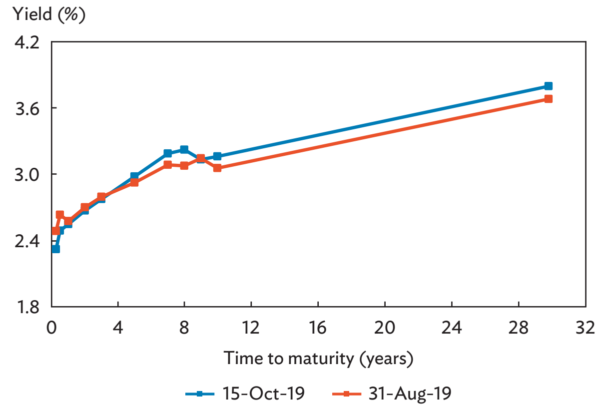
Market Summaries

People's Republic of China

Yield Movements

The People's Republic of China's (PRC) yield curve for local currency (LCY) bonds steepened between 31 August and 15 October, driven by a rise in yields at the longer end of the curve and a decline in yields for shorter-dated tenors (**Figure 1**). Yields rose for tenors of 5 years or longer by an average of 10 basis points (bps), excluding the 9-year tenor, which fell 1 bps. For tenors of 3 years or shorter, yields fell an average of 8 bps. The steepening of the yield curve led to a rise in the 2-year versus 10-year spread to 49 bps on 15 October from 35 bps in 31 August.

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



Source: Based on data from Bloomberg LP.

Yields at the longer end of the curve rose on investor optimism that the PRC's economy would benefit from news that trade tensions between the PRC and the United States (US) were abating. On 4 September, it was announced that trade talks between the PRC and the US had resumed. Following the announcement, the prospects of a trade deal progressed. On 11 September, the PRC announced an exemption of some US products from tariffs for 1 year, while the US reciprocated with a delay of scheduled tariffs from 1 October to 15 October. On 11 October, the US announced a tentative agreement as the first phase of a potentially larger settlement. The US suspended tariffs scheduled set for 15 October, while the PRC agreed to purchase USD50 billion worth of US goods.

The news of softening trade tensions between the two economies provided a boost to longer-term yields on hopes that the PRC's economic growth would improve. Gross domestic product growth in the PRC slowed to 6.0% year-on-year (y-o-y) in the third quarter (Q3) of 2019 from 6.2% y-o-y in Q2 2019. While industrial production growth recovered somewhat in September to 5.8% y-o-y from 4.4% y-o-y in August, the overall growth trend in industrial production remains headed in a downward direction. In September, the PRC's y-o-y export growth fell to –3.2% from –1.0% y-o-y in August. For the first 9 months of the year, export growth fluctuated, but export growth was negative in 5 of those months.

Outside of the trade news, yields rose amid the reluctance of the People's Bank of China (PBOC) to engage in aggressive broad-based easing. On 6 September, the PBOC announced a 50 bps reserve requirement ratio cut, with an additional 100 bps cut for smaller banks. The PBOC said that the 50 bps cut was mostly to help liquidity in anticipation of corporate tax payments during the month as opposed to a shift in monetary policy. In addition, the PBOC also reduced the 1-year loan prime rate, a new benchmark interest rate, by 5 bps to 4.20% on 20 September and left the 5-year rate unchanged.

Inflation also remains a concern in the PRC as it has been trending upward. The rise in inflation has been solely due to a supply shock as pork prices have risen due to the impact of swine flu. Consumer price inflation in the PRC rose to 3.0% y-o-y in September from 2.8% y-o-y in August, with food prices rising 8.4% y-o-y during the month.

Yields at the shorter end of the curve fell during the review period as the PBOC sought to stabilize liquidity amid investor concerns following a government takeover of a bank as well as well as corporate tax payments in September that raised demand for funds.

Size and Composition

LCY bonds outstanding in the PRC rose 3.6% quarter-on-quarter (q-o-q) in Q3 2019 after gaining 4.0% q-o-q in the second quarter (Q2) of 2019. On a y-o-y basis, LCY bonds grew 14.9% y-o-y (**Table 1**).

Government bonds. The PRC's government bond market continued to grow; however, growth moderated to 3.5% q-o-q from 4.2% q-o-q in Q2 2019. The slowing growth was due to a decline in government bond issuance during Q3 2019. The slowest government bond growth came from policy bank bonds, which grew 1.5% q-o-q in the quarter as issuance declined 17.2% q-o-q. Local government bond growth was the fastest among all government bond categories at 5.1% q-o-q, while issuance fell 5.9% q-o-q as local governments were asked to fulfill their bond quotas by the end of September to help speed up the implementation of infrastructure projects. The government is also requiring local governments to allocate the proceeds raised from special bonds to infrastructure projects by the end of October.

Corporate bonds. In contrast to the PRC's government bonds, corporate bonds outstanding grew 3.9% q-o-q in Q3 2019, accelerating from Q2 2019's 3.6% q-o-q growth.

The growth was largely driven by an in increase in financial bonds (9.2% q-o-q), medium-term notes (3.8% q-o-q), and listed corporate bonds (3.2% q-o-q) (**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 2018		Q2 2019		Q3 2019		Q3 2018		Q3 2019	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**71,319**	**10,383**	**79,049**	**11,512**	**81,916**	**11,459**	**5.3**	**15.4**	**3.6**	**14.9**
Government	46,869	6,823	51,135	7,447	52,913	7,402	6.2	16.6	3.5	12.9
Treasury Bonds and Other Government Bonds	14,357	2,090	15,461	2,252	15,963	2,233	3.7	11.1	3.3	11.2
Central Bank Bonds	0	0	4	1	14	2	–	–	250.0	–
Policy Bank Bonds	14,184	2,065	15,213	2,215	15,445	2,161	1.3	8.3	1.5	8.9
Local Government Bonds	18,327	2,668	20,457	2,979	21,491	3,006	12.7	29.3	5.1	17.3
Corporate	24,450	3,560	27,914	4,065	29,003	4,057	3.6	13.1	3.9	18.6
Policy Bank Bonds										
China Development Bank	7,979	1,162	8,580	1,250	8,665	1,212	3.0	8.8	1.0	8.6
Export–Import Bank of China	2,299	335	2,533	369	2,601	364	(2.9)	0.8	2.7	13.2
Agricultural Devt. Bank of China	3,907	569	4,100	597	4,179	585	0.3	12.0	1.9	7.0

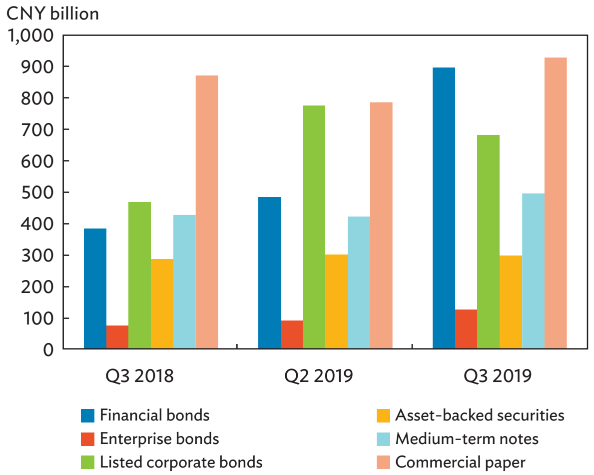
( ) = negative, – = not applicable, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Treasury bonds include savings bonds and local government bonds.
3.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

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)			Growth Rate (%)			
				Q3 2018		Q3 2019	
	Q3 2018	Q2 2019	Q3 2019	q-o-q	y-o-y	q-o-q	y-o-y
Financial Bonds	4,123	5,042	5,505	1.1	20.3	9.2	33.5
Enterprise Bonds	3,968	3,834	3,840	0.9	(14.4)	0.2	(3.2)
Listed Corporate Bonds	5,963	7,024	7,250	1.0	18.1	3.2	21.6
Commercial Paper	1,896	2,197	2,152	1.1	24.1	(2.0)	13.5
Medium-Term Notes	5,270	5,919	6,141	1.0	13.4	3.8	16.5
Asset-Backed Securities	1,343	1,924	2,081	1.2	74.5	8.1	54.9

( ) = negative, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, y-o-y = year-on-year.
Source: CEIC.

Figure 2: Corporate Bond Issuance in Key Sectors



CNY = Chinese yuan, Q2 = second quarter, Q3 = third quarter.
Source: CEIC.

The rise in financial bonds has been largely driven by perpetual bonds issued by commercial banks as part of its efforts to replenish capital after write-downs of bad assets. Asset-backed securities grew strongly at 8.1% q-o-q, but the contribution to growth was smaller given this category's overall size (**Figure 2**).

The PRC's LCY corporate bond market continued to be dominated by a few big issuers (**Table 3**). At the end of Q3 2019, the top 30 corporate bond issuers accounted for a combined CNY7.7 trillion worth of corporate bonds outstanding, or about 26.5% of the total market. Of the top 30, the 10 largest issuers accounted for an aggregate CNY4.9 trillion. China Railway, the top issuer, had more than three times the outstanding amount of bonds as Agricultural Bank of China, the second-largest issuer. The top 30 issuers included 14 banks, which continued to generate funding to strengthen their capital bases, improve liquidity, and lengthen their maturity profiles.

Table 4 lists the largest corporate bond issuances in Q3 2019. The top issuers consisted largely of banks and state-owned enterprises as banks sought to improve their funding and capital bases.

Investor Profile

Among the major government bond categories, banks were the single-largest holder at the end of September (**Figure 3**), with banks owning at least 73.4% of all outstanding government bonds. The concentration of bank ownership was the highest for local government bonds (87.9%), as banks are being asked by the government to help support the funding efforts of local governments. Policy banks were the next largest holder of local government bonds. Unincorporated products were the second-largest holder of policy bank bonds after banks.[12]

The volume of interest rate swaps rose 11.7% q-o-q in Q3 2019. The 7-day repurchase remained the most used interest rate swap, comprising a 70.7% share of the total interest rate swap volume during the quarter (**Table 5**).

Policy, Institutional, and Regulatory Developments

People's Bank of China Reduces Reserve Requirement Ratio for Banks

On 6 September, the PBOC announced that it would reduce by 50 bps the reserve requirement ratio of financial institutions, effective 16 September. In addition, rural commercial banks operating solely within provincial administrative regions would be entitled to an additional 100 bps cut, with the reduction to be phased in on 15 October and 15 November.

The People's Republic of China Removes Quota on Some Foreign Investor Programs

On 10 September, the State Administration of Foreign Exchange announced that it would remove quota limits on its Qualified Foreign Institutional Investor and Renminbi Qualified Foreign Institutional Investor programs. The government said that this would make it easier for foreign investors to participate in the domestic market of the PRC.

China Securities Regulatory Commission Places Limit on Private Corporate Bond Issuance

On 15 October, the China Securities Regulatory Commission announced that the total amount of outstanding corporate bonds sold privately would be limited to 40% of a company's net assets. Additional bonds issued exceeding this ratio may only be used to repay existing debt.

[12] Unincorporated products include banks' wealth management products, securities investment funds, trust funds, and insurance products.

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

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (CNY billion)	LCY Bonds (USD billion)			
1.	China Railway	1,715.5	240.0	Yes	No	Transportation
2.	Agricultural Bank of China	453.1	63.4	Yes	Yes	Banking
3.	Industrial and Commercial Bank of China	450.7	63.0	Yes	Yes	Banking
4.	Bank of China	423.1	59.2	Yes	Yes	Banking
5.	Central Huijin Investment	371.0	51.9	Yes	No	Asset Management
6.	China Construction Bank	333.3	46.6	Yes	Yes	Banking
7.	China Minsheng Banking	305.3	42.7	No	Yes	Banking
8.	State Grid Corporation of China	292.7	40.9	Yes	No	Public Utilities
9.	China CITIC Bank	267.5	37.4	No	Yes	Banking
10.	Shanghai Pudong Development Bank	260.5	36.4	No	Yes	Banking
11.	Bank of Communications	254.3	35.6	No	Yes	Banking
12.	China National Petroleum	225.0	31.5	Yes	No	Energy
13.	Industrial Bank	183.0	25.6	No	Yes	Banking
14.	Huaxia Bank	173.4	24.3	Yes	No	Banking
15.	China Everbright Bank	173.3	24.2	Yes	Yes	Banking
16.	Tianjin Infrastructure Construction and Investment Group	170.7	23.9	Yes	No	Industrial
17.	State Power Investment	161.6	22.6	Yes	No	Energy
18.	Ping An Bank	158.7	22.2	No	Yes	Banking
19.	China Merchants Bank	143.5	20.1	Yes	Yes	Banking
20.	PetroChina	135.0	18.9	Yes	Yes	Energy
21.	CITIC Securities	135.0	18.9	Yes	Yes	Brokerage
22.	Datong Coal Mine Group	117.6	16.5	Yes	No	Coal
23.	China Datang	113.5	15.9	Yes	Yes	Energy
24.	China Life Insurance	103.0	14.4	Yes	Yes	Insurance
25.	China Three Gorges Corporation	99.0	13.8	Yes	No	Power
26.	China Merchants Securities	93.2	13.0	No	Yes	Brokerage
27.	Bank of Beijing	93.0	13.0	No	Yes	Banking
28.	Guotai Junan Securities	90.2	12.6	No	Yes	Financial
29.	Guangzhou R&F Properties	90.1	12.6	No	Yes	Real Estate
30.	China Cinda Asset Management	90.0	12.6	Yes	Yes	Asset Management
Total Top 30 LCY Corporate Issuers		**7,675.8**	**1,073.8**			
Total LCY Corporate Bonds		**29,003.0**	**4,057.3**			
Top 30 as % of Total LCY Corporate Bonds		**26.5%**	**26.5%**			

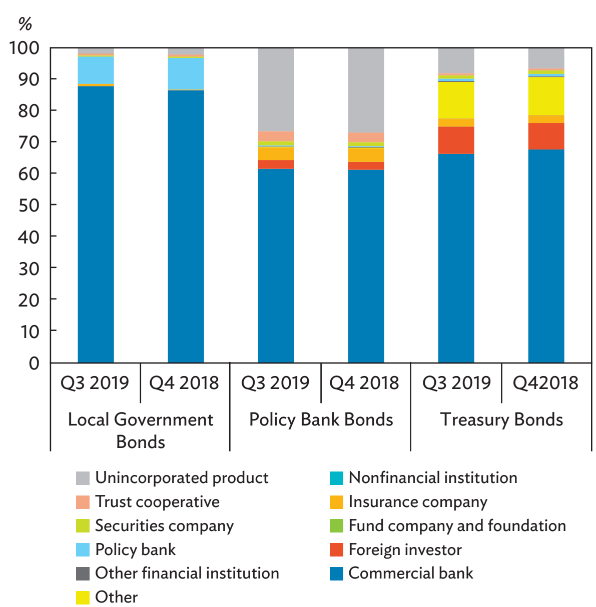
CNY = Chinese yuan, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 30 September 2019.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Table 4: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China State Railway Group		
5-year bond	3.50	10
5-year bond	3.45	10
5-year bond	3.34	10
5-year bond	3.35	13
5-year bond	3.37	12
5-year bond	3.41	12
20-year bond	4.07	5
20-year bond	4.10	5
20-year bond	4.02	5
20-year bond	3.99	13
20-year bond	4.03	8
Industrial Bank		
3-year bond	3.55	20
10-year bond	4.15	30
10-year bond	4.12	20
Bank of Communications		
10-year bond	4.10	30
15-year bond	4.49	10
Industrial Bank		
10-year bond	3.98	30
15-year bond	4.34	10
China Merchants Bank		
3-year bond	3.45	30
3-year bond	3.33	20

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

Figure 3: Government Bonds Investor Profile



Q3 = third quarter, Q4 = fourth quarter.
Source: Bloomberg LP.

Table 5: Notional Values of the People's Republic of China's Interest Rate Swap Market in the Third Quarter of 2019

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	Share of Total Notional Amount (%)	Growth Rate (%)
	Q3 2019		q-o-q
7-Day Repo Rate	3,557.9	70.7	5.0
Overnight SHIBOR	16.3	0.3	(51.9)
3-Month SHIBOR	1,397.4	27.8	33.2
1-Year Lending Rate	34.2	0.7	(100.0)
Loan Interest Rate, 1 Year	0.1	0.001	(100.0)
5-Year Lending Rate	1.7	0.03	(100.0)
10-Year Bond Yield	10.6	0.2	(20.0)
10-Year Treasury Yield	11.4	0.2	(27.9)
3-Year AAA Short-Term Notes/ Government Debt	0.7	0.01	(100.0)
10-Year Bond Yield/ 10-Year Government Bond Yield	0.2	0.004	(93.1)
Total	**5,030.5**	**100.0**	**11.7**

( ) = negative, – = not applicable, CNY = Chinese yuan, 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*.

Hong Kong, China

Yield Movements

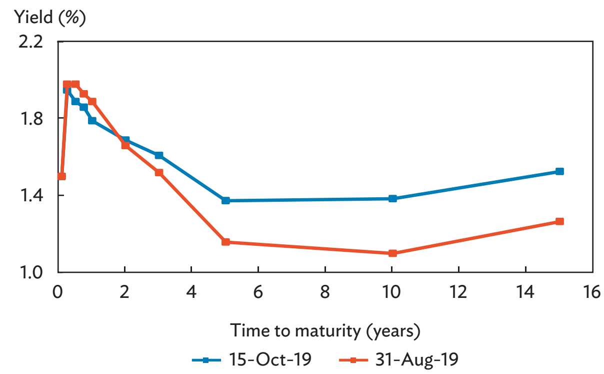
Between 31 August and 15 October, local currency (LCY) government bond yields in Hong Kong, China fell slightly for shorter-dated tenors and jumped for medium- to longer-dated tenors (**Figure 1**). Tenors with maturities of 1 year or below shed an average of 7 basis points (bps), while tenors with maturities of 2 years or longer gained 18 bps on average. Yield movements tracked 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 dropped for maturities below 2 years and rose for Treasuries with longer maturities.

