

Bond Market Developments in the Third Quarter of 2020

Size and Composition

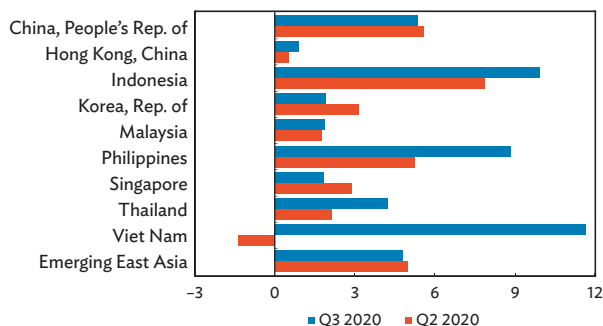
The outstanding amount of local currency bonds in emerging East Asia reached USD18.7 trillion at the end of September.

At the end of September, the size of emerging East Asia's local currency (LCY) bond market reached USD18.7 trillion.³ The region's bond market growth moderated to 4.8% quarter-on-quarter (q-o-q) in the third quarter (Q3) of 2020 from 5.0% q-o-q in the second quarter (Q2) (**Figure 1a**). The slowdown in growth was primarily driven by a weaker expansion in corporate bonds. Governments continued to issue sovereign debt to finance economic relief measures amid the economic fallout brought about by the coronavirus disease (COVID-19). Meanwhile, risk-off sentiment amid the protracted economic slowdown led to weaker growth in the region's corporate bond markets.

All nine bond markets posted positive q-o-q growth in Q3 2020. The region's smaller bond markets—Viet Nam, Indonesia, and the Philippines—posted the highest growth rates, while Singapore, Malaysia, the Republic of Korea, and Hong Kong, China recorded the slowest expansions. Compared with Q2 2020, the q-o-q growth rate accelerated in six of the region's nine bond markets, including Hong Kong, China; Indonesia; Malaysia; the Philippines; Thailand; and Viet Nam. However, q-o-q growth dropped in three bond markets including the two largest—the People's Republic of China (PRC) and the Republic of Korea—leading to slower regional q-o-q growth.

On a year-on-year (y-o-y) basis, emerging East Asia's LCY bond market growth accelerated to 17.4% in Q3 2020 from 15.5% in Q2 2020 (**Figure 1b**). All markets in the region posted positive y-o-y growth in Q3 2020. Indonesia, the Philippines, and the PRC posted the fastest y-o-y growth rates, while the rest of the region posted moderate growth rates. Hong Kong, China recorded the weakest y-o-y expansion in Q3 2020. Except for

Figure 1a: Growth of Local Currency Bond Markets in the Second and Third Quarters of 2020 (q-o-q, %)



q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter.

Notes:

1. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.
2. Calculated using data from national sources.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. Emerging East Asia growth figures are based on 30 September 2020 currency exchange rates and do not include currency effects.

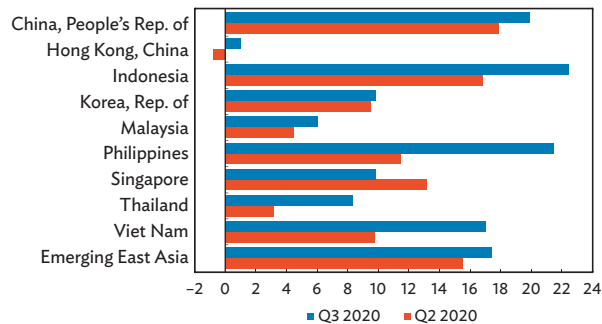
Sources: People's Republic of China (CEIC); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange); Republic of Korea (*EDAILY BondWeb* and The Bank of Korea); Malaysia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

Singapore, all markets in the region posted higher y-o-y growth in Q3 2020 than in Q2 2020.

The PRC's LCY bond market remained the region's largest with an outstanding bond stock of USD14.5 trillion at the end of September. The PRC's share of the regional bond market increased to 77.5% in Q3 2020 from 77.1% in Q2 2020. Growth in the PRC's LCY bond market moderated to 5.4% q-o-q in Q3 2020 from 5.6% q-o-q in Q2 2020. The slower growth in Q3 2020 was driven by a deceleration in corporate bond market growth, as interest rates continued to rise. Growth in the government bond segment continued to accelerate, rising to 6.6% q-o-q in Q3 2020 from 5.4% q-o-q in the previous quarter. The continuing expansion of the LCY government bond market has been fueled by strong issuance of Treasury and other

³ Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

Figure 1b: Growth of Local Currency Bond Markets in the Second and Third Quarters of 2020 (y-o-y, %)



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

Notes:

1. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.
2. Calculated using data from national sources.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. Emerging East Asia growth figures are based on 30 September 2020 currency exchange rates and do not include currency effects.

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

government bonds as the government continued to raise funds to support economic recovery amid the COVID-19 pandemic. Growth in the PRC's corporate bond stock dropped to 3.2% q-o-q in Q3 2020 from 5.9% q-o-q in Q2 2020. On a y-o-y basis, the PRC's LCY bond market growth picked up, rising to 19.9% in Q3 2020 from 17.9% in Q2 2020.

The Republic of Korea is home to the second-largest LCY bond market in emerging East Asia, with an outstanding bond stock of USD2.2 trillion at the end of September. However, its share of the regional total slipped to 11.9% in Q3 2020 from 12.3% in the previous quarter. Growth in the Republic of Korea's total bond stock dropped to 1.9% q-o-q in Q3 2020 from 3.1% q-o-q in Q2 2020, driven by weaker growth in both the government and corporate bond segments. Government bonds outstanding rose 3.0% q-o-q in Q3 2020, down from 4.6% q-o-q in Q2 2020. Growth in the corporate bond stock also slowed to 1.1% q-o-q in Q3 2020 from 2.1% q-o-q in the previous quarter. On a y-o-y basis, the Republic of Korea's LCY bond market growth inched up to 9.8% in Q3 2020 from 9.5% in Q2 2020.

Hong Kong, China's LCY bonds outstanding reached USD295.1 billion at the end of September. Growth in the total bond stock inched up to 0.9% q-o-q in Q3 2020 from 0.5% q-o-q in the prior quarter. The government bond segment posted marginal growth of 0.1% q-o-q in Q3 2020, a slight recovery from the 1.1% q-o-q decline in Q2 2020. The growth was driven largely by an expansion in the outstanding amount of Hong Kong Special Administrative Region bonds. Growth in the corporate bond segment moderated to 1.6% q-o-q in Q3 2020 from 2.3% q-o-q in Q2 2020. On an annual basis, Hong Kong, China's LCY bond market rose 1.0% in Q3 2020, reversing the 0.8% contraction in Q2 2020. Hong Kong, China's bond market posted the slowest pace of q-o-q and y-o-y growth among emerging East Asian markets in Q3 2020, as the deepening economic contraction brought about by political uncertainties and COVID-19 continued to impact its financial markets.

The total amount of LCY bonds outstanding of the member economies of the Association of Southeast Asian Nations (ASEAN) reached USD1.7 trillion in Q3 2020, up from USD1.6 trillion in Q2 2020.⁴ Overall growth accelerated to 4.7% q-o-q in Q3 2020 from 3.2% q-o-q in Q2 2020. The total government bond stock amounted to USD1.2 trillion, while the total corporate bond stock reached USD0.5 trillion at the end of September. Thailand, Malaysia, and Singapore remained the three largest bond markets among all ASEAN members.

Thailand's LCY bonds outstanding amounted to USD443.7 billion at the end of September. Overall growth picked up in Q3 2020, rising to 4.2% q-o-q from 2.1% q-o-q in Q2 2020. The faster expansion stemmed from stronger growth in the government bond segment combined with a recovery in the corporate bond segment. Growth in outstanding government bonds accelerated to 5.4% q-o-q in Q3 2020 from 4.1% q-o-q in Q2 2020, as the government continued to issue sovereign debt to help fund stimulus measures. Corporate bonds outstanding increased 1.1% q-o-q in Q3 2020, reversing the 2.6% q-o-q decline in the prior quarter. On a y-o-y basis, Thailand's bond market growth jumped to 8.3% in Q3 2020 from 3.2% in Q2 2020.

The outstanding amount of Malaysia's LCY bonds reached USD381.0 billion at the end of September on

⁴ LCY bond statistics for ASEAN include the markets of Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.

growth of 1.9% q-o-q and 6.1% y-o-y. Growth in the outstanding government bond stock moderated to 2.3% q-o-q in Q3 2020 from 3.2% q-o-q in Q2 2020. The corporate bond segment rose 1.3% q-o-q in Q3 2020, up from 0.2% q-o-q in the previous quarter amid a slight recovery in investor sentiment.

Malaysia is home to the largest *sukuk* (Islamic bond) market in emerging East Asia, with a total of USD239.0 billion *sukuk* outstanding at the end of September. In Q3 2020, the stock of government *sukuk* totaled USD96.5 billion, or 47.3% of total government bonds. Outstanding corporate *sukuk* reached USD142.4 billion, or 80.5% of total corporate bonds.

The outstanding amount of Singapore's LCY bonds amounted to USD358.5 billion at the end of September. Growth in total outstanding bonds dropped to 1.8% q-o-q in Q3 2020 from 2.9% q-o-q in Q2 2020, driven by weaker growth in the government bond segment. Government bonds outstanding rose 2.0% q-o-q in Q3 2020, down from 4.4% q-o-q in the prior quarter. Meanwhile, growth in outstanding corporate bonds jumped to 1.6% q-o-q in Q3 2020 from tepid growth of 0.3% q-o-q in Q2 2020. On a y-o-y basis, Singapore's bond market expansion moderated to 9.8% in Q3 2020 from 13.2% in Q2 2020.

Indonesia's LCY bond market reached a size of USD264.8 billion at the end of September, with growth rising to 9.9% q-o-q in Q3 2020 from 7.8% q-o-q in Q2 2020. The faster growth in Q3 2020 was supported by a strong expansion in the government bond segment and a recovery in the corporate bond segment. Growth in the outstanding stock of LCY government bonds quickened to 10.9% q-o-q in Q3 2020 from 9.5% q-o-q in the previous quarter. Indonesia posted the fastest growth in its government bond stock in emerging East Asia in Q3 2020, bolstered by heightened issuance of government debt to finance economic relief measures. Corporate bonds outstanding rose 2.6% q-o-q in Q3 2020, reversing the 3.0% q-o-q drop in the prior quarter. On an annual basis, Indonesia's LCY bond market expanded 22.4% y-o-y in Q3 2020, up from 16.8% y-o-y in Q2 2020.

The outstanding amount of LCY bonds in the Philippines reached USD167.8 billion at the end of September. Overall growth quickened to 8.8% q-o-q in Q3 2020 from 5.2% q-o-q in Q2 2020, supported by faster growth

in the government bond segment and a recovery in the corporate bond segment. Outstanding government bonds rose 10.1% q-o-q in Q3 2020, up from 6.8% q-o-q in the prior quarter on increased issuance due to heightened financing needs for stimulus measures. The corporate bond market expanded 3.8% q-o-q in Q3 2020, recovering from a 0.4% q-o-q contraction in Q2 2020. On a y-o-y basis, overall LCY bond market growth almost doubled to 21.5% in Q3 2020 from 11.5% in Q2 2020.

Viet Nam's LCY bond market reached a size of USD65.3 billion at the end of September, with overall growth of 11.6% q-o-q in Q3 2020 reversing the 1.4% q-o-q contraction in Q2 2020. The recovery in q-o-q growth was driven by a resurgence in government bond market growth in Q3 2020. Government bonds outstanding rose 9.1% q-o-q in Q3 2020, a reversal of the 7.8% q-o-q drop in the previous quarter. Meanwhile, growth in outstanding corporate bonds slowed to 26.9% q-o-q in Q3 2020 from 68.9% q-o-q in Q2 2020. On an annual basis, Viet Nam's LCY bond market growth jumped to 17.0% y-o-y in Q3 2020 from 9.8% y-o-y in the prior quarter.

