47	No	No	Finance
18.	Hutama Karya	6,825	0.46	Yes	No	Non-Building Construction
19.	Medco-Energi Internasional	6,454	0.43	No	Yes	Petroleum and Natural Gas
20.	Bank Maybank Indonesia	6,247	0.42	No	Yes	Banking
21.	Permodalan Nasional Madani	5,746	0.39	Yes	No	Finance
22.	BFI Finance Indonesia	5,541	0.37	No	Yes	Finance
23.	Bank OCBC NISP	5,356	0.36	No	Yes	Banking
24.	Maybank Indonesia Finance	4,400	0.30	No	No	Finance
25.	Bank Pembangunan Daerah Jawa Barat Dan Banten	4,252	0.29	Yes	Yes	Banking
26.	Bank Permata	4,060	0.27	No	Yes	Banking
27.	Indofood Sukses Makmur	4,000	0.27	No	Yes	Food and Beverages
28.	Indomobil Finance Indonesia	3,899	0.26	No	No	Finance
29.	Bank UOB Buana	3,800	0.25	No	No	Banking
30.	Adhi Karya	3,747	0.25	Yes	Yes	Building Construction
Total Top 30 LCY Corporate Issuers		**312,061**	**20.94**			
Total LCY Corporate Bonds		**418,987**	**28.11**			
Top 30 as % of Total LCY Corporate Bonds		**74.5%**	**74.5%**			

IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 30 September 2018.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Indonesia Stock Exchange data.

corporate stock at the end of September. Firms from the banking and financial industry continued to account for the bulk of those on the list. Half of the firms on the list were state-owned. This is consistent with the information gathered in the annual *AsianBondsOnline* Liquidity Survey, which indicated that the most liquid bonds were those issued by state-owned entities and finance-related companies. The top 30 list is dominated by such institutions.

Three state-owned firms topped the list of corporate issuers at the end of September. In the lead was Indonesia Eximbank (IDR36.3 trillion), followed by Bank Rakyat Indonesia (IDR24.4 trillion). Both firms maintained their respective rank from Q2 2018. Energy firm PLN moved up to the third spot with total bonds outstanding valued at IDR19.4 trillion.

During the quarter, 25 corporate institutions tapped funding from the bond market, issuing an aggregate of IDR33.4 trillion. A total of 68 new bond series were issued in the market, including two series of green bonds and 10 series of *sukuk*. In July, Sarana Multi Infrastruktur issued 3-year and 5-year green bonds for an aggregate issuance worth IDR500 billion. It also issued 3-year and 5-year *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership) worth a total of IDR1 trillion. Sarana Multi Infrastruktur is a state-owned financial institution rated $_{id}$AAA by Pemeringkat Efek Indonesia (Pefindo).

Two other types of *sukuk* were issued in Q3 2018 aside from *mudharabah*. Medco Power Indonesia raised IDR600 billion from a triple-tranche issuance in July of *sukuk wakalah* (Islamic bonds backed by an agreement nominating another entity to act on its behalf). Five series of *sukuk ijarah* (Islamic bonds backed by a lease agreement) were also issued by PLN and valued at a total of IDR750 billion.

The largest corporate bond issuances during the quarter are presented in **Table 3**. Leading the list were three state-owned companies. Bank Mandiri raised IDR3.0 trillion from the sale of 5-year bonds in September. State-owned port services provider Pelabuhan Indonesia IV issued an aggregate of IDR3.0 trillion from a triple-tranche deal in July. Next on the list was Indonesia Eximbank, which issued an aggregate of IDR2.5 trillion from a four-tranche bond deal in September.

Table 3: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2018

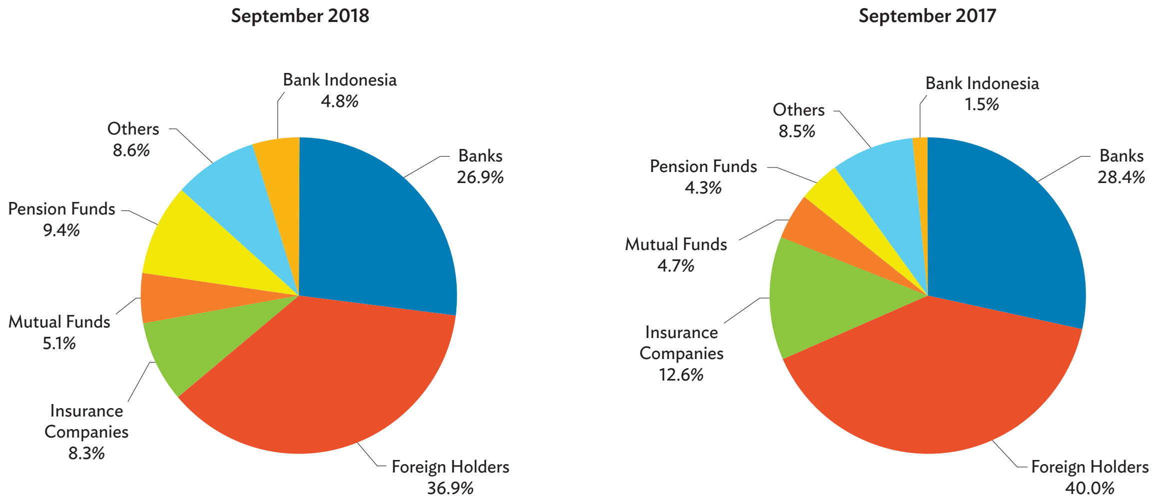
Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Bank Mandiri		
5-year bond	8.50	3,000
Pelabuhan Indonesia IV		
5-year bond	8.00	380
7-year bond	9.15	1,820
10-year bond	9.35	800
Indonesia Eximbank		
370-day bond	7.00	724
3-year bond	7.50	190
5-year bond	8.40	276
7-year bond	8.75	1,324
Adira Dinamika Multi Finance		
370-day bond	7.50	696
2-year bond	8.00	119
3-year bond	8.50	716
4-year bond	9.00	269
5-year bond	9.25	461
PLN		
5-year bond	7.80	79
5-year *sukuk ijarah*	7.80	127
7-year bond	8.35	442
7-year *sukuk ijarah*	8.35	150
10-year bond	8.40	138
10-year *sukuk ijarah*	8.40	258
15-year bond	8.90	281
15-year *sukuk ijarah*	8.90	105
20-year bond	9.00	339
20-year *sukuk ijarah*	9.00	110

IDR = Indonesian rupiah.
Note: *Sukuk ijarah* are Islamic bonds backed by lease agreements.
Source: Indonesia Stock Exchange.

Investor Profiles

Central government bonds. Despite the market sell-off in the LCY government bond market, foreign investors remained the largest holder of LCY government bonds in Indonesia. Their holdings, however, had fallen to a 36.9% share of the total at the end of September from 40.0% a year earlier (**Figure 2**). Foreign holdings began exhibiting a downtrend in February as US Treasury yields picked up and the US dollar strengthened against most major currencies. In addition, risk-off sentiment toward emerging markets prevailed amid concerns of contagion from the financial woes of Argentina and Turkey. Nonetheless, foreign investors remained attracted to Indonesian bond yields due to their high real returns,

Figure 2: Local Currency Central Government Bonds Investor Profile



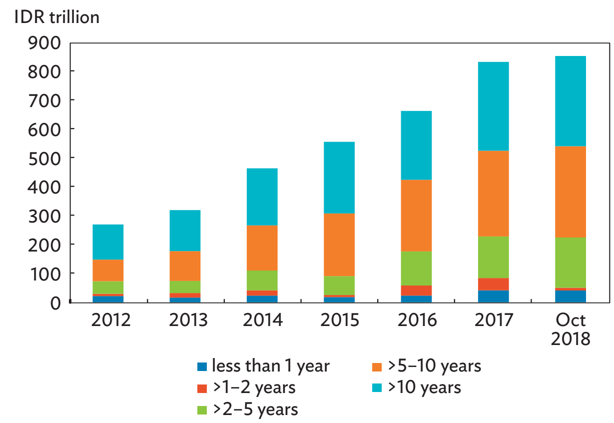
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

given that inflation has been relatively tame so far in 2018.

In nominal terms, foreign bond holdings climbed to IDR850.9 trillion at the end of September from IDR819.4 trillion in the prior year. Holdings of foreign governments and central banks increased to IDR161.0 trillion at the end of September, representing nearly 20% of the aggregate holdings of nonresidents. This is reflective of the view that Indonesia continues to enjoy strong economic fundamentals despite external risks.

Foreign investors continued to place a large share of their holdings in longer-dated maturities. As of 3 October, their aggregate bond holdings in maturities of 10 years or more and from 5 to 10 years each accounted for about 37% of total foreign holdings (**Figure 3**). Bonds with maturities of 1 year or less had a share of about 5%.

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



IDR = Indonesian rupiah.
Note: Data for October 2018 is as of 3 October 2018.
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

Leading all domestic investor groups were commercial banks despite their bond holdings declining to 26.9% of the total central government bond market at the end of September from 28.4% in September 2017. Bond holdings of insurance companies fell to an 8.3% share from 12.6% during the same period.

Domestic investors that exhibited increases in their bond holdings during the review period were pension funds, Bank Indonesia, mutual funds, and other investors. Pension fund holdings rose to a 9.4% share at the end of September from 4.3% a year earlier as they sought to comply with investment holding limits on government bonds set out by the government. In the case of Bank Indonesia, its bond holdings increased in line with central bank intervention in the market via bond buybacks.

Ratings Update

On 2 September, Fitch Ratings (Fitch) affirmed Indonesia's long-term foreign currency and LCY issuer default ratings at BBB. The ratings were given a stable outlook. In making its decision, Fitch took note of Indonesia's low government debt burden and favorable GDP growth outlook amid risks in the global environment. Fitch expects Indonesia's annual GDP growth to reach 5.1% in 2018, 5.2% in 2019, and 5.3% in 2020.

Policy, Institutional, and Regulatory Developments

Bank Indonesia Lowers the Minimum Transaction Limit for Foreign Exchange Swaps to USD2 Million

In August, Bank Indonesia lowered the minimum transaction limit for conducting foreign exchange hedging via swaps to USD2 million from USD10 million. With the reduced floor for hedging transactions, Bank Indonesia expects the volume of hedging transactions to increase. The hedging facility is available for transactions involving US dollars, Japanese yen, euros, and Chinese renminbi. In addition, the central bank is planning to relax documentary requirements for tapping the facility.

Indonesia and Japan Agree on an Enhanced Bilateral Swap Arrangement

In October, the Bank of Japan and Bank Indonesia agreed to enhance their existing Bilateral Swap Arrangement. The amendment allowed for the use of the local currencies of both markets through the swap of Indonesian rupiah into Japanese yen. Prior to this enhanced agreement, the swap facility only involved tapping funds in US dollars. The bilateral swap agreement between Indonesia and Japan amounted to an equivalent of up to USD22.8 billion.

Bank Indonesia Commences Nondeliverable Forward Transactions

On 1 November, Bank Indonesia commenced the trading of nondeliverable forwards settled in Indonesian rupiah as part of measures to help stabilize the local currency. The Jakarta Interbank Spot Dollar Rate will be used as the reference price for domestic nondeliverable forwards, which may be offered by banks to investors and corporates as an alternative hedging tool against exchange rate volatility. To enter into a domestic nondeliverable forward transaction, underlying transactions—such as trade documents, proof of investments, and bank loans in a foreign currency used for the purpose of trade or investment—will be required.

Republic of Korea

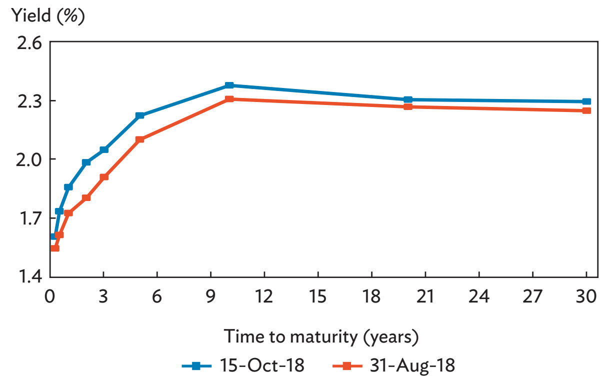
Yield Movements

Between 31 August and 15 October, local currency government (LCY) bond yields in the Republic of Korea rose for all tenors, averaging an increase of 10 basis points (bps) (**Figure 1**). The rise in yields was most pronounced for tenors from 6 months to 5 years, which increased an average of 14 bps, and for the 2-year tenor, which posted the biggest yield gain at 18 bps. For the 3-month tenor and for tenors of 10 years and longer, yields rose an average of 5 bps. The spread between the 2-year and 10-year yields fell to 40 bps from 51 bps during the review period, further flattening the Republic of Korea's yield curve.

The rise in yields toward the end of the review period, on expectations of a policy rate hike by the Bank of Korea, reversed the downward trend in place since May. Yields had fallen since May as the market no longer expected the Bank of Korea to change its monetary policy stance given the possibility of an economic slowdown and subdued inflation. However, a statement by the Prime Minister on 12 September on the possibility of a rate hike reversed this trend. Yields rose further in early October due to the sharp rise in United States (US) Treasury yields following the release of US economic data supporting the likelihood of another Federal Reserve rate hike in December. A statement by the Bank of Korea governor in early October also hinted at a policy rate hike before the year ends. The statement noted the need to address financial imbalances, particularly the continued rise in household debt and housing prices.