Hong Kong, China's yield curve has been inverted since the second quarter (Q2) of the year, though the negative spread between the 2-year and 10-year yield narrowed during the review period from 56 bps on 31 August to 30 bps on 15 October.

The inverted yield curve reflects expectations of an economic downturn in Hong Kong, China. Months of unrelenting political protests has caused declines in tourism earnings and retail sales, adding pressure to the economy that has already been weakened by the continuing trade dispute between the People's Republic of China and the US. Based on advanced estimates, Hong Kong, China's gross domestic product growth contracted 2.9% year-on-year (y-o-y) in the third quarter (Q3) of 2019. In quarter-on-quarter (q-o-q) seasonally adjusted terms, Hong Kong, China's GDP contracted 3.2% q-o-q in Q3 2019 following a 0.5% q-o-q drop in Q2 2019. The two consecutive quarters of negative growth indicated that the economy has fallen into a technical recession.

The rise in yields for medium- to longer-term bonds also reflected higher borrowing costs as investors factor in risks associated with political uncertainties. In September, Fitch Ratings downgraded Hong Kong, China's issuer default rating one notch from AA+ to AA amid months of social protests that have undermined political stability and the business environment.

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



Source: Based on data from Bloomberg LP.

To match rate adjustments by the US Federal Reserve, the Hong Kong Monetary Authority (HKMA) lowered its policy rate by 25 bps each in August, September, and October. The rate cuts lowered the base rate from 2.75% to 2.00%.

Inflation remained moderate in Q3 2019. The composite consumer price inflation growth rate eased to 3.2% y-o-y in September from 3.5% y-o-y in August.

To boost sluggish economic growth, the government implemented several policies during the review period. In August, the government announced fiscal support measures worth HKD19.1 billion to aid citizens and businesses affected by the economic downturn. In September, the government-owned Hong Kong Mortgage Corporation (HKMC) introduced a relief measure targeted to small and medium-sized enterprises (SMEs) facing cash flow pressure. The relief measure allowed SME borrowers a temporary moratorium on principal payments for up to 12 months.

On 14 October, the HKMA lowered the countercyclical capital buffer (CCyB)—the amount of cash that banks are required to keep as reserves—from 2.5% to 2.0%, releasing capital that had previously built up in the banking sector. The move injected an additional HKD200 billion–HKD300 billion into the economy.

Size and Composition

Hong Kong, China's LCY bonds outstanding dropped slightly to HKD1,954.7 (USD249.4) at the end of Q3 2019 from HKD1,955.5 billion (USD250.4) in Q2 2019 (**Table 1**). The 0.04% q-o-q dip in Q3 2019 was smaller than the 0.2% q-o-q drop in the prior quarter and was largely driven by contractions in Exchange Fund Notes (EFNs) and corporate bonds outstanding. Annual growth rose to 2.1% y-o-y in Q3 2019 from 1.4% y-o-y in Q2 2019 due to stronger growth in both government and corporate bonds. Government bonds, accounted for 59.9% of LCY bonds outstanding at the end of September.

Government bonds. The outstanding stock of LCY government bonds stood at HKD1,170.4 billion at the end of September on growth of 0.5% q-o-q and 1.4% y-o-y. The growth was driven by the expansion of outstanding Exchange Fund Bills (EFBs) and Hong Kong Administrative Special Administrative Region (HKSAR) bonds, which rose 0.6% q-o-q and 1.0% q-o-q, respectively. Outstanding EFNs dropped 3.4% q-o-q during the review period due to maturities.

Total government issuance amounted to HKD838.5 billion in Q3 2019 on growth of 1.0% q-o-q and 2.9% y-o-y. Issuance of EFBs and EFNs by the HKMA increased 1.0% q-o-q, while issuance of HKSAR bonds dropped 52.5% q-o-q from a high base in the previous quarter.

Exchange Fund Bills. In Q3 2019, outstanding EFBs rose 0.6% q-o-q to reach HKD1,048.4 billion at the end of September, driven by strong issuance. New issuance edged up to HKD833.5 billion from HKD825.5 billion in the previous quarter. Due to maturities, the growth was slower than the 1.9% rise in outstanding EFBs recorded in the previous quarter.

Exchange Fund Notes. Since January 2015, the HKMA has streamlined issuance of EFNs and HKSAR bonds to avoid overlaps in longer tenors and to establish a single benchmark yield curve. EFN issuance has been limited to the 2-year tenor at an average of HKD1.2 billion EFNs per quarter. As a result, outstanding EFNs declined steadily. Outstanding EFNs stood at HKD28.4 billion at the end of September, down 3.4% q-o-q from HKD29.4 billion at the end of Q2 2019.

Hong Kong Special Administrative Region Bonds. HKSAR bonds outstanding stood at HKD93.7 billion at the end of September, up 1.0% q-o-q from HKD92.7 billion in the previous quarter. In Q3 2019, the government issued a total of HKD3.8 billion of HKSAR bonds. HKD3.0 billion comprised Silver Bonds, an investment instrument intended for senior citizens, while HKD0.8 billion came from the issuance of 15-year HKSAR bonds.

Corporate bonds. Corporate bonds outstanding reached HKD784.3 billion at the end of September. The 0.9% q-o-q contraction in Q3 2019 reversed the 1.2% q-o-q growth in the previous quarter.

The outstanding bonds of the top 30 nonbank corporate issuers in Hong Kong, China amounted to HKD217.6 billion in Q3 2019, comprising 27.7% of the total corporate bond market (**Table 2**). Government-owned financial firm HKMC remained the top issuer,

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2018		Q2 2019		Q3 2019		Q3 2018		Q3 2019	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,915**	**245**	**1,956**	**250**	**1,955**	**249**	**(0.7)**	**1.5**	**(0.04)**	**2.1**
Government	1,154	147	1,164	149	1,170	149	(0.4)	3.4	0.5	1.4
Exchange Fund Bills	1,024	131	1,042	133	1,048	134	0.5	5.2	0.6	2.4
Exchange Fund Notes	34	4	29	4	28	4	(2.9)	(16.7)	(3.4)	(16.5)
HKSAR Bonds	96	12	93	12	94	12	(7.9)	(4.9)	1.0	(2.9)
Corporate	761	97	791	101	784	100	(1.2)	(1.2)	(0.9)	3.1

( ) = negative, HKD = Hong Kong dollar, HKSAR = Hong Kong Special Administrative Region, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period local currency–USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. Q3 data for corporate bonds outstanding are based on *AsianBondsOnline* estimates.

Source: Hong Kong Monetary Authority.

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	29.8	3.8	Yes	No	Finance
2.	Sun Hung Kai & Co., Limited	16.7	2.1	No	Yes	Finance
3.	Link Holdings	12.5	1.6	No	No	Finance
4.	MTR Corporation	12.4	1.6	Yes	Yes	Transportation
5.	New World Development	12.1	1.5	No	Yes	Diversified
6.	Hong Kong Land	11.6	1.5	No	No	Real Estate
7.	The Hong Kong and China Gas Company	11.1	1.4	No	Yes	Utilities
8.	Swire Pacific	9.4	1.2	No	Yes	Diversified
9.	The Wharf (Holdings)	8.6	1.1	No	Yes	Finance
10.	Henderson Land Development	8.3	1.1	No	No	Real Estate
11.	CLP Power Hong Kong Financing	7.7	1.0	No	No	Finance
12.	Haitong International Securities Group	7.0	0.9	No	Yes	Finance
13.	Smart Edge	6.8	0.9	No	No	Finance
14.	AIA Group	6.3	0.8	No	Yes	Insurance
15.	CK Asset Holdings	6.2	0.8	No	Yes	Real Estate
16.	Swire Properties	5.6	0.7	No	Yes	Diversified
17.	Hongkong Electric	5.5	0.7	No	No	Utilities
18.	China Merchants Port Holdings	5.5	0.7	No	Yes	Transportation
19.	Hang Lung Properties	4.6	0.6	No	Yes	Real Estate
20.	Hysan Development Company	4.4	0.6	No	Yes	Real Estate
21.	IFC Development Corporation	3.5	0.4	No	No	Finance
22.	Lerthai Group	3.0	0.4	No	Yes	Real Estate
23.	Emperor International Holdings	2.9	0.4	No	Yes	Real Estate
24.	Wharf Real Estate Investment	2.6	0.3	No	Yes	Real Estate
25.	Champion REIT	2.5	0.3	No	Yes	Real Estate
26.	China Dynamics Holdings	2.4	0.3	No	Yes	Automotive
27.	Urban Renewal Authority	2.3	0.3	Yes	No	Real Estate
28.	South Shore Holdings	2.2	0.3	No	Yes	Industrial
29.	CK Hutchison Holdings	2.0	0.3	No	Yes	Diversified
30.	Gluon Xima International	2.0	0.3	No	No	Real Estate
Total Top 30 Nonbank LCY Corporate Issuers		**217.6**	**27.8**			
Total LCY Corporate Bonds		**784.3**	**100.0**			
Top 31 as % of Total LCY Corporate Bonds		**27.7%**	**27.7%**			

HKD = Hong Kong dollar, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 30 September 2019.
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.

with outstanding bonds amounting to HKD29.8 billion. The top 30 issuers in Q3 2019 were mostly finance and real estate companies. A distant second was Sun Hung Kai & Co., with outstanding bonds of HKD16.7 billion. Link Holdings, MTR Corporation, New World Development, and Hong Kong Land were the next four largest issuers, with outstanding bonds exceeding HKD10.0 billion each. Of the top 30, two-thirds are listed on the Hong Kong Stock Exchange and three are government-owned corporations.

Corporate issuance amounted to HKD53.1 billion in Q3 2019, down from HKD75.9 billion in the previous quarter. The top nonbank issuer, HKMC, issued a total of HKD2.2 billion bonds from eight issuances during the quarter, including a 30-year bond carrying a 2.65% coupon (**Table 3**). The single-largest issuance was a 7-year bond carrying a 2.50% coupon from Link Holdings. Swire Pacific, Hysan Development Company, and Sun Hung Kai & Co. were the next largest issuers with aggregate issuance amounts of HKD1.1 billion, HKD0.7 billion, and HKD0.4 billion, respectively.

Table 3: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD million)
Hong Kong Mortgage Corporation		
3-month bond	0.00	660.00
3-month bond	1.92	380.00
3-month bond	0.00	370.00
3-month bond	1.99	50.00
1-year bond	2.09	55.00
1-year bond	2.04	85.50
10-year bond	1.57	375.00
30-year bond	2.65	200.00
Link Holdings		
5-year bond	2.28	716.00
7-year bond	2.50	1,000.00
Swire Pacific		
10-year bond	2.95	331.00
10-year bond	2.83	350.00
10-year bond	2.50	400.00
Hysan Development Company		
12-year bond	2.90	400.00
15-year bond	2.81	250.00
Sun Hung Kai & Co., Limited		
10-year bond	2.75	442.00

HKD = Hong Kong dollar.
Source: Bloomberg LP.

Ratings Update

Fitch Downgrades Hong Kong, China's Credit Rating amid Political Unrest

On 5 September, global credit rating agency Fitch Ratings Inc. (Fitch) downgraded Hong Kong, China's issuer default rating after months of antigovernment political protests. Hong Kong, China's long-term LCY issuer default rating was downgraded one notch to AA from AA+ and given a negative outlook. According to Fitch, the persistent political unrest undermined "international perceptions of the quality and effectiveness of [Hong Kong, China's] governance system and rule of law, and have called into question the stability and dynamism of its business environment." The last time Fitch downgraded Hong Kong, China's rating was before the return of the former British colony to the People's Republic of China. The negative outlook reflected Fitch's view that a degree of social discontent is likely to persist, possibly sparking renewed eruptions of political unrest.

Policy, Institutional, and Regulatory Developments

Government Unveils HKD19.1 Billion Economic Support Package

On 15 August, the Government of the Hong Kong Special Administrative Region of the People's Republic of China unveiled fiscal support measures worth HKD19.1 billion to provide support to citizens and businesses affected by the economic downturn. The measures for citizens include extra payments to social security recipients, subsidies for students from the primary and secondary levels, 1 month of free rent for low-income tenants of government housing, and a one-off electricity subsidy worth HKD2,000. The support for businesses includes waivers for 27 groups of fees and charges for the retail, catering, and tourism sectors; a reduction of rent for short-term tenancies of government lands; a new loan guarantee for small businesses; and retraining for workers.

HKMC Introduces Relief Measures for Small and Medium-Sized Enterprises

On 4 September, HKMC Insurance Limited, a subsidiary of HKMC, unveiled a new relief measure—the 80% Guarantee Product of the SME Financing Guarantee Scheme—to assist SMEs facing cash flow pressures. Under the relief measure, SME borrowers may apply to their lenders to temporarily pay only the interest on their loans, deferring repayment of the principal for a maximum of 12 months. The relief measure was designed to help SMEs facing cash flow pressures due to the heightened uncertainties affecting the domestic economy.

HKMA Cuts Countercyclical Capital Buffer by 50 bps to 2.0%

On 14 October, the HKMA lowered the CCyB from 2.5% to 2.0%, the first reduction since 2015. The move was intended to allow banks to release an additional HKD200 billion–HKD300 billion of bank credit. In its press statement, the HKMA stressed that economic conditions in Hong Kong, China have deteriorated since June and the freeing of funds will allow banks to provide support to the economy and help counter the economic downturn. The CCyB is an integral part of the Basel III regulatory capital framework designed to increase the resilience of the banking sector in periods of excess credit growth.

Indonesia

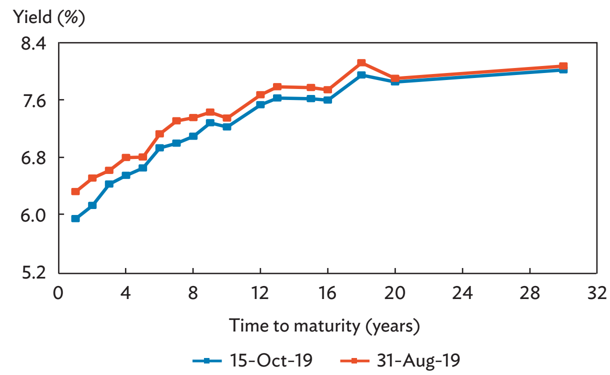
Local currency (LCY) government bond yields in Indonesia continued to decline between 31 August and 15 October (**Figure 1**). Yields declined the most at the shorter end of the curve (2 years and below), with declines averaging 38 basis points (bps), and fell the least at the longer end (20 years and 30 years). For maturities of 3 years to 18 years, bond yields shed an average of 18 bps. Due to the faster decline at the shorter end than the longer end, the spread between the 2-year and 10-year tenors widened to 109 bps on 15 October from 84 bps on 31 August.

The overall decline in Indonesia's LCY government bond yields was largely driven by the accommodative monetary policy stance of Bank Indonesia. The central bank lowered the policy rate four times, by 25 bps each, during the monthly Board of Governors meetings from July to October. The policy rate has now been reduced by a cumulative 100 bps year-to-date. (In 2018, Bank Indonesia raised its policy rate six times by a cumulative 175 bps.) The decisions to lower rates were taken to bolster economic growth and boost lending activities as the global economic outlook weakened.

In the Board of Governors meeting held on 23–24 October, the rate cut brought the 7-day reverse repurchase rate to 5.00%, the deposit facility rate to 4.25%, and the lending facility rate to 5.75%. At these levels, the policy rates remain supportive of keeping inflation within the target range, ensuring the attractiveness of the domestic financial assets, and boosting economic growth. Respondents to the *AsianBondsOnline* annual bond market liquidity survey noted that there remains space for further monetary policy easing. Market participants expect one more rate cut by the end of the year. Survey respondents, however, cited that policy rate cuts had been mostly priced in by investors, thus the absence of a significant rally in the bond market.

The decline in bond yields was also influenced by the accommodative monetary stance of central banks in advanced economies. Both the United States (US) Federal Reserve and the European Central Bank lowered their respective policy rates this year. In the case of the

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



Source: Based on data from Bloomberg LP.

European Central Bank, it also announced the resumption of its bond purchase program beginning 1 November. As a low-interest-rate environment prevailed, foreign funds shifted toward higher-yielding emerging market assets. Relative to its emerging East Asian peers, bond yields in Indonesia remain high, making it a favored destination of foreign funds. The foreign holdings share rose to 38.6% at the end of September, up from 36.9% from the same period a year earlier but slightly down from a share of 39.1% at the end of June.

During the review period, the Indonesian rupiah was stable and credit default swap spreads slightly declined. The equity market however was slightly down.

Consumer price inflation has been relatively tame thus far this year. Bank Indonesia expects inflation to come in below the midpoint of its 2.5%–4.5% target range for 2019. Economic growth hovered at about 5.0% year-on-year (y-o-y) in the first (Q1) and second (Q2) quarters of 2019, with domestic demand as the main driver for growth. Bank Indonesia estimates economic growth for 2019 will come in at the lower end of the forecasted 5.0%–5.4% range. Indonesia's trade performance remained weak, as monthly exports continued to contract. For the first 9 months of the year, a trade deficit of USD1.9 billion was recorded.

Size and Composition

At the end of September, the LCY bond market in Indonesia expanded to a size of IDR3,229.9 trillion (USD227.5 billion), as growth rebounded strongly to 5.2% quarter-on-quarter (q-o-q) in the third quarter (Q3) of 2019 after contracting 0.5% q-o-q in Q2 2019 (**Table 1**). The robust growth during the quarter largely stemmed from growth in central government bonds and, to a lesser extent, central bank bonds and corporate bonds. On an annual basis, the bond market grew 16.8% y-o-y in Q3 2019, slipping from 17.6% y-o-y growth in the preceding quarter. Indonesia was the region's fastest-growing bond market in Q3 2019 on both a q-o-q and y-o-y basis.

The LCY bond market in Indonesia remains dominated by government bonds, which represented an 86.5% share of the aggregate bond stock at the end of September. The corporate bond market accounted for the remaining 13.5% share. The LCY bond market is also largely dominated by conventional bonds, which accounted for an 84.1% share of the bond total at the end of September. *Sukuk* (Islamic bonds) increased their share from 15.1% in Q2 2019 to 15.9% in Q3 2019. All bond segments posted positive growth during the review period.