At the end of September, government bonds continued to account for the majority of emerging East Asia's LCY bond stock, representing a 61.6% share. In nominal terms, the outstanding stock of government bonds in the region reached USD11.5 trillion on growth of 6.1% q-o-q and 17.3% y-o-y (**Table 1**). The PRC and the Republic of Korea maintained their positions as the two largest government bond markets in the region with a combined share of 88.4% in Q3 2020.

ASEAN economies accounted for 10.3% of aggregate government bonds outstanding in emerging East Asia at the end of Q3 2020. Among ASEAN economies, Thailand had the largest stock of LCY government bonds at the end of September at USD324.7 billion. Indonesia, Singapore, and Malaysia followed with outstanding LCY government bonds of USD235.2 billion, USD228.3 billion, and USD204.1 billion, respectively. The Philippines and Viet Nam had the two smallest government bond stocks at USD134.1 billion and USD54.7 billion, respectively.

LCY corporate bonds outstanding in emerging East Asia totaled USD7.2 trillion at the end of September. The growth in the region's aggregate corporate bonds outstanding slowed to 2.7% q-o-q in Q3 2020 from 4.7% q-o-q in Q2 2020. The slower growth stemmed

Table 1: Size and Composition of Local Currency Bond Markets

	Q3 2019		Q2 2020		Q3 2020		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q3 2019		Q3 2020		Q3 2019		Q3 2020	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of														
Total	11,459	100.0	13,189	100.0	14,457	100.0	3.6	14.9	5.4	19.9	(0.5)	10.4	9.6	26.2
Government	7,402	64.6	8,332	63.2	9,240	63.9	3.5	12.9	6.6	18.6	(0.6)	8.5	10.9	24.8
Corporate	4,057	35.4	4,857	36.8	5,217	36.1	3.9	18.6	3.2	22.2	(0.2)	14.0	7.4	28.6
Hong Kong, China														
Total	289	100.0	293	100.0	295	100.0	(0.9)	4.2	0.9	1.0	(1.3)	4.1	0.9	2.2
Government	149	51.7	149	51.0	149	50.6	0.5	1.4	0.1	(1.1)	0.2	1.2	0.1	0.0
Corporate	140	48.3	143	49.0	146	49.4	(2.4)	7.4	1.6	3.2	(2.8)	7.3	1.6	4.4
Indonesia														
Total	227	100.0	251	100.0	265	100.0	4.8	16.4	9.9	22.4	4.3	22.2	5.4	16.8
Government	196	86.4	221	88.0	235	88.8	4.8	18.6	10.9	25.8	4.3	24.5	6.3	20.1
Corporate	31	13.6	30	12.0	30	11.2	4.9	4.4	2.6	0.7	4.4	9.6	(1.7)	(3.9)
Korea, Rep. of														
Total	1,982	100.0	2,123	100.0	2,224	100.0	1.7	6.6	1.9	9.8	(1.9)	(1.2)	4.7	12.2
Government	797	40.2	863	40.7	914	41.1	0.8	2.8	3.0	12.1	(2.7)	(4.7)	5.8	14.6
Corporate	1,184	59.8	1,260	59.3	1,310	58.9	2.3	9.4	1.1	8.2	(1.3)	1.4	4.0	10.6
Malaysia														
Total	357	100.0	363	100.0	381	100.0	0.3	8.3	1.9	6.1	(1.0)	7.0	5.0	6.9
Government	188	52.6	193	53.3	204	53.6	0.8	8.3	2.3	8.0	(0.5)	7.1	5.5	8.8
Corporate	169	47.4	169	46.7	177	46.4	(0.2)	8.3	1.3	3.9	(1.6)	7.0	4.5	4.7
Philippines														
Total	129	100.0	150	100.0	168	100.0	(0.1)	15.7	8.8	21.5	(1.2)	20.6	11.8	29.9
Government	101	78.4	119	79.0	134	79.9	(0.7)	14.4	10.1	23.8	(1.8)	19.2	13.2	32.4
Corporate	28	21.6	32	21.0	34	20.1	2.1	20.7	3.8	12.9	1.0	25.8	6.7	20.7
Singapore														
Total	322	100.0	345	100.0	358	100.0	4.9	11.9	1.8	9.8	2.7	10.7	3.9	11.2
Government	200	62.2	219	63.6	228	63.7	5.6	15.0	2.0	12.5	3.4	13.8	4.1	13.9
Corporate	122	37.8	126	36.4	130	36.3	3.8	7.2	1.6	5.4	1.7	6.1	3.7	6.7
Thailand														
Total	423	100.0	435	100.0	444	100.0	(0.7)	6.6	4.2	8.3	38.1	52.2	2.0	4.9
Government	301	71.2	315	72.4	325	73.2	(1.1)	6.0	5.4	11.3	33.3	44.9	3.1	7.8
Corporate	122	28.8	120	27.6	119	26.8	0.2	8.3	1.1	0.9	51.8	74.3	(1.1)	(2.3)
Viet Nam														
Total	56	100.0	58	100.0	65	100.0	4.7	3.1	11.6	17.0	5.2	3.6	11.7	17.1
Government	51	91.7	50	85.7	55	83.8	5.2	2.9	9.1	6.9	5.7	3.4	9.2	7.0
Corporate	5	8.3	8	14.3	11	16.2	(0.7)	5.1	26.9	129.1	(0.2)	5.6	26.9	129.3
Emerging East Asia														
Total	15,244	100.0	17,208	100.0	18,657	100.0	3.1	13.1	4.8	17.4	0.3	9.6	8.4	22.4
Government	9,386	61.6	10,462	60.8	11,484	61.6	3.0	11.6	6.1	17.3	0.3	8.4	9.8	22.3
Corporate	5,857	38.4	6,746	39.2	7,173	38.4	3.2	15.5	2.7	17.6	0.3	11.5	6.3	22.5
Japan														
Total	10,963	100.0	11,082	100.0	11,492	100.0	0.4	1.9	1.3	2.3	0.1	7.2	3.7	4.8
Government	10,187	92.9	10,288	92.8	10,664	92.8	0.2	1.5	1.3	2.2	(0.04)	6.8	3.7	4.7
Corporate	776	7.1	794	7.2	828	7.2	2.8	7.2	1.9	4.1	2.6	12.8	4.3	6.6

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

Notes:

1. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.

2. Corporate bonds include issues by financial institutions.

3. Bloomberg LP end-of-period LCY-USD rates are used.

4. For LCY base, emerging East Asia growth figures are based on 30 September 2020 currency exchange rates and do not include currency effects.

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

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

primarily from a growth slowdown in the PRC and the Republic of Korea, the region's two largest corporate bond markets. Corporate bond market growth also slowed in Viet Nam and Hong Kong, China in Q3 2020 compared with Q2 2020. The rest of the emerging East Asia's corporate bond markets posted faster growth in Q3 2020 than in Q2 2020, but the weaker growth in the PRC and the Republic of Korea curtailed the region's overall growth in Q3 2020.

ASEAN economies accounted for 7.0% of emerging East Asia's corporate bond market at the end of September. Among ASEAN economies, Malaysia, Singapore, and Thailand had the largest corporate bond markets with outstanding bond stocks of USD176.9 billion, USD130.2 billion, and USD118.9 billion, respectively. The Philippines and Indonesia followed, with outstanding bond stocks of USD33.7 billion and USD29.6 billion, respectively. Viet Nam remained home to the region's smallest corporate bond market, with an outstanding stock of USD10.6 billion at the end of September.

Emerging East Asia's total LCY bond market was equivalent to 95.6% of the region's gross domestic product (GDP) at the end of September, climbing from 91.6% at the end of June and 82.5% at the end of September 2019 (**Table 2**). The share of government bonds to GDP, expressed as a percentage, increased to 58.8% at the end of Q3 2020 from 55.7% at the end of Q2 2020, while the corporate bonds-to-GDP share increased to 36.8% from 35.9%. The rising bonds-to-GDP share in Q3 2020 is attributed to the expansion of all bond markets in the region during the quarter, largely due to governments raising funds for their COVID-19 responses, while economic output continued to experience moderate to negative growth due to the lingering adverse impact of the pandemic.

The bond markets of the Republic of Korea, Malaysia, and Singapore were the largest in the region, measured as a percentage of GDP, at the end of Q3 2020, with their GDP shares each exceeding 100%. The Republic of Korea's bond market had the highest GDP share in the region at 141.7%. Indonesia and Viet Nam accounted for the smallest bond market shares at 25.0% each. All economies saw increases in their bond-to-GDP shares between Q2 2020 and Q3 2020.

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

	Q3 2019	Q2 2020	Q3 2020
China, People's Rep. of			
Total	84.3	94.4	98.1
Government	54.5	59.7	62.7
Corporate	29.8	34.8	35.4
Hong Kong, China			
Total	78.8	82.1	83.4
Government	40.7	41.8	42.2
Corporate	38.0	40.2	41.2
Indonesia			
Total	20.6	22.8	25.4
Government	17.8	20.1	22.5
Corporate	2.8	2.7	2.8
Korea, Rep. of			
Total	129.0	138.6	141.7
Government	51.9	56.3	58.2
Corporate	77.1	82.3	83.5
Malaysia			
Total	106.0	114.0	116.9
Government	55.8	60.8	62.6
Corporate	50.2	53.2	54.3
Philippines			
Total	35.0	39.7	44.4
Government	27.4	31.4	35.5
Corporate	7.6	8.4	8.9
Singapore			
Total	87.3	99.7	103.6
Government	54.3	63.4	66.0
Corporate	33.0	36.3	37.6
Thailand			
Total	77.1	82.9	88.1
Government	54.9	60.0	64.5
Corporate	22.2	22.9	23.6
Viet Nam			
Total	22.0	22.1	24.5
Government	20.2	19.0	20.5
Corporate	1.8	3.2	4.0
Emerging East Asia			
Total	82.5	91.6	95.6
Government	50.8	55.7	58.8
Corporate	31.7	35.9	36.8
Japan			
Total	214.3	221.4	227.1
Government	199.1	205.5	210.8
Corporate	15.2	15.9	16.4

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

Notes:

1. Data for GDP are from CEIC. Q3 2020 GDP figures carried over from Q2 2020 for Singapore.
2. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.

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

By segment, Singapore had the highest government bonds-to-GDP share in the region at 66.0%, while the Republic of Korea had the largest corporate bonds-to-GDP share at 83.5%. Viet Nam had the lowest government bonds-to-GDP share at 20.5%, while Indonesia had the lowest corporate bonds-to-GDP share at 2.8%.

Foreign Investor Holdings

The foreign holdings share of LCY government bonds declined in most markets in Q3 2020.

The foreign investor holdings share at the end of Q3 2020 was lower than at the end of Q2 2020 in Indonesia, Thailand, the Philippines, and Viet Nam, while it increased in the PRC and Malaysia (**Figure 2**). Lingering uncertainty and risk surrounding the COVID-19 pandemic weighed down foreign investor sentiment, negatively impacting investment in most markets in the region.