At its monetary policy meeting on 18 October, the Bank of Korea decided to leave its base rate unchanged at 1.50%, noting that domestic economic growth would be sustained at its potential level, supported by consumption and exports. However, growth is expected to fall below the July forecasts, albeit remaining within its potential level, due to a slowdown in investments. In line with this, the Bank of Korea lowered its gross domestic product (GDP) growth forecasts for both 2018 and 2019 to 2.7% year-on-year (y-o-y) from July GDP forecasts of 2.9% y-o-y and 2.8% y-o-y, respectively.

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



Source: Based on data from Bloomberg LP.

The Republic of Korea's economic growth eased to 2.0% y-o-y in the third quarter (Q3) of 2018 from the 2.8% y-o-y growth posted in the second quarter (Q2), based on advance estimates from the Bank of Korea. By type of expenditure, the slower GDP growth was driven by the accelerated decline in gross fixed capital formation of –6.5% y-o-y in Q3 2018 versus –1.3% y-o-y in the previous quarter. Export growth also slowed to 3.1% y-o-y from 4.8% y-o-y in Q2 2018. Private and government consumption expenditures also posted slower annual increases in Q3 2018. On a quarter-on-quarter (q-o-q) basis, the Republic of Korea's economy expanded 0.6% in Q3 2018, unchanged from Q2 2018.

Inflation has been at the mid-1% level, with July and August inflation at 1.5% y-o-y and 1.4% y-o-y, respectively. A slight uptick to 1.9% y-o-y was registered in September. The Bank of Korea expects inflation to remain range-bound and maintained its 2018 forecast at 1.6% y-o-y, while lowering the 2019 forecast to 1.7% y-o-y from 1.9% y-o-y.

Strong net foreign investment inflows into the Republic of Korea's LCY government bond market continued in Q3 2018 with net inflows rising to KRW2.4 trillion in August from KRW1.4 trillion in July. The Republic of Korea remained an attractive investment destination given its relative economic stability and healthy external balance position. However, outflows of KRW1.9 trillion were registered in September due to maturities, the rate hike by the Federal Reserve, and concerns over risks to economic growth brought about by global trade disputes.

The ongoing trade tensions between the PRC and the US continued to weigh on the Korean won. The recent slump in US equities spread to the region as well, further contributing to the depreciation of the domestic currency. The Korean won fell 1.9% between 31 August and 15 October, and was the second-worst performing currency in the region during the review period.

Size and Composition

The Republic of Korea's LCY bond market size was barely changed in Q3 2018, marginally up 0.1% q-o-q to KRW2,224 trillion (USD2.0 trillion) at the end of September from KRW2,221 trillion at the end of June (**Table 1**). The minimal growth was solely driven by the corporate bond segment, which posted an increase of 0.9% q-o-q, while the government bond market declined 0.9% q-o-q.

Government bonds. The outstanding size of the Republic of Korea's LCY government bond market declined 0.9% q-o-q in Q3 2018 to KRW928 trillion due to lower issuance volume and large maturities of Korea Treasury Bonds. The stock of central bank bonds issued by the Bank of Korea was barely changed at KRW175 trillion in Q3 2018. Meanwhile, government bonds issued by government-related entities inched up 0.9% q-o-q.

Issuance of government bonds fell 10.6% q-o-q in Q3 2018 to KRW84 trillion. The government issued a smaller volume of central government bonds in Q3 2018, with issuance declining 15.8% q-o-q in line with the government's frontloading policy. The volume of Monetary Stabilization Bonds issued by the Bank of Korea also fell 15.1% q-o-q in Q3 2018.

Foreign Exchange Stabilization Bonds. The Republic of Korea issued USD1.0 billion worth of Foreign Exchange Stabilization Bonds on 14 September. These bonds are issued to promote foreign exchange market stability; the resulting rates will also serve as a guide for prospective companies planning to issue bonds offshore. The issue comprised USD500 million worth of 10-year bonds priced at 3.572% (a 60-bps spread over the 10-year US Treasury), and USD500 million worth of 30-year bonds priced at 3.875% and with a yield of 3.957% (an 85-bps spread over the 30-year US Treasury).

Corporate bonds. The Republic of Korea's LCY corporate bond market continued to post marginal growth in Q3 2018, inching up 0.9% q-o-q to KRW1.3 trillion at the end of September. **Table 2** lists the top 30 LCY corporate bond issuers, with aggregate bonds outstanding of KRW829 trillion at the end of September, accounting for 64% of the total LCY corporate bond market. Financial institutions—such as banks, securities, and investment firms—continued to dominate the list. Korea Housing Finance Corporation, a government-related institution providing financial assistance for social housing,

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2017		Q2 2018		Q3 2018		Q3 2017		Q3 2018	
	KRW	USD	KRW	USD	KRW	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,145,667**	**1,873**	**2,221,054**	**1,993**	**2,224,067**	**2,005**	**0.3**	**3.3**	**0.1**	**3.7**
Government	880,399	769	937,267	841	928,477	837	(1.3)	2.9	(0.9)	5.5
Central Government Bonds	549,308	480	589,426	529	579,104	522	(0.5)	6.2	(1.8)	5.4
Central Bank Bonds	166,060	145	174,630	157	174,600	157	(5.0)	(7.6)	(0.02)	5.1
Others	165,030	144	173,211	155	174,773	158	(0.03)	3.9	0.9	5.9
Corporate	1,265,268	1,105	1,283,787	1,152	1,295,590	1,168	1.5	3.6	0.9	2.4

( ) = negative, KRW = Korean won, 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. Q3 2018 data for "Others" based on *AsianBondsOnline* estimates. "Others" comprise Korea Development Bank Bonds, National Housing Bonds, and Seoul Metro Bonds.
2. Calculated using data from national sources.
3. Bloomberg LP end-of-period LCY–USD rates are used.
4. Growth rates are calculated from local currency (LCY) base and do not include currency effects.
5. Corporate bonds include equity-linked securities and derivatives-linked securities.
Sources: The Bank of Korea and *EDAILY BondWeb*.

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

	Issuers	Outstanding Amount		State-Owned	Listed on		Type of Industry
		LCY Bonds (KRW billion)	LCY Bonds (USD billion)		KOSPI	KOSDAQ	
1.	Korea Housing Finance Corporation	117,359	105.8	Yes	No	No	Housing Finance
2.	Mirae Asset Daewoo Co.	64,934	58.5	No	Yes	No	Securities
3.	NH Investment & Securities	60,693	54.7	Yes	Yes	No	Securities
4.	Korea Investment and Securities	55,630	50.1	No	No	No	Securities
5.	Industrial Bank of Korea	49,190	44.3	Yes	Yes	No	Banking
6.	KB Securities	43,124	38.9	No	No	No	Securities
7.	Hana Financial Investment	38,240	34.5	No	No	No	Securities
8.	Korea Land & Housing Corporation	34,412	31.0	Yes	No	No	Real Estate
9.	Samsung Securities	26,924	24.3	No	Yes	No	Securities
10.	Shinhan Bank	26,292	23.7	No	No	No	Banking
11.	Korea Electric Power Corporation	25,210	22.7	Yes	Yes	No	Electricity, Energy, and Power
12.	Kookmin Bank	22,916	20.7	No	No	No	Banking
13.	Korea Expressway	22,050	19.9	Yes	No	No	Transport Infrastructure
14.	KEB Hana Bank	21,850	19.7	No	No	No	Banking
15.	Woori Bank	19,810	17.9	Yes	Yes	No	Banking
16.	Korea Rail Network Authority	19,650	17.7	Yes	No	No	Transport Infrastructure
17.	Korea Deposit Insurance Corporation	18,790	16.9	Yes	No	No	Insurance
18.	The Export-Import Bank of Korea	16,185	14.6	Yes	No	No	Banking
19.	NongHyup Bank	13,830	12.5	Yes	No	No	Banking
20.	Shinhan Card	13,610	12.3	No	No	No	Credit Card
21.	Hyundai Capital Services	13,301	12.0	No	No	No	Consumer Finance
22.	Small & Medium Business Corporation	13,163	11.9	Yes	No	No	SME Development
23.	Shinyoung Securities	12,486	11.3	No	Yes	No	Securities
24.	Korea Gas Corporation	12,449	11.2	Yes	Yes	No	Gas Utility
25.	KB Kookmin Bank Card	11,713	10.6	No	No	No	Consumer Finance
26.	Standard Chartered Bank Korea	11,200	10.1	No	No	No	Banking
27.	Daishin Securities	11,017	9.9	No	Yes	No	Securities
28.	Korea Student Aid Foundation	10,950	9.9	Yes	No	No	Student Loan
29.	Samsung Card Co. Ltd.	10,808	9.7	No	Yes	No	Consumer Finance
30.	Nonghyup	10,720	9.7	Yes	No	No	Banking
Total Top 30 LCY Corporate Issuers		**828,508**	**747**				
Total LCY Corporate Bonds		**1,295,590**	**1,168**				
Top 30 as % of Total LCY Corporate Bonds		**63.9%**	**63.9%**				

KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, KRW = Korean won, LCY = local currency, SME = small and medium-sized enterprise, USD = United States dollar.
Notes:
1. Data as of 30 September 2018.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
3. Corporate bonds include equity-linked securities and derivatives-linked securities.
Sources: *AsianBondsOnline* calculations based on Bloomberg LP and *EDAILY BondWeb* data.

remained the largest issuer with outstanding bonds of KRW117 trillion.

Issuance of corporate bonds slumped 20.0% q-o-q in Q3 2018 to KRW101 trillion as companies remained on the sidelines given uncertainty in the direction of yield movements. **Table 3** lists the notable corporate bond issuances in Q3 2018. Banks such as the Industrial Bank of Korea, Shinhan Bank, and Kookmin Bank continued to be the top issuers during the quarter.

Investor Profile

Insurance companies and pension funds again had the largest share of the Republic of Korea's LCY government bonds at the end of Q2 2018, with the share rising to 34.7% at the end of June from 33.2% in June 2017 (**Figure 2**). The general government was next with a share at the end of June almost at par with a year earlier (19.4% versus 19.1%). Banks held 16.6% of government bonds at the end of June, up from 15.0% and surpassing the share of other financial institutions, which declined to 14.7% from 18.1%. Foreign holdings of the Republic of Korea's LCY government bonds rose to 12.0% of the total at the end of June from 10.9% in June 2017 on strong net foreign inflows.

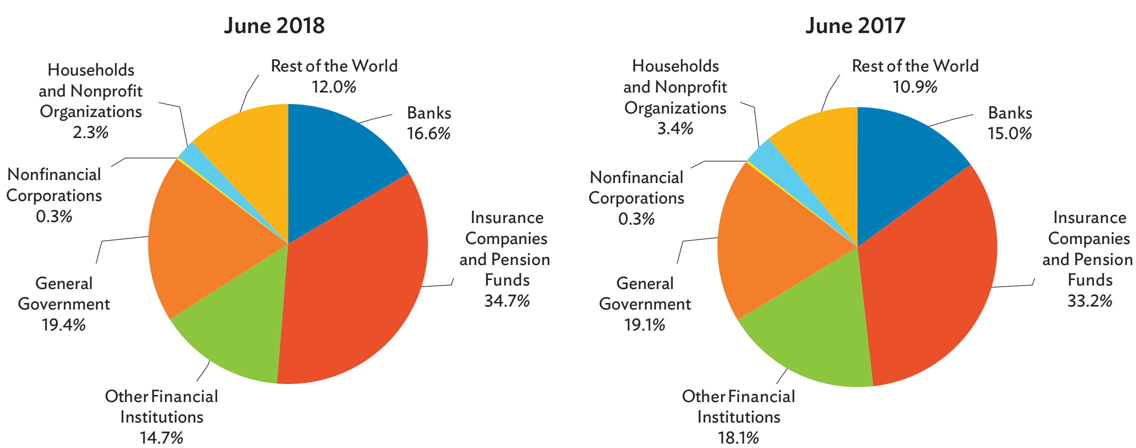
Insurance companies and pension funds, and other financial institutions, remained the two largest holders of the Republic of Korea's LCY corporate bonds, with shares rising to 38.4% and 34.0%, respectively, at the end of June from 36.1% and 31.6% in June 2017 (**Figure 3**). The shares of the general government and banks were almost at par from a year earlier at 12.9% and 7.0%, respectively. The share of foreign investors remained negligible at 0.1%.

Table 3: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Industrial Bank of Korea		
3-year bond	2.06	300
3-year bond	2.05	300
3-year bond	2.17	200
10-year bond	2.74	600
Shinhan Bank		
1.5-year bond	2.01	150
2-year bond	2.01	250
2-year bond	2.09	200
2-year bond	2.10	150
3-year bond	2.09	200
3-year bond	2.15	200
Kookmin Bank		
2-year bond	2.19	230
2-year bond	2.17	120
3-year bond	2.23	200
3-year bond	2.28	200

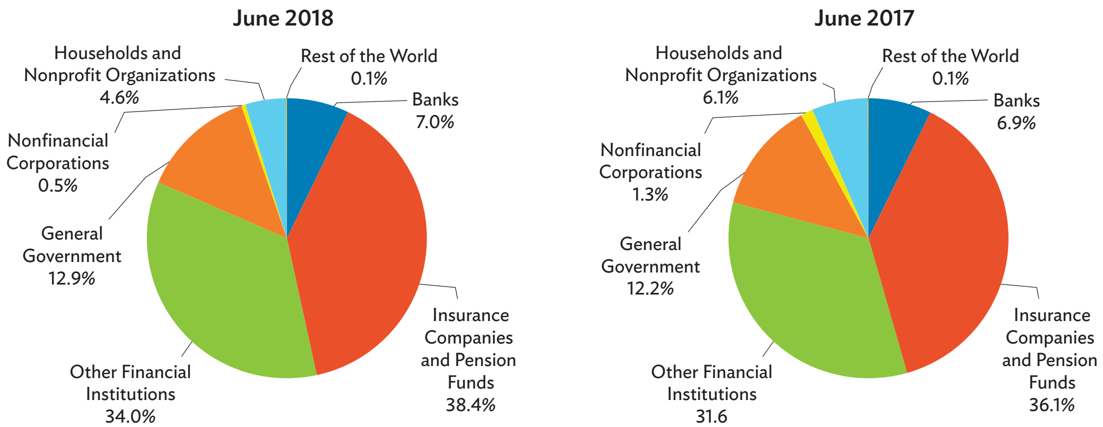
KRW = Korean won.
Source: Based on data from Bloomberg LP.