Government bonds. At the end of September, total governments outstanding climbed to IDR2,792.3 trillion on growth of 5.3% q-o-q and 19.1% y-o-y. Much of the growth was contributed by central government bonds, comprising Treasury bills and Treasury bonds issued by the Ministry of Finance, to fund the budget gap. Central bank bonds also posted positive growth, although their contribution to the overall growth was relatively smaller.

Central government bonds. The outstanding size of central government bonds climbed to IDR2,664.3 trillion at the end of September, gaining 5.3% q-o-q and 15.5% y-o-y. The faster q-o-q growth came about as a result of hefty issuance of Treasury bills and bonds during the quarter.

In Q3 2019, aggregate central government bond issuance totaled IDR185.3 trillion, rising 23.2% q-o-q and 17.3% y-o-y. The government accepted bids exceeding its targeted amount during its weekly auctions, as it took advantage of increased demand for IDR-denominated bonds. After issuing a relatively lower volume in Q2 2019, the government sought to raise more funds to help finance its budget deficit. The government expects a wider budget deficit due to a shortfall in tax collection. The government plans to fund the budget gap by tapping both the LCY and foreign currency bond markets. During the quarter, central government bond issuance came from the auction of Treasury bills and bonds.

Central bank bonds. Total outstanding central bank bonds, which comprise conventional and shari'ah-compliant Sertifikat Bank Indonesia (SBI) and Sukuk Bank Indonesia (SuKBI), climbed to IDR128.0 trillion at the end of September. On a q-o-q basis, central bank bonds

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2018		Q2 2019		Q3 2019		Q3 2018		Q3 2019	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,764,341**	**185**	**3,069,867**	**217**	**3,229,879**	**228**	**5.9**	**13.9**	**5.2**	**16.8**
Government	2,345,354	157	2,652,610	188	2,792,335	197	6.2	13.5	5.3	19.1
Central Govt. Bonds	2,306,641	155	2,531,039	179	2,664,332	188	5.0	12.7	5.3	15.5
of which: *Sukuk*	378,115	25	420,064	30	456,844	32	6.7	14.9	8.8	20.8
Central Bank Bonds	38,713	3	121,571	9	128,003	9	223.5	99.9	5.3	230.6
of which: *Sukuk*	10,642	0.7	21,938	2	25,674	2	(11.1)	(15.7)	17.0	141.3
Corporate	418,987	28	417,257	30	437,544	31	4.1	16.5	4.9	4.4
of which: *Sukuk*	16,982	1	22,683	2	30,654	2	15.6	21.7	35.1	80.5

( ) = negative, IDR = Indonesian rupiah, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period local currency–USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. The total stock of nontradable bonds as of 30 September 2019 stood at IDR210.5 trillion.
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; and Bloomberg LP.

grew 5.3% q-o-q in Q3 2019, reversing the 7.7% q-o-q contraction posted in Q2 2019. On a y-o-y basis, the stock of central bank bonds surged more than three-fold from a low base in Q3 2018. (Bank Indonesia only resumed issuance of conventional SBI beginning in July 2018 to attract foreign portfolio investments.) In Q3 2019, central bank bond issuance surged 96.4% q-o-q after declining 44.6% q-o-q in the preceding quarter. Issuance of both SBI and SuKBI accelerated during the quarter.

Corporate bonds. The outstanding size of corporate bonds reached IDR437.5 trillion at the end of September, posting growth of 4.9% q-o-q and 4.4% y-o-y. Corporate bond issuance was quite active during the quarter, leading to an expansion in the corporate bond stock during the review period.

At the end of September, the 30 leading corporate bond issuers had aggregate bonds outstanding of IDR329.4 trillion, up from IDR311.6 trillion at the end of June (**Table 2**). The 30 largest corporate bond issuers accounted for 75.3% of the corporate total during the review period. Most firms on the list came from the banking and financial sector, while the rest were from highly capitalized sectors such as energy, telecommunications, and building construction. More than half of the firms in the top 30 list also tapped the equity market for funding. Some 16 state-owned firms were included in the list, 8 of which landed in the top 10.

Five state-owned institutions landed at the top of the list, led by Indonesia Eximbank with an outstanding bond stock of IDR36.6 trillion. Next was energy firm Perusahaan Listrik Negara with outstanding bonds of IDR27.0 trillion. Rising to the third spot was financing firm Sarana Multi Infrastruktur (IDR22.4 trillion), bumping Bank Rakyat Indonesia (IDR21.0 trillion) to the fourth place. Bank Tabungan Negara held on to the fifth spot with its bond stock of IDR19.8 trillion.

New corporate bond issues tallied IDR44.2 trillion in Q3 2019, up from IDR28.8 trillion in the previous quarter. Corporate bond issuance growth surged 53.7% q-o-q and 32.6% y-o-y in Q3 2019. There were 23 firms that borrowed via the debt market in Q3 2019 versus 17 corporates in Q2 2019. Aside from conventional bonds, which accounted for a larger share of issuance during the quarter, new corporate bond issues also included bonds structured as *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership) and *sukuk ijarah* (Islamic bonds backed by lease agreements).

State-owned firms topped the list of new corporate bond issuers during the quarter (**Table 3**). Financing firm Sarana Multi Infrastruktur raised a total of IDR5.1 trillion from the issuance of multitranche bonds in August. Next on the list was another financing firm, Sarana Multigriya Finansial, with issuance worth IDR4.3 trillion also in multiple tranches in July and August. Both Sarana Multi Infrastruktur and Sarana Multigriya Finansial issued conventional bonds and *sukuk mudharabah*. Perusahaan Listrik Negara sold a total of IDR4.2 trillion in multiple tranches of conventional bonds and *sukuk ijarah* in August.

Investor Profiles

Offshore investors continued to account for the largest investor share in Indonesia's LCY government bond market. The foreign holdings share rose to 38.6% of the total at the end of September from 36.9% a year earlier (**Figure 2**). Offshore investors remained attracted to Indonesian government bonds due to their relatively high yields.

In nominal terms, foreign holdings in LCY government bonds totaled IDR1,029.4 trillion at the end of September versus IDR850.9 trillion a year earlier. Of this amount, foreign governments and central banks accounted for IDR184.3 trillion, or 17.9% of the aggregate holdings of foreign investors. The share of foreign ownership in conventional bonds (45.7%) was higher than for Islamic bonds (4.4%).

In terms of maturities, foreign holders were largely positioned in longer-dated maturities. Bonds with maturities of 5 years to 10 years accounted for a 34.6% share of offshore holdings and those with maturities of 10 years or more represented 33.8% (**Figure 3**). Maturities of more than 2 years to 5 years had a 22.7% share of the foreign holdings total. The smallest foreign ownership share was observed for bonds with maturities of 2 years or less, which accounted for a share of 8.8% of the foreign total.

Among domestic investors, banking institutions continued to have the largest bond holdings, although

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	36,627	2.58	Yes	No	Banking
2.	Perusahaan Listrik Negara	26,987	1.90	Yes	No	Energy
3.	Sarana Multi Infrastruktur	22,441	1.58	Yes	No	Finance
4.	Bank Rakyat Indonesia	20,990	1.48	Yes	Yes	Banking
5.	Bank Tabungan Negara	19,847	1.40	Yes	Yes	Banking
6.	Indosat	17,645	1.24	No	Yes	Telecommunications
7.	Bank Pan Indonesia	15,427	1.09	No	Yes	Banking
8.	Sarana Multigriya Finansial	14,923	1.05	Yes	No	Finance
9.	Bank Mandiri	14,000	0.99	Yes	Yes	Banking
10.	Waskita Karya	13,707	0.97	Yes	Yes	Building Construction
11.	Adira Dinamika Multifinance	9,947	0.70	No	Yes	Finance
12.	Federal International Finance	9,616	0.68	No	No	Finance
13.	Telekomunikasi Indonesia	8,995	0.63	Yes	Yes	Telecommunications
14.	Bank CIMB Niaga	8,271	0.58	No	Yes	Banking
15.	Pupuk Indonesia	7,945	0.56	Yes	No	Chemical Manufacturing
16.	Permodalan Nasional Madani	7,746	0.55	Yes	No	Finance
17.	Semen Indonesia	7,078	0.50	Yes	Yes	Cement Manufacturing
18.	Bank Maybank Indonesia	7,066	0.50	No	Yes	Banking
19.	Perum Pegadaian	6,851	0.48	Yes	No	Finance
20.	Hutama Karya	6,825	0.48	Yes	No	Nonbuilding Construction
21.	Astra Sedaya Finance	6,125	0.43	No	No	Finance
22.	Medco-Energi Internasional	5,578	0.39	No	Yes	Petroleum and Natural Gas
23.	XL Axiata	5,162	0.36	No	Yes	Telecommunications
24.	Mandiri Tunas Finance	5,130	0.36	No	No	Finance
25.	Adhi Karya	4,527	0.32	Yes	Yes	Building Construction
26.	BFI Finance Indonesia	4,414	0.31	No	Yes	Finance
27.	Maybank Indonesia Finance	4,350	0.31	No	No	Finance
28.	Bank Pembangunan Daerah Jawa Barat Dan Banten	4,252	0.30	Yes	Yes	Banking
29.	Tower Bersama Infrastructure	3,616	0.25	No	Yes	Telecommunications Infrastructure Provider
30.	Bank Permata	3,360	0.24	No	Yes	Banking
Total Top 30 LCY Corporate Issuers		**329,448**	**23.21**			
Total LCY Corporate Bonds		**437,544**	**30.82**			
Top 30 as % of Total LCY Corporate Bonds		**75.3%**	**75.3%**			

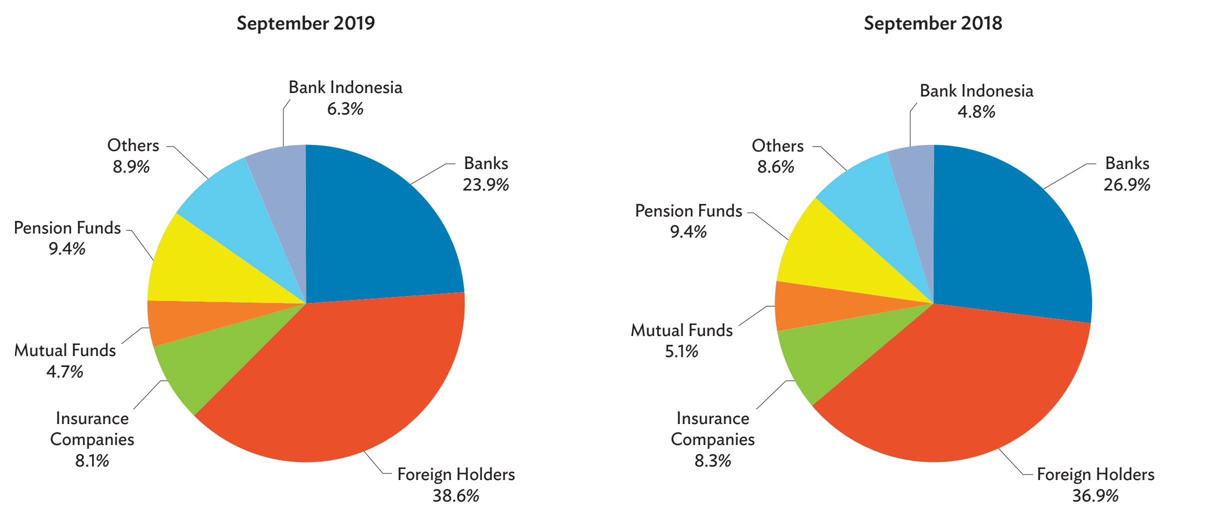
IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 30 September 2019.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Indonesia Stock Exchange data.

Table 3: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Sarana Multi Infrastruktur		
370-day bond	7.00	463.00
370-day *sukuk mudharabah*	7.00	423.00
3-year bond	7.80	1,308.00
3-year *sukuk mudharabah*	7.80	417.00
5-year bond	8.10	1,033.00
5-year *sukuk mudharabah*	8.10	84.00
7-year bond	8.50	1,292.00
7-year *sukuk mudharabah*	8.50	76.00
Sarana Multigriya Finansial		
370-day bond	7.50	428.00
370-day *sukuk mudharabah*	7.50	100.00
3-year bond	8.50	640.00
3-year bond	7.80	1,423.00
5-year bond	8.75	932.00
5-year bond	8.10	780.00
Perusahaan Listrik Negara		
5-year bond	8.00	637.00
5-year *sukuk ijarah*	8.00	274.00
7-year bond	8.50	315.25
7-year *sukuk ijarah*	8.50	368.00
10-year bond	8.70	549.00
10-year *sukuk ijarah*	8.70	20.00
15-year bond	9.50	395.00
15-year *sukuk ijarah*	9.50	49.00
20-year bond	9.98	1,057.37
20-year *sukuk ijarah*	9.98	539.00

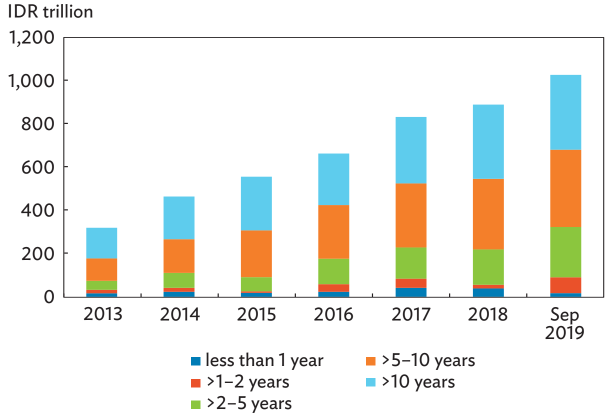
IDR = Indonesian rupiah.
Notes:
1. *Sukuk mudharabah* are Islamic bonds backed by a profit-sharing scheme from a business venture or partnership.
2. *Sukuk ijarah* are Islamic bonds backed by lease agreements.
Source: Indonesia Stock Exchange.

Figure 2: Local Currency Central Government Bonds Investor Profile



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

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



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

their holdings declined to 23.9% of the total at the end of September from a 26.9% share a year earlier. Marginal declines in the holdings of insurance companies (8.1%) and mutual funds (4.7%) were also noted during the review period.

Bank Indonesia posted the largest increase in bond holdings among domestic investors, gaining 1.5 percentage points to climb to a 6.3% share at the end of September from 4.8% a year earlier.

Policy, Institutional, and Regulatory Developments

Government Reduces Tax on Interest Income from Bonds

In August, the Government of Indonesia signed a new regulation that will lower the tax on interest income from bond investments to 5.0% from 15.0% for infrastructure investment funds, real estate investment funds, and asset-backed securities. The reduction in taxes will take effect in 2020 and be adjusted to 10.0% by 2021, making the applicable tax rates for these financial products at par with those of mutual funds.

Bank Indonesia and Bank Negara Malaysia Sign Local Currency Bilateral Agreement

In September, Bank Indonesia and Bank Negara Malaysia signed a bilateral agreement to strengthen monetary and financial cooperation. The two central banks agreed on an LCY bilateral agreement of up to USD2.0 billion (or the equivalent of MYR8.0 billion or IDR28.0 trillion). The LCY bilateral agreement will remain effective for 3 years and is subject to extension. Also, the two central banks signed a memorandum of understanding for the development of payment systems and digital financial innovation.

Bank Indonesia and Monetary Authority of Singapore Extends Bilateral Financial Cooperation

In November, Bank Indonesia and Monetary Authority of Singapore extended their bilateral financial cooperation agreement for another year. The arrangement was established in November 2018, which allows access for foreign currency liquidity between the two parties. The bilateral financial cooperation comprises an LCY bilateral swap arrangement of up to USD7.0 billion (SGD9.5 billion or IDR100 trillion) and a bilateral repo line worth USD3.0 billion (SGD4.1 billion or IDR43 trillion).

Republic of Korea

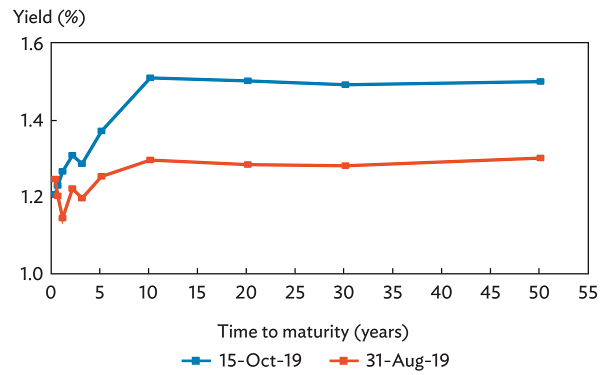
Yield Movements

Between 31 August and 15 October, local currency (LCY) government bond yields in the Republic of Korea rose for all tenors except 3-month paper, which fell 4 basis points (bps). The rise in yields was more pronounced at the longer end of the curve, with the yields of 10-year to 50-year securities up 21 bps on average. The yield for the 6-month tenor rose 3 bps, while yields for bonds with tenors of between 1 year and 5 years increased at an average of 10 bps. The yield spread between the 2-year and 10-year tenors rose to 20 bps from 8 bps.

Yields rose during the review period as domestic bond yields tracked United States (US) Treasury yield movements, which gained in both early September and early October on positive news about trade talks between the People's Republic of China (PRC) and the US. Market participants took profits as the expected rate cut by the Bank of Korea on 16 October had already been priced in and on expectations of a pause in monetary easing for the year. The rise in yields was also driven by (i) expectations of increased bond issuance during the remainder of the year to fund the recently approved supplementary budget, and (ii) a higher bond issuance target next year to fund the 2020 budget passed by the government. The government submitted a KRW513.5 trillion budget for 2020, a 9.3% annual increase in spending, to help boost the economy as growth continues to slow.