Foreign investors continued to increase their holdings of the PRC's government bonds. The share of foreign holdings increased to 9.4% at the end of September from 9.1% at the end of June. Government bonds in the PRC have higher returns compared to advanced economies such as the United States (US) and Japan, resulting in sustained foreign interest in the domestic bond market. The stability of the Chinese yuan is also a factor in the

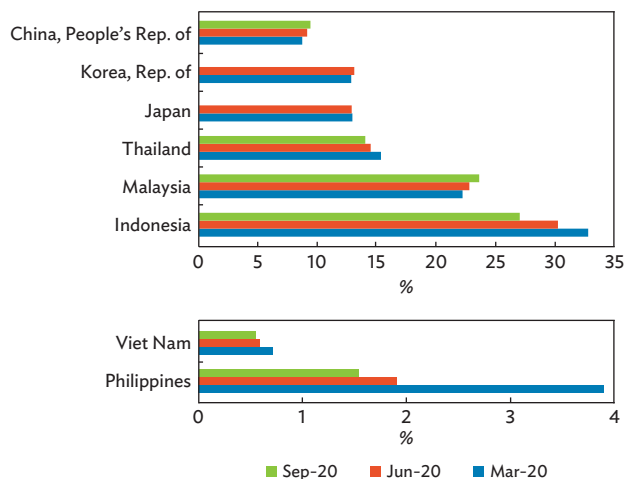
increase in foreign holdings. Moreover, the PRC published new draft rules in September making foreign access to the LCY bond market easier to further boost the market's development. Foreign investor demand was also driven by news that PRC government bonds would be included in the FTSE Russell World Government Bond Index in October 2021.

Malaysian government securities continued to attract foreign participation in the bond market with the share of offshore holdings climbing to 23.6% at the end of September from 22.7% at the end of June. Favorable yields amid high global liquidity and signs of domestic economic recovery supported the bond market's appeal to foreign investors. The increase in Malaysian government bonds' weight in the Government Bond Index-Emerging Markets Global Diversified Index as well as the decision to keep Malaysia's bonds in the FTSE Russell World Government Bond Index, with another review to follow in March 2021, has also lent a boost to demand. Malaysia has the second-largest share of foreign-held government bonds in the region.

Foreign ownership of government bonds in Indonesia and in the Philippines further declined in Q3 2020. Indonesia reached a share of 27.0% at the end of September, a record low dating to June 2012, over concerns about Indonesia's debt monetization plan. The share of offshore holdings has fallen about 10 percentage points from the start of the year. Foreign investor sentiment toward the local bond market remained weak in Q3 2020 as evidenced by low to negative monthly fund flows. The massive borrowings by the government to fund its pandemic response were mainly absorbed by domestic investors, resulting in the slide in the share of foreign holdings. Despite the decline, Indonesia continued to have the highest foreign holdings share in the region. In the Philippines, foreign ownership of government bonds dropped to its lowest level since data are available, falling to 1.5% at the end of September from 1.9% at the end of June. While foreign funds returned to the government bond market in September, the inflow was merely enough to have a small offsetting impact on past outflows. Domestic investors are the main participants in the local government bond market expansion.

Foreign participation in Thailand's government bond market has not fully recovered from the initial impact of the COVID-19 pandemic. The decline in the share of debt paper held by foreign investors continued to decline in

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



Note: Data for Japan and the Republic of Korea as of 30 June 2020.
Source: AsianBondsOnline.

Q3 2020, as increases in debt were largely absorbed by domestic investors. The foreign holdings share was down to 14.0% at the end of September, its lowest level since December 2016, even as monthly fund flows have been positive since June.

In Viet Nam, the share of foreign ownership was practically unchanged in Q3 2020, remaining at 0.6% at the end of September. The foreign holdings share in Viet Nam is the smallest in the region.

The uptrend in the foreign holdings share in the Republic of Korea's government bond held through the end of June. Foreign investors held 13.0% of Korean government bonds, up from 12.8% at the end of March and the highest level of foreign ownership share since data are available. The appeal of government bonds is owed to high returns as well as sound fiscal and financial conditions in the economy.

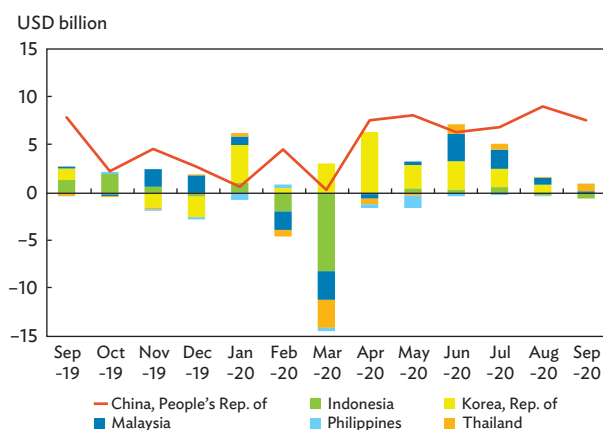
Foreign Bond Flows

Foreign buying of government bonds was sustained in most emerging East Asian markets in Q3 2020.

Inflows of foreign funds into government bond markets continued in Q3 2020 in most emerging East Asian economies after rebounding in Q2 2020 (**Figure 3**). This resulted in total net inflows of USD29.9 billion in the region during the quarter. Ample global liquidity, high-yielding government debt, and some signs of recovery among emerging East Asian economies amid progress in COVID-19 containment measures were the key factors driving the positive flows. The highest monthly net inflows in the region during Q3 2020 were recorded in July, amounting to an aggregate of USD11.7 billion, with only the Philippines experiencing outflows. Foreign buying, however, decelerated in succeeding months, registering only USD7.9 billion in aggregate net inflows in September, with Indonesia and the Republic of Korea registering outflows.

The PRC attracted USD23.3 billion in foreign funds in Q3 2020, its highest quarterly inflow total to date. Its largest monthly inflows during the quarter occurred in August with USD9.0 billion. Attractive yields, initiatives to open up its financial markets to international investors, and the PRC bond market's inclusion in investing indexes

Figure 3: Foreign Bond Flows in Select Emerging East Asian Economies



USD = United States dollar.

Notes:

1. The Republic of Korea and Thailand provided data on bond flows. For the People's Republic of China, Indonesia, Malaysia, and the Philippines, month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.

2. Data as of 30 September 2020.

3. Figures were computed based on 30 September 2020 exchange rates to avoid currency effects.

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

have fueled foreign participation in the LCY debt market. The PRC had the highest fund inflows among all emerging East Asian economies during the quarter.

In the Republic of Korea, cumulative net inflows amounted to USD2.7 billion in Q3 2020, which was partially offset by the foreign sell-off in September. The fund outflows in September, amounting to USD26.5 million, were the first since the start of the year. Profit-taking by investors, following 8 months of foreign buying, mainly caused the outflows.

Overseas investors continued to pour funds into the Malaysian and Thai government debt markets in Q3 2020. Malaysia received total inflows of USD2.9 billion during the quarter, with the bulk occurring in July before slowing in August and September. In Thailand, total inflows amounted to USD1.4 billion during the quarter with the highest monthly total occurring in September at USD0.8 billion. Relatively higher returns in these markets, especially as real interest rates were pushed higher by deflation, drove the continued foreign buying.

Indonesia saw foreign fund outflows in Q3 2020 as concerns about the struggle to contain COVID-19 persisted. Indonesia had total net outflows of USD0.3 billion during the quarter due to fund withdrawals in August and September that offset the foreign buying in July. Investor concerns about a potential weakening of Bank Indonesia's independence also sparked the capital outflows. In September, Indonesia's parliament received a recommendation to give government ministers voting rights at monetary policy meetings and to allow the central banks to fund fiscal deficits.

In the Philippines, net foreign funds outflow amounted to USD0.3 billion in Q3 2020, an improvement from the previous quarter's USD2.0 billion withdrawals. Foreign investors sold Philippine government bonds from March to August. In the months of Q3 2020, outflows in July amounted to USD0.2 billion, tapering off in August to USD92.0 million, before registering inflows of USD46.9 million in September. This improvement was likely brought about by some optimism with the gradual reopening of the economy and progress in COVID-19 containment as evidenced by declining daily cases.

Local Currency Bond Issuance

Total LCY bond sales in emerging East Asia climbed to USD2.2 trillion in Q3 2020, as governments borrowed to support large-scale stimulus programs.

LCY bond issuance in emerging East Asian markets continued to expand in Q3 2020, buoyed by governments seeking to fund large-scale stimulus programs and recovery measures amid the COVID-19 outbreak. Total bond sales reached USD2.2 trillion in Q3 2020 on a 6.4% q-o-q expansion (**Table 3**). Growth, however, moderated due to a high base effect following the 21.5% q-o-q issuance hike posted in the preceding quarter. Issuance in Q3 2020 was largely driven by higher sales of Treasury instruments and other government bonds. Central bank issuance also contributed to the growth but to a much lower extent. In contrast, the volume of issuance by corporates fell short of the previous quarter's volume. Seven out of nine emerging East Asian bond markets posted a higher issuance volume in Q3 2020 than in the previous quarter, with the Republic of Korea and Malaysia as the exceptions. Both markets recorded q-o-q declines in issuance in Q3 2020 vis-à-vis Q2 2020.

On an annual basis, issuance growth expanded at a faster pace of 39.8% y-o-y in Q3 2020 compared with 32.5% y-o-y in Q2 2020. Except for Viet Nam, all regional bond markets recorded y-o-y increases in bond issuance in Q3 2020. Viet Nam was the sole market that posted a y-o-y contraction in issuance.

Government bonds continued to account for a larger share of issuance than corporate bonds, representing 61.2% of the region's issuance total during the quarter, up from the previous quarter's 58.5%. In Q3 2020, LCY government bond issuance totaled USD1,374.1 billion on growth of 11.4% q-o-q and 51.8% y-o-y. Driving much of the growth in government bond issuance was Treasury instruments and other government bonds, which comprised 75.2% of the total government bond issuance during the quarter. The markets of the PRC, Indonesia, the Philippines, Thailand, and Viet Nam saw q-o-q increases in their issuance of Treasury and other government bonds during the quarter. On the other hand, lower issuance volumes of Treasury and other government bonds were observed in Hong Kong, China; the Republic of Korea; and Malaysia. Singapore maintained the same volume of issuance in Q3 2020 compared with the previous quarter.

Central bank issuance recovered in Q3 2020, with growth rising 8.2% q-o-q after contracting 1.4% q-o-q in Q2 2020. Most of the region's central banks increased their issuance in Q3 2020, particularly in Hong Kong, China; Indonesia; the Philippines; Singapore; and Thailand. On the other hand, the Bank of Korea and Bank Negara Malaysia reduced their issuance, while the State Bank of Vietnam had no issuance.

In contrast, corporate bond issuance across the region declined a marginal 0.6% q-o-q to USD870.7 billion. On a y-o-y basis, however, corporate bond issuance grew 24.3% in Q3 2020, which was lower than the previous quarter's 38.8% rise. The PRC and the Republic of Korea, which are home to the region's first- and second-largest corporate bond markets, respectively, each recorded a low volume of issuance during the quarter. Corporates from Singapore and Viet Nam also had less issuance during the quarter.

