Market Summaries

People's Republic of China

Yield Movements

The People's Republic of China's (PRC) yield curve for local currency (LCY) bonds shifted upward between 31 August and 30 October (**Figure 1**). The largest shift in yields was seen in the 3-month tenor, which rose 43 basis points (bps). Other tenors that showed a strong rise were the 1-year and 2-year tenors. The 2-year tenor rose 33 bps, while the 1-year tenor rose 22 bps. The other remaining tenors rose between 4 bps and 16 bps. As a result, the 2-year versus 10-year yield spread narrowed from 50 bps to 34 bps between 31 August and 30 October.

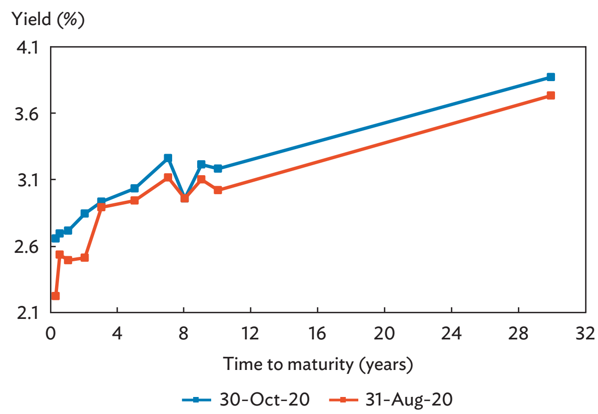
The PRC's yields rose as its economy continued to grow, following the successful containment of its coronavirus disease (COVID-19) outbreak. The PRC's gross domestic product (GDP) growth rate accelerated from 3.2% year-on-year (y-o-y) in the second quarter (Q2) of 2020 to 4.9% y-o-y in the third quarter (Q3) of 2020. Growth in all three major sectors of the PRC's economy accelerated in Q3 2020. The fastest y-o-y acceleration was in the tertiary sector (from 1.9% to 4.3%), followed by the secondary sector (from 4.7% to 6.0%). The primary sector's growth accelerated from 3.3% y-o-y to 3.9% y-o-y.

The PRC's industrial production growth momentum also continued. In September, industrial production growth rose to 6.9% y-o-y from 5.6% y-o-y in August. The PRC's industrial production was negative in Q1 2020 and had a growth rate of 3.9% in April. The PRC's inflation rate fell to 1.7% y-o-y in September from 2.4% y-o-y in August.

Size and Composition

LCY bonds outstanding in the PRC rose 5.4% quarter-on-quarter (q-o-q) in Q3 2020, after expanding 5.6% q-o-q in Q2 2020, to reach CNY98.2 trillion (USD14.5 trillion) at the end of September. On a y-o-y basis, LCY bonds outstanding grew 19.9% y-o-y (**Table 1**).

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



Source: Based on data from Bloomberg LP.

Government bonds. The PRC's government bond market growth accelerated in Q3 2020 to 6.6% q-o-q from 5.4% q-o-q in Q2 2020 as the central government continued to fund its fiscal stimulus programs. The growth rate of Treasury bonds outstanding sped up to 8.7% q-o-q from 5.5% q-o-q during the same period.

While local governments continued to issue special bonds and received a quota increase in 2020 of CNY1.6 trillion compared with 2019, growth slowed slightly to 6.1% q-o-q in Q3 2020 from 6.2% q-o-q in Q2 2020 due to a high base effect. Growth in policy bank bonds accelerated to 5.0% q-o-q from 4.2% q-o-q in the same period.

Corporate bonds. The PRC's corporate bond market's growth slowed to 3.2% q-o-q in Q3 2020 from 5.9% q-o-q in Q2 2020. The slowdown in growth was largely due to the increased cost of funding as interest rates rose.

Rising interest rates led to a decline in commercial paper outstanding of 4.6% q-o-q in Q3 2020 (**Table 2**). Higher interest rates make the refinancing of short-term commercial paper more expensive. Other types of