At its monetary policy meeting on 16 October, the Bank of Korea decided to cut the base rate by another 25 bps to 1.25%, which followed a 25 bps rate cut in July. The Bank of Korea noted the slowdown in global economic growth due to the decline in global trade. It also highlighted the increased volatility in global financial markets, largely driven by the continued PRC–US trade dispute. On the domestic front, growth continued to slow due to weak consumption growth, exports, and facilities investments, leading to expectations by the Bank of Korea for growth to be below the projections announced in July. In September, consumer price inflation was negative; it is expected to remain near zero in the near-term and settle below the July projections.

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 real gross domestic product growth eased to 0.4% quarter-on-quarter (q-o-q) in the third quarter (Q3) of 2019 from 1.0% q-o-q in the second quarter (Q2), based on advance estimates by the Bank of Korea. The lower growth was driven by the contraction in gross fixed capital formation, which declined 2.3% q-o-q in Q3 2019, following marginal 0.6% q-o-q growth in the previous quarter. In addition, final consumption expenditure growth eased as both private and government expenditure posted slower annual increases in Q3 2019. Meanwhile, export growth rose to 4.1% q-o-q from 2.0% q-o-q in the same period. On a year-on-year (y-o-y) basis, the Republic of Korea's economy grew 2.0% in Q3 2019, the same pace recorded in Q2 2019. Consumer price inflation eased from 0.6% y-o-y in July to zero in August, before posting a negative rate of –0.4% in September.

The Korean won had been one of the worst-performing currencies in the region year-to-date, depreciating 6.0% as of 15 October. However, the won experienced a reprieve in early September on positive developments in PRC–US trade talks. The currency remains volatile, and its appreciation is expected to be limited given the continued slowdown in domestic economic growth and fears of further deflation. The Korean won appreciated 2.2% between 31 August and 15 October.

Size and Composition

The Republic of Korea's LCY bond market posted growth of 2.0% q-o-q to reach KRW2,378.2 trillion (USD1,987.9 billion) at the end of September (**Table 1**). The growth was primarily driven by the 2.3% q-o-q rise in corporate bonds in Q3 2019, while the government bond segment rose at a slower pace of 1.6% q-o-q.

Government bonds. The Republic of Korea's LCY government bonds outstanding increased 1.6% q-o-q to reach KRW961.4 trillion at the end of September, largely driven by the 2.3% q-o-q rise in the stock of central government bonds to KRW613.5 trillion. The outstanding amount of Monetary Stabilization Bonds issued by the central bank rose 0.8% q-o-q to KRW172.9 trillion. Meanwhile, bonds issued by government-related entities declined 0.2% q-o-q to KRW175.0 trillion.

Based on estimates, issuance of government bonds in Q3 2019 was almost at par with the previous quarter at KRW81.1 trillion. Issuance of central bank bonds in Q3 2019 reached KRW36.5 billion and was also at par with issuance in the previous quarter.

Corporate bonds. The size of the Republic of Korea's LCY corporate bond market rose 2.3% q-o-q in Q3 2019 to reach KRW1.4 trillion at the end of September on new issuance that remained relatively high. **Table 2** lists the top 30 LCY corporate bond issuers at the end of September, with aggregate bonds outstanding of KRW875.7 trillion, which comprised 61.8% of the total LCY corporate bond market. Financial companies such as banks and securities and investment firms continued to comprise a majority of the 30 largest corporate bond issuers. Korea Housing Finance Corporation remained the largest issuer with outstanding bonds valued at KRW119 trillion.

Issuance of corporate bonds fell 10.0% q-o-q in Q3 2019 to KRW120.8 trillion, but still exceeded first quarter bond issuance. There was a surge in issuance in Q2 2019 as companies took advantage of declining interest rates. This trend continued into July before slightly easing in August and September as yields rose. The continued slowdown and pessimistic outlook for economic growth also contributed to the relatively lower issuance volume in Q3 2019 as companies borrowed less. **Table 3** lists the notable corporate bond issuances in Q3 2019. Major banks in the Republic of Korea such as NongHyup Bank, Kookmin Bank, and Woori Bank continued to be among the top issuers of bonds during the quarter.

Investor Profile

Insurance companies and pension funds comprised the largest investor group in the LCY government bond market in the Republic of Korea's, with a holdings share of 34.4% at the end of June, which was almost at par with

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2018		Q2 2019		Q3 2019		Q3 2018		Q3 2019	
	KRW	USD	KRW	USD	KRW	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,223,799**	**2,005**	**2,331,705**	**2,019**	**2,378,232**	**1,988**	**0.1**	**3.6**	**2.0**	**6.9**
Government	928,209	837	946,417	820	961,420	804	(1.0)	5.4	1.6	3.6
Central Government Bonds	579,104	522	599,552	519	613,509	513	(1.8)	5.4	2.3	5.9
Central Bank Bonds	174,600	157	171,580	149	172,930	145	(0.02)	5.1	0.8	(1.0)
Others	174,505	157	175,285	152	174,981	146	0.7	5.7	(0.2)	0.3
Corporate	1,295,590	1,168	1,385,288	1,200	1,416,812	1,184	0.9	2.4	2.3	9.4

( ) = negative, KRW = Korean won, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = first quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Q3 2019 government data are as of August 2019.
2. Calculated using data from national sources.
3. Bloomberg LP end-of-period local currency–USD rates are used.
4. Growth rates are calculated from local currency base and do not include currency effects.
5. "Others" comprise Korea Development Bank Bonds, National Housing Bonds, and Seoul Metro Bonds.
6. 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	119,019	99.5	Yes	No	No	Housing Finance
2.	Mirae Asset Daewoo Co.	76,760	64.2	No	Yes	No	Securities
3.	Korea Investment and Securities	65,311	54.6	No	No	No	Securities
4.	Industrial Bank of Korea	56,670	47.4	Yes	Yes	No	Banking
5.	KB Securities	52,357	43.8	No	No	No	Securities
6.	NH Investment & Securities	49,477	41.4	Yes	Yes	No	Securities
7.	Hana Financial Investment	46,857	39.2	No	No	No	Securities
8.	Samsung Securities	32,554	27.2	No	Yes	No	Securities
9.	Shinhan Bank	31,172	26.1	No	No	No	Banking
10.	Korea Land & Housing Corporation	28,905	24.2	Yes	No	No	Real Estate
11.	Korea Electric Power Corporation	26,440	22.1	Yes	Yes	No	Electricity, Energy, and Power
12.	Korea Expressway	22,050	18.4	Yes	No	No	Transport Infrastructure
13.	Woori Bank	21,050	17.6	Yes	Yes	No	Banking
14.	KEB Hana Bank	19,870	16.6	No	No	No	Banking
15.	Shinyoung Securities	19,527	16.3	No	Yes	No	Securities
16.	Korea Rail Network Authority	18,480	15.4	Yes	No	No	Transport Infrastructure
17.	Kookmin Bank	17,694	14.8	No	No	No	Banking
18.	The Export–Import Bank of Korea	15,905	13.3	Yes	No	No	Banking
19.	Hyundai Capital Services	15,206	12.7	No	No	No	Consumer Finance
20.	Shinhan Card	14,455	12.1	No	No	No	Credit Card
21.	Korea Deposit Insurance Corporation	14,330	12.0	Yes	No	No	Insurance
22.	NongHyup Bank	14,300	12.0	Yes	No	No	Banking
23.	Korea SMEs and Startups Agency	13,573	11.3	Yes	No	No	SME Development
24.	Hanwha Investment and Securities	13,429	11.2	No	No	No	Securities
25.	KB Kookmin Bank Card	13,000	10.9	No	No	No	Consumer Finance
26.	Standard Chartered Bank Korea	11,910	10.0	No	No	No	Banking
27.	Korea Gas Corporation	11,799	9.9	Yes	Yes	No	Gas Utility
28.	Nonghyup	11,600	9.7	Yes	No	No	Banking
29.	Meritz Securities Co.	11,029	9.2	No	Yes	No	Securities
30.	Korea Student Aid Foundation	11,000	9.2	Yes	No	No	Student Loan
Total Top 30 LCY Corporate Issuers		**875,731**	**732**				
Total LCY Corporate Bonds		**1,416,812**	**1,184**				
Top 30 as % of Total LCY Corporate Bonds		**61.8%**	**61.8%**				

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 2019.
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.

Table 3: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
NongHyup Bank		
1.5-year bond	1.52	667
2-year bond	1.56	508
2-year bond	1.60	427
3-year bond	1.57	255
5-year bond	1.50	339
Woori Bank		
1.5-year bond	1.54	334
1.5-year bond	1.41	304
2-year bond	1.42	296
LG Uplus Corp.		
3-year bond	1.81	437
Hanwha Life Insurance		
30-year bond	3.69	428
Kookmin Bank		
5-year bond	1.50	339
Shinhan Bank		
2-year bond	1.31	305
GS Engineering & Construction		
3-year bond	2.00	255

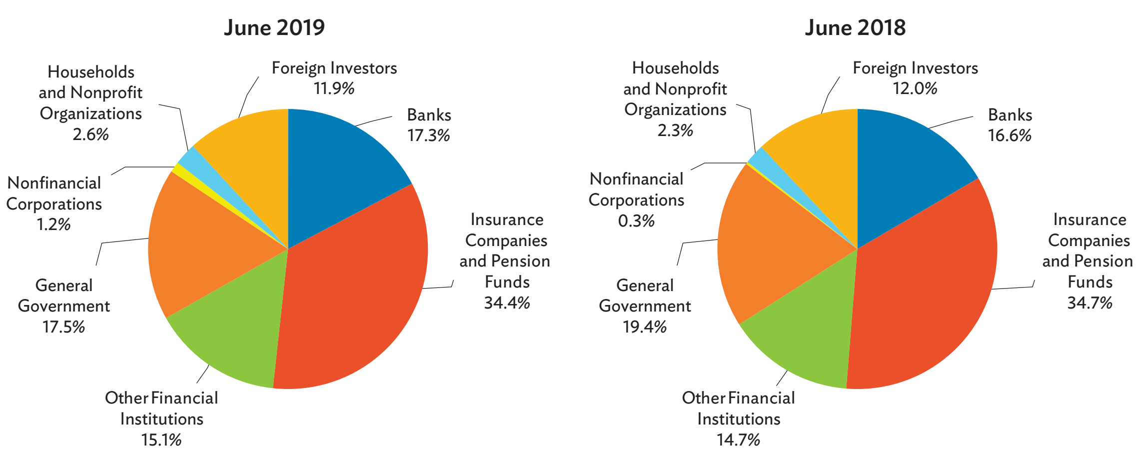
KRW = Korean won.
Source: Based on data from Bloomberg LP.

June 2018 (**Figure 2**). The general government remained the second-largest holder of government bonds at the end of June, even though its share fell to 17.5% from 19.4% in June 2018. Banks accounted for a 17.3% share at the end of the review period, up from 16.6% in June 2018. The share of other financial institutions was slightly up to 15.1% from 14.7%, while the share of foreign investor holdings was marginally changed at 11.9% versus 12.0%.

Insurance companies and pension funds, and other financial institutions remained the two largest holders of the Republic of Korea's LCY corporate bonds (**Table 3**). The share of insurance companies and pension funds fell to 38.1% at the end of June from 39.4% in June 2018, while the share of other financial institutions inched up to 35.6% from 34.9%. The share of the general government was mostly unchanged at 13.4%, while that of banks was up slightly to 8.0% from 7.2%. The share of foreign investors remained negligible at 0.1%.

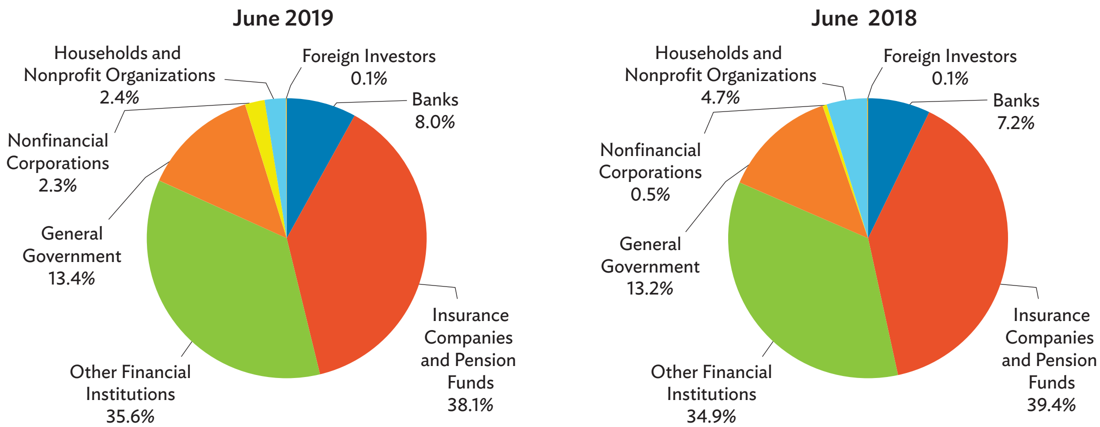
The Republic of Korea's LCY bond market registered net outflows of KRW421 billion in July following a rate cut by the Bank of Korea as well as a large volume of maturities (**Table 4**). The direction of foreign fund flows reversed in August on net inflows of KRW1,741.0 billion. Net inflows of KRW1,416.0 billion were recorded in September. The reversal can be attributed to the strengthening of the Korean won and the reinvestment by a large foreign institutional fund of its holdings of domestic bonds.

Figure 2: Local Currency Government Bonds Investor Profile



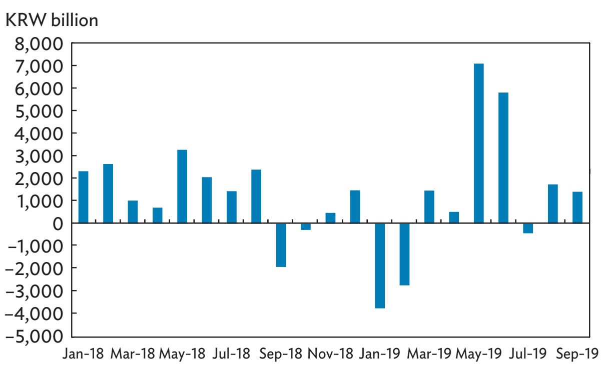
Sources: *AsianBondsOnline* and the Bank of Korea.

Figure 3: Local Currency Corporate Bonds Investor Profile



Sources: *AsianBondsOnline* and the Bank of Korea.

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



KRW = Korean won.
Source: Financial Supervisory Service.

Policy, Institutional, and Regulatory Developments

The Republic of Korea's Government Proposes KRW513.5 Trillion Budget for 2020

On 29 August, the Government of the Republic of Korea submitted its 2020 budget totaling KRW513.5 trillion for approval. The planned budget entails a 9.3% increase in government spending over 2019 levels and is focused on helping boost the economy and promoting innovation. The main policies of the 2020 budget include increased spending for research and development; support for exports, investment, and consumption; strengthened social safety nets; improved quality of life; and strengthened national defense and diplomacy. The government projects revenues to be KRW482 trillion, a marginal 1.2% annual increase, due to continued weakness in the semiconductor industry and fiscal decentralization. Correspondingly, the target fiscal budget deficit as a share of gross domestic product will rise to 3.6% in 2020 from 1.9% in 2019.

Malaysia

Yield Movements

Between 31 August and 15 October, movements in Malaysia's local currency (LCY) government bond yields were mixed (**Figure 1**). The shorter end of the yield curve (from 1 month to 5 years) declined an average of 1 basis point (bp). Yields of long-term tenors (from 6 years to 30 years) increased an average of 12 bps. The yield spread between 2-year and 10-year government bonds expanded from 20 bps on 31 August to 31 bps on 15 October.

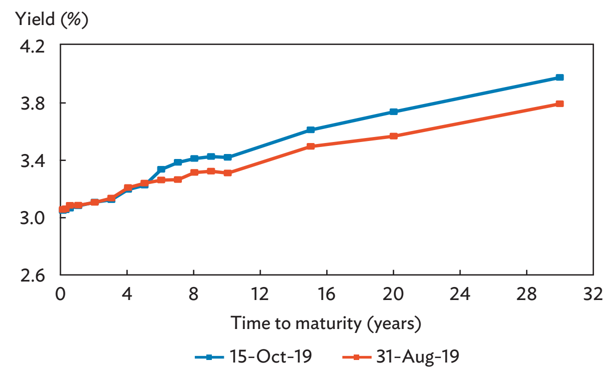
The movements in the yield curve in Malaysia are reflective of the trend in the United States during the review period where the shorter end of the yield curve dropped while the longer end rose. Uncertainty over the upcoming Bank Negara Malaysia's (BNM) monetary policy committee meeting in November may have contributed to investors preferring shorter duration tenors over long-term investments, as assessed by some market participants, and as evidenced by short-term yields falling and long-term yield rising toward the end of the review period.

At its monetary policy committee meeting on 12 September, BNM decided to keep its overnight policy rate at 3.00% on the back of strong economic growth and low inflation. The central bank has refrained from being too dovish despite the accommodative stances of major global central banks.

Malaysia's economic growth accelerated to 4.9% year-on-year (y-o-y) in the second quarter (Q2) of 2019 from 4.5% y-o-y in the first quarter. To support economic growth, the Government of Malaysia widened its 2020 fiscal deficit target to 3.2% of gross domestic product from 3.0%, which was announced during its budget meeting on 11 October. Malaysia's minister of finance also stated that the government is planning on issuing samurai bonds next year to raise funds instead of raising additional tax revenues.

Consumer price inflation eased to 1.1% y-o-y in September from 1.5% y-o-y in August. Core inflation also eased to 1.5% y-o-y in September from 2.0% y-o-y in August. The Sales and Services Tax, which was introduced on 1 September 2018, did not significantly affect inflation.

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



Source: Based on data from Bloomberg LP.

Size and Composition

Malaysia's LCY bond market expanded 0.3% quarter-on-quarter (q-o-q) in the third quarter (Q3) of 2019 to reach a size of MYR1,493.1 billion (USD356.5 billion), up from MYR1,488.1 billion at the end of Q2 2019 (**Table 1**). The growth corresponds to an 8.3% y-o-y jump from MYR1,378.6 billion at the end of Q3 2018. On a y-o-y basis, the growth in the LCY bond market in Q3 2019 was supported by growth in both LCY government and corporate bonds, which accounted for 52.6% and 47.4%, respectively, of total LCY bonds outstanding at the end of September. Total outstanding *sukuk* (Islamic bonds) at the end of the review period stood at MYR920.2 billion on growth of 0.3% q-o-q from MYR917.5 billion at the end of the previous quarter, spurred by increased stocks of corporate *sukuk*.