Figure 2: Local Currency Government Bonds Investor Profile



Sources: *AsianBondsOnline* and the Bank of Korea.

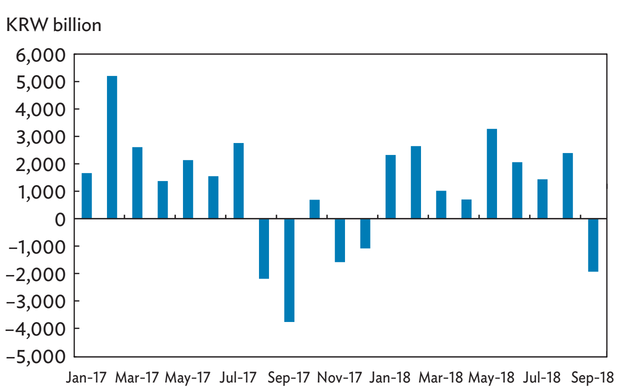
Figure 3: Local Currency Corporate Bonds Investor Profile



Sources: *AsianBondsOnline* and the Bank of Korea.

Net foreign inflows into the Republic of Korea's LCY bond market rose to KRW2.4 trillion in August from KRW1.4 trillion in July. However, September saw monthly outflows amounting to KRW1.9 trillion (**Figure 4**). This was partly due to the large volume of maturating government bonds. Foreign demand eased as the Federal Reserve rate hike in September exacerbated the widening interest rate differential between LCY bond yields and US Treasury yields. The ongoing trade disputes between the PRC and the US also weighed on foreign demand.

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



KRW = Korean won.
Source: Financial Supervisory Service.

Policy and Regulatory Developments

Government Announces Measures to Promote Investment and Boost Employment

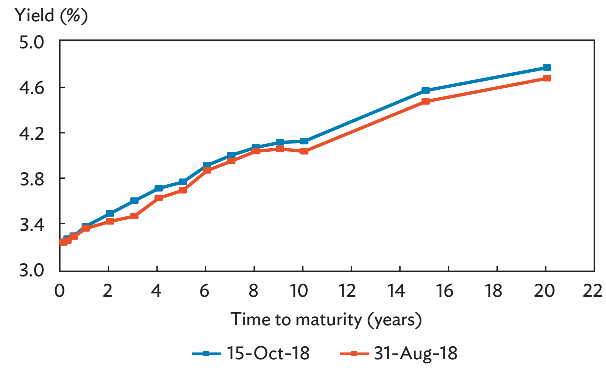
In October, the Government of the Republic of Korea announced measures to promote investment and boost employment, noting the slowdown in growth as investment and employment continued to be weak. To help economic growth regain momentum, the government plans to promote private sector investment, increase public investment, pursue innovation-driven growth, and support the job market. Measures include the allotment of KRW2.3 trillion in the first quarter of 2019 to projects that have been delayed due to financial and regulatory challenges. A total of KRW15.0 trillion worth of facility investment support programs will be launched within the year. The government will also pursue the development of new markets such as remote health-care services and the sharing economy.

Malaysia

Yield Movements

Malaysia's local currency (LCY) government bond yield curve shifted upward across all tenors between 31 August and 15 October (**Figure 1**). Small yield increases were seen in maturities of 1 year and below, ranging from 0.6 basis point (bp) to 2 bps. Yields for the remaining tenors increased 7 bps on average with the exception of the 3-year bond, which increased 13 bps. The yield spread between the 2-year and 10-year government bonds slightly widened from 61 bps to 63 bps during the review period.

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



Source: Based on data from Bloomberg LP.

The upward movement in yields reflects the diminished buying interest for LCY bonds amid investors' risk aversion. The retreat in risk appetite resulted from external risk factors that include the escalation of trade tensions between the People's Republic of China and the United States (US) and the fear of widespread contagion from emerging markets outside of Asia, although the latter has since subsided. Monetary policy tightening from the US Federal Reserve and the European Central Bank, which can lead to reduced liquidity, also contributed to waning interest in Malaysian LCY government bonds, albeit to a minor extent as the tightening stance of central banks in advanced economies had already been priced in by the market. On the domestic front, the continued weakening of the Malaysian ringgit and concerns over the economy's fiscal position led to some wariness. However, support from local investors remained strong overall.

Bank Negara Malaysia (BNM) maintained its overnight policy rate at 3.25% during its monetary policy meeting on 5 September. The central bank kept its policy rate unchanged on the back of Malaysia's steady economic growth, supported by the private sector and external demand despite downside risks globally and some uncertainty over domestic policies. Inflation is expected to edge upward through 2019 with the impact of the change in consumption tax policy, although it is expected to remain relatively stable.

Malaysia's consumer price inflation picked up to 0.3% y-o-y in September, slightly increasing from August when it hit a 42-month low of 0.2% y-o-y. The muted inflation was the result of most commodity groups continuing to register price declines, while the reinstatement of the sales and services tax on 1 September did not have a significant effect on the Consumer Price Index. From January to September, the Consumer Price Index rose 1.2% y-o-y on average.

Malaysia's gross domestic product (GDP) expanded 4.5% y-o-y in the second quarter (Q2) of 2018, which was slower than the 5.4% y-o-y expansion logged in the previous quarter. It was the slowest pace of GDP growth since the fourth quarter of 2016. The private sector continues to be the key driver of growth, underpinned by favorable labor market conditions, capacity expansion, and the zeroing out of the goods and services tax, which may have boosted consumption. On the production side, subdued performance was seen across the sector with a contraction in agriculture and mining weighing down GDP growth. BNM revised downward its full-year 2018 GDP growth forecast to 5.0% from an earlier projection of 5.5%–6.0%.

The Malaysian ringgit extended its depreciation against the US dollar through the middle of October, losing 2.6% year-to-date and 1.1% between 31 August and 15 October. Despite rising crude oil prices, the ringgit struggled to gain traction as sentiment toward the domestic currency was weighed down by rising US Treasury yields and strong US economic data that translated into increased demand for the US dollar.

Size and Composition

The size of Malaysia's LCY bond market barely changed in the third quarter (Q3) of 2018, expanding a mere 0.7% quarter-on-quarter (q-o-q) to reach MYR1,379 billion at the end of September (**Table 1**). On an annual basis, growth was more substantial at 9.1%. The growth in bonds outstanding was slower compared with the previous quarter. Both the government and corporate segments experienced slower quarterly growth in Q3 2018, with corporate bonds rising faster than government bonds. Malaysia's bonds outstanding at the end of Q3 2018 comprised 53% government bonds and 47% corporate bonds. Total *sukuk* (Islamic bonds), which comprised a 60% share of the LCY bond market, increased 1.0% q-o-q to MYR826 billion.

Government bonds. Total government bonds outstanding in Malaysia at the end of Q3 2018 amounted to MYR725 billion, reflecting a slight increase of 0.4% q-o-q. The expansion mainly came from the central government segment, which grew 0.8% q-o-q. The marginal expansion during the quarter was due to a large amount of maturities of government paper and lower target issuance. Central bank bonds provided some restraint on growth as they contracted 15.3% q-o-q despite a higher issuance volume. *Sukuk* increased to MYR332 billion at the end of September, comprising 46% of the government bond market.

Issuance from the government increased 11.4% q-o-q, lifted by an increase in central bank bonds that was somewhat countered by decreased issuance from the central government. Central bank bills continued to expand, with increased issuance of BNM Interbank Bills, as part of the central bank's ongoing effort to enhance short-selling and liquidity in the bond market. Central bank bills amounted to MYR26.5 billion at the end of September on growth of 39.5% q-o-q. On the other hand, issuance of Malaysian Government Securities and Government Investment Issues declined 9.2% q-o-q and 11.7% q-o-q, respectively, as government issuance targets were smaller relative to Q2 2018.

In Q3 2018, foreign holdings of LCY government bonds continued to trend downward with fund outflows amounting to MYR0.3 billion. However, the attrition was much less than the MYR22.1 billion worth of outflows in Q2 2018 (**Figure 2**). Fund flows turned positive in July, amounting to MYR3.3 billion. However, this was immediately offset by outflows in August and September amounting to MYR3.6 billion in total. Risk aversion remained the key driver of the fund outflows. Reduced buying interest among foreign investors for LCY bonds was underpinned by the protracted trade tensions between the People's Republic of China and the US. Fears of emerging market contagion also contributed, although these concerns moderated as the quarter went on. Uncertainties regarding the Malaysian government's fiscal and economic strategies accentuated this flight to safety.

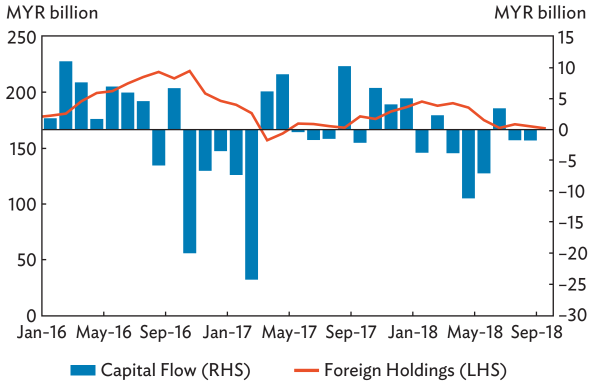
Table 1: Size and Composition of the Local Currency Bond Market in Malaysia

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2017		Q2 2018		Q3 2018		Q3 2017		Q3 2018	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,263**	**299**	**1,369**	**339**	**1,379**	**333**	**1.4**	**8.1**	**0.7**	**9.1**
Government	671	159	722	179	725	175	0.1	6.2	0.4	8.1
Central Government Bonds	637	151	676	167	681	165	0.5	7.5	0.8	7.0
of which: *Sukuk*	266	63	295	73	301	73	1.1	12.7	2.0	13.2
Central Bank Bills	5	1	18	5	16	4	(27.2)	(50.2)	(15.3)	189.7
of which: *Sukuk*	0	0	6	1	3	0.7	–	–	(45.5)	–
Sukuk Perumahan Kerajaan	28	7	28	7	28	7	0.0	0.0	0.0	0.0
Corporate	593	140	646	160	653	158	2.9	10.4	1.1	10.2
of which: *Sukuk*	439	104	489	121	493	119	3.4	11.7	1.0	12.3

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

Sources: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) and Bloomberg LP.

Figure 2: Foreign Holdings and Capital Flows of Local Currency Government Bonds in Malaysia



LHS = left-hand side, MYR = Malaysian ringgit, RHS = right-hand side.
Notes:
1. Figures exclude foreign holdings of Bank Negara Malaysia bills.
2. Month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.
Source: Bank Negara Malaysia Monthly Statistical Bulletin.

Corporate bonds. The LCY corporate bond market's growth was also modest in Q3 2018 at 1.1% q-o-q, although it was faster compared with growth of the government segment. On a y-o-y basis, corporate bonds outstanding increased 10.2%. The size of Malaysia's corporate bond market reached MYR653 billion at the end of September, which included MYR493 billion worth of *sukuk*. The relatively unchanged amount of corporate bonds outstanding during the quarter was due to weaker issuance activities.

The aggregate bonds outstanding of the top 30 corporate issuers amounted to MYR369.6 billion at the end of September, or the equivalent of 56.6% of the total corporate bond market (**Table 2**). Danainfra Nasional remained the top issuer with total bonds outstanding of MYR48.8 billion. Of the 30 issuers, 20 companies are state-owned and only 6 are listed companies. Firms from the finance industry dominate the list with 12 issuers and outstanding bonds totaling MYR186 billion, or 50% of the aggregate bonds outstanding of the top 30.

Bond issuance from the corporate segment continued to edge downward in Q3 2018. Debt sales amounted to MYR35.3 billion, reflecting a further decline of 11.4% q-o-q from a decline of 6.3% q-o-q in Q2 2018. The reduced issuance was expected as corporates frontloaded their debt sales before the May election.

After the election, corporates tapered their issuances as they adopted a wait-and-see stance following the change in government. Issuance has been further muted amid some uncertainties as the government continued its cost rationalization of various infrastructure projects.

Tenaga Nasional had the largest bond sales in Q3 2018 with total issuance of MYR3.0 billion in two tranches of Islamic medium-term notes. Issued in August, the 15-year and 20-year bonds carry coupon rates of 4.78% and 4.98%, respectively. Other notable issuances during the quarter include those from GENM Capital and Cagamas (**Table 3**).

Investor Profile

Government bonds. The profile of LCY government bond investors at the end of June 2018 was barely changed from a year earlier except that social security institutions (33.5%) had overtaken financial institutions (31.7%) as the single-largest investor group, compared with 30.8% and 32.0%, respectively, at the end of June 2017. (**Figure 3**). Foreign investors' share remained the third largest, while falling to 24.8% in June 2018 from 27.0% in June 2017. Foreign holdings of LCY government bonds have not recovered following the BNM's strict reinforcement of the prohibition on offshore trading of the Malaysian ringgit in November 2016. The wariness of foreign investors to enter the Malaysian bond market amid domestic and global uncertainties also contributed to the declining share of foreign holdings. The shares of the remaining investor groups were practically unchanged during the review period, with the BNM again having the smallest share of only 0.9%.