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

	Outstanding Amount (billion)						Growth Rates (%)			
	Q3 2019		Q2 2020		Q3 2020		Q3 2019		Q3 2020	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**81,916**	**11,459**	**93,187**	**13,189**	**98,178**	**14,457**	**3.6**	**14.9**	**5.4**	**19.9**
Government	52,913	7,402	58,867	8,332	62,747	9,240	3.5	12.9	6.6	18.6
Treasury Bonds and Other Government Bonds	15,963	2,233	17,775	2,516	19,327	2,846	3.2	11.2	8.7	21.1
Central Bank Bonds	14	2	15	2	15	2	250.0	–	0.0	7.1
Policy Bank Bonds	15,445	2,161	16,662	2,358	17,489	2,575	1.5	8.9	5.0	13.2
Local Government Bonds	21,491	3,006	24,415	3,456	25,915	3,816	5.1	17.3	6.1	20.6
Corporate	29,003	4,057	34,320	4,857	35,432	5,217	3.9	18.6	3.2	22.2
Policy Bank Bonds										
China Development Bank	8,665	1,212	9,138	1,293	9,415	1,386	1.0	8.6	3.0	8.7
Export–Import Bank of China	2,601	364	3,086	437	3,395	500	2.7	13.2	10.0	30.5
Agricultural Devt. Bank of China	4,179	585	4,438	628	4,679	689	1.9	7.0	5.4	12.0

– = 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.

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)			Growth Rate (%)			
				Q3 2019		Q3 2020	
	Q3 2019	Q2 2020	Q3 2020	q-o-q	y-o-y	q-o-q	y-o-y
Financial Bonds	5,505	6,803	7,166	1.1	33.5	5.3	30.2
Enterprise Bonds	3,840	3,771	3,826	1.0	(3.2)	1.5	(0.3)
Listed Corporate Bonds	7,250	8,996	9,619	1.0	21.6	6.9	32.7
Commercial Paper	2,152	2,825	2,694	1.0	13.5	(4.6)	25.2
Medium-Term Notes	6,141	7,300	7,351	1.0	16.5	0.7	19.7
Asset-Backed Securities	2,081	2,406	2,519	1.1	54.9	4.7	21.1

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

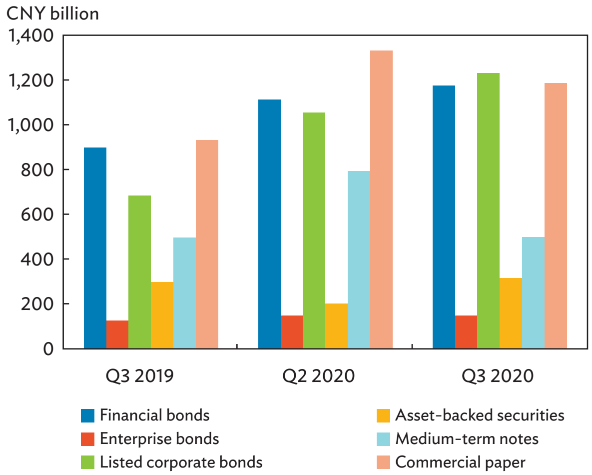
corporate bonds outstanding showed a q-o-q increase, with listed corporate bonds growing the fastest.

Issuance of commercial paper declined in Q3 2020, leading to a decline in commercial paper outstanding. Issuance of medium-term notes also declined during the quarter (**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 2020, the top 30 corporate bond issuers accounted for a combined CNY8.9 trillion of corporate bonds outstanding, or about 25.2% of the total market. Of the top 30, the 10 largest issuers accounted for an aggregate CNY5.9 trillion. China Railway, the top issuer, had more than three times the outstanding amount of bonds as the second-largest issuer, Agricultural Bank of China. The top 30 issuers included 16 banks, which continued to generate funding to strengthen their capital bases, improve liquidity, and lengthen their maturity profiles amid ongoing uncertainty resulting from the COVID-19 pandemic.

Table 4 lists the largest corporate bond issuances in Q3 2020. The top issuers consisted largely of financial institutions as they sought to improve their capital bases and liquidity in light of the ongoing economic impact of COVID-19.

Figure 2: Corporate Bond Issuance in Key Sectors



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

Investor Profile

Among the major government bond categories, banks were the single-largest holder at the end of September (**Figure 3**), with banks holding about 66% of Treasury bonds, 57% of policy bank bonds, and 57% of local government bonds. The share of banks in local government bonds was a significant drop from its previous share of 88% in the same period a year ago.

Liquidity

The volume of interest rate swaps rose 17.3% q-o-q in Q3 2020. The 7-day repurchase agreement remained the most used interest rate swap, comprising an 83.1% share of the total interest rate swap volume during the quarter (**Table 5**).

Policy, Institutional, and Regulatory Developments

The People's Republic of China Eases Foreign Capital Entry Rules

In September, the PRC streamlined the existing regulations for the Renminbi Qualified Foreign Institutional Investor program and the Qualified Foreign Institutional Investor program. The new rules combined the two existing regulations into one and also made application requirements easier and simplified procedures. The new regulations took effect on 1 November.