Issuance of LCY bonds in Q3 2019 decreased 25.2% q-o-q to MYR84.7 billion from MYR113.1 billion in Q2 2019, driven by the contraction of LCY government and corporate bond issuance.

Government bonds. The LCY government bond market grew 0.8% q-o-q to MYR785.7 billion in Q3 2019, up from MYR779.1 billion in the previous quarter. The

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2018		Q2 2019		Q3 2019		Q3 2018		Q3 2019	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,379**	**333**	**1,488**	**360**	**1,493**	**357**	**0.7**	**9.1**	**0.3**	**8.3**
Government	725	175	779	189	786	188	0.4	8.1	0.8	8.3
Central Government Bonds	681	165	742	180	749	179	0.8	7.0	0.9	9.9
of which: *Sukuk*	301	73	333	81	331	79	2.0	13.2	(0.6)	10.1
Central Bank Bills	16	4	9	2	10	2	(15.3)	189.7	10.9	(34.2)
of which: *Sukuk*	3	0.7	2	0.4	4	0.8	(45.5)	–	133.3	16.7
Sukuk Perumahan Kerajaan	28	7	28	7	27	6	0.0	0.0	(3.9)	(5.6)
Corporate	653	158	709	172	707	169	1.1	10.2	(0.2)	8.3
of which: *Sukuk*	493	119	555	134	559	133	1.0	12.3	0.7	13.2

( ) = negative, – = not applicable, MYR = Malaysian ringgit, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period local currency–USD 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 and Bloomberg LP.

growth was mainly due to the 0.9% q-o-q increase in outstanding central government bonds, which comprised 95.3% of total outstanding LCY government bonds. Outstanding central bank bills, which comprised only a 1.3% share of total LCY government bonds outstanding, grew 10.9% q-o-q. On the other hand, the outstanding stock of Sukuk Perumahan Kerajaan (3.4% of total outstanding LCY government bonds) declined 3.9% q-o-q.

LCY government bonds issued in Q3 2019 declined 6.3% q-o-q as issuances of central government bonds decreased. Issuance of Malaysia Government Securities and Government Investment Issues dropped compared to the previous quarter. These declines were partially offset by the growth in Treasury bills and central bank bills.

Corporate bonds. LCY corporate bonds outstanding fell 0.2% q-o-q to MYR707.4 billion in Q3 2019 from MYR709.0 billion in Q2 2019. However, outstanding corporate *sukuk* rose 0.7% q-o-q to MYR558.6 billion at the end of September from MYR554.8 billion in the prior quarter.

The top 30 LCY corporate bond issuers in Malaysia accounted for an aggregate MYR417.1 billion of corporate bonds outstanding at the end of Q3 2019, or 59.0% of the total corporate bond market (**Table 2**). Government institutions Danainfra Nasional and Cagamas continued to dominate all issuers with outstanding LCY corporate bonds amounting to MYR60.0 billion (8.5% of total LCY corporate bonds outstanding) and MYR33.0 billion (4.7% of total LCY corporate bonds outstanding), respectively. By industry, finance companies comprised the largest share (52.7%) of the top 30 issuers with MYR219.6 billion in outstanding LCY corporate bonds at the end of September. This was followed by the energy, gas, and water industry with MYR66.4 billion, which represented a share of 15.9% of total LCY corporate bonds outstanding at the end of Q3 2019.

Issuance of LCY corporate bonds declined 36.0% q-o-q in Q3 2019 from a high base when state-owned finance company Urusharta Jamaah issued a large dual-tranche zero-coupon bond in May.

Lembaga Pembiayaan Perumahan Sektor Awam (Public Sector Housing Financing Board) had the largest total issuance (MYR3.0 billion) in Q3 2019 (**Table 3**). The state-owned property and real estate company issued several Islamic medium-term notes with tenors ranging from 21 years to 29 years and with coupon rates from 3.69% to 3.86%. Maybank issued two perpetual Islamic medium-term notes totaling MYR2.8 billion and with coupon rates of 4.08% and 4.13%. Proceeds from the issuance will be used to fund the bank's investments in Islamic financial instruments and other Islamic business activities. Danainfra Nasional, the government-owned institution in charge of funding public infrastructure

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	60.0	14.3	Yes	No	Finance
2.	Cagamas	33.0	7.9	Yes	No	Finance
3.	Prasarana	30.4	7.2	Yes	No	Transport, Storage, and Communications
4.	Project Lebuhraya Usahasama	29.9	7.1	No	No	Transport, Storage, and Communications
5.	Urusharta Jamaah	27.6	6.6	Yes	No	Finance
6.	Lembaga Pembiayaan Perumahan Sektor Awam	22.5	5.4	Yes	No	Property and Real Estate
7.	Perbadanan Tabung Pendidikan Tinggi Nasional	21.6	5.2	Yes	No	Finance
8.	Pengurusan Air	17.3	4.1	Yes	No	Energy, Gas, and Water
9.	CIMB Bank	13.3	3.2	Yes	No	Finance
10.	Khazanah	12.5	3.0	Yes	No	Finance
11.	Maybank Islamic	11.4	2.7	No	Yes	Banking
12.	Maybank	11.3	2.7	No	Yes	Banking
13.	Sarawak Energy	11.1	2.7	Yes	No	Energy, Gas, and Water
14.	CIMB Group Holdings	10.4	2.5	Yes	No	Finance
15.	Danga Capital	10.0	2.4	Yes	No	Finance
16.	Jimah East Power	9.0	2.1	Yes	No	Energy, Gas, and Water
17.	GENM Capital	7.6	1.8	No	No	Finance
18.	Public Bank	7.4	1.8	No	No	Banking
19.	Bank Pembangunan Malaysia	7.3	1.7	Yes	No	Banking
20.	GOVCO Holdings	7.2	1.7	Yes	No	Finance
21.	Tenaga Nasional	7.0	1.7	No	Yes	Energy, Gas, and Water
22.	Bakun Hydro Power Generation	6.3	1.5	No	No	Energy, Gas, and Water
23.	YTL Power International	6.1	1.4	No	Yes	Energy, Gas, and Water
24.	ValueCap	6.0	1.4	Yes	No	Finance
25.	Telekom Malaysia	5.8	1.4	No	Yes	Telecommunications
26.	Rantau Abang Capital	5.5	1.3	Yes	No	Finance
27.	Turus Pesawat	5.3	1.3	Yes	No	Transport, Storage, and Communications
28.	EDRA Energy	5.1	1.2	No	Yes	Energy, Gas, and Water
29.	1Malaysia Development	5.0	1.2	Yes	No	Finance
30.	Kuala Lumpur Kepong Berhad	4.6	1.1	No	Yes	Energy, Gas, and Water
Total Top 30 LCY Corporate Issuers		**417.1**	**99.6**			
Total LCY Corporate Bonds		**707.4**	**168.9**			
Top 30 as % of Total LCY Corporate Bonds		**59.0%**	**59.0%**			

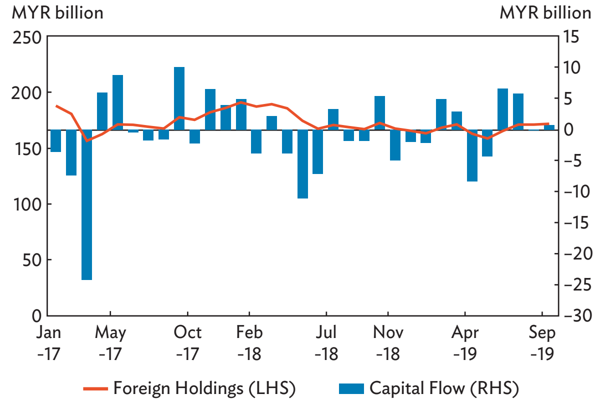
LCY = local currency, MYR = Malaysian ringgit, USD = United States dollar.
Notes:
1. Data as of 30 September 2019.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering data.

Table 3: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR billion)
Lembaga Pembiayaan Perumahan Sektor Awam		
21-year Islamic MTN	3.69	1.3
25-year Islamic MTN	3.77	0.7
29-year Islamic MTN	3.86	1.0
Maybank		
Perpetual Islamic MTN	4.08	1.2
Perpetual Islamic MTN	4.13	1.6
Danainfra Nasional		
7-year Islamic MTN	3.34	0.3
10-year Islamic MTN	3.47	0.4
15-year Islamic MTN	3.62	0.4
20-year Islamic MTN	3.69	0.4
25-year Islamic MTN	3.80	0.5
30-year Islamic MTN	3.90	0.6

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

Figure 2: Foreign Holdings and Capital Flows of Local Currency Central 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.

projects, issued another six tranches of *sukuk* in September. Its tenors ranged from 7 years to 30 years with coupon rates from 3.34% to 3.90%. Proceeds from the issuance will be used for costs related to the construction of the Pan Borneo Highway Project.

Investor Profile

Foreign holdings of LCY government bonds in Q3 2019 jumped to MYR514.9 billion from MYR487.7 billion in Q2 2019 due to a large capital inflow in July (**Figure 2**). In May and August, BNM introduced measures to liberalize foreign exchange administration policies after FTSE Russell's announcement in April that Malaysian government bonds were being reviewed for exclusion from its World Government Bond Index. Capital inflows slowed in September as FTSE Russell kept Malaysia on its watch list until the next review in 2020. Although good news for Malaysia, the risk of being downgraded and removed from the World Government Bond Index remains a concern for investors. A total of MYR6.5 billion in net capital inflows were recorded in Q3 2019, reversing the net capital outflows of MYR5.9 billion posted in the previous quarter. As a share of LCY government bonds, foreign holdings of LCY government bonds increased to 23.0% at the end of Q3 2019 from 22.3% at the end of Q2 2019.

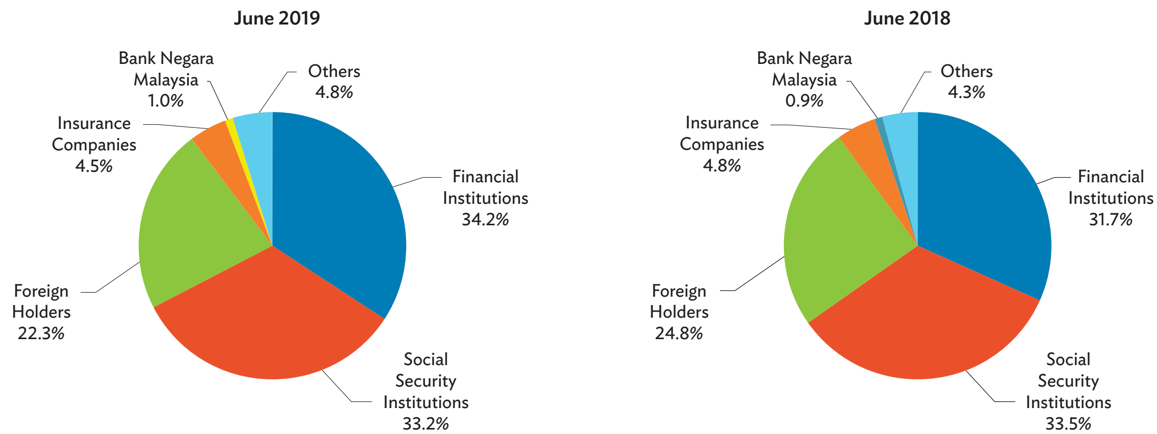
Financial institutions overtook social security institutions at the end of Q2 2019 to lead all investors in LCY government bonds with a 34.2% share of the total, up from 31.7% at the end of Q2 2018 (**Figure 3**). Social security institutions dropped to the second spot with a share of 33.2% at the end of Q2 2019, down from 33.5% at the end of Q2 2018. Shares of foreign holders and insurance companies fell to 22.3% and 4.5%, respectively, from 24.8% and 4.8% during the review period. BNM's holdings of LCY government bonds increased to 1.0% of the total at the end of Q2 2019 from 0.9% a year earlier.

Policy, Institutional, and Regulatory Developments

Bank Negara Malaysia Liberalizes Foreign Exchange Policies

On 16 August, BNM issued several new policies on foreign exchange administration to provide more flexibility and efficiency for businesses in managing their foreign exchange risks. Resident investors are allowed to hedge their foreign currency current account obligations up to their underlying tenure. Resident treasury centers may hedge on behalf of their related entities. Nonresident treasury centers may also do so, but they must register first with BNM. Nonresident investors

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.

are allowed to hedge on an anticipatory basis through an appointed overseas office for the settlement of their trades in goods and services. Finally, the definition of domestic MYR borrowing has been revised to exclude credit facilities used by corporations for miscellaneous expenses. This aims to help businesses manage their operational expenses without undue impact on their investment activities.

Bank Indonesia and Bank Negara Malaysia Sign Local Currency Bilateral Swap Agreement

On 27 September, Bank Indonesia and BNM agreed to develop measures to strengthen monetary and financial cooperation between the two central banks. They signed a LCY bilateral swap agreement that grants both central banks access to foreign currency liquidity from each other. Up to IDR28.0 trillion or MYR8.0 billion may be exchanged in order to support the wide use of the domestic currency for cross-border economic activities between Indonesia and Malaysia. The agreement is effective for 3 years and can be extended upon mutual agreement between the two central banks. On the backdrop of the increasing use of technology in the financial markets, Bank Indonesia and BNM signed a memorandum of understanding to help each other in developing innovations in payments and digital financial services, enhancing anti-money laundering mechanisms, and combating the financing of terrorism.

Philippines

Yield Movements

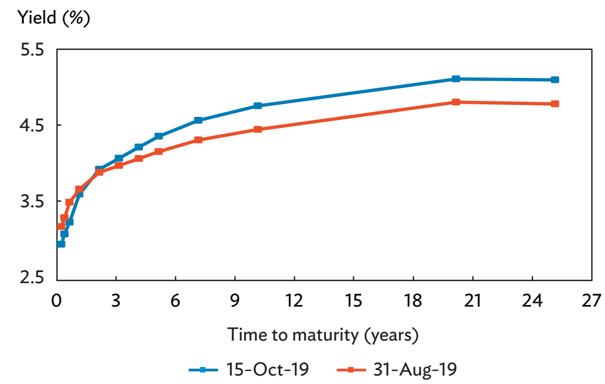
Between 31 August and 15 October, the Philippines' local currency (LCY) government bond yield curve steepened as yields at the shorter end of the curve declined and those at the longer end rose (**Figure 1**). Yields for securities with tenors of less than 1 year fell 23 basis points (bps) on average, while the yield for the 1-year tenor fell 6 bps. Yields for bonds with tenors of 2 years to 5 years rose an average of 12 bps. The rise in yields was most pronounced for tenors from 10 years to 25 years, which gained 31 bps on average. The spread between the 2-year and 10-year yields widened from 56 bps to 82 bps during the review period.

Yields rose in early September, particularly among longer tenors, as the market tracked movements in United States (US) Treasury yields, which rose due to positive developments in the trade talks between the People's Republic of China and the US. Market participants also started to take profits following the rally in government bonds since the start of the year, which was brought about by the monetary easing conducted by the Bangko Sentral ng Pilipinas (BSP). Most participants had also priced in the BSP's policy rate cut from its 26 September meeting and expected a pause in monetary easing until 2020.

The rise in yields was tapered after the BSP announced on 27 September a new 100 bps cut in reserve requirement ratios effective on the first day of the first reserve week of November, which is expected to provide more liquidity in the market, and the release of September inflation data, which decelerated to 0.9% y-o-y. Meanwhile, yields at the shorter end of the curve fell due to continued demand for shorter-dated papers amid abundant liquidity and market uncertainties.

On 26 September, the BSP cut the interest rate on its overnight reverse repurchase facility by 25 bps to 4.00%. The interest rates for the overnight deposit and lending facilities were also reduced to 3.50% and 4.50%, respectively. This was the third cut by the central bank in 2019, bringing the reduction in key interest rates to a total of 75 bps. The BSP stated its decision to cut rates was due to easing inflation, with the baseline forecast expected to remain in the annual target range of 2.0%–4.0% in 2019 and 2020.

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



Source: Based on data from Bloomberg LP.

Inflation eased throughout the third quarter (Q3) of 2019 from 2.4% year-on-year (y-o-y) in July to 1.7% y-o-y in August and 0.9% y-o-y in September, the lowest level since June 2016. Year-to-date average inflation was 2.8% y-o-y at the end of September, which was at the lower end of the government's target range for full-year 2019.

The Philippines' real gross domestic product growth accelerated to 6.2% y-o-y in Q3 2019 from 5.5% y-o-y in the second quarter (Q2) of 2019. The faster growth was a result of increased government spending following the approval of the 2019 budget. The delay in the passage of the budget resulted in lower growth in the first half of the year. Government consumption posted growth of 9.6% y-o-y in Q3 2019, up from 7.3% y-o-y in the previous quarter. Private consumption also posted higher annual growth in Q3 2019, while export growth slowed. Investments continued to contract in Q3 2019, albeit at a slower pace of 2.1% y-o-y versus 8.5% y-o-y in the previous quarter.

The Philippine peso rebounded in late August following a sharp depreciation in the early part of the month. The Philippine peso then traded sideways between PHP51.6 and PHP52.3 per USD1.0 during the review period on both domestic and international economic developments, including trade talks between the People's Republic of China and the US and the monetary policy direction of the Federal Reserve. Meanwhile, easing inflation and the policy rate cut and reduction in reserve requirement ratios by the BSP provided support to the Philippine peso.

Size and Composition

LCY bonds outstanding in the Philippine market marginally declined 0.1% quarter-on-quarter (q-o-q) to PHP6.69 trillion (USD129.2 billion) at the end of September from PHP6.71 trillion at the end of June (**Table 1**). This was driven by a 0.7% q-o-q decline in government bonds outstanding to PHP5.3 trillion. Meanwhile, corporate bonds outstanding rose 2.1% q-o-q to PHP1.4 trillion at the end of September.