Corporate bonds. Domestic commercial and Islamic banks overtook life insurance firms in having the largest share of corporate bond holdings between June 2017 and June 2018 (**Figure 4**). The share of domestic commercial and Islamic banks increased to 41.5% from 38.9% during the review period, while that of life insurance firms decreased to 35.0% from 40.0%. The other investor group that saw an increase in its share of corporate bond holdings was the group comprising foreign commercial and Islamic banks. All other investor groups saw a slight decline in their shares. General insurance firms had the smallest holdings share of corporate paper in both June 2017 and June 2018.

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

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (MYR billion)	LCY Bonds (USD billion)			
1.	Danainfra Nasional	48.8	11.8	Yes	No	Finance
2.	Cagamas	36.2	8.7	Yes	No	Finance
3.	Project Lebuhraya Usahasama	30.2	7.3	No	No	Transport, Storage, and Communications
4.	Prasarana	27.5	6.6	Yes	No	Transport, Storage, and Communications
5.	Perbadanan Tabung Pendidikan Tinggi Nasional	19.0	4.6	Yes	No	Finance
6.	Khazanah	16.0	3.9	Yes	No	Finance
7.	Lembaga Pembiayaan Perumahan Sektor Awam	14.8	3.6	Yes	No	Property and Real Estate
8.	Pengurusan Air	14.6	3.5	Yes	No	Energy, Gas, and Water
9.	CIMB Bank	13.6	3.3	Yes	No	Finance
10.	Maybank	11.9	2.9	No	Yes	Banking
11.	Danga Capital	10.0	2.4	Yes	No	Finance
12.	Sarawak Energy	9.8	2.4	Yes	No	Energy, Gas, and Water
13.	CIMB Group Holdings	9.1	2.2	Yes	No	Finance
14.	Jimah East Power	9.0	2.2	Yes	No	Energy, Gas, and Water
15.	GENM Capital	7.6	1.8	No	No	Finance
16.	Bank Pembangunan Malaysia	7.3	1.8	Yes	No	Banking
17.	GOVCO Holdings	7.3	1.8	Yes	No	Finance
18.	Maybank Islamic	7.0	1.7	No	Yes	Banking
19.	Rantau Abang Capital	7.0	1.7	Yes	No	Finance
20.	Tenaga Nasional	7.0	1.7	No	Yes	Energy, Gas, and Water
21.	Public Bank	6.9	1.7	No	No	Banking
22.	Sarawak Hidro	6.5	1.6	Yes	No	Energy, Gas, and Water
23.	YTL Power International	6.1	1.5	No	Yes	Energy, Gas, and Water
24.	ValueCap	6.0	1.4	Yes	No	Finance
25.	Turus Pesawat	5.3	1.3	Yes	No	Transport, Storage, and Communications
26.	Aman Sukuk	5.2	1.2	Yes	No	Construction
27.	EDRA Energy	5.1	1.2	No	Yes	Energy, Gas, and Water
28.	1Malaysia Development	5.0	1.2	Yes	No	Finance
29.	Celcom Networks	5.0	1.2	No	No	Transport, Storage, and Communications
30.	Telekom Malaysia	5.0	1.2	No	Yes	Telecommunications
Total Top 30 LCY Corporate Issuers		**369.6**	**89.3**			
Total LCY Corporate Bonds		**653.4**	**157.9**			
Top 30 as % of Total LCY Corporate Bonds		**56.6%**	**56.6%**			

LCY = local currency, MYR = Malaysian ringgit, USD = United States dollar.
Notes:
1. Data as of 30 September 2018.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) data.

Table 3: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Tenaga Nasional		
15-year Islamic MTN	4.78	1,000
20-year Islamic MTN	4.98	2,000
GENM Capital		
5-year MTN	4.98	1,400
10-year MTN	5.30	750
15-year MTN	5.58	450
Cagamas		
1-year Islamic MTN	3.95	25
2-year MTN	3.95	50
3-year MTN	4.05	550

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

Ratings Update

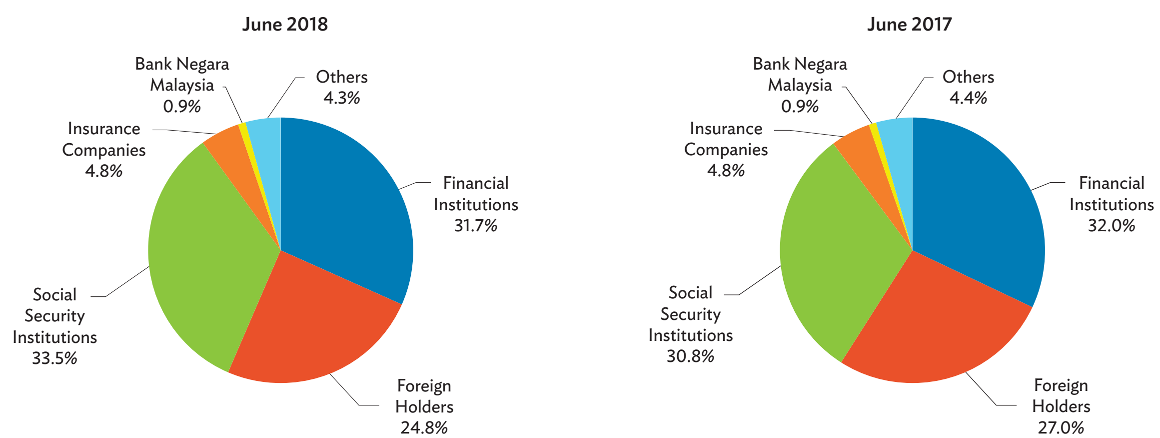
Fitch Ratings (Fitch) affirmed Malaysia's long-term foreign-currency issuer default rating at A– with a stable outlook on 14 August. The affirmation was based on the economy's solid growth, a sound external financial position, the government's commitment to reduce the fiscal deficit, and other efforts to improve governance. Fitch views some of the new administration's election promises, such as the removal of the goods and services tax and the plan to continue to subsidize fuel, as damaging to Malaysia's credit profile. However, the administration has implemented offsetting measures such as the reintroduction of a sales and services tax and the review of a number of infrastructure projects to keep the government on track to meet its 2018 deficit target of 2.8% of GDP. The rating agency expects economic growth to slow on the back of spending cuts and delays in implementing new revenue measures.

Policy, Institutional, and Regulatory Developments

Bank Negara Malaysia Enhances Foreign Exchange Administration Policies

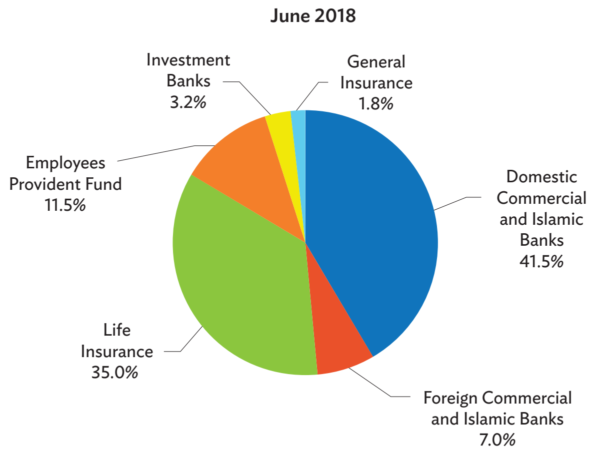
On 17 August, the BNM announced changes to its foreign exchange administration policies, effective immediately. The amendments include (i) greater flexibility in the management of export proceeds, which allows exporters to maintain their foreign currency trading accounts with onshore banks to meet up to 6 months worth of foreign currency obligations without the need to first convert proceeds into ringgit; (ii) flexible hedging of foreign currency obligations; and (iii) wider access for nonresidents to the onshore market financial market, allowing them to trade in MYR-denominated interest rate derivatives via the appointed overseas offices, subject to back-to-back arrangements with onshore banks.

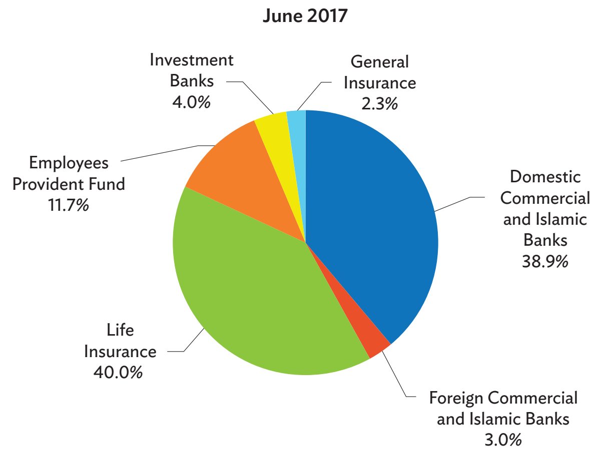
Figure 3: Local Currency Government Bonds Investor Profile



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

Figure 4: Local Currency Corporate Bonds Investor Profile





Note: The Employees Provident Fund's bond holdings data are as of 31 December 2017, as data are based on the EPF's annual report.
Sources: Bank Negara Malaysia and the Employees Provident Fund.

Securities Commission Malaysia Liberalizes the Corporate Bond and *Sukuk* Markets for Retail Investors

The Securities Commission Malaysia announced on 19 September the liberalization of its regulatory framework to provide greater access for retail investors to Malaysia's corporate bond and *sukuk* markets. The liberalized framework will allow a more efficient issuance process for corporate bonds and *sukuk* to be offered to retail investors, as well as expand the range of corporate bonds and *sukuk* that can be offered. The Securities Commission Malaysia also introduced a new seasoning framework to enable retail investors to access existing corporate bonds and *sukuk*, which are currently traded by sophisticated investors in the over-the-counter market. The regulation came into effect on 11 October.

Philippines

Yield Movements

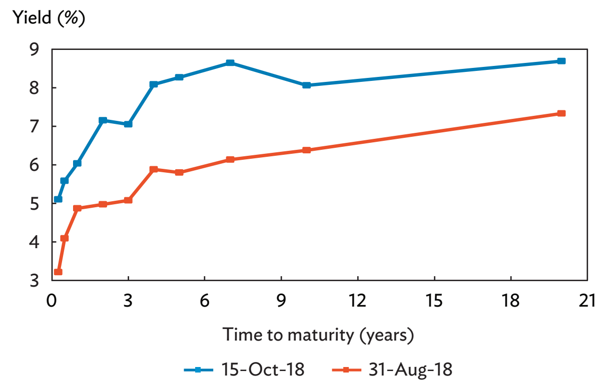
Between 31 August and 15 October, the yields of Philippine local currency (LCY) bonds of all tenors jumped an average of 189 basis points (bps) (**Figure 1**). The 7-year maturity increased the most (250 bps), followed by the 5-year maturity (247 bps). The 1-year tenor registered the smallest increase at 116 bps. The yield spread between 2-year and 10-year government bonds contracted 50 bps.

The jump in interest rates was spurred by concerns over high inflation and expectations of additional policy rate hikes before the end of the year from both the Bangko Sentral ng Pilipinas (BSP) and the United States (US) Federal Reserve at their next respective monetary policy meetings. Given these expectations, investors preferred short-term tenors over long-term tenors. The Bureau of the Treasury (BTr) frequently rejected Treasury bond bids as investors asked higher than expected rates.

Inflation, which has been rising since the start of the year, continued to soar in the third quarter (Q3) of 2018, prompting the BSP to revise its average full-year inflation in September projection to 4.9% from 4.5% previously. Price inflation for basic goods and services surged to 6.7% year-on-year (y-o-y) in September from 6.4% y-o-y in August. The rise in prices was mainly led by food and nonalcoholic beverages. Transportation costs rose 8.0% y-o-y as oil prices continued to increase.

During its policy meeting on 27 September, the Monetary Board of the BSP decided to raise its key interest rates by 50 bps on expectations of a sustained pick-up in inflation. The overnight reverse repurchase rate stood at 4.5% at the end of September, while the overnight lending and deposit rates were 5.0% and 4.0%, respectively. Second-round effects of inflation are also expected to contribute to price pressures. The BSP noted that nonmonetary measures are needed to help prevent further inflation since price pressures are being driven by supply-side forces. The BSP has hiked interest rates at four consecutive policy meetings, increasing interest rates by a total of 150 bps so far this year.

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



Source: Based on data from Bloomberg LP.

The Philippines' gross domestic product expanded an average of 6.3% year-on-year (y-o-y) during the first half of 2018, below the government's target range of 7.0%–8.0% for full-year 2018. This prompted country's economic managers to revise their gross domestic product target to 6.5%–6.9% for full-year 2018.

Together with currencies in the rest of the region, the Philippine peso continued to weaken, breaching the PHP54–USD1 exchange rate in September. The weakness of the peso was attributed to concerns regarding the country's trade deficit, which surged 171.0% y-o-y to USD3.6 billion in July from USD1.3 billion a year earlier. The central bank continued to tap its international reserves to temper the peso's depreciation. From USD76.7 billion in July, international reserves were down to USD75.2 billion in September. However, the peso slowly recovered in October as the US dollar weakened due to disappointing domestic retail data in the US and negative investor sentiments on Wall Street.

Philippine equities have also been battered, with the Philippine Stock Exchange Index reaching its lowest level in 2018 of 6,884.4 on 11 October, down from an all-time high of 9,058.6 in January. At its lowest, the index had registered a loss of 21.1% since the start of 2018. The fall in the index followed the losses experienced by US stocks over concerns about the trade war between the People's Republic of China and the US, and rising US Treasury yields.

Size and Composition

The Philippines' LCY bond market marginally expanded 0.9% q-o-q in Q3 2018, compared with 0.8% q-o-q growth during the same period in the previous year (**Table 1**). Total LCY bonds amounted to PHP5,792 billion (USD107 billion) at the end of September, up from PHP5,741 billion in the second quarter (Q2) of 2018. The increase was supported by growth in the corporate bond market.