The People's Republic of China Issues USD-Denominated Bonds

In October, the Government of the PRC issued USD6.0 billion worth of 3-year, 5-year, 10-year, and 30-year bonds. The bonds are the first USD-denominated bonds issued by the Government of the PRC since 1996 that are marketed to US investors under 144a Rules. The USD1.25 billion 3-year bond was issued with a coupon rate of 0.40%, while the USD2.25 billion 5-year bond was issued with a coupon rate of 0.55%. The USD2.0 billion 10-year bond was issued with a coupon rate of 1.2%, and the USD0.5 billion 30-year bond was issued with a coupon rate of 2.25%.

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	2,173.5	320.1	Yes	No	Transportation
2.	Agricultural Bank of China	645.1	95.0	Yes	Yes	Banking
3.	Bank of China	530.6	78.1	Yes	Yes	Banking
4.	Industrial and Commercial Bank of China	517.3	76.2	Yes	Yes	Banking
5.	Central Huijin Investment	449.0	66.1	Yes	No	Asset Management
6.	Bank of Communications	391.6	57.7	No	Yes	Banking
7.	Shanghai Pudong Development Bank	340.7	50.2	No	Yes	Banking
8.	China Construction Bank	307.1	45.2	Yes	Yes	Banking
9.	China National Petroleum	274.9	40.5	Yes	No	Energy
10.	Industrial Bank	273.2	40.2	No	Yes	Banking
11.	China Minsheng Banking	264.0	38.9	No	Yes	Banking
12.	State Grid Corporation of China	261.5	38.5	Yes	No	Public Utilities
13.	China CITIC Bank	223.0	32.8	No	Yes	Banking
14.	State Power Investment	193.6	28.5	Yes	No	Energy
15.	Ping An Bank	178.7	26.3	No	Yes	Banking
16.	Tianjin Infrastructure Construction and Investment Group	159.0	23.4	Yes	No	Industrial
17.	Postal Savings Bank of China	155.0	22.8	Yes	Yes	Banking
18.	PetroChina	153.0	22.5	Yes	Yes	Energy
19.	China Southern Power Grid	153.0	22.5	Yes	No	Energy
20.	Huaxia Bank	143.0	21.1	Yes	No	Banking
21.	China Everbright Bank	141.8	20.9	Yes	Yes	Banking
22.	China Merchants Bank	139.2	20.5	Yes	Yes	Banking
23.	Shaanxi Coal and Chemical Industry Group	132.5	19.5	Yes	No	Energy
24.	Datong Coal Mine Group	123.4	18.2	Yes	No	Coal
25.	China Three Gorges Corporation	106.0	15.6	Yes	No	Power
26.	CITIC Securities	105.2	15.5	Yes	Yes	Brokerage
27.	China Datang	105.1	15.5	Yes	Yes	Energy
28.	Bank of Beijing	102.9	15.2	No	Yes	Banking
29.	Shougang Group	100.0	14.7	Yes	No	Steel
30.	Bank of Ningbo	99.1	14.6	No	Yes	Banking
Total Top 30 LCY Corporate Issuers		**8,941.8**	**1,316.7**			
Total LCY Corporate Bonds		**35,431.7**	**5,217.5**			
Top 30 as % of Total LCY Corporate Bonds		**25.2%**	**25.2%**			