Government bonds. The size of the Philippine LCY government bond market contracted 0.7% q-o-q to PHP5.2 trillion, largely driven by the 15.3% q-o-q decline in the stock of Treasury bills. Treasury bonds rose marginally by 1.3% q-o-q in Q3 2019, while bonds issued by government-related entities fell 0.03% q-o-q.

Total issuance of government bonds fell to PHP273.4 billion in Q3 2019 from PHP312.4 billion in the previous quarter, primarily due to the lower planned auction schedule for the quarter by the Bureau of the Treasury (BTr). The BTr stated that the smaller borrowing program resulted from government underspending in the first half of 2019, given the delay in the passage of the 2019 budget. The government also had enough of a cash buffer from the large issuances conducted in the first half of 2019.

Corporate bonds. The Philippine LCY corporate bond market expanded 2.1% q-o-q in Q3 2019 to PHP1.4 trillion despite the lower issuance volume during the quarter. Banks, with aggregate bonds of PHP548.9 billion, continued to comprise the largest share of the Philippine corporate bond market with a 37.9% share, up from the 28.6% share at the end of Q3 2018 (**Figure 2**). Property firms remained the second-largest sector in the corporate bond market with PHP356.1 billion of bonds outstanding, but their share declined to 24.6% from 28.4% a year earlier. The share of holding firms also fell to 15.9% at the end of September from 21.5% in September 2018, while the share of utilities companies rose to 15.5% from 11.7% in the same period.

At the end of September 2019, only 56 companies in the Philippines were actively tapping the bond market. The top 30 bond issuers accounted for 89.4% of LCY corporate bonds outstanding at the end of Q3 2019 (**Table 2**). Of the top 30 companies, only four are private companies, while the rest are public companies listed on the Philippine Stock Exchange. Banks continued to account for one-third of the list, followed by property firms and holding companies. Metropolitan Bank, with total bonds outstanding of PHP114.6 billion at the end of Q3 2019, surpassed Ayala Land (PHP106.9 billion) and SM Prime Holdings (PHP103.7 billion) as the single-largest bond issuer.

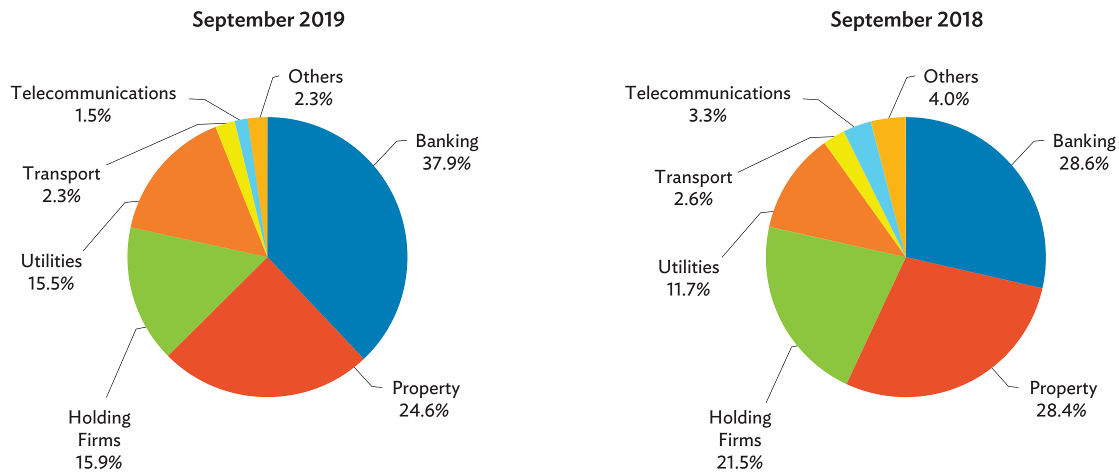
Corporate bond issuance fell to PHP74.7 billion in Q3 2019 from PHP126.5 billion in Q2 2019. The decline in issuance can be attributed to the tepid issuance in August with only one entity issuing bonds, as well as the rise in interest rates through September that made it costly to borrow. **Table 3** lists all corporate bond

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2018		Q2 2019		Q3 2019		Q3 2018		Q3 2019	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**5,792**	**107**	**6,707**	**131**	**6,699**	**129**	**0.9**	**11.2**	**(0.1)**	**15.7**
Government	4,593	85	5,290	103	5,253	101	0.04	9.0	(0.7)	14.4
Treasury Bills	439	8	652	13	553	11	15.3	29.2	(15.3)	25.9
Treasury Bonds	4,121	76	4,616	90	4,678	90	(1.2)	7.8	1.3	13.5
Others	34	1	22	0.4	22	0.4	(16.2)	(33.0)	(0.03)	(35.5)
Corporate	1,198	22	1,417	28	1,447	28	4.3	20.1	2.1	20.7

( ) = negative, PHP = Philippine peso, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period local currency–USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. "Others" comprise bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. This includes bonds issued by Power Sector Assets and Liabilities Management 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.

issuances in Q3 2019. Banks were the largest issuers of bonds during the quarter, led by China Bank with a PHP30 billion offer of 1.5-year bonds with a coupon rate of 5.70%. Other banks that issued bonds during the quarter were Metrobank, BDO, Philippine Savings Bank, and Robinsons Bank.

Investor Profile

Banks and investment houses remained the largest investor group in the Philippine LCY government bond market in Q3 2019, with an investment share slightly rising to 42.6% at the end of September from 41.9% a year earlier. Contractual savings institutions (including the Social Security System, Government Service Insurance System, Pag-IBIG, and life insurance companies) and tax-exempt institution (such as trusts and other tax-exempt entities) were the second-largest holders of government bonds. However, their share fell to 23.9% from 27.2% during the same period. The share of brokers and custodians was almost at par at 11.5% during the review period, while that of funds managed by the BTr inched up to 10.0% from 9.4%.

Policy, Institutional, and Regulatory Developments

Bangko Sentral ng Pilipinas Cuts Reserve Requirement Ratios by 200 bps

On 27 September, the BSP announced a 100 bps-reduction in the reserve requirement ratios of universal and commercial banks to 15%, thrift banks to 5%, and rural banks to 3%, effective on the first day of the first reserve week of November. On 24 October, the BSP cut anew the reserve requirement ratios another 100 bps for universal and commercial banks to 14%, nonbank financial institutions with quasi-banking functions to 14%, and thrift banks to 4%, effective on the first day of the first reserve week of December.

Bangko Sentral ng Pilipinas Launches the First Other Financial Corporations Survey

In October, the BSP launched the first Other Financial Corporations Survey (OFCS), a comprehensive measure of the assets and liabilities of other financial corporations. These include, among others, trust entities, private and public insurance companies, government financial institutions, and nonmoney market funds covering unit investment trust funds and investment companies. The OFCS aims to identify the concentration of vulnerabilities in the financial sector in relation to other

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.	Metropolitan Bank	114.6	2.2	No	Yes	Banking
2.	Ayala Land	106.9	2.1	No	Yes	Property
3.	SM Prime Holdings	103.7	2.0	No	Yes	Property
4.	BDO Unibank	96.3	1.9	No	Yes	Banking
5.	SMC Global Power	80.0	1.5	No	No	Electricity, Energy, and Power
6.	San Miguel	60.0	1.2	No	Yes	Holding Firms
7.	Philippine National Bank	56.2	1.1	No	Yes	Banking
8.	Security Bank	54.6	1.1	No	Yes	Banking
9.	SM Investments	48.4	0.9	No	Yes	Holding Firms
10.	Petron	42.9	0.8	No	Yes	Electricity, Energy, and Power
11.	China Bank	42.7	0.8	No	Yes	Banking
12.	Rizal Commercial Banking Corporation	41.2	0.8	No	Yes	Banking
13.	Ayala Corporation	40.0	0.8	No	Yes	Holding Firms
14.	Vista Land	38.0	0.7	No	Yes	Property
15.	Bank of the Philippine Islands	37.2	0.7	No	Yes	Banking
16.	Aboitiz Equity Ventures	37.0	0.7	No	Yes	Holding Firms
17.	Maynilad	33.0	0.6	No	No	Water
18.	Union Bank of the Philippines	30.8	0.6	No	Yes	Banking
19.	East West Banking	28.8	0.6	No	Yes	Banking
20.	Aboitiz Power	23.2	0.4	No	Yes	Electricity, Energy, and Power
21.	Manila Electric Company	23.0	0.4	No	Yes	Electricity, Energy, and Power
22.	Filinvest Land	22.0	0.4	No	Yes	Property
23.	GT Capital	22.0	0.4	No	Yes	Holding Firms
24.	San Miguel Brewery	22.0	0.4	No	No	Brewery
25.	Philippine Savings Bank	20.8	0.4	No	Yes	Banking
26.	Doubledragon	15.0	0.3	No	Yes	Property
27.	PLDT	15.0	0.3	No	Yes	Telecommunications
28.	NLEX Corporation	13.9	0.3	No	No	Transport
29.	Megaworld	12.0	0.2	No	Yes	Property
30.	Robinsons Land	12.0	0.2	No	Yes	Property
Total Top 30 LCY Corporate Issuers		**1,293.2**	**24.9**			
Total LCY Corporate Bonds		**1,446.7**	**27.9**			
Top 30 as % of Total LCY Corporate Bonds		**89.4%**	**89.4%**			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of 30 September 2019.
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.

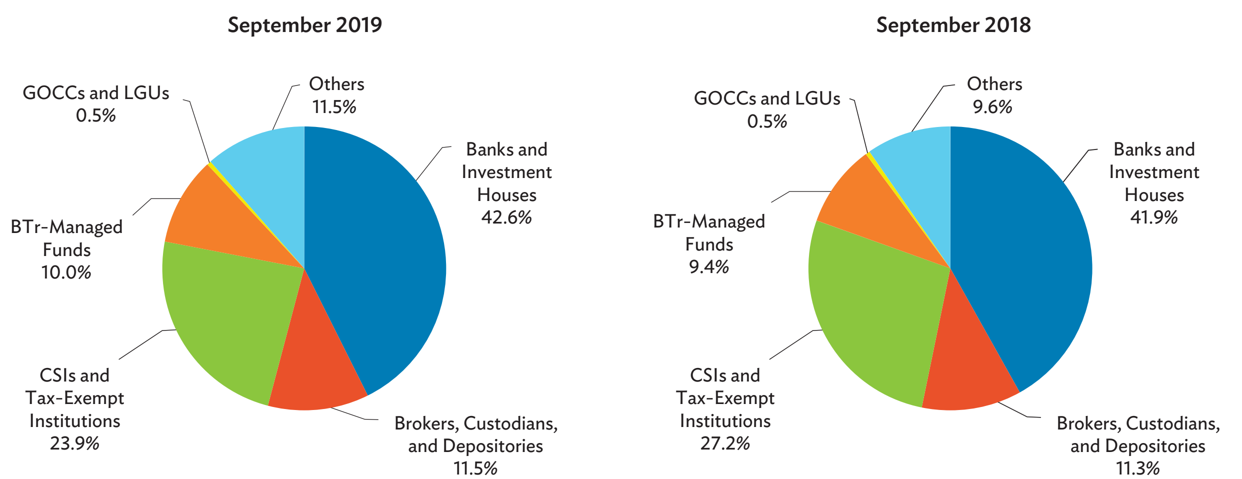
Table 3: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
China Bank		
1.5-year bond	5.70	30.00
Metrobank		
2-year bond	6.30	11.25
BDO Unibank		
5.5-year bond	4.00	6.50
Philippine Savings Bank		
2-year bond	5.60	6.30
Robinsons Bank		
2-year bond	5.13	5.00
Phoenix Petroleum		
1-year bond	0.00	3.50
Ayala Land		
5-year bond	4.76	3.00
SL Agritech		
0.25-year bond	0.00	0.20
0.50-year bond	0.00	0.20
1-year bond	0.00	1.60
Alsons Consolidated		
0.25-year bond	0.00	0.20
0.50-year bond	0.00	0.29
1-year bond	0.00	0.61

PHP = Philippine peso.
Source: Bloomberg LP.

sectors in the economy. The OFCS report will include sections on net foreign assets, domestic claims, and other liabilities of other financial corporations. It will also be publicly available to the public within 4 months after the end of each corresponding quarter.

Figure 3: Local Currency Government Bonds Investor Profile



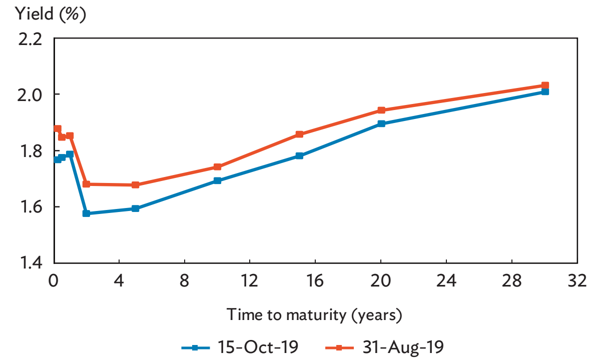
BTr = Bureau of the Treasury, CSIs = contractual savings institutions, GOCCs = government-owned or -controlled corporations, LGUs = local government units.
Source: Bureau of the Treasury.

Singapore

Yield Movements

Between 31 August and 15 October, Singapore's local currency (LCY) government bond yields declined for all tenors (**Figure 1**). The shorter end of the yield curve (from 3 months to 1 year) declined an average of 8 basis points (bps). The slightly falling yields reflected improving liquidity, supported by the declining 6-month swap offer rate, which is a benchmark borrowing cost for offshore investors. Yields of longer-term tenors (from 2 years to 30 years) recorded smaller declines, decreasing an average of 6 bps. The yield spread between 2-year and 10-year government bonds expanded from 6 bps on 31 August to 12 bps on 15 October.

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



Source: Based on data from Bloomberg LP.

The yield curve for Singapore LCY government bonds shifted downward during the review period amid policy easing by Monetary Authority of Singapore (MAS). During its monetary policy meeting on 14 October, MAS decided to reduce slightly the appreciation rate of the Singapore dollar nominal effective exchange rate policy band. The width and center of the policy band were unchanged. The decision came with the economy growing below its potential and core inflation remaining low. Investors' flight to safety contributed as well, spurred by a weak global economic growth outlook and geopolitical risks in the region.

Advance estimates showed that Singapore's economy grew 0.1% year-on-year (y-o-y) in the third quarter (Q3) of 2019, the same growth rate recorded in the second quarter (Q2) of 2019. On a quarter-on-quarter (q-o-q) seasonally adjusted basis, annualized gross domestic product grew 0.6% in Q3 2019, a reversal from the decline of 2.7% in the previous quarter. This alleviated concerns that Singapore's economy was about to enter recession. MAS expects Singapore's 2019 gross domestic product growth to fall within the 0.0%–1.0% range. Economic growth was slow during the first 9 months of the year but is expected to pick up in 2020.

The manufacturing sector continued to depress economic growth due to a downturn in the global electronics cycle and the effects of the trade war between the People's Republic of China (PRC) and the United States. On the other hand, the construction sector is expected to recover as infrastructure projects roll out during the latter part of the year. MAS expressed concerns that the poor performance of the global economy may weaken domestic demand in some of Singapore's major trading partners.

Core inflation eased in September to 0.7% y-o-y from 0.8% y-o-y in August. Core inflation fell below the forecast range and is expected to remain low for the rest of the year. Weak demand conditions, volatility in oil prices, softening labor market conditions, and subdued retail rents are contributing to the low inflation. For 2019, MAS expects core inflation to be in the lower half of the 1.0%–2.0% range.

As such, MAS deemed the reduction in the slope of the Singapore dollar nominal effective exchange rate as being appropriate. The monetary policy easing is meant to promote medium-term price stability.

Size and Composition

Singapore's LCY bond market expanded 4.9% q-o-q in Q3 2019 to reach SGD445.6 billion (USD322.4 billion) at the end of September from SGD424.7 billion at the end of June (**Table 1**). On an annual basis, growth was up 11.9% y-o-y. The rise in the LCY bond market was supported by growth in both government and corporate bonds, which accounted for 62.2% and 37.8%, respectively, of total LCY bonds outstanding at the end of Q3 2019.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2018		Q2 2019		Q3 2019		Q3 2018		Q3 2019	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**398**	**291**	**425**	**314**	**446**	**322**	**2.0**	**9.8**	**4.9**	**11.9**
Government	241	176	262	194	277	200	1.6	9.3	5.6	15.0
SGS Bills and Bonds	122	89	129	96	163	118	(0.6)	4.4	25.8	33.0
MAS Bills	119	87	133	98	114	83	3.9	14.7	(14.0)	(3.5)
Corporate	157	115	162	120	169	122	2.5	10.7	3.8	7.2

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

Issuance of LCY bonds in Q3 2019 increased 8.4% q-o-q to SGD170.7 billion from SGD157.5 billion in Q2 2019, driven by the expansion of both LCY government and corporate bond issuance.

Government bonds. The LCY government bond market grew 5.6% q-o-q to SGD277.0 billion in Q3 2019 from SGD262.3 billion in the previous quarter. The growth was mainly due to the 25.8% q-o-q increase in outstanding Singapore Government Securities (SGS) bills and bonds, which comprised 58.7% of total outstanding LCY government bonds, overtaking the share of MAS bills during the quarter. In July, MAS introduced 6-month SGS bills to gradually replace the 24-week MAS bills. This caused the 14.0% q-o-q decline in outstanding MAS bills, which comprised a 41.3% share of total LCY government bonds outstanding at the end of September.

LCY government bond issuance in Q3 2019 rose 8.5% q-o-q as total SGS bills and bond issuance increased with the introduction of 6-month SGS bills.

Corporate bonds. LCY corporate bonds outstanding increased 3.8% q-o-q to SGD168.6 billion in Q3 2019 from SGD162.4 billion in Q2 2019, helped by the increase in outstanding corporate bonds in the financial and industrial sectors.