Government bonds. The amount of LCY government bonds outstanding stood at PHP4,593 billion at the end of September on marginal growth of 0.04% q-o-q, supported by Treasury bills, which rose 15.3% q-o-q as the BTr fully awarded most Treasury bills in its weekly auctions. However, this growth was partially offset by Treasury bonds, which declined 1.2% q-o-q due to maturing 7-year bonds and very few successful Treasury bond auctions. Despite the surge in outstanding Treasury bills, these bills comprised only PHP439 billion, or about 10% of total outstanding government bonds. Treasury bonds amounting to PHP4,121 billion, or 90% of total government securities, form the bulk of outstanding government bonds.

LCY government bonds worth PHP215.8 billion were issued in Q3 2018, down from PHP376.2 billion recorded in Q2 2018. This corresponds to a decline of 42.6% q-o-q due to a high issuance base from the issuance of Retail Treasury Bonds in June and also due to a number of unsuccessful Treasury auctions during the quarter.

Most weekly Treasury bills auctions were fully awarded in Q3 2018, amid rising yields for 91-day, 182-day, and 364-day Treasury bills. However, at the last auction for the quarter, the BTr rejected all bids as average yields were higher than expected. This happened just a few days before the monetary board of the BSP hiked its key policy rates.

In the fourth quarter of 2018, the BTr plans to continue the weekly auction of 91-day, 182-day, and 364-day Treasury bills totalling of PHP180 billion. Together with Treasury bonds (PHP90 billion), it plans to borrow PHP270 billion during Q4 2018, down from PHP300 billion in Q3 2018. Treasury bond auctions will continue to be held every other week.

Corporate bonds. LCY corporate bonds grew 4.3% q-o-q during Q3 2018 and total bonds outstanding increased to PHP1,198 billion from PHP1,149 billion in the previous quarter.

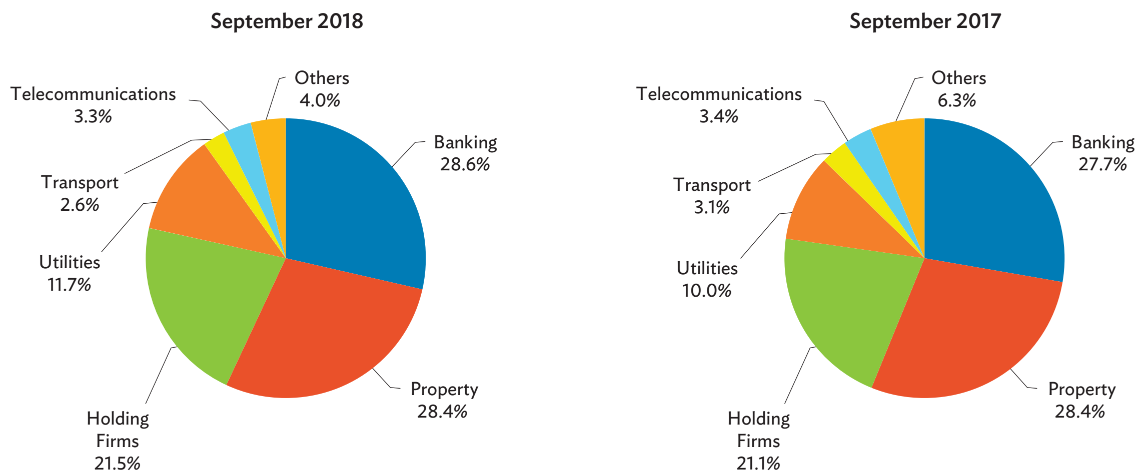
At the end of September 2018, the top three sectors in terms of LCY corporate bonds outstanding were banking (PHP342.5 billion or 28.6% of the total), property (PHP340.1 billion or 28.4%), and holding firms (PHP257.6 billion or 21.5%) (**Figure 2**). These same sectors dominated the amount of LCY corporate bonds outstanding in September 2017 as well, but the banking sector overtook the property sector in September 2018. During the review period, the sectoral shares of utilities, banking, and holding firms increased, while the sectoral shares of transport, telecommunications, and property decreased.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2017		Q2 2018		Q3 2018		Q3 2017		Q3 2018	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**5,210**	**102**	**5,741**	**108**	**5,792**	**107**	**0.8**	**8.5**	**0.9**	**11.2**
Government	4,212	83	4,592	86	4,593	85	0.04	6.5	0.04	9.0
Treasury Bills	340	7	381	7	439	8	7.0	16.0	15.3	29.2
Treasury Bonds	3,822	75	4,170	78	4,121	76	(0.5)	6.6	(1.2)	7.8
Others	50	1	40	0.8	34	0.6	(0.6)	(33.5)	(16.2)	(33.0)
Corporate	998	20	1,149	22	1,198	22	4.2	18.1	4.3	20.1

( ) = negative, LCY = local currency, PHP = Philippine peso, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–USD rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
4. "Others" comprise bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. This includes bonds issued by Power Sector Assets and Liabilities Management (PSALM) and the National Food Authority, among others.
5. Peso Global Bonds (PHP-denominated bonds payable in US dollars) are not included.
Sources: Bloomberg LP and Bureau of the Treasury.

Figure 2: Local Currency Corporate Bonds Outstanding by Sector



Source: Based on data from Bloomberg LP.

Property developers continued to lead the top 30 issuers in terms of outstanding LCY corporate bonds at the end of September. Ayala Land had an outstanding amount of PHP104.7 billion, while SM Prime Holdings had PHP93.8 billion (**Table 2**). Holding firm San Miguel was the third-largest issuer with LCY corporate bonds outstanding worth PHP60.0 billion. Companies in the banking sector continued to dominate the top of the list, comprising 31.5% of the outstanding issues of the largest corporate issuers. This was followed by the property sector with 27.3% and holding firms with 22.7%. Altogether, the top 30 issuers of LCY corporate bonds accounted for PHP1,036.3 billion, or 86.5% of all outstanding corporate issuances at the end of September.

In Q3 2018, PHP47.9 billion worth of LCY corporate bonds were issued, which represented a small decline of 0.3% q-o-q from the PHP48.0 billion issued in Q2 2018. Uncertainties in local and international financial markets continued to affect market sentiment, leading to only a few companies issuing LCY corporate bonds.

One of the notable corporate issuances in Q3 2018 was SMC Global's PHP15 billion 5-year callable bond with a 6.75% coupon (**Table 3**). SMC Global , one of the largest power companies in the Philippines, issued the bond to refinance its debts. Chinabank, on the other hand, issued PHP10.25 billion worth of 6-year long-term negotiable certificates of time deposit with a coupon rate of 4.55%. The proceeds from the issuance, the largest for the banking industry so far in 2018, will be used for Chinabank's expansion programs. Property developer Vista Land issued 7-year and 10-year callable bonds with coupon rates of 7.49% and 7.71%, respectively, the highest rates for issuances during the quarter. Finally, NLEX Corporation, a privately owned toll-road company, issued a 7-year bond with a coupon of 6.64% in order to fund capital expenditure requirements.

Investor Profile

Banks and investment houses dominated the LCY government bond investor base at the end of September, accounting for a 41.9% share of all investors (**Figure 3**). They comprised the largest group of investors in September 2017 as well. Contractual savings and tax-exempt institutions followed with a 27.2% share, down from a 31.6% share in September 2017. Brokers, custodians, and depositories increased their share to 11.3% from 7.2% in September 2017. The share of BTr-managed funds decreased to 9.4% at the end of September from 11.3% a year earlier. Investors from government-owned or -controlled corporations and local government units maintained their respective shares of the total.

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

Issuers		Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (PHP billion)	LCY Bonds (USD billion)			
1.	Ayala Land	104.7	1.9	No	Yes	Property
2.	SM Prime Holdings	93.8	1.7	No	Yes	Property
3.	San Miguel	60.0	1.1	No	Yes	Holding Firms
4.	Metropolitan Bank	59.2	1.1	No	Yes	Banking
5.	BDO Unibank	58.6	1.1	No	Yes	Banking
6.	SM Investments	51.4	1.0	No	Yes	Holding Firms
7.	Philippine National Bank	41.5	0.8	No	Yes	Banking
8.	Ayala Corporation	40.0	0.7	No	Yes	Holding Firms
9.	Security Bank	37.4	0.7	No	Yes	Banking
10.	San Miguel Brewery	34.8	0.6	No	No	Brewery
11.	Maynilad	33.6	0.6	No	No	Water
12.	Aboitiz Equity Ventures	32.0	0.6	No	Yes	Holding Firms
13.	JG Summit	30.0	0.6	No	Yes	Holding Firms
14.	SMC Global Power	30.0	0.6	No	No	Electricity, Energy, and Power
15.	Filinvest Land	29.0	0.5	No	Yes	Property
16.	Manila Electric Company	28.8	0.5	No	Yes	Electricity, Energy, and Power
17.	Vista Land	28.1	0.5	No	Yes	Property
18.	East West Banking	27.7	0.5	No	Yes	Banking
19.	Rizal Commercial Banking Corporation	27.2	0.5	No	Yes	Banking
20.	Chinabank	26.2	0.5	No	Yes	Banking
21.	GT Capital	22.0	0.4	No	Yes	Holding Firms
22.	PLDT	20.6	0.4	No	Yes	Telecommunications
23.	Petron	18.6	0.3	No	Yes	Electricity, Energy, and Power
24.	Bank of the Philippine Islands	17.2	0.3	No	Yes	Banking
25.	Union Bank of the Philippines	17.0	0.3	No	Yes	Banking
26.	Doubledragon	15.0	0.3	No	Yes	Property
27.	Philippine Savings Bank	14.5	0.3	No	Yes	Banking
28.	Aboitiz Power	13.0	0.2	No	Yes	Electricity, Energy, and Power
29.	Globe Telecom	12.5	0.2	No	Yes	Telecommunications
30	Megaworld	12.0	0.2	No	Yes	Property
Total Top 30 LCY Corporate Issuers		**1,036.3**	**19.2**			
Total LCY Corporate Bonds		**1,198.2**	**22.2**			
Top 30 as % of Total LCY Corporate Bonds		**86.5%**	**86.5%**			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of 30 September 2018.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Table 3: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
SMC Global		
5-year bond	6.75	15.00
Chinabank		
6-year LTNCD	4.55	10.25
Vista Land		
7-year bond	7.49	2.20
10-year bond	7.71	6.00
NLEX		
7-year bond	6.64	4.00

LTNCD = long-term negotiable certificates of deposit, PHP = Philippine peso.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

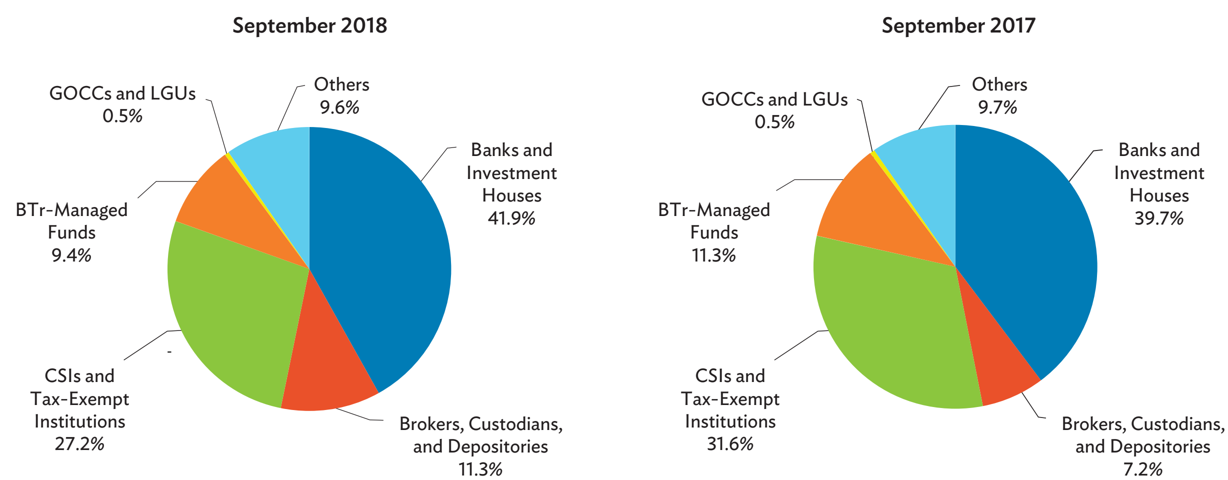
BSP Approves Rules on Bond Issuance

On 10 August, the BSP enhanced rules on bond issuances in order to develop the LCY bond market. Aside from complying with the Securities Regulations Code, universal banks, commercial banks, and quasi-banks need to satisfy additional criteria to be eligible to issue bonds and commercial paper. They must have a CAMELS (Capital Adequacy, Asset Quality, Management Quality, Earnings, Liquidity, Sensitivity) rating of at least 3, with a management rating not lower than 3. They must not have major risk management and compliance concerns, must be compliant with BSP rules, and must not have pending enforcement actions from the BSP. For quasi-banks, they must have at least an acceptable RAS (Rating Assessment Service) rating. In order to promote security, price transparency, and price discovery, the bonds to be issued must be traded in a Securities and Exchange Commission-recognized market. An issuance does not need approval from the central bank. The concerned bank need only submit a certification that they have complied with and met all criteria for issuing bonds. The additional rules aim to help promote an efficient debt market that protects investors.

BTr Implements New National Registry for Government Securities Auctions

On 20 August, the BTr launched the National Registry of Scripless Securities for the submission, confirmation, and settlement of government securities auctions by government securities-eligible dealers. The online platform will promote efficiency in processing bids during auctions for government securities. The previous Automated Debt Auction Processing System will be used only for the purpose of business continuity.