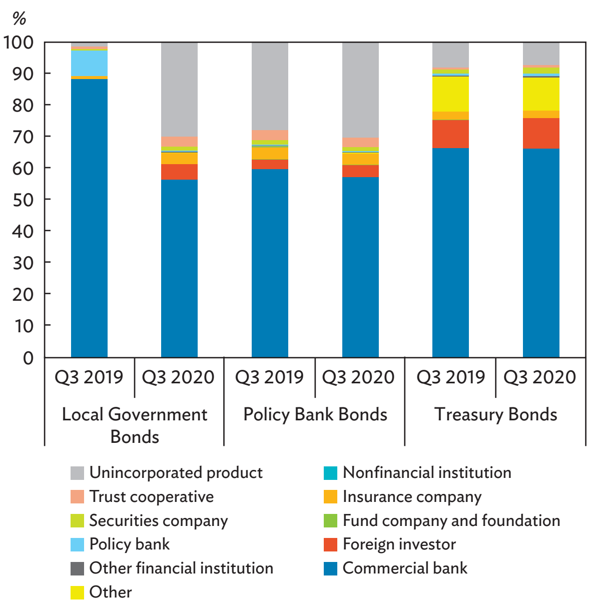
CNY = Chinese yuan, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 30 September 2020.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Table 4: Notable Local Currency Corporate Bond Issuances in the Third Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China State Railway Group		
10-year bond	3.57	20
10-year bond	3.74	15
5-year bond	3.47	15
10-year bond	3.68	15
20-year bond	4.04	5
5-year bond	4.15	5
0-year bond	3.93	5
Bank of China		
10-year bond	4.20	15
15-year bond	4.70	15
3-year bond	2.92	15
5-year bond	2.71	6
5-year bond	3.29	6
5-year bond	2.61	6
Industrial Bank		
3-year bond	2.17	23
3-year bond	2.58	22
5-year bond	2.67	7
5-year bond	2.95	5
Shanghai Pudong Development Bank		
3-year bond	2.08	50
Bank of Communications		
3-year bond	3.18	50

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

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



Q3 = third quarter.
Source: CEIC.

Table 5: Notional Values of the People’s Republic of China’s Interest Rate Swap Market in the Third Quarter of 2020

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	Share of Total Notional Amount (%)	Growth Rate (%)
	Q3 2020		q-o-q
7-Day Repo Rate (Deposit Institutions)	38,694.0	83.1	20.1
Overnight SHIBOR	35.0	0.1	(51.0)
3-Month SHIBOR	6,617.6	14.2	10.1
1-Year Lending Rate	518.5	1.1	(30.7)
5-Year Lending Rate	10.0	0.0	(45.8)
10-Year Treasury Yield	242.0	0.5	30.5
China Development Bank 10-Year Bond Yield	226.5	0.5	(11.2)
10-Year Bond Yield/10-Year Government Bond Yield	225.0	0.5	(11.2)
Total	**46,568.6**	**100.0**	**17.3**

( ) = negative, 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

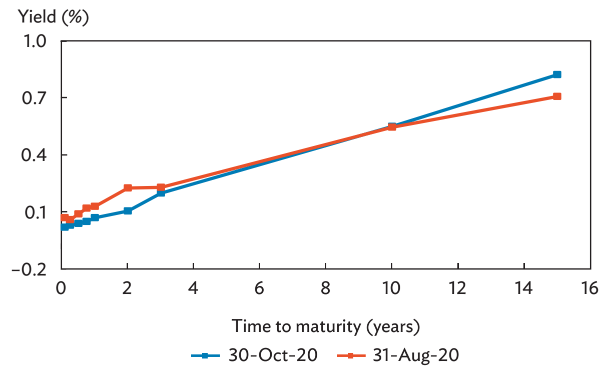
Movements in Hong Kong, China's local currency (LCY) bond market yields were mixed between 31 August and 30 October (**Figure 1**). Yields fell at the shorter-end of the yield curve as bonds with maturities of 3 years or less shed an average of 6 basis points (bps). The 2-year tenor showed the largest drop at 12 bps. Yields rose at the longer-end of the curve, with the yield for the 10-year tenor inching up 1 bp, while the 15-year tenor gained 12 bps. The spread between the 2-year and 10-year tenors widened from 32 bps to 45 bps during the review period.

Heightened uncertainty, brought about by the lingering impact of the coronavirus disease (COVID-19) and exacerbated by political risks, led to the drop in yields at the shorter-end of the curve. The rise in yields at the longer-end of the curve reflected concerns about the debt burden implied by the rising cost of the government's relief efforts to boost the economy.

Declining yields also reflected the lingering weakness in Hong Kong, China's economy. Hong Kong, China's gross domestic product fell 3.5% year-on-year (y-o-y) in the third quarter (Q3) of 2020, a narrower decline than the 9.0% y-o-y contraction in the second quarter (Q2). The improvement stemmed mainly from increased exports, particularly to the People's Republic of China (PRC). Merchandise exports rose 3.9% y-o-y in Q3 2020, rebounding from the 2.2% y-o-y decline in the prior quarter. Although the economy is showing initial signs of improvement amid the PRC's recovery and the local containment of COVID-19, economic performance is still below its level prior to the recession. Unemployment reached a 16-year high of 6.4% in Q3 2020.