The PRC continued to dominate LCY bond issuance in the region, constituting 70.1% of emerging East Asia's aggregate issuance volume in Q3 2020. Total bond sales reached USD1,573.5 billion in Q3 2020, of which

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

	Q3 2019		Q2 2020		Q3 2020		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q3 2020		Q3 2020	
							q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of										
Total	981	100.0	1,414	100.0	1,574	100.0	6.9	52.5	11.3	60.5
Government	467	47.6	736	52.1	866	55.1	13.1	76.3	17.7	85.6
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	467	47.6	736	52.1	866	55.1	13.1	76.3	17.7	85.6
Corporate	514	52.4	678	47.9	707	44.9	0.2	30.8	4.3	37.7
Hong Kong, China										
Total	130	100.0	137	100.0	145	100.0	5.2	9.8	5.2	11.1
Government	107	82.1	107	78.0	117	80.8	9.0	8.0	9.0	9.3
Central Bank	106	81.8	106	77.2	117	80.7	10.0	8.4	10.0	9.7
Treasury and Other Govt.	0.5	0.4	1	0.8	0.1	0.1	(87.8)	(73.7)	(87.8)	(73.4)
Corporate	23	17.9	30	22.0	28	19.2	(8.2)	17.9	(8.2)	19.3
Indonesia										
Total	24	100.0	30	100.0	41	100.0	44.3	78.5	38.3	70.3
Government	21	87.2	29	98.0	39	93.9	38.2	92.2	32.5	83.3
Central Bank	8	33.5	8	26.4	9	21.6	17.9	15.0	13.0	9.7
Treasury and Other Govt.	13	53.7	21	71.6	30	72.3	45.7	140.4	39.7	129.4
Corporate	3	12.8	1	2.0	3	6.1	340.7	(14.7)	322.5	(18.6)
Korea, Rep. of										
Total	164	100.0	208	100.0	189	100.0	(11.5)	12.6	(9.1)	15.1
Government	63	38.6	96	46.4	85	44.8	(14.5)	30.6	(12.1)	33.5
Central Bank	30	18.3	33	16.0	31	16.2	(10.5)	(0.4)	(8.0)	1.9
Treasury and Other Govt.	33	20.3	63	30.3	54	28.6	(16.7)	58.5	(14.3)	62.1
Corporate	101	61.4	112	53.6	104	55.2	(8.9)	1.2	(6.4)	3.5
Malaysia										
Total	20	100.0	22	100.0	22	100.0	(4.5)	6.3	(1.5)	7.1
Government	9	45.6	14	63.7	12	57.4	(14.0)	33.7	(11.3)	34.7
Central Bank	2	10.2	0.2	1.1	0	0.0	(100.0)	(100.0)	(100.0)	(100.0)
Treasury and Other Govt.	7	35.4	14	62.6	12	57.4	(12.5)	72.1	(9.8)	73.3
Corporate	11	54.4	8	36.3	9	42.6	12.1	(16.7)	15.6	(16.1)
Philippines										
Total	7	100.0	14	100.0	25	100.0	77.0	254.0	81.9	278.5
Government	5	78.5	13	96.0	23	89.8	65.4	304.5	69.9	332.5
Central Bank	0	0.0	0	0.0	1	4.1	-	-	-	-
Treasury and Other Govt.	5	78.5	13	96.0	22	85.7	57.9	286.2	62.3	312.9
Corporate	1	21.5	1	4.0	3	10.2	358.3	69.0	370.9	80.7
Singapore										
Total	124	100.0	136	100.0	148	100.0	6.8	18.1	9.0	19.6
Government	120	96.8	131	96.8	144	97.5	7.5	18.9	9.8	20.4
Central Bank	94	75.9	106	78.2	118	80.0	9.3	24.6	11.6	26.1
Treasury and Other Govt.	26	21.0	25	18.6	26	17.5	0.0	(1.7)	2.1	(0.5)
Corporate	4	3.2	4	3.2	4	2.5	(16.1)	(6.4)	(14.4)	(5.2)
Thailand										
Total	78	100.0	79	100.0	93	100.0	20.9	23.4	18.3	19.5
Government	65	82.8	71	89.6	83	89.0	20.2	32.7	17.6	28.5
Central Bank	59	75.7	59	75.2	65	69.1	11.2	12.6	8.8	9.1
Treasury and Other Govt.	5	7.0	11	14.4	19	19.9	67.1	248.1	63.5	237.1
Corporate	13	17.2	8	10.4	10	11.0	27.4	(21.3)	24.6	(23.8)

continued on next page

Table 3 continued

Viet Nam	Q3 2019		Q2 2020		Q3 2020		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q3 2020		Q3 2020	
							q-o-q	y-o-y	q-o-q	y-o-y
Total	22	100.0	6	100.0	8	100.0	34.3	(63.7)	34.4	(63.7)
Government	22	99.4	2	39.6	5	63.7	116.2	(76.8)	116.3	(76.7)
Central Bank	19	89.2	0	0.0	0	0.0	-	(100.0)	-	(100.0)
Treasury and Other Govt.	2	10.2	2	39.6	5	63.7	116.2	126.0	116.3	126.2
Corporate	0.1	0.6	4	60.4	3	36.3	(19.3)	2,048.7	(19.2)	2,050.4
Emerging East Asia										
Total	1,550	100.0	2,046	100.0	2,245	100.0	6.4	39.8	9.7	44.8
Government	879	56.7	1,201	58.7	1,374	61.2	11.4	51.8	14.4	56.3
Central Bank	319	20.6	313	15.3	340	15.2	8.2	6.3	8.7	6.6
Treasury and Other Govt.	560	36.1	888	43.4	1,034	46.1	12.5	76.7	16.5	84.7
Corporate	671	43.3	845	41.3	871	38.8	(0.6)	24.3	3.0	29.8
Japan										
Total	411	100.0	406	100.0	533	100.0	28.3	26.5	31.3	29.6
Government	357	86.9	370	91.1	484	90.8	27.9	32.2	30.9	35.5
Central Bank	0	0.0	20	5.0	0	0.0	(100.0)	-	-	-
Treasury and Other Govt.	357	86.9	350	86.1	484	90.8	35.3	32.2	38.5	35.5
Corporate	54	13.1	36	8.9	49	9.2	32.4	(11.4)	35.5	(9.2)

(-) = negative, - = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:

1. Corporate bonds include issues by financial institutions.

2. Bloomberg LP end-of-period LCY-USD rates are used.

3. For LCY base, emerging East Asia growth figures are based on 30 September 2020 currency exchange rates and do not include currency effects.

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

55.1% was government bonds and the remaining 44.9% was corporate bonds. Growth moderated to 6.9% q-o-q in Q3 2020 after surging 31.2% q-o-q in Q2 2020 as the government continued to stimulate the economy, leading to a high base effect. Government bond issuance drove much of the growth, particularly Treasury bonds and local government bonds, driven by government directives for increased spending to support fiscal policies and pursue projects that were derailed by the COVID-19 pandemic. The government also increased its quota of local government bonds by CNY1.6 trillion in 2020 compared to last year's and pushed local governments to tap the quota for issuing bonds in a bid to boost economic recovery. Local governments were also required to complete their 2020 issuances by October. Corporate bond issuance posted marginal growth of 0.2% in Q3 2020 from 15.9% q-o-q in Q2 2020 due to rising interest rates. On an annual basis, the PRC's issuance activities quickened to 52.5% y-o-y in Q3 2020 from 48.2% y-o-y in Q2 2020.

LCY bond issuance in the Republic of Korea totaled USD189.2 billion in Q3 2020, down 11.5% q-o-q following a 4.0% q-o-q hike in the preceding quarter. All bond segments recorded declines in issuance during the quarter. Government bond issuance slowed by 14.5% q-o-q, but with the volume still relatively high, as the government sought to finance its supplemental budgets. Issuance of central bank instruments also dropped during the quarter, falling 10.5% q-o-q as the Bank of Korea added liquidity. For the third consecutive quarter, the volume of new corporate bond issuance decelerated, falling 8.9% q-o-q as corporates reconsidered their borrowing plans due to uncertainties in the economy. On a y-o-y basis, bond issuance moderated to 12.6% in Q3 2020 from 16.2% in Q2 2020.

In Hong Kong, China, bond issuance climbed to USD144.7 billion in Q3 2020 on growth of 5.2% q-o-q that followed a 1.4% q-o-q hike in the prior quarter. Issuance of Exchange Fund Bills and Exchange Fund

Notes picked up during the quarter, rebounding to expand 10.0% q-o-q after contracting 1.5% q-o-q in Q2 2020 due to the Hong Kong Monetary Authority's decision in the earlier quarter to reduce issuance to increase liquidity. On the other hand, the issuance of Hong Kong Special Administrative Region Bonds declined in Q3 2020. Meanwhile, corporate bond sales contracted 8.2% q-o-q in Q3 2020 following growth of 9.8% q-o-q in Q2 2020. On a y-o-y basis, LCY bond issuance surged 9.8% in Q3 2020, up from 2.2% in Q2 2020.

Total bonds sales from ASEAN economies tallied USD337.4 billion in Q3 2020, with the share of the regional total climbing to 15.0%. Aggregate bond issuance swelled to 17.5% q-o-q and 23.5% y-o-y in Q3 2020 from 4.8% q-o-q and 2.1% y-o-y in Q2 2020. Five out of six ASEAN economies for which data are available recorded q-o-q increases in bond issuance during the quarter, including Indonesia, the Philippines, Singapore, Thailand, and Viet Nam. The exception was Malaysia, which pared its issuance volume in Q3 2020 compared with the previous quarter. Among ASEAN economies, the largest issuers in Q3 2020 were Singapore, Thailand, and Indonesia.

LCY bond issuance from Singapore summed to USD147.7 billion in Q3 2020, with growth inching up to 6.8% q-o-q from 6.2% q-o-q in Q2 2020. The hike stemmed from an increase in the issuance of government bonds, while corporate bond issuance contracted during the quarter. Government bond issuance edged higher on growth of 7.5% q-o-q, driven largely by the 9.3% q-o-q hike in the issuance of Monetary Authority of Singapore bills. The volume of issuance of Singapore Government Securities bills and bonds was unchanged from the previous quarter. Corporate bond issuance during the quarter weakened 16.1% q-o-q following a 50.8% q-o-q expansion in Q2 2020. On an annual basis, LCY bond issuance in Singapore slipped to 18.1% y-o-y from 19.9% y-o-y in Q2 2020.

Thailand saw total bond sales in Q3 2020 of USD93.3 billion, as growth accelerated 20.9% q-o-q from only 3.1% q-o-q in Q2 2020. Much of the q-o-q expansion stemmed from increased issuance volume by the government, particularly Treasury and other government bonds. Treasury bond issuance surged 67.1% q-o-q as the government aimed to boost economic growth through increased fiscal spending. New issuance of central bank instruments also rebounded during the

quarter, rising 11.2% q-o-q following a decline of 0.4% in the previous quarter. Corporate bond issuance also recovered, rising 27.4% q-o-q in Q3 2020 after contracting 23.7% q-o-q in the previous quarter. LCY bond issuance in Thailand rebounded on growth of 23.4% y-o-y following a decline of 14.1% y-o-y in Q2 2020.

In Indonesia, LCY bond issuance remained active as issuance reached USD41.4 billion in Q3 2020, with growth accelerating to 44.3% q-o-q from 37.5% q-o-q in Q2 2020. Growth was boosted by increased issuance of Treasury instruments as the government expedited fiscal spending to pump-prime the economy in response to the adverse impact of the COVID-19 pandemic. Issuance of central bank bills also climbed during the quarter, rising 17.9% q-o-q. Corporate bond sales were quite active during the quarter, as issuance rose more than four-fold in Q3 2020. On a y-o-y basis, issuance volume slightly dipped to 78.5% from 79.4% in Q2 2020.

LCY bond sales in Malaysia totaled USD21.6 billion in Q3 2020 on a 4.5% q-o-q contraction. The decline in issuance stemmed from lower bond sales of Treasury instruments and the absence of Bank Negara Malaysia issuance during the quarter. On the other hand, corporate bond issuance climbed 12.1% q-o-q in Q3 2020 after declining 15.7% q-o-q in the preceding quarter. On a y-o-y basis, bond issuance grew 6.3% in Q3 2020 following a 16.7% contraction in Q2 2020.