Figure 3: Local Currency Government Bonds Investor Profile



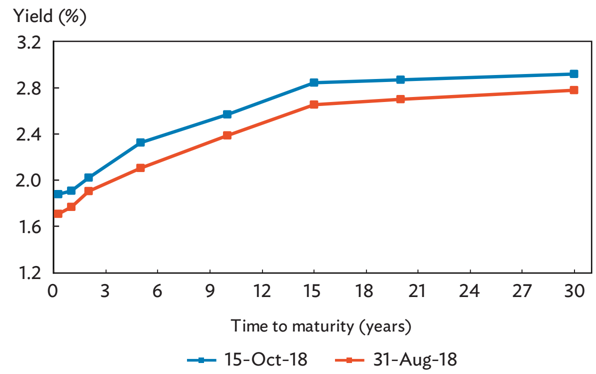
BTr = Bureau of the Treasury, CSIs = contractual savings institutions, GOCCs = government-owned or -controlled corporations, LGUs = local government units.
Source: Bureau of the Treasury.

Singapore

Yield Movements

Between 1 August and 15 October, Singapore's local currency (LCY) bond yields increased for all maturities (**Figure 1**). The 5-year maturity increased the most, gaining 22 basis points (bps). This was followed by the 15-year maturity (19 bps) and the 10-year tenor (18 bps). The 2-year tenor registered the smallest increase of 12 bps. The yield spread between 2-year and 10-year government bonds expanded 6 bps during the review period.

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



Source: Based on data from Bloomberg LP.

Singapore's yields tracked interest rate movements in the United States (US), where all tenors increased during the review period. The US Federal Reserve raised interest rates most recently in September, with another increase expected before the year ends as the Federal Reserve continues its monetary policy normalization. Strong US economic data, including high economic growth and low unemployment rates, and expectations of another rate hike, contributed to the rise in interest rates.

Singapore's inflation rate continued its upward trend during the third quarter (Q3) of 2018, rising to 0.6% year-on-year (y-o-y) in July and 0.7% y-o-y in August, and it remained unchanged in September. The Monetary Authority of Singapore (MAS) expects inflation to gradually increase over the remainder of 2018 due to faster wage growth and rising global oil and food prices.

On the other hand, Singapore's economic growth eased in Q3 2018 to 2.6% y-o-y from the 4.1% y-o-y growth recorded in the second quarter (Q2) of 2018. On a quarter-on-quarter (q-o-q) seasonally adjusted basis, gross domestic product grew 4.7% in Q3 2018, up from the 1.2% growth recorded during the previous quarter.

Rising inflation and expectations of continued economic growth prompted the MAS on 12 October to slightly increase the slope of the Singapore dollar nominal effective exchange rate policy band while leaving its width and center unchanged. The move aimed to ensure price stability in the medium-term.

Regional currencies have been weakening against the US dollar, with the Singapore dollar reaching its lowest point on 8 October, hitting SGD1.3836–USD1. However, the Singapore dollar appreciated somewhat after the latest monetary policy tightening.

In October, Singapore's Straits Times Index dropped to 3,034.31, its lowest level of the year and down from a high of 3,615.28 in May, joining global equities sell-off amid expectations of higher US interest rates and the escalating trade war between the People's Republic of China and US.

Size and Composition

The Singapore LCY bond market grew 2.0% quarter-on-quarter (q-o-q) to SGD398 billion (USD291 billion) in Q3 2018, up from SGD390 billion in Q2 2018 (**Table 1**). The expansion was supported by growth in LCY government and corporate bonds.

Government bonds. Total outstanding LCY government bonds increased 1.6% q-o-q in Q3 2018 to reach SGD241 billion at the end of September from SGD237 billion at the end of the previous quarter. The growth was mainly due to the expansion of outstanding MAS bills, which increased 3.9% q-o-q to SGD119 billion from SGD114 billion in Q2 2018. Outstanding Singapore Government Securities (SGS) bills and bonds decreased 0.6% q-o-q, with SGD122 billion outstanding at the end of September, down from SGD123 billion at the end of the previous quarter, due to maturing SGS bonds.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2017		Q2 2018		Q3 2018		Q3 2017		Q3 2018	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**362**	**267**	**390**	**287**	**398**	**291**	**3.8**	**11.5**	**2.0**	**9.8**
Government	220	162	237	174	241	176	6.7	20.6	1.6	9.3
SGS Bills and Bonds	117	86	123	90	122	89	4.4	9.4	(0.6)	4.4
MAS Bills	103	76	114	84	119	87	9.4	36.3	3.9	14.7
Corporate	142	105	153	113	157	115	(0.4)	(0.1)	2.5	10.7

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

A total of SGD138.9 billion worth of government bills and bonds were issued during Q3 2018. Of these, SGD130.5 billion, or 94.0%, were MAS bills, and the remaining SGD8.4 billion, or 6.0%, were SGS bills and bonds. MAS bills increased 3.1% q-o-q, while SGS bills and bonds declined 25.7% q-o-q due to fewer issuances of SGS bonds.

Weekly MAS bills auctions were met with robust demand in Q3 2018: the 28-day, 84-day, and 168-day MAS bills were always fully allocated. For most of the quarter, average yields for the 4-week MAS bills were higher than for the 8-week tenor. Towards the end of September, however, investors preferred the shortest-dated tenor, taking a wait-and-see stance as global events unfolded.

Corporate bonds. LCY corporate bonds expanded 2.5% q-o-q in Q3 2018. On a y-o-y basis, corporate bonds grew 10.7% to SGD157 billion from SGD142 billion in Q3 2017.

The top 30 LCY corporate issuers accounted for SGD72.7 billion, or 46.2% of all LCY corporate bonds outstanding, at the end of September (**Table 2**). The state-owned real estate company Housing & Development Board continued to top the list, accounting for 14.0% of the total LCY corporate bond market with SGD22.0 billion of corporate bonds outstanding. Fellow state-owned company Land Transport Authority was a distant second with SGD6.5 billion of bonds outstanding, comprising 4.1% of the total LCY corporate bond market.

Just like the previous quarter, the real estate sector dominated the top 30 corporate issuers with 46.9% of the top 30's total corporate bonds outstanding at the end of September. This was followed by the finance and transportation sectors with market shares of 15.4% and 14.2%, respectively.

In Q3 2018, LCY corporate bond issuances surged 174.4% to SGD6.6 billion from SGD2.4 billion issued during the previous quarter. The jump in issuance of LCY corporate bonds was due to large issuances, led by government-owned institutions.

One of the notable issuances was Land Transport Authority's SGD1,500 million 40-year bond with a coupon rate of 3.45%, which was issued under its SGD12 billion Multicurrency Medium-Term Note Programme (**Table 3**). The rare 40-year issuance is only the second time such a bond was issued in the Singapore LCY corporate bond market; the other being Temasek Holding's SGD1,000 million 40-year bond issuance in 2010. The Development Bank of Singapore Group and Oversea-Chinese Banking Corporation both issued SGD1,000 million of perpetual bonds with coupons of 3.98% and 4.00%, respectively, as part of their individual SGD30 billion Global Medium-Term Note Programme. The Housing & Development Board issued two SGD700 million bonds: a 7-year bond with a coupon of 2.63% and a 5-year bond with a 2.42% coupon. Both issuances are part of its SGD32 billion Multicurrency Medium-Term Note Programme.

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

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (SGD billion)	LCY Bonds (USD billion)			
1.	Housing & Development Board	22.0	16.1	Yes	No	Real Estate
2.	Land Transport Authority	6.5	4.7	Yes	No	Transportation
3.	Temasek Financial I	3.6	2.6	Yes	No	Finance
4.	Frasers Property	3.4	2.5	No	Yes	Real Estate
5.	Singapore Airlines	3.0	2.2	Yes	Yes	Transportation
6.	Capitaland	2.8	2.0	Yes	Yes	Real Estate
7.	Mapletree Treasury Services	2.6	1.9	No	No	Finance
8.	DBS Group Holdings	2.5	1.9	No	Yes	Banking
9.	United Overseas Bank	2.5	1.8	No	Yes	Banking
10.	SP Powerassets	1.9	1.4	No	No	Utilities
11.	Keppel Corporation	1.7	1.2	No	Yes	Diversified
12.	Capitaland Treasury	1.6	1.2	No	No	Finance
13.	Oversea-Chinese Banking Corporation	1.5	1.1	No	Yes	Banking
14.	Public Utilities Board	1.3	1.0	Yes	No	Utilities
15.	CMT MTN	1.3	0.9	No	No	Finance
16.	GLL IHT	1.3	0.9	No	No	Real Estate
17.	Olam International	1.2	0.9	No	Yes	Consumer Goods
18.	Singtel Group Treasury	1.2	0.8	No	No	Finance
19.	City Developments Limited	1.1	0.8	No	Yes	Real Estate
20.	Hyflux	1.1	0.8	No	Yes	Utilities
21.	National University of Singapore	1.0	0.7	No	No	Education
22.	Ascendas	1.0	0.7	No	Yes	Finance
23.	Suntec REIT	0.9	0.7	No	Yes	Real Estate
24.	Perennial Real Estate Holdings	0.9	0.6	No	Yes	Real Estate
25.	Mapletree Commercial Trust	0.9	0.6	No	Yes	Real Estate
26.	Sembcorp Financial Services	0.9	0.6	No	No	Engineering
27.	DBS Bank	0.8	0.6	No	Yes	Banking
28.	Overseas Union Enterprise	0.8	0.6	No	Yes	Real Estate
29.	Sembcorp Industries	0.8	0.6	No	Yes	Shipbuilding
30.	SMRT Capital	0.8	0.6	No	No	Transportation
Total Top 30 LCY Corporate Issuers		**72.7**	**53.2**			
Total LCY Corporate Bonds		**157.2**	**115.0**			
Top 30 as % of Total LCY Corporate Bonds		**46.2%**	**46.2%**			

LCY = local currency, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of 30 September 2018.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Table 3: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Land Transport Authority		
40-year bond	3.45	1,500
DBS Group		
Perpetual bond	3.98	1,000
OCBC		
Perpetual bond	4.00	1,000
Housing & Development Board		
7-year bond	2.63	700
5-year bond	2.42	700

SGD = Singapore dollar.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

MAS and Singapore Exchange Collaborate with Other Companies to Improve Settlement Using Blockchain

On 24 August, the MAS and the Singapore Exchange joined Anquan, Deloitte, and Nasdaq as technology partners in developing delivery-versus-payment capabilities for settling securities that use a blockchain platform. The project aims to reduce settlement risk between buyers and sellers, and to increase operational efficiency. It will utilize distributed ledger technology developed under Project Ubin Phase 2, which decentralized interbank payment and settlement while also preserving data privacy.

MAS Introduces New Structure for Investment Funds

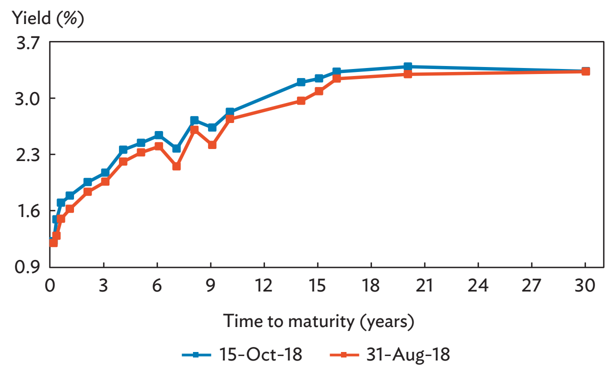
On 10 September, the MAS introduced a new corporate structure for investment funds called Variable Capital Company (VCC), an entity that manages local and international funds. The framework allows VCCs greater flexibility in terms of capital structure so that it can be used by both open-ended and closed-ended funds with varying investment strategies depending on their needs. VCCs, which are deemed to be cost-efficient, can be established as a standalone or an umbrella structure with multiple subfunds having different investment objectives. In order to cater to the needs of investors in global investment funds, VCCs are allowed to use different accounting standards in preparing financial statements. Finally, the framework prevents VCCs from commingling assets and liabilities between funds. These developments will help strengthen Singapore's position as a financial hub by providing full services for both local and international investors and fund managers.

Thailand

Yield Movements

Thailand's local currency (LCY) government bond yields rose across all tenors between 31 August and 15 October (**Figure 1**). Double-digit increases in yields were observed for most tenors, averaging 17 basis points (bps), while for the 1-month and 10-, 16-, 20-, and 30-year bonds, yield increases were in single digits. The yield for 14-year bonds had the largest increase at 23 bps, while the yield on 30-year bonds was barely changed, gaining a mere 0.6 bps. The yield spread between the 2-year and 10-year bonds narrowed to 87 bps from 91 bps during the review period.

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



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

Yields rose during the period on expectations that the Bank of Thailand (BOT) would soon increase its benchmark policy rate. The decision to hike rates rests more on concerns that a prolonged low-interest-rate environment would pose risks to financial stability rather than on pressures from rising interest rates among regional peers and in advanced economies. However, rising interest rates, especially in the United States (US), may have prompted investors to demand higher returns, thus translating into the upward movement in local government bond yields. Uncertainties brought about by contagion fears from the recent emerging market rout and trade tensions also influenced the climb in yields.

The Monetary Policy Committee of the BOT maintained the 1-day repurchase rate at 1.50% in its policy-setting meeting on 19 September. According to the central bank, the current accommodative monetary policy stance remained conducive to the continuation of economic growth and was appropriate given the inflation target. Two committee members, however, voted to raise the policy rate to curb potential financial risks. While the policy rate was left unchanged, the committee stated that the need for accommodative monetary policy would gradually decline over time.