Demand for the Hong Kong dollar, fueled by high profile initial public offerings, continued to surge during the review period. High demand continued to push the Hong Kong dollar to the strong-side of its trading band against the US dollar, prompting repeated interventions from the Hong Kong Monetary Authority (HKMA). The HKMA's actions brought the aggregate balance—an indicator of liquidity in the financial system—from HKD193.1 billion (USD24.9 billion) to a record high of HKD457.5 billion (USD59.0 billion) during the review period.

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



Source: Based on data from Bloomberg LP.

Hong Kong, China's consumer prices fell amid a deflationary stretch in Q3 2020. Consumer prices declined 2.2% y-o-y in September, following a 0.4% y-o-y dip in August and a 2.3% y-o-y contraction in July. The government's relief measures, which include waivers of public housing rents and weak demand due to the economic recession, drove deflationary pressures.

Uncertainty over the prolonged global pandemic, frictions between the PRC and the United States, and political risks continued to affect Hong Kong, China's economy and bond market.

Size and Composition

Hong Kong, China's LCY bonds outstanding amounted to HKD2,287.0 (USD295.1 billion) at the end of September, up from HKD2,267.6 billion at the end of June (**Table 1**). The LCY bond market's quarter-on-quarter (q-o-q) growth rose to 0.9% q-o-q in Q3 2020 from 0.5% q-o-q in Q2 2020, driven by a rebound in the government bond segment. On an annual basis, aggregate bonds outstanding increased 1.0% y-o-y in Q3 2020, reversing the 0.8% y-o-y contraction in the previous quarter. The share of government bonds to total LCY bonds outstanding slipped to 50.6% in Q3 2020 from 51.0% in Q2 2020.

Government bonds. At the end of September, LCY government bonds outstanding reached HKD1,157.6 billion, up slightly from HKD1,156.2 billion at the end of March. Although weak at 0.1% q-o-q, the

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2019		Q2 2020		Q3 2020		Q3 2019		Q3 2020	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,264**	**289**	**2,268**	**293**	**2,287**	**295**	**(0.9)**	**4.2**	**0.9**	**1.0**
Government	1,170	149	1,156	149	1,158	149	0.5	1.4	0.1	(1.1)
Exchange Fund Bills	1,048	134	1,042	134	1,042	134	0.6	2.4	0.03	(0.6)
Exchange Fund Notes	28	4	26	3	26	3	(3.4)	(16.5)	0.0	(9.2)
HKSAR Bonds	94	12	89	11	90	12	1.0	(2.9)	1.1	(4.4)
Corporate	1,094	140	1,111	143	1,129	146	(2.4)	7.4	1.6	3.2

( ) = 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.
Source: Hong Kong Monetary Authority.

growth of aggregate government bonds outstanding in Q3 2020 reversed the 1.1% q-o-q contraction in the prior quarter. Strong growth in outstanding Hong Kong Special Administrative Region Bonds was the main driver of the expanding government bonds stock. Outstanding Exchange Fund Bills (EFBs) and Exchange Fund Notes (EFNs) posted positive but weak growth in Q3 2020. On a y-o-y basis, outstanding LCY government bonds continued to contract, dropping 1.1% in Q3 2020 after a 0.7% decline in Q2 2020. All components of LCY government bonds outstanding showed a decline in y-o-y growth in Q3 2020.

Exchange Fund Bills. The outstanding stock of EFBs inched up to HKD1,042.3 billion at the end of September from HKD1,041.9 billion at the end of June. Although weak, the 0.03% q-o-q growth in Q3 2020 reversed the 1.7% q-o-q decline posted in the previous quarter. Issuance of EFBs amounted to HKD903.8 billion in Q3 2020, rising 10.0% q-o-q.

Exchange Fund Notes. Since 2015, the HKMA has limited its issuance of EFNs to 2-year tenors. In August, the HKMA issued a 2-year EFN worth HKD1.2 billion. Due to maturities during the quarter, the amount of outstanding EFNs remained steady in Q3 2020 at HKD25.8 billion. On a y-o-y basis, the outstanding stock of EFNs continued to contract, falling 9.2% in Q3 2020 after a 12.2% decline in the previous quarter.

Hong Kong Special Administrative Region Bonds. HKSAR Bonds outstanding rose 1.1% q-o-q to reach HKD89.5 billion at the end of September. The government issued a 15-year bond worth HKD1.0 billion in September under the Institutional Bond Issuance Programme. On a y-o-y basis, the 4.4% contraction in outstanding HKSAR Bonds in Q3 2020 extended the 4.5% decline posted in the prior quarter.