In the Philippines, LCY bond sales nearly doubled to reach USD25.4 billion in Q3 2020. Overall growth soared 77.0% q-o-q after a decline of 19.6% q-o-q in the prior quarter. Government bond issuance grew 65.4% q-o-q on the back of a 57.9% q-o-q hike in the issuance of Treasury instruments and the resumption of issuance of central bank bills by the Bangko Sentral ng Pilipinas (BSP). Q3 2020 marked the first issuance of central banks bills by the BSP since the 1980s. Beginning on 18 September, the BSP issued central bank bills once a week as part of efforts to expand its monetary policy tools. Corporate bond issuance during the quarter also rebounded strongly, as issuance climbed more than four-fold. On an annual basis, bond issuance growth surged to 254.0% y-o-y in Q3 2020 from 58.6% y-o-y in the prior quarter.

LCY bond issuance in Viet Nam hit USD7.9 billion in Q3 2020, owing to a 34.3% q-o-q rise after a decline of 25.2% q-o-q in Q2 2020. The increase was dominated

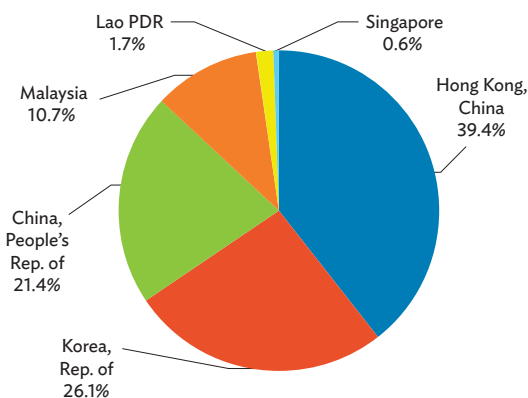
by a 116.2% q-o-q gain in Treasury bond issuance, as the government sought funding for its stimulus programs. In addition, the State Bank of Vietnam has not issued central bank bills for the past 2 quarters to help maintain liquidity. In contrast, corporate bonds issuance fell 19.3% q-o-q in Q3 2020. On a yearly basis, Viet Nam's LCY bond issuance contracted 63.7% y-o-y in Q3 2020, which was slightly better than the 75.0% y-o-y contraction in Q2 2020.

Cross-Border Bond Issuance

Cross-border bond issuance in emerging East Asia reached USD1.8 billion in Q3 2020.

Intraregional bond issuance in emerging East Asia reached USD1.8 billion in Q3 2020, a 39.7% q-o-q decline from the USD3.0 billion raised in Q2 2020, and amounted to only half of the aggregate issuance in Q3 2019. The decline was primarily due to tepid cross-border issuance from the PRC, whose share of the region's aggregate issuance volume plunged to 21.4% in Q3 2020 from 56.6% in Q2 2020. Hong Kong, China had the highest share in Q3 2020 at 39.4% (Figure 4). Other economies that issued cross-border bonds during the quarter included the Republic of Korea, the Lao People's Democratic Republic, Malaysia, and Singapore. Monthly issuance volumes amounted to USD552.2 million, USD506.1 million, and USD757.4 million for the months of July, August, and September, respectively.

Figure 4: Origin Economies of Intra-Emerging East Asian Bond Issuance in the Third Quarter of 2020



Lao PDR = Lao People's Democratic Republic.
Source: AsianBondsOnline calculations based on Bloomberg LP data.

In Q3 2020, Hong Kong, China dominated the region's cross-border issuance market with aggregate issuance of USD715.7 million, which was almost at par with the volume issued in the previous quarter. Six institutions from Hong Kong, China issued cross-border bonds in Q3 2020, and all were denominated in Chinese yuan. Real estate company Wharf REIC Finance was the largest issuer in Hong Kong, China with USD191.4 million of 3-year and 5-year bonds. The Hong Kong Mortgage Corporation followed with issuance totaling USD160.5 million from bonds of various tenors. China Travel Services Group, which had the second-largest single issuance in the region in Q3 2020, raised USD147.3 million via a short-term bond.

In the Republic of Korea, cross-border bond issuances reached USD474.4 million in Q3 2020 and comprised over a quarter of the regional total. Three government-related institutions issued intraregional bonds in Q3 2020, led by the Export-Import Bank of Korea, which raised a total of USD187.3 million worth of 2-year and 3-year CNY-denominated bonds. Korea Development Bank also raised USD140.7 million via issuance of 1-year and 2-year bonds denominated in Chinese yuan, Hong Kong dollars, and Singapore dollars; and Korea Gas Corporation, which issued USD58.1 million worth of HKD-denominated 7-year bonds. The only private corporation that issued cross-border bonds for the quarter was Hyundai Capital at USD88.4 million.

Only two institutions raised funds via issuance of intraregional bonds in the PRC in Q3 2020, with the aggregate volume falling to USD388.8 million from USD1.5 billion and USD1.7 billion in the first and second quarters of the year, respectively. China Construction Bank issued SGD-denominated 3-year bonds amounting to USD366.2 million and Gemstones International issued short-term bonds worth USD22.6 million denominated in Hong Kong dollars.

Malayan Banking was the sole issuer of cross-border bonds from Malaysia, raising USD195.1 million worth of bonds denominated in Hong Kong dollars and Chinese yuan, and in various tenors ranging from 1 year to 7 years.

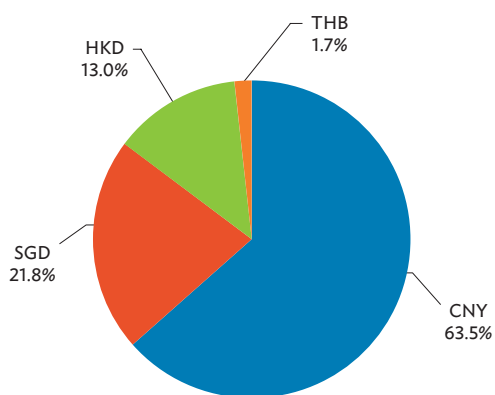
In the Lao People's Democratic Republic, hydroelectric power plant Nam Ngum 2 Power Company issued 3-year and 5-year THB-denominated bonds worth

USD31.6 million. In Singapore, Nomura International Fund issued 5-year CNY-denominated bonds worth USD10.0 million.

The top 10 issuers of cross-border bonds in the region had an aggregate issuance volume of USD1.7 billion in Q3 2020 and accounted for 91.6% of the regional total. Half of the list comprised firms from Hong Kong, China, which issued a total of USD684.7 million. The PRC's China Construction Bank was the largest issuer in the region at USD366.2 million, followed by Malayan Banking at USD195.1 million. The remaining firms on the top 10 list were from the Republic of Korea and had an aggregate issuance volume of USD416.4 million.

The Chinese yuan was the predominant currency of cross-border bonds in emerging East Asia in Q3 2020, surpassing the Hong Kong dollar, with a total of USD1.2 billion and a share of 63.5% of the regional total (Figure 5). Firms that issued in this currency were from Hong Kong, China; the Republic of Korea; Malaysia; and Singapore. The second-most widely used currency in Q3 2020 was the Singapore dollar with a total of USD395.5 million and share of 21.8%. Other cross-border issuance currencies included the Hong Kong dollar (USD236.3 million, 13.0%) and the Thai baht (USD31.6 million, 1.7%).

Figure 5: Currency Shares of Intra-Emerging East Asian Bond Issuance in the Third Quarter of 2020



CNY = Chinese renminbi, HKD = Hong Kong dollar, SGD = Singapore dollar, THB = Thai baht.

Source: AsianBondsOnline calculations based on Bloomberg LP data.

G3 Currency Issuance

Total G3 currency bond issuance in emerging East Asia amounted to USD288.7 billion in January–September.

The value of G3 currency bonds issued in emerging East Asia from January to September totaled USD288.7 billion, an increase of 12.3% y-o-y from USD257.1 billion in the same period in 2019 (Table 4).⁵ The expansion was driven by higher G3 issuance volumes in all of the region's economies compared with a year earlier, except in Viet Nam, which did not issue any G3 bonds during the review period.

Of all G3 currency bonds issued during the review period, a total of 93.0% was denominated in US dollars, 6.3% in euros, and 0.7% in Japanese yen. In January–September, a total of USD268.5 billion worth of bonds denominated in US dollars was issued in emerging East Asia, representing a jump of 12.4% y-o-y. The equivalent of USD18.2 billion of EUR-denominated bonds was issued during the review period, an increase of 70.0% y-o-y, as more economies issued such bonds. Bonds issued in Japanese yen totaled USD2.0 billion, a decline of 73.3% y-o-y from a high base that was largely driven by Malaysia's samurai bond issuance in March 2019. In addition, most of the region's economies opted not to issue in Japanese yen during the review period.

The PRC continued to dominate the region's issuance of G3 currency bonds, totaling USD171.9 billion during the January–September period, mainly supported by issuances in US dollars. This was followed by Hong Kong, China with USD27.1 billion and Indonesia with USD24.3 billion, both issuing mainly in US dollars as well.

In the first 9 months of 2020, G3 currency bond issuance increased on a y-o-y basis in the Philippines (115.2%); Thailand (55.0%); Indonesia (54.4%); Malaysia (40.1%); Singapore (16.1%); the Republic of Korea (7.7%); the PRC (4.5%); and Hong Kong, China (3.9%). Cambodia issued G3 currency bonds during the January–September period after not issuing any during the same period in 2019. On the other hand, Viet Nam chose not to issue any G3 currency bonds in January–September 2020 after issuing during the same period in 2019.

⁵ G3 currency bonds are denominated in either euros, Japanese yen, or US dollars.