Thailand's economic performance was better than expected in the second quarter (Q2) of 2018 as gross domestic product expanded 4.6% year-on-year (y-o-y); however, this was lower compared with growth of 4.9% y-o-y in the previous quarter. The Thai economy's growth continues to gain traction, supported by domestic and external demand as well as tourism. For the first half of 2018, Thailand's economy expanded 4.8% y-o-y. According to the National Economic and Social Development Board, the Thai economy is forecast to grow between 4.2% and 4.7% in full-year 2018, supported by improvements in the global economy and a favorable expansion in domestic consumption and investment.

Consumer price inflation in Thailand slowed to 1.3% y-o-y in September after registering a 4-year high of 1.6% y-o-y in August. In January–September, consumer price inflation averaged 1.1%. While inflation slowed in September, the ministry expects inflation to accelerate in the fourth quarter of 2018 as the excess supply of fresh food is viewed as being temporary and oil prices are expected to rise alongside a weakening baht. Inflation is forecast to average 1.3% in full-year 2018, up from an earlier projection of 1.2%.

The Thai baht appreciated 0.3% against the US dollar between 31 August and 15 October. The domestic currency had performed well compared with other regional currencies despite souring investor sentiments on the back of sell-offs triggered by emerging market doldrums elsewhere in the world, higher US interest rates, and protracted trade tensions. The baht's strength is underpinned by Thailand's strong current account surplus and bright economic prospects. The BOT's earlier hawkish hint also added appeal to the domestic currency. While the baht depreciated 0.2% against the greenback year-to-date through 15 October, it still outperformed its regional peers.

Size and Composition

Thailand's LCY bonds outstanding expanded in the third quarter (Q3) of 2018 at rates of 2.1% quarter-on-quarter (q-o-q) and 10.3% y-o-y, slower compared with Q2 2018 on a quarterly basis but faster on an annual basis (**Table 1**). LCY bonds outstanding reached THB12,174 billion (USD377 billion) at the end of September, lifted by both the government and corporate segments, which comprised about 72% and 28% of the total, respectively.

Government bonds. The amount of total government bonds outstanding reached THB8,808 billion at the end September, reflecting growth of 2.0% q-o-q compared with 5.3% q-o-q in Q2 2018. Government bonds and Treasury bills and central bank bonds drove the growth, offsetting the marginal decline in outstanding state-owned enterprise bonds and other bonds.

The expansion in the LCY government bond market was mainly driven by the increased issuance of BOT securities in Q3 2018, which gained 9.7% q-o-q. BOT issuance amounted to THB1,633 billion, comprising about 86% of total government issuance in Q3 2018. The amount was large enough to offset the double-digit issuance declines in central government and state-owned enterprise securities. The BOT has continued to increase its short-term bond supply since 15 May after a year-long tapering in order to restrain the strength of the baht.

Corporate bonds. Total corporate bonds outstanding grew modestly in Q3 2018 at 2.5% q-o-q, broadly unchanged from Q2 2018, while being supported by relatively higher issuance during the quarter. LCY corporate bonds outstanding amounted to THB3,366 billion at the end of September.

The amount of outstanding bonds of the top 30 largest corporate issuers reached THB1.9 trillion at the end of September, or the equivalent of 56.4% of the total corporate bond market (**Table 2**). Siam Cement remained the top issuer with total bonds outstanding amounting to THB181.5 billion. Of the 30 issuers, 23 companies are listed and only 5 companies are state-owned. In terms of industry, firms from the food and beverage sector account for the largest grouping with six issuers, followed by the banking sector with five. Issuers from the food and beverage industry had aggregate outstanding bonds of THB456 billion at the end of September, comprising 24% of the top 30's total.

Corporate bond issuance was fairly vibrant in Q3 2018 with sales rebounding to grow 4.8% q-o-q from a decline of 20.5% q-o-q in Q2 2018. Market participants expect higher issuance from the corporate sector this year, likely breaking the annual record as firms want to lock in lower funding costs ahead of signals of interest rate hikes 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

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2017		Q2 2018		Q3 2018		Q3 2017		Q3 2018	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**11,034**	**331**	**11,918**	**361**	**12,174**	**377**	**0.5**	**4.2**	**2.1**	**10.3**
Government	7,981	240	8,634	261	8,808	272	0.2	2.1	2.0	10.4
Government Bonds and Treasury Bills	4,295	129	4,532	137	4,656	144	4.7	6.4	2.7	8.4
Central Bank Bonds	2,887	87	3,268	99	3,322	103	(6.3)	(2.5)	1.7	15.1
State-Owned Enterprise and Other Bonds	798	24	834	25	829	26	2.3	(2.9)	(0.6)	3.8
Corporate	3,053	92	3,284	99	3,366	104	1.5	10.0	2.5	10.2

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, THB = Thai baht, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–USD rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
4. For Q3 2018 bonds outstanding data are based on *AsianBondsOnline* estimates.
Sources: Bank of Thailand and Bloomberg LP.

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

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (THB billion)	LCY Bonds (USD billion)			
1.	Siam Cement	181.5	5.6	Yes	Yes	Construction Materials
2.	CP All	179.3	5.5	No	Yes	Commerce
3.	PTT	129.3	4.0	Yes	Yes	Energy and Utilities
4.	Thai Beverage	127.0	3.9	No	No	Food and Beverage
5.	Bank of Ayudhya	125.0	3.9	No	Yes	Banking
6.	Berli Jucker	122.0	3.8	No	Yes	Food and Beverage
7.	Charoen Pokphand Foods	84.5	2.6	No	Yes	Food and Beverage
8.	Indorama Ventures	68.4	2.1	No	Yes	Petrochemicals and Chemicals
9.	Thai Airways International	64.9	2.0	Yes	Yes	Transportation and Logistics
10.	Toyota Leasing Thailand	64.7	2.0	No	No	Finance and Securities
11.	Tisco Bank	58.9	1.8	No	No	Banking
12.	True Move H Universal Communication	56.0	1.7	No	No	Communications
13.	Krungthai Card	45.9	1.4	Yes	Yes	Banking
14.	Mitr Phol Sugar	44.3	1.4	No	No	Food and Beverage
15.	CPF Thailand	44.0	1.4	No	Yes	Food and Beverage
16.	Banpu	41.8	1.3	No	Yes	Energy and Utilities
17.	Advanced Wireless	40.2	1.2	No	Yes	Communications
18.	Land & Houses	39.5	1.2	No	Yes	Property and Construction
19.	Bangkok Expressway and Metro	38.2	1.2	No	Yes	Transportation and Logistics
20.	Minor International	38.0	1.2	No	Yes	Hospitality and Leisure
21.	TPI Polene	36.0	1.1	No	Yes	Property and Construction
22.	Bangkok Commercial Asset Management	34.5	1.1	No	No	Finance and Securities
23.	Thai Union Group	33.8	1.0	No	Yes	Food and Beverage
24.	PTT Exploration and Production Company	29.6	0.9	Yes	Yes	Energy and Utilities
25.	CH. Karnchang	29.6	0.9	No	Yes	Property and Construction
26.	DTAC Trinet	29.5	0.9	No	Yes	Communications
27.	Krungsriayudhya Card	28.7	0.9	No	Yes	Banking
28.	Thanachart Bank	28.5	0.9	No	No	Banking
29.	Kasikorn Bank	28.0	0.9	No	Yes	Banking
30.	True Corp	25.8	0.8	No	Yes	Communications
Total Top 30 LCY Corporate Issuers		**1,897.0**	**58.7**			
Total LCY Corporate Bonds		**3,365.7**	**104.1**			
Top 30 as % of Total LCY Corporate Bonds		**56.4%**	**56.4%**			

LCY = local currency, THB = Thai baht, USD = United States dollar.
Notes:
1. Data as of 30 September 2018.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

market and economic fundamentals. Moreover, several merger and acquisition deals were done in Q3 2018, which led to higher debt sales, including those from Thai Beverage, which issued Thailand's biggest corporate bond yet amounting to THB77 billion. Other notable LCY corporate bond issuances in Q3 2018 are given in **Table 3**.

Investor Profile

Central government bonds. The profile of LCY government bond investors at the end of September was barely changed from a year earlier (**Figure 2**). Financial corporations remained the largest holders of government bonds in Thailand, although their share slightly dipped during the review period to 41.5% from 42.8%. Other large holders at the end of September include other depository corporations with an 18.2% share, nonresidents with 17.3%, and the central government with 12.9%. Nonresidents' share increased from 16.5% in September 2017, which can be attributed to foreign fund flows into the Thai bond market. The attractiveness of Thai bonds derives from the economy's strong fundamentals that make Thailand a safe haven for offshore investors. Public nonfinancial corporations had a negligible holdings share at the end of September.

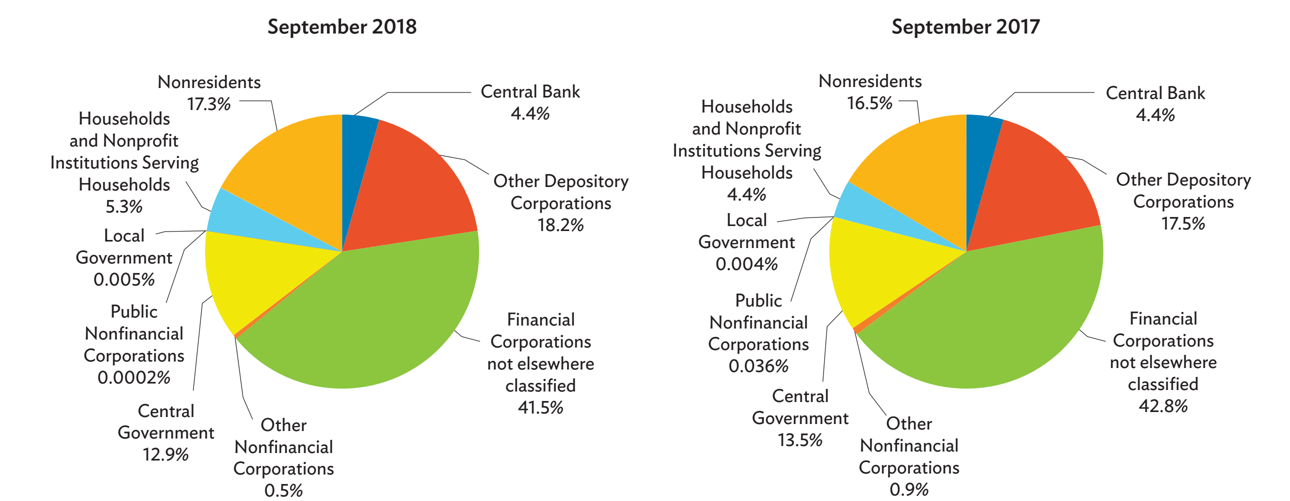
Central bank bonds. Other depository corporations were the largest holders of central bank bonds with a share of 40.1% in September 2018, slightly lower than the 41.6% share in September 2017 (**Figure 3**). The BOT's holdings share also decreased to 9.9% from 11.5% during the review period. The remaining investor groups saw increases in their holding shares, with the central government having the largest gain from 11.9% to 13.2%. Nonresidents' share increased slightly from 4.2% to 4.4%,

Table 3: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB million)
Thai Beverage		
2-year bond	2.60	4,692
3-year bond	2.64	2,452
4-year bond	3.20	43,895
5-year bond	3.35	4,387
7-year bond	3.62	941
10-year bond	4.16	13,719
10-year bond	4.16	6,914
True Move H Universal Communication		
4-year bond	3.70	11,998
5-year bond	4.05	8,002
Minor International		
Perpetual bond	5.85	15,000
Bank of Ayudhya		
3-year bond	2.22	14,000

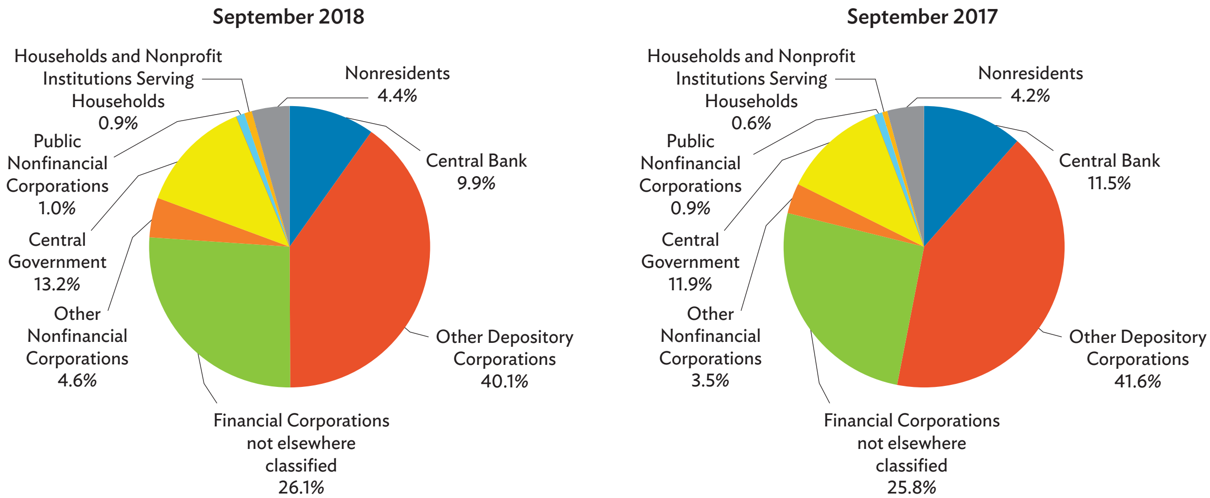
THB = Thai baht.
Source: Bloomberg LP.