Corporate bonds. Corporate bonds outstanding expanded 1.6% q-o-q to reach HKD1,129.4 billion at the end of September. On a y-o-y basis, corporate bonds outstanding rose 3.2% in Q3 2020, rebounding from a 0.9% contraction in the previous quarter.

Hong Kong, China's top 30 nonbank issuers had a combined HKD256.0 billion of LCY bonds outstanding at the end of September, accounting for 22.5% of the total corporate bond market (**Table 2**). Hong Kong Mortgage Corporation, Sun Hung Kai & Co., Hong Kong and China Gas Company, MRT, and Link Holdings maintained their positions as the top five issuers with outstanding LCY bonds outstanding of HKD40.7 billion, HKD18.6 billion, HKD16.1 billion, HKD13.0 billion, and HKD12.5 billion, respectively. The top 30 issuers were predominantly finance and real estate companies. Finance companies together accounted for a total of HKD105.5 billion of outstanding corporate bonds, while real estate firms had an aggregate corporate bonds stock of HKD58.0 billion. A majority of the top 30 nonbank issuers were listed on the Hong Kong Stock Exchange; only three were state-owned companies.

Corporate bond issuance totaled HKD215.2 billion at the end September, contracting 8.2% q-o-q amid weak business confidence due to economic and political uncertainties. **Table 3** lists the notable corporate bond issuances in Q3 2020. Among the largest issuances

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	40.7	5.2	Yes	No	Finance
2.	Sun Hung Kai & Co.	18.6	2.4	No	Yes	Finance
3.	The Hong Kong and China Gas Company	16.1	2.1	No	Yes	Utilities
4.	MTR	13.0	1.7	Yes	Yes	Transportation
5.	Link Holdings	12.5	1.6	No	Yes	Finance
6.	Hongkong Land	12.5	1.6	No	No	Real Estate
7.	New World Development	12.1	1.6	No	Yes	Diversified
8.	Henderson Land Development	12.0	1.6	No	Yes	Real Estate
9.	Swire Pacific	10.3	1.3	No	Yes	Diversified
10.	Hang Lung Properties	9.4	1.2	No	Yes	Real Estate
11.	Hongkong Electric	8.5	1.1	No	No	Utilities
12.	CLP Power Hong Kong Financing	7.7	1.0	No	No	Finance
13.	Swire Properties	7.6	1.0	No	Yes	Diversified
14.	Guotai Junan International Holdings	7.3	0.9	No	Yes	Finance
15.	Wharf Real Estate Investment	6.9	0.9	No	Yes	Real Estate
16.	Smart Edge	6.8	0.9	No	No	Finance
17.	Airport Authority Hong Kong	6.6	0.9	Yes	No	Transportation
18.	AIA Group	6.3	0.8	No	Yes	Insurance
19.	CK Asset Holdings	6.2	0.8	No	Yes	Real Estate
20.	Hysan Development	5.7	0.7	No	Yes	Real Estate
21.	The Wharf Holdings	5.5	0.7	No	Yes	Finance
22.	Future Days	5.0	0.6	No	No	Transportation
23.	Lerthai Group	3.0	0.4	No	Yes	Real Estate
24.	Cathay Pacific	2.5	0.3	No	Yes	Transportation
25.	China Dynamics Holdings	2.4	0.3	No	Yes	Automotive
26.	Champion REIT	2.3	0.3	No	Yes	Real Estate
27.	South Shore Holdings	2.2	0.3	No	Yes	Industrial
28.	Emperor Capital Group	2.2	0.3	No	Yes	Finance
29.	Emperor International Holdings	2.2	0.3	No	Yes	Finance
30.	IFC Development	2.0	0.3	No	No	Finance
Total Top 30 Nonbank LCY Corporate Issuers		**256.0**	**33.0**			
Total LCY Corporate Bonds		**1,129.4**	**145.7**			
Top 30 as % of Total LCY Corporate Bonds		**22.5%**	**22.5%**			

HKD = Hong Kong dollar, LCY = local currency, REIT = real estate investment trust, USD = United States dollar.
Notes:
1. Data as of 30 September 2020.
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 Issuances in the Third Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD million)
Hong Kong Mortgage Corporation		
1.5-year bond	0.74	0.50
2-year bond	0.76	0.10
3-year bond	0.93	0.50
5-year bond	0.90	0.17
Guotai Junan International Holdings		
1-year bond	0.00	0.60
1-year bond	2.00	0.38
1-year bond	1.80	0.28
Hongkong Land		
15-year bond	2.65	0.80
15-year bond	2.90	0.40
Hang Lung Properties		
5-year bond	2.35	0.50
5-year bond	2.25	0.42
5-year bond	2.25	0.24
The Hong Kong and China Gas Company		
10-year bond	1.98	0.70
10-year bond	1.98	0.22

HKD = Hong Kong dollar.
Source: Bloomberg LP.

during the quarter were bonds issued by Hong Kong Mortgage Corporation, Guotai Junan International Holdings, Hongkong Land, Hang Lung Properties, and Hong Kong and China Gas Company.