The top 30 LCY corporate bond issuers in Singapore accounted for combined outstanding bonds of SGD81.4 billion, or 48.3% of total LCY corporate bonds outstanding at the end of Q3 2019 (**Table 2**). Government institutions such as the Housing & Development Board and the Land Transport Authority continued to dominate all issuers with outstanding LCY corporate bonds amounting to SGD23.0 billion (13.6% of total LCY corporate bonds outstanding) and SGD10.4 billion (6.2% of total LCY corporate bonds outstanding), respectively. By industry type, real estate companies comprised the largest share (43.2%) among the top 30 issuers of LCY corporate bonds with SGD35.2 billion of total LCY corporate bonds outstanding at the end of Q3 2019. This was followed by the transportation industry with SGD15.6 billion and a share of 19.1%.

Issuance of LCY corporate bonds jumped 4.8% q-o-q in Q3 2019 due to a surge in issuance in July. Companies continued to offer large issuances, taking advantage of the low-interest-rate environment.

Sembcorp Financial Services issued the single-largest LCY corporate bond in Q3 2019 (**Table 3**). It issued a SGD1,500.0 million 5-year bond with a coupon rate of 0.55%. Maxi-Cash Financial Services issued an LCY corporate bond with the highest coupon rate during the review period: a SGD50.0 million 3-year bond with a 6.35% coupon rate. Proceeds will be used to pay for Maxi-Cash's buyback of its SGD14.0 million worth of existing notes. Several companies issued perpetual bonds in amounts ranging from SGD150.0 million to SGD750.0 million and with coupon rates between 3.58% and 4.10%. United Overseas Bank issued a perpetual bond under its USD15.0 billion global medium-term note program. Proceeds from SPH REIT's perpetual bond issuance will be used for financing general working

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	23.0	16.6	Yes	No	Real Estate
2.	Land Transport Authority	10.4	7.5	Yes	No	Transportation
3.	Singapore Airlines	4.4	3.2	Yes	Yes	Transportation
4.	Frasers Property	4.0	2.9	No	Yes	Real Estate
5.	Temasek Financial	3.6	2.6	Yes	No	Finance
6.	United Overseas Bank	3.3	2.4	No	Yes	Banking
7.	Mapletree Treasury Services	2.7	1.9	No	No	Finance
8.	DBS Group Holdings	2.5	1.8	No	Yes	Banking
9.	Capitaland Treasury	2.4	1.7	No	No	Finance
10.	Sembcorp Financial Services	2.4	1.7	No	No	Engineering
11.	Keppel Corporation	2.2	1.6	No	Yes	Diversified
12.	Capitaland	1.8	1.3	Yes	Yes	Real Estate
13.	Oversea-Chinese Banking Corporation	1.5	1.1	No	Yes	Banking
14.	City Developments Limited	1.5	1.1	No	Yes	Real Estate
15.	CMT MTN	1.4	1.0	No	No	Finance
16.	SP Powerassets	1.3	0.9	No	No	Utilities
17.	Public Utilities Board	1.3	0.9	Yes	No	Utilities
18.	GLL IHT	1.2	0.8	No	No	Real Estate
19.	Singtel Group Treasury	1.2	0.8	No	No	Finance
20.	Shangri-La Hotel	1.1	0.8	No	Yes	Real Estate
21.	Suntec REIT	0.9	0.7	No	Yes	Real Estate
22.	Hyflux	0.9	0.7	No	Yes	Utilities
23.	Ascendas	0.9	0.6	No	Yes	Finance
24.	Mapletree Commercial Trust	0.9	0.6	No	Yes	Real Estate
25.	Olam International	0.8	0.6	No	Yes	Consumer Goods
26.	Overseas Union Enterprise	0.8	0.6	No	Yes	Real Estate
27.	DBS Bank	0.8	0.6	No	Yes	Banking
28.	Sembcorp Industries	0.8	0.6	No	Yes	Shipbuilding
29.	Singapore Technologies Telemedia	0.8	0.6	Yes	No	Utilities
30.	SMRT Capital	0.8	0.6	No	No	Transportation
Total Top 30 LCY Corporate Issuers		**81.4**	**58.9**			
Total LCY Corporate Bonds		**168.6**	**122.0**			
Top 30 as % of Total LCY Corporate Bonds		**48.3%**	**48.3%**			

LCY = local currency, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of 30 September 2019.
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 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Sembcorp Financial Services		
5-year bond	0.55	1,500
United Overseas Bank		
Perpetual bond	3.58	750
SPH REIT		
Perpetual bond	4.10	300
Thomson Medical Group		
3-year bond	4.80	225
Ascott Residence Trust		
Perpetual bond	3.88	150
Maxi-Cash Financial Services		
3-year bond	6.35	50

SGD = Singapore dollar.
Source: Bloomberg LP.

capital, capital expenditure, and corporate requirements. Ascott Residence Trust will use the proceeds from its perpetual bond issuance for general corporate purposes, including the redemption of its existing SGD150.0 million 5.0% perpetual securities.

Policy, Institutional, and Regulatory Developments

Monetary Authority of Singapore Issues Guidelines to Enhance Cyber Security in the Financial Industry

On 6 August, MAS issued new rules to enhance the cyber resilience of the financial sector. These rules are meant to manage the risks of cyber threats. Financial institutions are required to develop and implement security measures for their information technology systems. They must also ensure timely responses to security flaws in their system, preventing external attacks and malware risks. Industry players are expected to develop measures that prevent unauthorized access to data, enhance the security of access to accounts, and improve user authentication and access to customer information. Financial institutions must comply with the new rules starting 6 August 2020.

Singapore and the People's Republic of China to Strengthen Each Other's Financial Markets

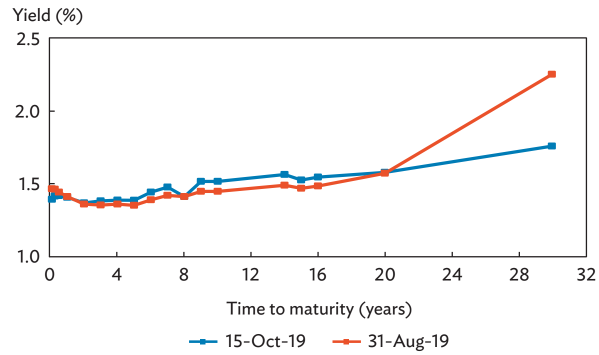
On 15 October, MAS and the People's Bank of China (PBOC) discussed measures to expand activities between the capital markets of the PRC and Singapore that would help strengthen both markets. The PBOC agreed to grant DBS Bank with a settlement agent license, which will allow it to trade, settle, and hold custody of debt instruments from the PRC's interbank bond market on behalf of foreign investors. The MAS and the PBOC also agreed to develop mechanisms that would equip select Singaporean and Chinese banks with custody and trading services to help investors in the PRC's bond market.

Thailand

Yield Movements

Thailand's local currency (LCY) government bond yield curve flattened between 31 August and 15 October. Yields rose an average of 4 basis points (bps) for bonds with maturities between 2 years and 20 years, with the 10-year yield gaining 7 bps (**Figure 1**). In contrast, yields dropped at the shorter and longer ends of the curve. Short-term tenors with maturities of up to 1 year shed an average of 4 bps, while the 30-year tenor saw its yield drop 49 bps. The spread between the 2-year and 10-year tenors increased from 9 bps on 31 August to 15 bps on 15 October.

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



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

The drop in short-term yields followed the Bank of Thailand's (BOT) policy rate cut in early August, when the BOT reduced its policy rate by 25 bps to 1.5% as escalating trade tensions and weak global growth continued to weaken the trade-dependent economy. The reduction in issuance of short-term BOT bills, intended to stem speculative capital flows and curb currency appreciation, added downward pressure on short-term yields. Declining yields on the shorter end of the curve reflected market expectations of another rate cut in the near-term.

The rise in yields of medium-term and long-term bonds was partly driven by capital outflows from the Thai bond market. The review period saw net foreign outflows totaling THB16.9 billion following the implementation of policies designed to rein in the Thai baht. From January to September, the baht appreciated 5.8% against the US dollar, negatively affecting exports and tourism, and thus adding a headwind for the domestic economy. In response, the BOT lowered the cap for the outstanding balance of nonresident baht accounts and nonresident baht accounts for securities. The BOT also tightened its reporting requirements for nonresident holdings of debt securities.

The sharp 49 bps drop in the 30-year bond yield reflected the weakened growth outlook for the Thai economy. Thailand's gross domestic product growth slowed to 2.3% year-on-year (y-o-y) in the second quarter (Q2) of 2019 from 2.8% y-o-y in the first quarter amid a continuing slowdown in domestic and external demand. The government revised its full-year 2019 growth forecast to 2.7%–3.0% from 2.9%–3.3%.

Thailand's headline inflation slowed to 0.4% y-o-y in September from 0.5% y-o-y in August, falling below the Bank of Thailand's target range of 1.0%–4.0% y-o-y for a fourth straight month. The weakening inflation stemmed primarily from declining energy prices, which fell for a fifth straight month due to falling global oil prices. The Ministry of Commerce revised it expected full-year inflation rate for 2019 to a range of 0.7%–1.0%, down from an earlier forecast of 0.7%–1.3%. The BOT likewise lowered its inflation forecast for full-year 2019 to 0.8% from 1.0%.

The government rolled out expansionary fiscal policies to boost the sluggish economy. In August, the government approved a THB316.0 billion stimulus package that includes additional allowances for low-income earners and the elderly, debt relief and loans for farmers affected by the ongoing drought, incentives for domestic tourism and investment, credit support for small and medium-sized enterprises, and low-interest loans for home buyers. A key part of the package was a THB1,000 cash giveaway and a 15.0% cash rebate on tourism-related spending. In October, the government announced an additional stimulus scheme valued at THB5.8 billion for consumption promotion and low-interest housing loan support.

The BOT decided to keep its benchmark interest rate unchanged at 1.50% during its September policy meeting, preserving policy space for future risks. The continued appreciation of the baht remains one of the central bank's main concerns. During the review period, the baht appreciated 0.7% against the US dollar despite the policies implemented to dampen its strength.

Size and Composition

Thailand's LCY bonds outstanding amounted to THB12,857.3 billion (USD420.1 billion) at the end of the third quarter (Q3) of 2019, down from THB13,036.9 (USD424.9 billion) at the end of Q2 2019 (**Table 1**). The 1.4% quarter-on-quarter (q-o-q) contraction in Q3 2019 reversed the 3.1% q-o-q growth posted in the previous quarter, driven by a 0.5% q-o-q drop in government bonds outstanding and a 3.5% q-o-q decline in corporate bonds outstanding. The bond market in Thailand remains dominated by government bonds, which accounted for 72.1% of the LCY bonds outstanding in Q3 2019. On a y-o-y basis, Thailand's LCY bond market expanded 5.9% in Q3 2019, down from the 9.4% growth posted in Q2 2019.

Government bonds. The outstanding stock of LCY government bonds declined slightly to THB9,270.4 billion at the end of Q3 2019 from THB9,319.3 billion at the end of Q2 2019. The 0.5% q-o-q decline in Q3 2019 reversed the 2.3% q-o-q growth recorded in the previous quarter. The drop in government bonds outstanding stemmed from a 3.6% q-o-q contraction in BOT bonds outstanding, which offset the modest growth in outstanding government bonds and Treasury bills (1.5% q-o-q) and state-owned enterprise and other bonds (1.8% q-o-q).

The decline in BOT bonds outstanding was mainly due to lower issuance volume during the quarter. Starting in July, the BOT reduced the amount of 91-day, 182-day, and 1-year bonds it issues in an effort to curb speculative capital flows and stem the appreciation of the Thai baht. Issuance of BOT bonds dropped 9.3% q-o-q in Q3 2019 compared to the prior quarter. In the same period, issuance of government bonds and state-owned enterprise bonds also declined 52.6% q-o-q and 40.2% q-o-q, respectively. Total government bond issuance contracted 15.0% q-o-q in Q3 2019.

Corporate bonds. The outstanding stock of LCY corporate bonds in Thailand dropped to THB3,586.8 billion at the end of Q3 2019 from THB3,717.5 in Q2 2019. The 3.5% q-o-q contraction reversed the 5.1% q-o-q growth recorded in the previous quarter. Annual growth eased to 4.2% y-o-y from 13.2% y-o-y in the prior quarter. The decline in corporate bonds outstanding was due to maturities and less issuance of corporate debt during the quarter. Issuance of corporate bonds contracted 21.4% q-o-q and 10.5% y-o-y in Q3 2019.

The top 30 issuers of LCY bonds in Thailand accounted for 57.9% of the total outstanding stock of LCY corporate bonds, with a combined amount of outstanding bonds worth THB2,078.4 billion (**Table 2**). Food and beverages, communications, banking, finance, and property and construction firms together comprised more than half of the top 30 issuers. A majority of the companies were

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2018		Q2 2019		Q3 2019		Q3 2018		Q3 2019	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**12,141**	**376**	**13,037**	**425**	**12,857**	**420**	**1.9**	**10.0**	**(1.4)**	**5.9**
Government	8,699	269	9,319	304	9,270	303	0.8	9.0	(0.5)	6.6
Government Bonds and Treasury Bills	4,614	143	4,754	155	4,827	158	1.8	7.4	1.5	4.6
Central Bank Bonds	3,322	103	3,772	123	3,636	119	1.7	15.1	(3.6)	9.4
State-Owned Enterprise and Other Bonds	762	24	794	26	807	26	(8.6)	(4.5)	1.8	5.9
Corporate	3,442	106	3,718	121	3,587	117	4.8	12.7	(3.5)	4.2

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

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	5.9	Yes	Yes	Construction Materials
2.	Thai Beverage	180.0	5.9	No	No	Food and Beverage
3.	CP All	152.9	5.0	No	Yes	Commerce
4.	Bank of Ayudhya	130.8	4.3	No	Yes	Banking
5.	Berli Jucker	121.8	4.0	No	Yes	Commerce
6.	Charoen Pokphand Foods	101.0	3.3	No	Yes	Food and Beverage
7.	True Move H Universal Communication	93.5	3.1	No	No	Communications
8.	PTT	84.7	2.8	Yes	Yes	Energy and Utilities
9.	Toyota Leasing Thailand	82.2	2.7	No	No	Finance and Securities
10.	True Corp	75.1	2.5	No	No	Communications
11.	Thai Airways International	68.6	2.2	Yes	Yes	Transportation and Logistics
12.	Minor International	66.0	2.2	No	Yes	Hospitality and Leisure
13.	Indorama Ventures	63.9	2.1	No	Yes	Petrochemical and Chemicals
14.	CPF Thailand	61.0	2.0	No	No	Food and Beverage
15.	Banpu	48.9	1.6	No	Yes	Energy and Utilities
16.	Bangkok Commercial Asset Management	48.2	1.6	No	Yes	Finance and Securities
17.	Land and Houses	47.5	1.6	No	Yes	Property and Construction
18.	Krungthai Card	44.1	1.4	Yes	Yes	Banking
19.	Krung Thai Bank	44.0	1.4	Yes	Yes	Banking
20.	PTT Global Chemical	40.0	1.3	No	Yes	Petrochemical and Chemicals
21.	Mintr Phol Sugar	39.4	1.3	No	No	Food and Beverage
22.	Bangkok Expressway and Metro	38.2	1.2	No	Yes	Transportation and Logistics
23.	TPI Polene	37.9	1.2	No	Yes	Property and Construction
24.	TMB Bank	35.4	1.2	No	Yes	Finance and Securities
25.	Muangthai Capital	33.1	1.1	No	Yes	Finance and Securities
26.	Total Access Communication	33.0	1.1	No	Yes	Communications
27.	CH. Karnchang	32.9	1.1	No	Yes	Property and Construction
28.	Advanced Info Service	32.4	1.1	No	Yes	Communications
29.	Sansiri	31.1	1.0	No	Yes	Property and Construction
30.	BTS Group	29.5	1.0	No	Yes	Hospitality and Leisure
Total Top 30 LCY Corporate Issuers		**2,078.4**	**67.9**			
Total LCY Corporate Bonds		**3,586.8**	**117.2**			
Top 30 as % of Total LCY Corporate Bonds		**57.9%**	**57.9%**			

LCY = local currency, THB = Thai baht, USD = United States dollar.
Notes:
1. Data as of 30 September 2019.
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.

listed private companies; only five were state-owned firms. Among the top issuers, six had outstanding LCY bond stocks exceeding THB100 billion at the end of Q3 2019: Siam Cement (THB181.5 billion), Thai Beverage (THB180.0 billion), CP All (THB152.9 billion), Bank of Ayudhya (THB130.8 billion), Berli Jucker (THB121.8 billion), and Charoen Pokphand Foods (THB101.0 billion).

Table 3 lists the largest corporate bond issuances in Q3 2019. Krung Thai Bank topped the list with its issuance of a 10-year bond with 3.70% coupon. The next largest issuer during the quarter was Berli Jucker, a consumer product maker, which borrowed a total of THB22.0 billion from a five-tranche issuance intended to refinance a bond that matured in September. True Corp., a communications company, followed with a multitranche issuance totaling THB21.0 billion from bonds with tenors ranging from 1 years to 5.25 years, and carrying coupons ranging from 3.15% to 5.00%. PTT Global, a petrochemical company, was the fourth-largest issuer during the quarter, with a multitranche issuance amounting to THB20.0 billion.