Figure 2: Local Currency Government Bonds Investor Profile



Note: Government bonds include Treasury bills and bonds.
Sources: *AsianBondsOnline* and Bank of Thailand.

Figure 3: Local Currency Central Bank Securities Investor Profile

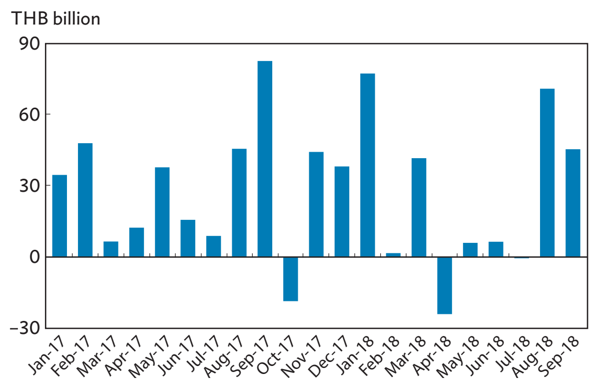


Source: Bank of Thailand.

reflecting the increased attractiveness of Thailand's LCY bonds.

Despite the wilted risk appetite for emerging market assets driven by contagion fears, Thailand was able to draw foreign fund inflows of THB116 billion in Q3 2018, bringing total inflows for the first 9 months of the year to THB226 billion (**Figure 4**). While Thailand registered outflows of THB400 million in July, this was easily offset by inflows during August and September. Excluding the PRC, Thailand outperformed its regional peers in terms of fund flows as all markets in emerging East Asia experienced net outflows in September, demonstrating how Thailand has become a safe haven for foreign investors seeking capital exposure to the region's assets. The attractiveness of THB-denominated bonds is anchored on a stable currency, low inflation, high international reserves, a current account surplus, low external debt, and an economy growing at a sound pace. Rising interest rates in the US may erode some of the appeal of Thai bonds, but market participants expect foreign funds to continue to flow into the local market.

Figure 4: Foreign Investor Net Trading of Local Currency Bonds in Thailand



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

However, net inflows may not be as large as last year and could be marked by episodes of volatility over investor wariness and the search for higher yields, resulting in some sell-offs.

Policy, Institutional, and Regulatory Developments

Thailand Plans to Develop “Bond Coin” to Facilitate Settlement of Corporate Bonds

The Thai Bond Market Association is studying the development of a digital token or “bond coin” to facilitate settlement and clearing of corporate bonds. Under the plan, participants will have information regarding payment stages, interest rates, and other time-sensitive information. The aim will be to shorten traditional banking processes from about 7–10 days to 1–3 days and to reduced corporate bond clearing from 2 days to less than 24 hours. The plan will come in three phases: (i) the development of a bond registrar subscription system to record bond transactions between participants; (ii) the inclusion of additional features such as bond deposit servicing and system development; and (iii) structuring of the “bond coin,” which will include a clearing and settlement infrastructure using the digital token.

Viet Nam

Yield Movements

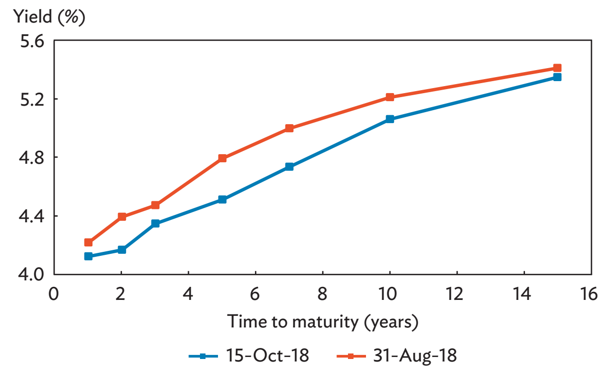
Local currency (LCY) government bond yields in Viet Nam declined for all tenors between 31 August and 15 October, resulting in a downward shift of the yield curve (**Figure 1**). Yields fell an average of 21 basis points (bps) for the 2-year through 10-year maturities, while yields at the very short-end (1-year) and the very long-end (15-year) of the curve shed 9 bps and 6 bps, respectively. The spread between the 2-year and 10-year maturities widened to 89 bps on 15 October from 82 bps on 31 August.

The decline in interbank rates drove yields lower during the review period, and liquidity conditions in the banking system improved in September. The State Bank of Vietnam is expected to keep interest rates steady for the rest of the year to support economic growth, and opts to use other monetary tools to curb inflation. The central bank has been engaging in open market operations to manage liquidity and intervening in the foreign exchange market to stabilize the VND–USD exchange rate. Between 31 August and 15 October, the value of the Vietnamese dong versus the United States (US) dollar was little changed, falling a marginal 0.2%.

Real gross domestic product growth in Viet Nam reached 7.0% year-on-year (y-o-y) in the first 3 quarters of the year, marginally lower than the 7.1% y-o-y growth posted in the first 2 quarters of 2018. The year-to-date gross domestic product growth in the third quarter (Q3) of 2018 exceeded the 6.7% target set by the National Assembly for full-year 2018. Growth moderated in all major sectors except the services sector, which grew at the same pace as in the previous period at 6.9% y-o-y. For Q3 2018, economic growth climbed to 6.9% y-o-y following a revised 6.7% y-o-y hike in the previous quarter.

Consumer price inflation rose to its highest level in 2018 at 4.7% y-o-y in June before easing to 4.5% y-o-y in July. It further decelerated to 4.0% y-o-y in August and held steady at that level in September. Inflation pressures, however, remain over concerns of higher oil prices in the global market and elevated food prices. For the first 9 months of the year, inflation was still within the target set by the National Assembly for full-year 2018, which is capped at 4.0%.

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



Source: Based on data from Bloomberg LP.

Unlike other bond markets in emerging East Asia, Viet Nam's debt market is not sensitive to the normalization of monetary policy in the United States (US) because bonds are largely held by domestic investors, particularly commercial banks. However, Viet Nam's LCY bond market has been indirectly impacted by the US dollar strengthening vis-à-vis most regional currencies. Market participants in the *AsianBondsOnline* 2018 Liquidity Survey noted that market conditions were more affected by trade tensions between the US and the People's Republic of China, partly because these two markets are among their largest trading partners. Concerns that the US may impose trade sanctions on Viet Nam also surfaced.

Size and Composition

The size of Viet Nam's LCY bond market climbed to VND1,232.4 trillion at the end of September, up 5.0% quarter-on-quarter (q-o-q) and 15.7% y-o-y (**Table 1**). Viet Nam's growth rates were the third-fastest in emerging East Asia on a q-o-q basis and the fastest on a y-o-y basis, albeit coming from a low base.

Government bonds. At the end of September, the aggregate size of the LCY government bond market reached VND1,152.8 trillion on growth of 5.2% q-o-q and 14.7% y-o-y. Growth was largely driven by increases in the stock of Treasury bonds issued by the State Treasury. To a lesser extent, central bank bills

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2017		Q2 2018		Q3 2018		Q3 2017		Q3 2018	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,065,267	47	1,173,232	51	1,232,354	53	3.2	0.7	5.0	15.7
Government	1,004,843	44	1,095,953	48	1,152,839	49	2.9	0.4	5.2	14.7
Treasury Bonds	797,098	35	857,454	37	896,681	38	1.0	7.8	4.6	12.5
Central Bank Bills	21,000	0.9	58,400	3	75,010	3	–	(70.0)	28.4	257.2
Government-Guaranteed and Municipal Bonds	186,745	8	180,099	8	181,148	8	(0.5)	(2.4)	0.6	(3.0)
Corporate	60,424	3	77,279	3	79,515	3	9.2	6.3	2.9	31.6

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

issued by the State Bank of Vietnam also contributed to the growth. The stock of government-guaranteed and municipal bonds were broadly unchanged during the review period.

Treasury bonds continued to account for the largest share of government bonds in Viet Nam, representing a 77.8% share of the government bond total at the end of September. The total stock of Treasury bonds reached VND896.7 trillion at the end of September, up 4.6% q-o-q and 12.5% y-o-y. During the quarter, issuance of new Treasury instruments climbed on both a q-o-q and y-o-y basis.

At the end of September, the outstanding size of central bank bills rose to VND75.0 trillion on growth of 28.4% q-o-q and 257.2% y-o-y. In Q3 2018, issuances of central bank bills declined as liquidity conditions were mostly tight in July and August, dragging down the quarterly issuance volume. Liquidity conditions slightly improved in September, allowing the State Bank of Vietnam to resume a much larger volume of central bank bill issuance.

The outstanding amount of government-guaranteed and municipal bonds was broadly unchanged at the end of September, reaching VND181.1 trillion, up 0.6% q-o-q but declining 3.0% y-o-y.

Corporate bonds. The outstanding amount of LCY corporate bonds rose to VND79.5 trillion at the end of September, posting a 2.9% q-o-q expansion in Q3 2018. On a y-o-y basis, the corporate bond market grew at a much faster pace of 31.6% y-o-y in Q3 2018. Based on data compiled from Bloomberg, the entire LCY corporate bond market of Viet Nam comprises 41 institutions.[15] About 90% of corporate bonds in Viet Nam are issued via private placement, making it difficult to compile information on these issues.

At the end of September, the 30 largest corporate bond issuers had an aggregate bond size of VND77.5 trillion (**Table 2**). This accounted for 97.5% of the total corporate bond stock during the review period. The composition of the top three issuers was unchanged from the list at the end of June. At the top spot was Masan Consumer Holdings with outstanding bonds valued at VND11.1 trillion. In the second and third spots were real-estate firm Vingroup (VND10.6 trillion) and state-owned bank Vietnam Joint Stock Commercial Bank for Industry and Trade (VND8.2 trillion), respectively.

In Q3 2018, a lone corporate issuer raised funds from the bond market. Pan Group raised VND1.1 trillion of 5-year bonds with a fixed coupon rate of 6.8%.

[15] As most bonds in Viet Nam are issued via private placement, our data on corporate bonds may be understated.

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

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (VND billion)	LCY Bonds (USD billion)			
1.	Masan Consumer Holdings	11,100	0.48	No	No	Diversified Operations
2.	Vingroup	10,600	0.45	No	Yes	Real Estate
3.	Vietnam Joint Stock Commercial Bank for Industry and Trade	8,200	0.35	Yes	Yes	Banking
4.	Asia Commercial Joint Stock Bank	4,600	0.20	No	No	Banking
5.	Hoang Anh Gia Lai	4,000	0.17	No	Yes	Real Estate
6.	No Va Land Investment Group	3,800	0.16	No	Yes	Real Estate
7.	Bank for Investment and Development of Vietnam	3,050	0.13	Yes	Yes	Banking
8.	Masan Group	3,000	0.13	No	Yes	Finance
9.	Vietnam Prosperity Joint Stock Commercial Bank	3,000	0.13	No	Yes	Banking
10.	Vietnam Technological and Commercial Joint Stock Bank	3,000	0.13	No	No	Banking
11.	Sai Dong Urban Investment and Development	2,600	0.11	No	No	Real Estate
12.	Hoang Anh Gia Lai International Agriculture	2,217	0.10	No	Yes	Agriculture
13.	Joint Stock Commercial Bank for Foreign Trade of Vietnam	2,000	0.09	Yes	Yes	Banking
14.	Ho Chi Minh City Infrastructure Investment	1,830	0.08	No	Yes	Infrastructure
15.	Vietnam Electrical Equipment	1,800	0.08	No	Yes	Manufacturing
16.	Saigon Securities	1,450	0.06	No	Yes	Finance
17.	Agro Nutrition International	1,300	0.06	No	No	Agriculture
18.	Saigon-Hanoi Securities	1,150	0.05	No	Yes	Finance
19.	Mobile World Investment	1,135	0.05	No	Yes	Manufacturing
20.	Pan Group	1,135	0.05	No	Yes	Consumer Services
21.	DIC Corporation	1,000	0.04	Yes	No	Chemicals
22	TTC Education Joint Stock Company	951	0.04	No	No	Education Services
23.	Vietnam Bank for Agriculture and Rural Development	760	0.03	Yes	No	Banking
24.	Kinh Bac City Development Holding	700	0.03	No	Yes	Real Estate
25.	Nam Long Investment	660	0.03	No	Yes	Real Estate
26.	Sai Gon Thuong Tin Real Estate Joint Stock	600	0.03	No	Yes	Real Estate
27.	Khang Dien House Trading and Investment	534	0.02	No	Yes	Building and Construction
28.	An Phat Plastic & Green Environment	450	0.02	No	Yes	Industrial
29	Cuu Long Pharmaceutical Company	450	0.02	No	Yes	Manufacturing
30.	Thanh Thanh Cong-Bien Hoa Joint Stock Company	450	0.02	No	Yes	Industrial
Total Top 30 LCY Corporate Issuers		**77,523**	**3.33**			
Total LCY Corporate Bonds		**79,515**	**3.41**			
Top 30 as % of Total LCY Corporate Bonds		**97.5%**	**97.5%**			

LCY = local currency, USD = United States dollar, VND = Vietnamese dong.
Notes:
1. Data as of 30 September 2018.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Sources: *AsianBondsOnline* calculations based on Bloomberg LP and Vietnam Bond Market Association data.

Policy, Institutional, and Regulatory Developments

State Treasury Lowers Bond Issuance Plan for 2018

In October, the State Treasury lowered its bond issuance plan for 2018 to VND175 trillion from VND200 trillion as originally planned. The breakdown of issuance volume for each maturity is as follows: (i) 5-year bonds at VND31 trillion, (ii) 7-year bonds at VND11 trillion, (iii) 10-year bonds at VND64 trillion, (iv) 15-year bonds at VND51 trillion, (v) 20-year bonds at VND9 trillion, and (vi) 30-year bonds at VND9 trillion.