Government-owned Hong Kong Mortgage Corporation issued a total of HKD10.3 billion of bonds in Q3 2020, including a 1.5-year bond with a 0.74% coupon worth HKD0.5 billion, a 2-year bond with a 0.76% coupon worth HKD0.1 billion, a 3-year bond with a 0.93% coupon worth HKD0.5 billion, and a 5-year bond with a 0.90% coupon worth HKD0.2 billion.

Goutai Junan International Holdings, a financial firm, issued a total of HKD2.2 billion, including a zero coupon 1-year bond worth HKD0.6 billion, a 1-year bond with a 2.0% coupon worth HKD0.4 billion, and a 1-year bond with a 1.8% coupon worth HKD0.3 billion.

Hongkong Land issued two 15-year bonds with 2.65% and 2.90% coupons and worth a total of HKD1.20 billion. Hang Lung Properties issued three 5-year bonds worth a total of HKD1.16 billion with coupons ranging from 2.25% to 2.35%. The Hong Kong and China Gas Company raised HKD0.92 billion from two issuances of 10-year bonds, both with a 1.98% coupon.

Policy, Institutional, and Regulatory Developments

Hong Kong Monetary Authority Holds Countercyclical Capital Buffer at 1.0%

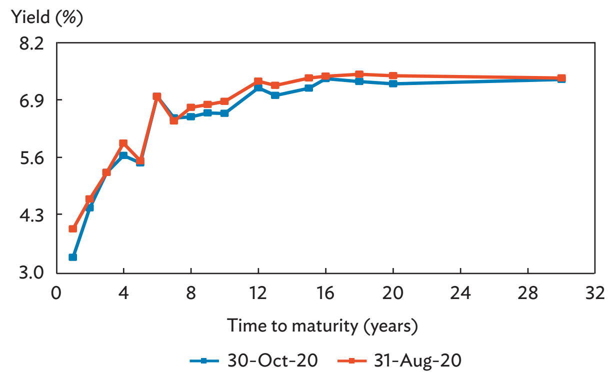
On 12 October, the HKMA announced that the countercyclical capital buffer (CCyB) would remain unchanged at 1.0%. The HKMA noted that the latest data based on Q2 2020 indicators signaled the need for a higher CCyB of 2.5%. However, the HKMA deemed that considering the high level of uncertainty facing the economy, holding the CCyB steady at 1.0% was more appropriate. A lower CCyB releases additional liquidity into the banking system by raising banks' lending capacity to support the economy. 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

Yield Movements

Local currency (LCY) government bond yields in Indonesia declined for most maturities between 31 August and 30 October (**Figure 1**). Yields for bonds with maturities of 4 years or less fell an average of 37 basis points (bps), while yields shed an average of 16 bps for maturities of 5 years or more. The exceptions to the declining trend in yields were the 7-year maturity, which gained by 7 bps, and the 3-year and 6-year bonds, which were unchanged during the review period. The 2-year versus 10-year spread narrowed from 219 bps on 31 August to 213 bps on 30 October.

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



Source: Based on data from Bloomberg LP.

The overall trend of declining yields was driven by expectations that Bank Indonesia would continue to maintain an easy monetary policy stance amid low inflation and a weak economic outlook. Bank Indonesia has kept its 7-day reverse repurchase rate steady at 4.00% since July. The policy rate had been lowered by a cumulative 100 bps year-to-date through the end of October. While there was still room to cut rates further, the central bank opted to utilize other monetary policy tools and macroprudential measures to ensure the stability of the Indonesian rupiah. In its meeting held on 12–13 October, Bank Indonesia's Board of Governors decided to hold its policy rate steady, while also keeping unchanged the deposit facility rate at 3.25% and the lending facility rate at 4.75%. At their current levels, the rates were deemed appropriate to ensure the rupiah's stability.