Table 4: G3 Currency Bond Issuance

2019			January–September 2020		
Issuer	Amount (USD billion)	Issue Date	Issuer	Amount (USD billion)	Issue Date
Cambodia	0.0		Cambodia	0.4	
China, People's Rep. of	225.2		China, People's Rep. of	122.9	
Tencent Holdings 3.975% 2029	3.0	11-Apr-19	Industrial and Commercial Bank of China 3.58% Perpetual	2.9	23-Sep-20
People's Republic of China (Sovereign) 0.125% 2026	2.2	12-Nov-19	Bank of China 3.60% Perpetual	2.8	4-Mar-20
People's Republic of China (Sovereign) 1.950% 2024	2.0	3-Dec-19	Tencent Holdings 2.39% 2030	2.3	3-Jun-20
Others	218.0		Others	164.0	
Hong Kong, China	31.9		Hong Kong, China	27.1	
Celestial Miles 5.75% Perpetual	1.0	31-Jan-19	AIA Group 3.200% 2040	1.8	16-Sep-20
Hong Kong, China (Sovereign) 2.50% 2024	1.0	28-May-19	MTR Corporation 1.625% 2030	1.2	19-Aug-20
AIA Group 3.60% 2029	1.0	9-Apr-19	AIA Group 3.375% 2030	1.0	7-Apr-20
Others	28.9		Others	23.2	
Indonesia	22.4		Indonesia	24.3	
Perusahaan Penerbit SBSN Sukuk 4.45% 2029	1.3	20-Feb-19	Indonesia (Sovereign) 4.20% 2050	1.7	15-Apr-20
Indonesia (Sovereign) 1.40% 2031	1.1	30-Oct-19	Indonesia (Sovereign) 3.85% 2030	1.7	15-Apr-20
Indonesia (Sovereign) 3.70% 2049	1.0	30-Oct-19	Indonesia (Sovereign) 2.85% 2030	1.2	14-Jan-20
Others	19.0		Others	19.8	
Korea, Rep. of	29.4		Korea, Rep. of	24.2	
Republic of Korea (Sovereign) 2.500% 2029	1.0	19-Jun-19	Korea Housing Finance Corporation 0.010% 2025	1.2	5-Feb-20
Export–Import Bank of Korea 0.375% 2024	0.8	26-Mar-19	Korea Development Bank 1.250% 2025	1.0	3-Jun-20
LG Display 1.500% 2024	0.7	22-Aug-19	Export–Import Bank of Korea 0.829% 2025	0.8	27-Apr-20
Others	26.8		Others	21.2	
Lao People's Democratic Republic	0.2		Lao People's Democratic Republic	0.0	
Malaysia	13.7		Malaysia	15.2	
Malaysia (Sovereign) 0.530% 2029	1.8	15-Mar-19	Petronas Capital 4.55% 2050	2.8	21-Apr-20
Resorts World Las Vegas 4.625% 2029	1.0	16-Apr-19	Petronas Capital 3.50% 2030	2.3	21-Apr-20
Others	10.9		Others	10.2	
Philippines	6.7		Philippines	11.7	
Philippines (Sovereign) 3.750% 2029	1.5	14-Jan-19	Philippines (Sovereign) 2.950% 2045	1.4	5-May-20
Philippines (Sovereign) 0.875% 2027	0.8	17-May-19	Philippines (Sovereign) 2.457% 2030	1.0	5-May-20
Others	4.4		Others	9.3	
Singapore	9.7		Singapore	9.6	
DBS Group 2.85% 2022	0.8	16-Apr-19	Oversea-Chinese Banking Corporation 1.832% 2030	1.0	10-Sep-20
BOC Aviation 3.50% 2024	0.8	10-Apr-19	BOC Aviation 3.250% 2025	1.0	29-Apr-20
Others	8.2		Others	7.6	
Thailand	6.4		Thailand	4.4	
Bangkok Bank (Hong Kong, China) 3.733% 2034	1.2	25-Sep-19	Bangkok Bank (Hong Kong, China) 5.0% Perpetual	0.8	23-Sep-20
Kasikornbank 3.343% 2031	0.8	2-Oct-19	PTT Treasury 3.7% 2070	0.7	16-Jul-20
Others	4.4		Others	2.9	
Viet Nam	1.0		Viet Nam	0.0	
Emerging East Asia Total	346.6		Emerging East Asia Total	288.7	
Memo Items:			Memo Items:		
India	21.9		India	11.9	
Indian Oil Corporation 4.75% 2024	0.9	16-Jan-19	Vedanta Holdings Mauritius II 13.00% 2023	1.4	21-Aug-20
Others	21.0		Others	10.5	
Sri Lanka	4.9		Sri Lanka	0.4	
Sri Lanka (Sovereign) 7.55% 2030	1.5	28-Jun-19	Sri Lanka (Sovereign) 6.57% 2021	0.1	30-Jul-20
Others	3.4		Others	0.3	

USD = United States dollar.

Notes:

1. Data exclude certificates of deposit.
2. G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.
3. Bloomberg LP end-of-period rates are used.
4. Emerging East Asia comprises Cambodia; the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; the Lao People's Democratic Republic; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
5. Figures after the issuer name reflect the coupon rate and year of maturity of the bond.

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

The PRC accounted for 59.5% of all G3 currency issuance in emerging East Asia in January–September, issuing USD163.3 billion in US dollars and the equivalent of USD8.6 billion in euros. In August, internet-based services provider Prosus issued a 30-year callable bond denominated in US dollars. It also sold a dual-tranche EUR-denominated callable bond with tenors of 8 years and 12 years. Both issuances came under the company's Global Medium-Term Note Programme and will be used for general corporate purposes. In September, the Bank of Communications (Hong Kong) issued a 3-year and a 5-year bond totaling USD1.2 billion.

The Republic of Korea accounted for an 8.4% share of all G3 currency bonds issued during the review period: USD18.8 billion in US dollars and the equivalent of USD5.5 billion in euros. In August and September, the Export–Import Bank of Korea extended its issuance of USD-denominated bonds by issuing seven bonds with tenors ranging from 1 year to 5 years. In September, Korea Development Bank offered two 1-year bonds, a USD-denominated bond with a 0.64% coupon rate, and a zero-coupon bond denominated in euros.

Hong Kong, China accounted for a 9.4% share of G3 currency bond issuance in January–September. By currency, USD25.7 billion was issued in US dollars, while EUR-denominated and JPY-denominated bonds amounted to USD0.9 billion and USD0.5 billion, respectively. In September, multinational insurance and finance corporation AIA Group issued a 20-year USD-denominated callable bond worth USD1.8 billion ahead of new capital regulations for insurers set to be introduced by Hong Kong, China's Insurance Authority. Real estate business operator Elect Global Investments sold two perpetual callable bonds denominated in US dollars in August and September, totaling USD0.5 billion and with a coupon rate of 4.85% each.

G3 currency bond issuance among ASEAN member economies increased 47.8% y-o-y to USD65.1 billion in January–September from USD44.0 billion in the same period in 2019 as all ASEAN economies except for Viet Nam ramped up issuance during the period. As a share of emerging East Asia's total during the review period, ASEAN's G3 currency bond issuance accounted for 22.5%, up from 17.1% during the same period in the previous year. Indonesia and Malaysia led all ASEAN members in terms of G3 currency bond issuance, followed by the Philippines, Singapore, and Thailand, with

issuances amounting to USD11.7 billion, USD9.6 billion, and USD4.4 billion, respectively.

Indonesia's G3 currency bond issuance in January–September accounted for 8.4% of the total in emerging East Asia, comprising USD22.2 billion in US dollars, the equivalent of USD1.2 billion in euros, and the equivalent of USD0.9 billion in Japanese yen. In August and September, Bank Indonesia issued two 1-year zero-coupon bonds denominated in US dollars. In September, FPC Resources, a subsidiary of the investment management firm First Pacific Company, sold a 7-year USD-denominated callable bond to pay and refinance its existing debt obligations.

G3 currency bonds issued by Malaysia accounted for 5.2% of emerging East Asia's total, including USD-denominated bonds worth USD14.6 billion and JPY-denominated bonds worth USD0.6 billion. In August, telecommunications company Axiata was able to raise USD1.5 billion from a dual-tranche offering of USD-denominated callable bonds with tenors of 10 years (*sukuk*) and 30 years, the longest tenor ever for the company. During the same month, Malayan Banking Berhad sold a callable zero-coupon bond denominated in US dollars with a tenor of 40 years, the longest-dated tenor issued in the region in August.

The Philippines accounted for 4.0% of total G3 currency bond issuance in emerging East Asia during the January–September period, comprising bonds denominated in US dollars and euros amounting to USD10.3 billion and USD1.4 billion, respectively. In August, Rizal Commercial Banking Corporation issued a perpetual callable bond denominated in US dollars. The issuance was the Philippines' first additional Tier 1 capital under the Basel III regulations. Proceeds will be used for the bank's green and social activities. In September, conglomerate Filinvest Development offered a USD-denominated 5-year bond, proceeds from which will be used to refinance debt obligations and invest in green projects and information technology infrastructure.

Singapore's share of G3 currency bond issuance in emerging East Asia was 3.3% in January–September, comprising USD9.5 billion in US dollars and the equivalent of USD0.1 billion in euros. Oversea-Chinese Banking Corporation increased its USD-denominated bonds outstanding in August and September after issuing two bonds with tenors of 4 years and 10 years. In September,

commercial aircraft sales and leasing company BOC Aviation raised USD0.8 billion from a 10-year callable bond denominated in US dollars. The issuance was drawn from its global medium-term note program.

During the January–September period, 1.5% of all G3 currency bonds issued in the region were from Thailand, comprising USD3.9 billion worth of bonds denominated in US dollars and USD0.5 billion in euros. In September, Bangkok Bank (Hong Kong, China) issued a USD-denominated perpetual callable bond. The issuance will be part of the bank’s Basel III additional Tier 1 capital.

Cambodia issued USD0.4 billion worth of G3 currency bonds in July, contributing a 0.1% share of such bonds issued in the region during the review period. The USD-denominated bond issuance from casino and resort operator Nagacorp has a tenor of 4 years and a coupon rate of 7.95%. Proceeds from the issuance will be used to redeem part of the company’s outstanding bonds.

Figure 6 presents the monthly G3 currency issuance in emerging East Asia for the period September 2019 to September 2020. G3 issuance has been quite active since June of this year. However, a dip in issuance was observed in August, before spiking in September. The decline in August was mainly due to the drop in G3 currency bond

issuances in Indonesia, the Republic of Korea, and the Philippines. On the other hand, September issuances jumped mainly due to significant increases from the PRC; Hong Kong, China; the Republic of Korea; and Singapore. August and September saw several issuances of bonds, with tenors ranging from 10 years to 40 years, as institutional investors sought longer-term bonds to match the duration of their long-term liabilities.

Government Bond Yield Curves

Government bond yield curves shifted down between 31 August and 30 October in most markets in emerging East Asia.

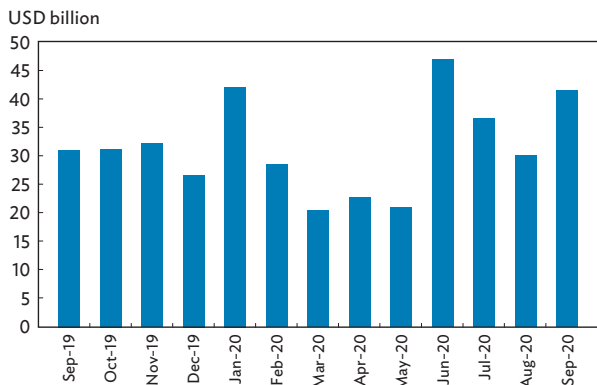
COVID-19 continued to weigh on market outlook between 31 August and 30 October, creating a highly uncertain economic outlook. In particular, rising COVID-19 cases, such as in the US and the euro area are placing pressure on the economic recovery. Additionally, uncertainties regarding the direction of the US economic policy and stimulus also dampened investor sentiment.

In the US, the Federal Reserve left monetary policy unchanged during its 15–16 September meeting. The Federal Reserve noted that data indicate that the US economy improved in Q3 2020; however, uncertainty remains due to COVID-19. Federal Reserve Chairman Jerome Powell has said that it would take time before the economy returns to its pre-COVID-19 levels and that it would require additional support, including fiscal stimulus. The Federal Reserve’s updated forecast in September was not substantially different from that in June, but the new forecast for full-year growth in 2020 improved to –3.7% from –6.5%. The Federal Reserve also left monetary policy unchanged during its 4–5 November meeting.

Both the European Central Bank (ECB) and the Bank of Japan (BOJ) left their monetary policies unchanged at their respective monetary policy meetings on 29 October. Both central banks noted improvements in Q3 2020, while also stating that concerns remained. In the euro area, the ECB indicated that it may make adjustments to monetary policy in December, while the BOJ downgraded its GDP forecast for fiscal 2020 from previous forecasts made in July.

In emerging East Asia, the uncertain economic outlook led central banks in the region to maintain its accommodative monetary policy. This largely impacted the shorter-end of the curve in most markets, as the region’s 2-year

Figure 6: G3 Currency Bond Issuance in Emerging East Asia



USD = United States dollar.

Notes:

1. Emerging East Asia comprises Cambodia; the People’s Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; the Lao People’s Democratic Republic; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
2. G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.
3. Figures were computed based on 30 September 2020 currency exchange rates and do not include currency effects.