Table 3: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2019

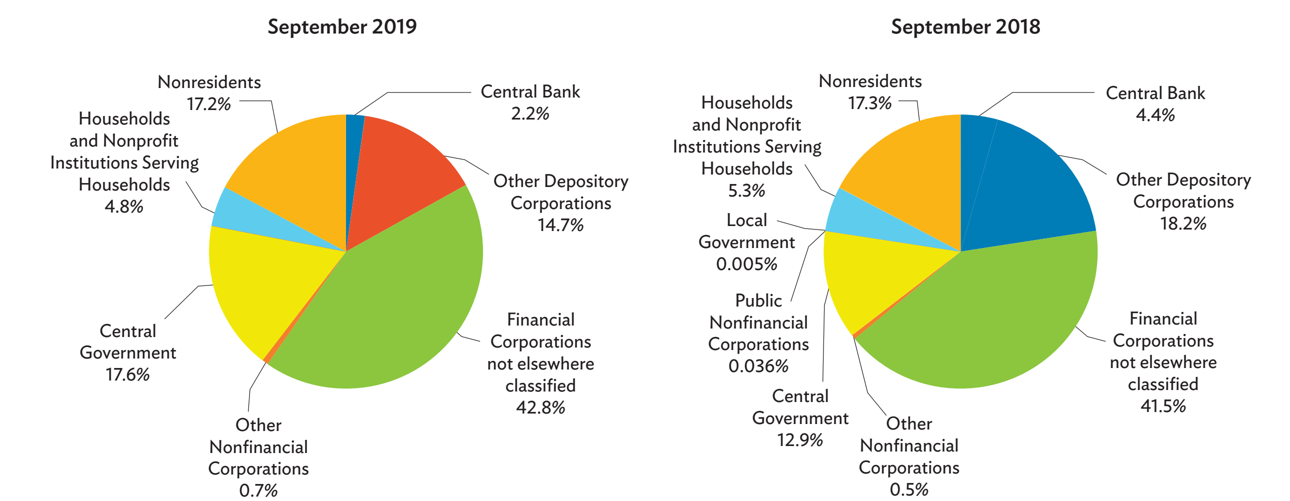
Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
Krung Thai Bank		
10-year bond	3.70	24.0
Berli Jucker		
4-year bond	3.00	4.0
5-year bond	2.65	7.0
6-year bond	2.86	3.0
8-year bond	2.99	1.0
10-year bond	3.32	7.0
True Corp.		
1-year bond	3.15	5.1
1.25-year bond	3.30	2.2
1.9-year bond	3.69	9.0
2-year bond	3.70	1.6
3-year bond	3.80	0.9
3-year bond	3.80	0.8
5.25-year bond	5.00	1.3
PTT Global Chemical		
5-year bond	2.90	10.0
5-year bond	2.20	1.5
7-year bond	2.43	7.0
10-year bond	2.75	1.5

THB = Thai baht.
Source: Bloomberg LP.

Investor Profile

Financial corporations and nonresidents together held 60.0% of Thailand's LCY government bonds at the end of September (**Figure 2**). Financial corporations continued to hold the single-largest share of LCY government bonds. Their share rose to 42.8% of the total at the end of September from 41.5% a year earlier. Between September 2018 and September 2019, the central

Figure 2: Local Currency Government Bonds Investor Profile



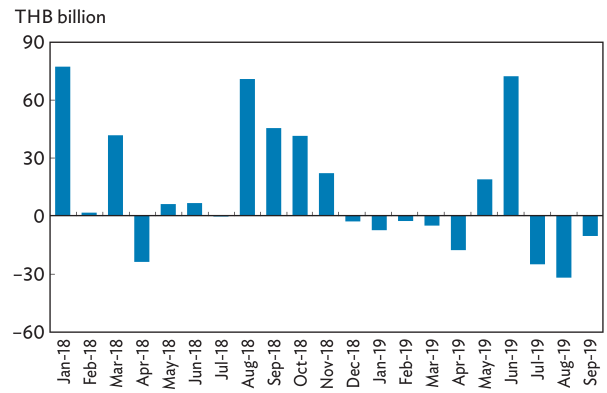
Note: Government bonds include Treasury bills and bonds.
Sources: *AsianBondsOnline* and Bank of Thailand.

government's share of holdings increased from 12.9% to 17.6%. During the same period, the share of nonresidents dipped slightly from 17.3% to 17.2%, while the share of other depository corporations dropped from 18.2% to 14.7%. Together, these four groups accounted for 92.3% of LCY government bonds outstanding at the end of June, up from 89.8% a year earlier.

Central bank bonds. The distribution of LCY central bank securities remained stable between September 2018 and September 2019 (**Figure 3**). At the end of September 2019, other depository corporations held the largest share of LCY central bank bonds at 42.5%, followed by financial corporations (29.5%), the central bank (12.4%), and the central government (9.7%). These four investor groups cumulatively held 94.1% of the total LCY central bank bonds at the end of September 2019, up from 89.2% a year earlier. Foreign holdings of central bank securities are significantly lower than their share of government bonds. Nonresident's share of central bank bonds dropped to 2.3% in September 2019 from 4.4% a year earlier.

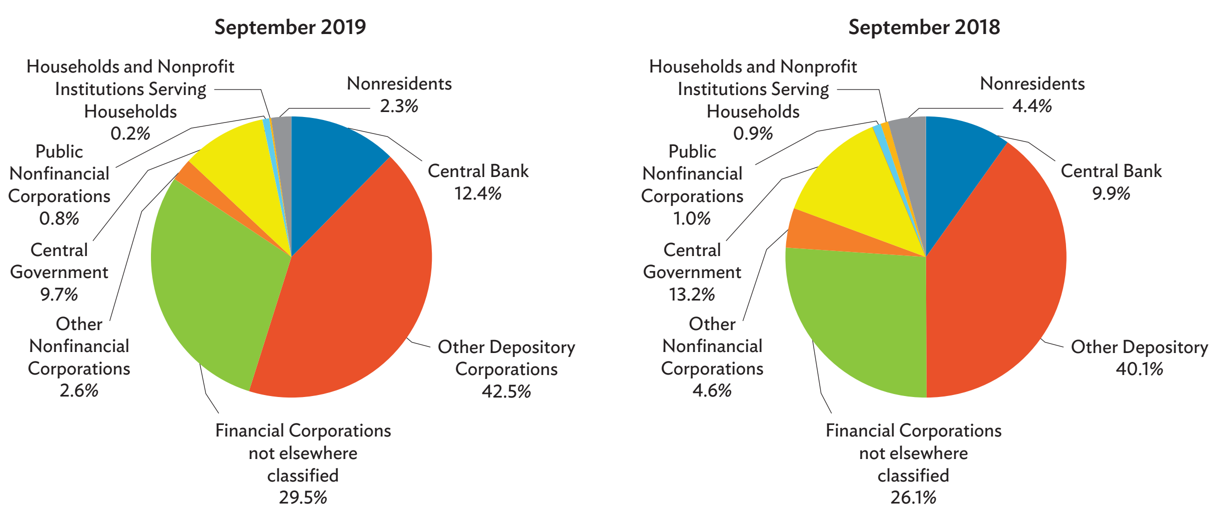
Foreign investors in Thailand's LCY bond market recorded net outflows of THB67.7 billion in Q3 2019, reversing the net inflows of THB73.6 billion in the previous quarter (**Figure 4**). Concern over the sharp appreciation of the baht prompted the BOT to implement several measures to stem speculative capital flows and curb the baht's strength. The BOT reduced its supply of 3-month, 6-month, and 1-year bonds by a total of THB60.0 billion in July and an additional THB20.0 billion in August. It also lowered the limit on the outstanding balance of nonresident baht accounts and nonresident securities accounts to THB200.0 billion from THB300.0 billion. In addition, the BOT tightened reporting requirements for nonresident holdings of Thai debt securities. As a result, foreign trading of LCY bonds logged net outflows in July (THB25.1 billion), August (THB32.1 billion), and September (THB10.4 billion), which reversed the cumulative net inflows of THB91.4 billion in May and June.

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



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

Figure 3: Local Currency Central Bank Securities Investor Profile



Source: Bank of Thailand.

Policy, Institutional, and Regulatory Developments

Mutual Funds Subject to 15% Income Tax, Effective 30 August

A tax regulation amendment affecting the bond market came into effect on August 20. Investments in mutual funds became subject to a 15.0% withholding tax on gross income. The amendment was intended to reduce discrepancies in the tax burden imposed on direct investments in debt instruments compared to investments in debt instruments through mutual funds. Prior to the amendment, direct investments in debt instruments were subject to a 15.0% withholding tax on interest, profits, or discount, while investments in mutual funds with an asset allocation in debt instruments were tax-exempt.

Government of Thailand Approves Fiscal Stimulus Package to Boost Growth

On 20 August, the Thai cabinet approved a THB316.0 billion stimulus package to boost the sluggish economy. The stimulus package included additional allowances for low-income earners and the elderly, debt relief and loans for farmers affected by the ongoing drought, incentives for domestic tourism and investment, credit support for small- and medium-sized enterprises, and low-interest loans for home buyers. The government estimates that the stimulus measures will raise full-year 2019 growth by 0.5–0.6 percentage points to at least 3.5%.

Viet Nam

Yield Movements

Viet Nam's local currency (LCY) government bond yield curve shifted downward between 31 August and 15 October (**Figure 1**). Bond yields for all tenors fell, with yields shedding an average of 26 basis points (bps) across the curve. The 5-year tenor and 15-year tenor declined the most at 38 bps each. Yields generally fell more at the longer end than the shorter end of the curve, leading to a narrowing of the 2-year versus 10-year yield spread from 126 bps on 31 August to 118 bps on 15 October.

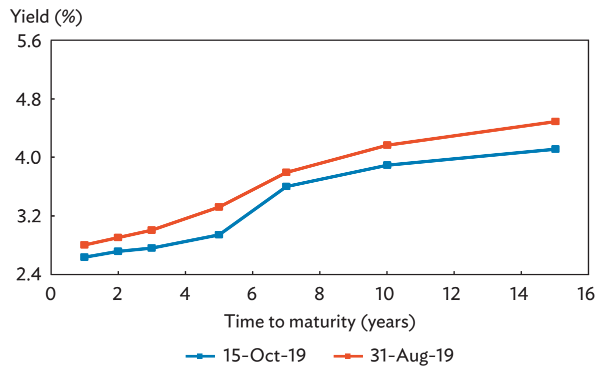
The downward yield movement was driven largely by a policy rate cut by the State Bank of Vietnam (SBV) on 13 September. The SBV reduced its key policy rates 25 bps each, bringing the refinancing rate to 6.0%, the rediscounting rate to 4.0%, and the overnight rate to 7.0%. Unlike other central banks in the region, the SBV's move was largely in response to easing monetary policies in advanced economies as opposed to declines in domestic growth. The SBV cited negative developments in the global economy and easing monetary policy in the United States (US) and European Central Bank. The SBV also noted that the domestic economy remains stable with inflation controlled.

Viet Nam's gross domestic product growth remained strong in 2019. In the third quarter (Q3) of 2019, Viet Nam's economy grew 7.3% year-on-year (y-o-y) after rising 6.7% y-o-y in the second quarter (Q2) of 2019.

Viet Nam continues to be a beneficiary of the ongoing People's Republic of China–US trade war as businesses reallocate production to Viet Nam. The government indicated that for the first 3 quarters of 2019, manufacturing was the main driver of economic growth. Exports grew 8.3% y-o-y during the same period.

Despite Viet Nam's strong economic growth, inflation remained manageable. Consumer price inflation rose slightly to 2.2% y-o-y in October from 2.0% y-o-y in the prior month. For the first 10 months of the year, inflation was 2.5% y-o-y.

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



Source: Based on data from Bloomberg LP.

Size and Composition

Viet Nam continued to have the smallest LCY bond market in emerging East Asia, with outstanding bonds of VND1,277.7 trillion (USD55.1 billion) at the end of September (**Table 1**). The overall growth of the LCY bond market accelerated to 3.4% quarter-on-quarter (q-o-q) in Q3 2019 from 2.6% q-o-q in Q2 2019. The gain was solely driven by government bonds as corporate bonds posted a q-o-q decline. On a y-o-y basis, total bonds outstanding grew 1.9% y-o-y.

Government bonds. At the end of Q3 2019, the outstanding stock of LCY government bonds climbed to VND1,172.5 trillion, growing 4.0% q-o-q after rising 3.2% q-o-q in Q2 2019. The bulk of the q-o-q growth was driven by significant gains in central bank bills, which expanded 118.2% q-o-q in Q3 2019, while Treasury bonds only grew 0.9% q-o-q. Government-guaranteed and municipal bonds, on the other hand, contracted 1.7% q-o-q. On a y-o-y basis, total government bonds grew 1.7% in Q3 2019.

Treasury bonds remained the largest contributor to the stock of government bonds, accounting for an 80.2% share at the end of Q3 2019. Total outstanding Treasury bonds reached VND940.8 trillion at the end

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2018		Q2 2019		Q3 2019		Q3 2018		Q3 2019	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,254,004	54	1,235,789	53	1,277,742	55	9.2	17.7	3.4	1.9
Government	1,152,989	49	1,127,565	48	1,172,498	51	8.9	14.7	4.0	1.7
Treasury Bonds	896,681	38	932,040	40	940,811	41	4.6	12.5	0.9	4.9
Central Bank Bills	75,010	3	32,999	1	71,997	3	257.2	257.2	118.2	(4.0)
Government-Guaranteed and Municipal Bonds	181,298	8	162,526	7	159,690	7	0.7	(2.9)	(1.7)	(11.9)
Corporate	101,015	4	108,224	5	105,244	5	13.1	67.2	(2.8)	4.2

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

of September. Growth in the government bond stock was capped by a decline in planned issuance of the State Treasury during the quarter. In August, the number of auctions was reduced from weekly to once every 2 weeks.

While the amount of outstanding central bank bills grew significantly at 118.2% q-o-q to VND72.0 trillion, growth moderated from 573.5% q-o-q (coming from a low base) in Q2 2019. Growth in central bank bills also declined 4.0% y-o-y.

Corporate bonds. The outstanding amount of LCY corporate bonds fell 2.8% q-o-q in Q3 2019 to VND105.2 trillion. On a y-o-y basis, however, corporate bonds grew 4.2%. *AsianBondsOnline* data on corporate bonds in Viet Nam, obtained from Bloomberg, showed that the entire corporate bond market comprised 45 institutions. Many corporates in Viet Nam issue bonds through private placements in which information is mostly undisclosed.[13]

The aggregate bonds outstanding of the 30 largest bond issuers in Viet Nam amounted to VND101.1 trillion (**Table 2**), accounting for 96.1% of the corporate bond total at the end of September. In the top spot was Vinhomes, with outstanding bonds of VND12.5 trillion, followed by Masan Consumer Holdings at VND11.1 trillion. Vingroup, which previously held the top spot, dropped to the third spot at VND10.1 trillion. Together, the top three firms accounted for 32.0% of the corporate bond total. The top 30 list was dominated by firms from the banking and real estate sectors. Of the list, 4 are state-owned firms and 20 are listed with the Ha Noi Stock Exchange.

Policy, Institutional, and Regulatory Developments

State Treasury Plans to Issue VND70 Trillion Worth of Government Bonds in Q3 2019

In August, the State Treasury announced its plan to issue VND70 trillion worth of government bonds in Q3 2019. The issuance plan comprises (i) 5-year Treasury bonds worth VND4 trillion, (ii) 7-year Treasury bonds worth VND2 trillion, (iii) 10-year Treasury bonds worth VND27 trillion, (iv) 15-year Treasury bonds worth VND26 trillion, (v) 20-year Treasury bonds worth VND6 trillion, and (vi) 30-year Treasury bonds worth VND5 trillion. The volume of issuance, however, may be adjusted subject to market conditions and the funding needs of the government.

[13] 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.	Vinhomes	12,500	0.54	No	Yes	Real Estate
2.	Masan Consumer Holdings	11,100	0.48	No	No	Diversified Operations
3.	Vingroup	10,100	0.44	No	Yes	Real Estate
4.	Vietnam Joint Stock Commercial Bank for Industry and Trade	8,200	0.35	Yes	Yes	Banking
5.	Vinpearl	7,500	0.32	No	No	Hotel Operator
6.	Asia Commercial Joint Stock Bank	6,800	0.29	No	No	Banking
7.	Lien Viet Post Joint Stock Commercial Bank	3,100	0.13	No	Yes	Banking
8.	Hoang Anh Gia Lai	3,000	0.13	No	Yes	Real Estate
9.	Vietnam Technological and Commercial Joint Stock Bank	3,000	0.13	No	No	Banking
10.	Vietnam Prosperity Joint Stock Commercial Bank	3,000	0.13	No	Yes	Banking
11.	Bank for Investment and Development of Vietnam	2,700	0.12	Yes	Yes	Banking
12.	Sai Dong Urban Investment and Development	2,600	0.11	No	No	Real Estate
13.	Ho Chi Minh City Infrastructure Investment	2,570	0.11	No	Yes	Infrastructure
14.	Hoan My Medical	2,330	0.10	No	No	Healthcare Services
15.	Refrigeration Electrical	2,318	0.10	No	Yes	Manufacturing
16.	Vietnam International Commercial Bank	2,203	0.09	No	Yes	Agriculture
17.	Agro Nutrition International	2,000	0.09	No	No	Agriculture
18.	Joint Stock Commercial Bank for Foreign Trade of Vietnam	2,000	0.09	Yes	Yes	Banking
19.	Vietnam Electrical Equipment	1,800	0.08	No	Yes	Manufacturing
20.	Masan Group	1,500	0.06	No	Yes	Finance
21.	Masan Resources	1,500	0.06	No	Yes	Mining
22	Nui Phao Mining	1,500	0.06	No	No	Mining
23.	Saigon-Hanoi Securities	1,150	0.05	No	Yes	Finance
24.	SSI Securities	1,150	0.05	No	Yes	Finance
25.	Mobile World Investment	1,135	0.05	No	Yes	Manufacturing
26.	Pan Group	1,135	0.05	No	Yes	Consumer Services
27.	TTC Education Joint Stock Company	951	0.04	No	No	Education Services
28.	Sai Gon Thuong Tin Real Estate	870	0.04	No	Yes	Real Estate
29.	Vietnam Bank for Agriculture and Rural Development	760	0.03	Yes	No	Banking
30.	Nam Long Investment	660	0.03	No	Yes	Real Estate
Total Top 30 LCY Corporate Issuers		**101,132**	**4.36**			
Total LCY Corporate Bonds		**105,244**	**4.54**			
Top 30 as % of Total LCY Corporate Bonds		**96.1%**	**96.1%**			

LCY = local currency, USD = United States dollar, VND = Vietnamese dong.
Notes:
1. Data as of 30 September 2019.
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.