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

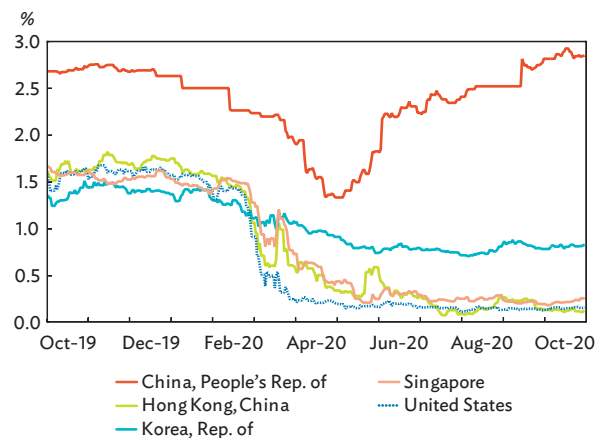
yields trended downwards, with the exception of the PRC, Singapore, and Thailand. The PRC's 2-year yield has consistently risen as its economy recovers after having successfully dealt with the COVID-19 epidemic (Figure 7a). Both Singapore and Thailand's 2-year yields rose as investors shunned shorter tenors, preferring longer ones (Figure 7b).

In contrast to the 2-year yield movements, 10-year yields climbed among a majority of markets. The steepest rise came from the PRC and the Philippines. The PRC's

10-year yield moved upward 16 basis points (bps) between 31 August and 30 October, on continued economic growth (Figure 8a). In contrast, continued investor uncertainty regarding the direction of the Philippine economy led to a jump of 17 bps in its 10-year yield (Figure 8b). Hong Kong, China's; the Republic of Korea's; and Malaysia's 10-year yields also rose, but the increases were marginal.

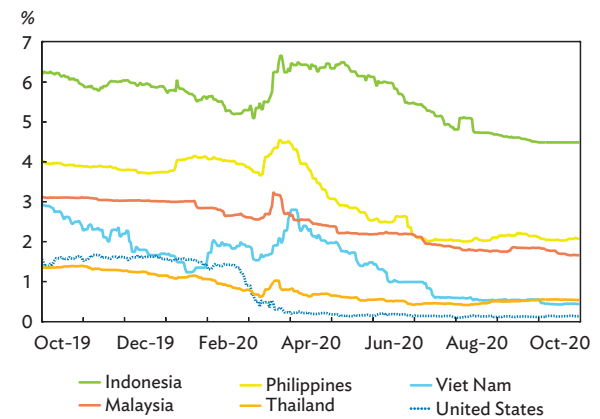
The largest decline in 10-year yields was seen in Viet Nam, with a 33-bps drop for the review period as its

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



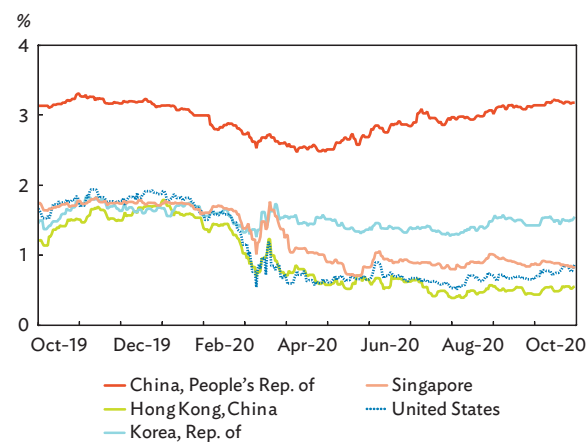
Note: Data as of 30 October 2020.
Source: Based on data from Bloomberg LP.

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



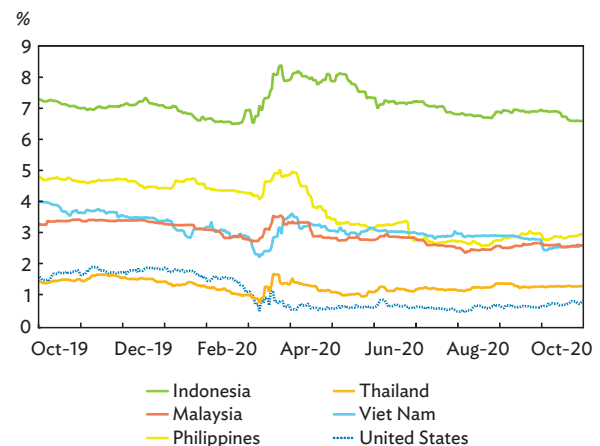
Note: Data as of 30 October 2020.
Source: Based on data from Bloomberg LP.

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



Note: Data as of 30 October 2020.
Source: Based on data from Bloomberg LP.

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



Note: Data as of 30 October 2020.
Source: Based on data from Bloomberg LP.

central bank was the only one to reduce rates in October. Indonesia's 10-year yields also plunged, as investor interest returned in October, following the passage of an Omnibus Law, which provided easing regulations for businesses and labor.

Singapore's 10-year yield fell, the opposite of its 2-year yield, as the economy is expected to slow down into the fourth quarter as the resurgence of cases in other economies will cap external demand. Similarly, Thailand saw an increase in the 2-year yield but a drop in its 10-year yield, as concerns over debt oversupply dissipated. The government announced that it would only borrow THB1.47 trillion for the fiscal year beginning 1 October 2020, which is 11% lower than the preceding year.

Yield curves overall shifted downward for most markets in emerging East Asia, but the rationale for each market's movement was different (**Figure 9**). The PRC, with the entire yield curve shifting upward, and Malaysia, whose yield curve movements were mixed, were the exceptions.

Viet Nam's entire yield curve shifted downward following the central bank's easing, while Indonesia's yield curve shifted downward for nearly all tenors amid renewed investor interest. Singapore's yield curve also shifted downward for most tenors over a lack of inflationary pressures and uncertainty over the global economic recovery. In the Republic of Korea, yields largely fell for most maturities amid fears of new wave of COVID-19 cases.

In the Philippines, yields at the shorter-end fell, but rose at the longer-end, due to higher investor risk aversion. In Thailand, yields rose at the shorter-end but fell at the longer end, buoyed by a recovery in bond inflows in October.

The 2-year versus 10-year yield spreads were mixed across the region (**Figure 10**). The PRC, Indonesia, Singapore, Thailand, and Viet Nam showed a decline in the spread. All other emerging East Asian economies showed a rising yield spread during the review period.

While economic growth remains a concern, some economies' GDP recovered in Q3 2020. In the PRC, GDP growth accelerated to 4.9% y-o-y in Q3 2020 from 3.2% y-o-y in Q2 2020, reflecting steady but gradual recovery. Viet Nam's economy likewise recovered in Q3 2020, with GDP growth rising to 2.6% y-o-y from

0.4% y-o-y in the previous quarter, the only market in the region which consistently posted positive growth despite the COVID-19 pandemic. The remaining markets continued to post negative y-o-y growth rates in Q3 2020, but at a slower pace compared to the previous quarter. This includes Hong Kong, China (-3.5% from -9.0%); Indonesia (-3.5% from -5.3%); the Republic of Korea (-1.3% from -2.7%); Malaysia (-2.7% from -17.1%); the Philippines (-11.5% from -16.9%); and Thailand (6.4% from -12.1%).

The overall weak economic environment led to a decline in inflation in August and September in most emerging East Asian markets for which data are available. In particular, Hong Kong, China; Malaysia; and Thailand remained in deflationary territory during the review period, while Indonesia's inflation was stable (**Figure 11a**). The main exception to the regional trend was the Republic of Korea, which has experienced a steady rise in inflation since having moved out of deflation in June (**Figure 11b**).

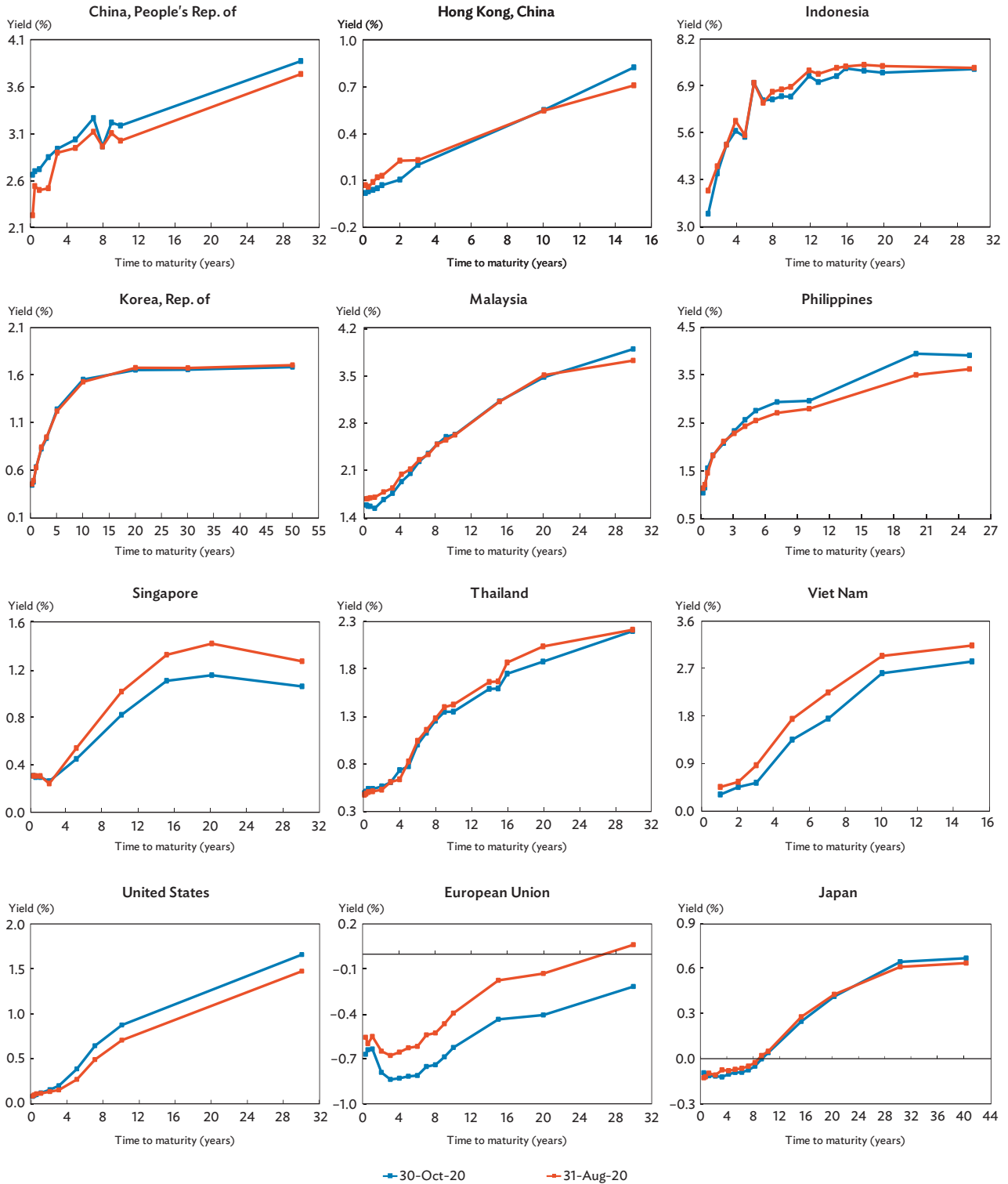
Despite declines in inflation, central banks in the region have largely held off on raising policy rates during the review period after having aggressively eased monetary policy in previous months. During the review period, the Philippines reduced rates by a cumulative 175 bps (**Figure 12a**). In July, Bank Negara Malaysia and Bank Indonesia further reduced rates. The lone exception was Viet Nam, whose central bank reduced its policy rate on 1 October by 50 bps, for a cumulative rate reduction of 200 bps year-to-date through 30 October (**Figure 12b**). Subsequently, both Bangko ng Sentral ng Pilipinas and Bank Indonesia implemented a surprise rate cut of 25 bps on 19 November.

The movement of corporate spreads was largely mixed across the region.

AAA-rated corporate versus government yield spreads fell in the PRC between 31 August and 15 October as the economy continued to recover from the impact of COVID-19. Corporate spreads also narrowed in Thailand during the review period. Yield spreads rose for longer tenors in Malaysia and shifted upward in the Republic of Korea (**Figure 13a**).

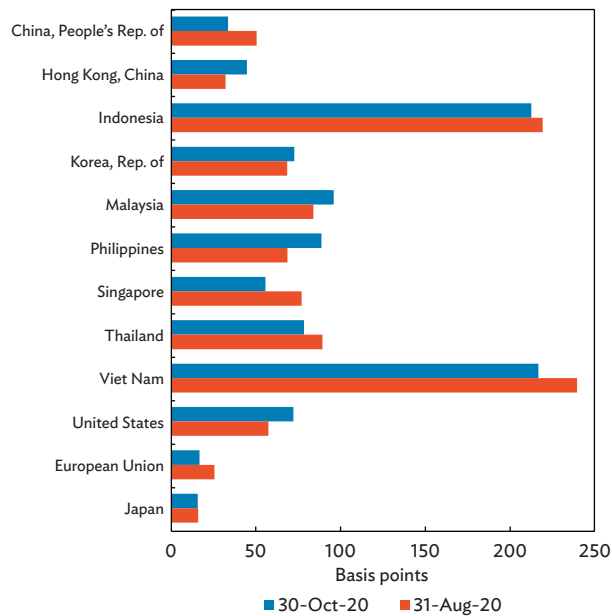
For lower-rated corporate bonds, spreads fell in both the PRC and Malaysia, while they rose in Thailand, and were unchanged in the Republic of Korea (**Figure 13b**).

Figure 9: Benchmark Yield Curves—Local Currency Government Bonds



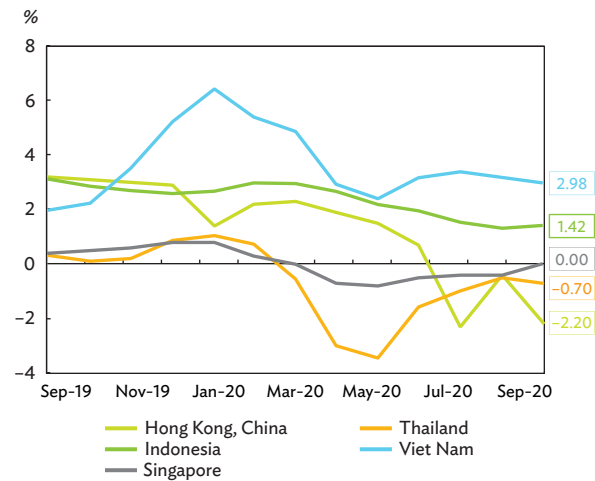
Sources: Based on data from Bloomberg LP and Thai Bond Market Association.

Figure 10: Yield Spreads between 2-Year and 10-Year Government Bonds



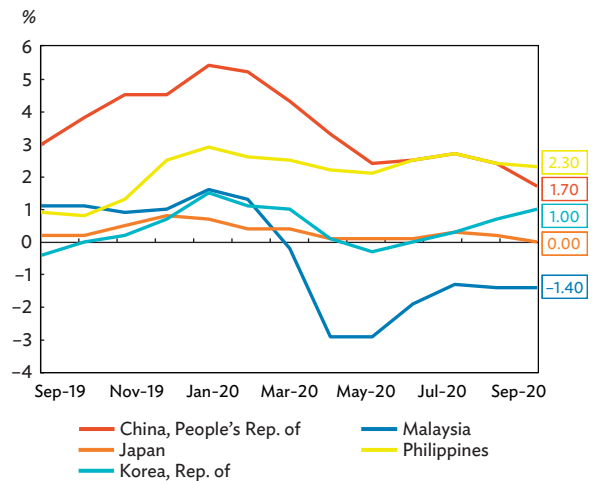
Source: AsianBondsOnline computations based on Bloomberg LP data.

Figure 11a: Headline Inflation Rates



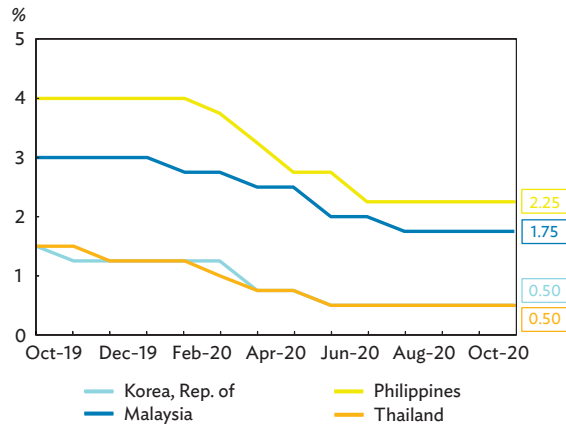
Note: Data as of 30 September 2020.
Source: Based on data from Bloomberg LP.

Figure 11b: Headline Inflation Rates



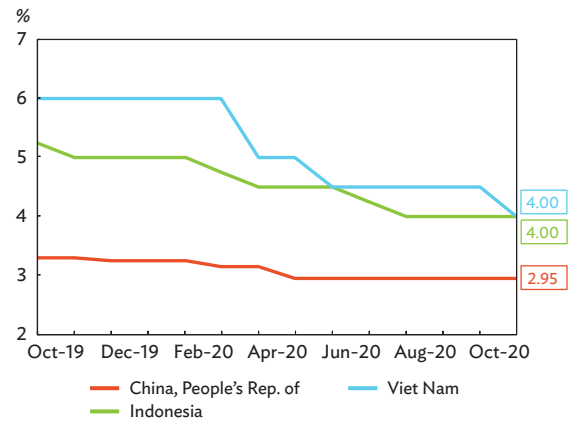
Note: Data as of 30 September 2020.
Source: Based on data from Bloomberg LP.

Figure 12a: Policy Rates



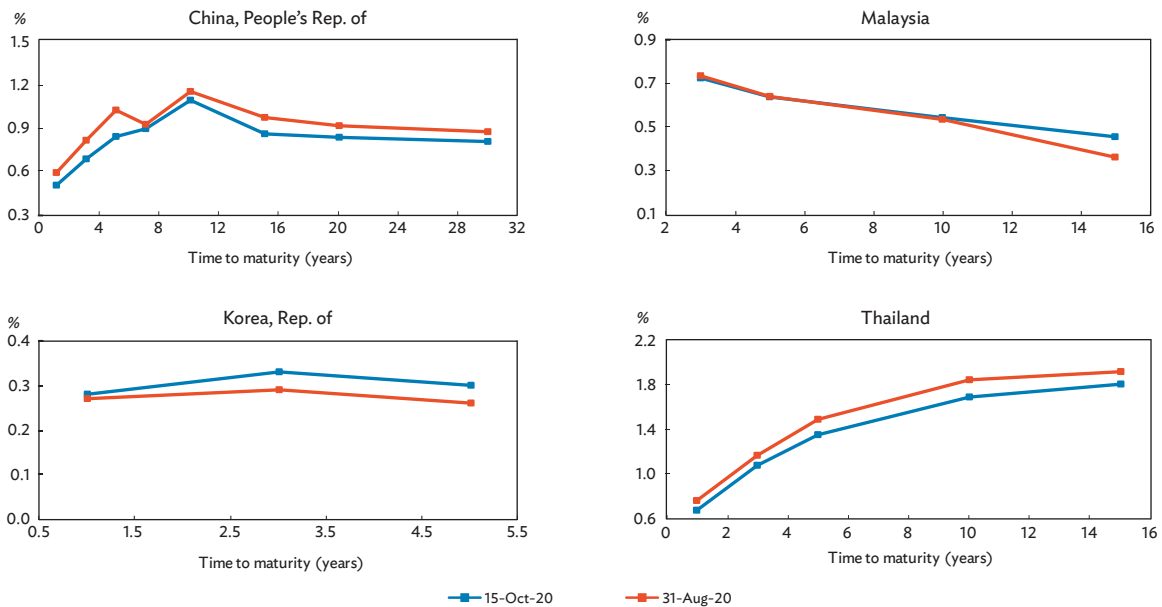
Note: Data as of 30 October 2020.
Source: Based on data from Bloomberg LP.

Figure 12b: Policy Rates



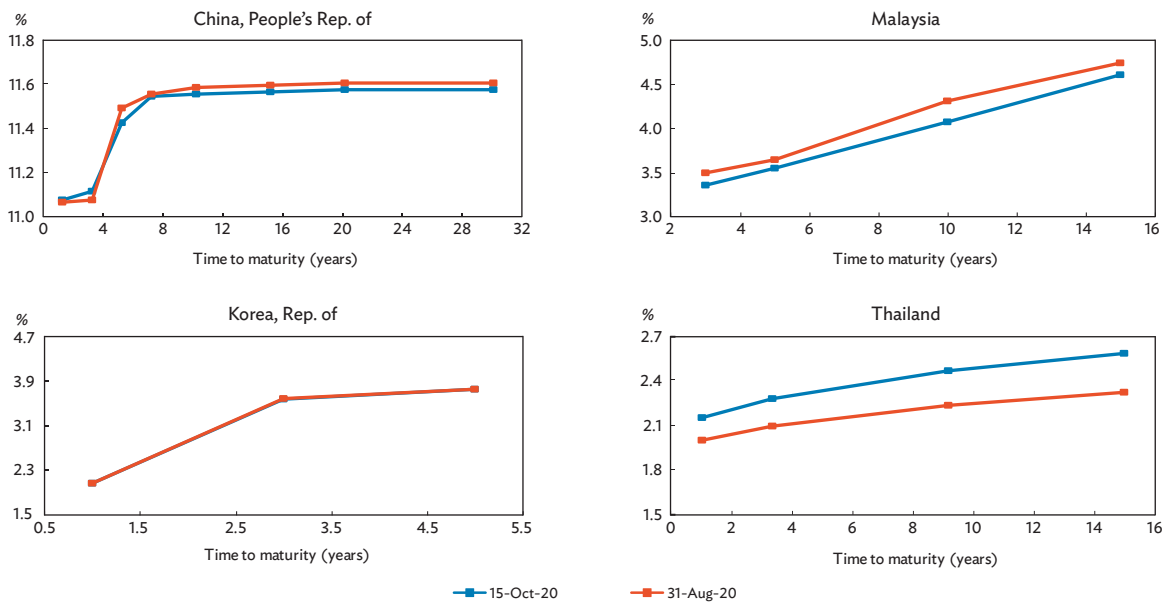
Notes:
1. Data as of 30 October 2020.
2. For the People's Republic of China, data used in the chart is the 1-year medium-term lending facility rate. While the 1-year benchmark lending rate is the official policy rate of the People's Bank of China, market players use the 1-year medium-term lending facility rate as a guide for the monetary policy direction of the People's Bank of China.
Source: Based on data from Bloomberg LP.

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



Notes:
1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
2. For Malaysia, data on corporate bonds yields are as of 28 August 2020 and 14 October 2020.
3. For Thailand, data for corporate bond yields are as of 31 August 2020 and 9 October 2020.
Sources: People's Republic of China (Bloomberg LP); Republic of Korea (EDAILY BondWeb); Malaysia (Fully Automated System for Issuing/Tendering Bank Negara Malaysia); and Thailand (Bloomberg LP).

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



Notes:

1. For the People's Republic of China and the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB+.
2. For Malaysia, data on corporate bonds yields are as of 28 August 2020 and 14 October 2020.
3. For Thailand, data for corporate bond yields are as of 31 August 2020 and 9 October 2020.

Sources: People's Republic of China (Bloomberg LP); Republic of Korea (*EDAILY BondWeb*); Malaysia (Fully Automated System for Issuing/Tendering Bank Negara Malaysia); and Thailand (Bloomberg LP).