The coronavirus disease (COVID-19) outbreak in Indonesia has taken a toll on economic growth. A resurgence in the number of cases led the government to re-enforce social restrictions in September, further dampening investor sentiment in the bond market. This has led foreign investor holdings in the LCY government bond market to drop from 30.2% at the end of June to 27.0% at the end of September. In October however, investor interest picked up, leading to capital inflows for the first time since July, buoyed by the passage of the Omnibus Bill on Job Creation that is expected to improve investment climate in Indonesia.

Real gross domestic product (GDP) growth in the second quarter (Q2) of 2020 contracted 5.3% year-on-year (y-o-y) after a 3.0% y-o-y expansion in the first quarter. While economic recovery has slowly taken ground, gross domestic product growth in the third quarter (Q3) of 2020 weakened but at a slower pace. GDP declined 3.5% y-o-y in Q3 2020 compared with -5.3% y-o-y in Q2 2020. For full-year 2020, the Ministry of Finance revised downward its economic growth projection in September to between –0.6% and –1.7% from its previous estimate of between –0.2% and –1.1% in August.

Among emerging East Asian currencies, the Indonesian rupiah depreciated the most year-to-date through 30 October, falling 5.2% vis-à-vis the United States dollar.

Size and Composition

The LCY bond market in Indonesia continued to expand to reach a size of IDR3,940.6 trillion (USD264.8 billion) at the end of September (**Table 1**). Overall growth accelerated to 9.9% quarter-on-quarter (q-o-q) in Q3 2020 after rising 7.8% q-o-q in Q2 2020. The faster growth stemmed largely from the expansion in government bonds, particularly Treasury bills and bonds, due to the government's increased borrowing needs to support its stimulus measures and recovery efforts amid the COVID-19 pandemic. Corporate bonds also contributed to growth, albeit to a lesser extent. On the other hand, the stock of central bank bills and bonds contracted during the review period. On a y-o-y basis,

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2019		Q2 2020		Q3 2020		Q3 2019		Q3 2020	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**3,218,485**	**227**	**3,585,233**	**251**	**3,940,551**	**265**	**4.8**	**16.4**	**9.9**	**22.4**
Government	2,780,941	196	3,155,519	221	3,499,812	235	4.8	18.6	10.9	25.8
Central Govt. Bonds	2,664,332	188	3,105,895	218	3,461,396	233	5.3	15.5	11.4	29.9
of which: *Sukuk*	456,844	32	579,263	41	617,771	42	8.8	20.8	6.6	35.2
Central Bank Bonds	116,609	8	49,624	3	38,416	3	(4.1)	201.2	(22.6)	(67.1)
of which: *Sukuk*	25,674	2	38,874	3	38,416	3	17.0	141.3	(1.2)	49.6
Corporate	437,544	31	429,715	30	440,739	30	4.9	4.4	2.6	0.7
of which: *Sukuk*	30,654	2	29,382	2	30,915	2	27.0	80.5	5.2	0.9

( ) = 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. *Sukuk* refers to Islamic bonds.
5. The total stock of nontradable bonds as of 30 September 2020 stood at IDR166.8 trillion.
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; and Bloomberg LP.

growth in the LCY bond market of Indonesia quickened to 22.4% in Q3 2020 from 16.8% in the previous quarter, making it the fastest-growing bond market in the region.

Government bonds continued to dominate the bond market, constituting nearly 90% of the entire stock of the Indonesian bond market at the end of September. About 11% of total bonds was accounted for by corporate bonds. The bulk of the aggregate bond stock comprised conventional bonds with a share of 82.6%. *Sukuk* (Islamic bonds) had a share of 17.4% at the end of the review period.

Government bonds. At the end of September, the stock of government bonds had expanded to a size of USD3,499.8 trillion. Growth accelerated to 10.9% q-o-q and 25.8% y-o-y amid increased issuance by the government. Driving growth was the increase in the stock of central government bonds, similar with the first 2 quarters of 2020.

Central government bonds. The outstanding stock of central government bonds totaled IDR3,461.4 trillion on double-digit growth of 11.4% q-o-q and 29.9% y-o-y in Q3 2020. This was up from the 9.6% q-o-q and 22.7% y-o-y expansions in Q2 2020. The uptick in size was due to active issuance by the government to fund stimulus and relief measures in its bid to shield the economy from further fallout due to the COVID-19 outbreak.

Total issuance of Treasury bills and Treasury bonds reached IDR445.5 trillion during the quarter. Issuance volume rose 45.7% q-o-q and 140.4% y-o-y. In addition to issuing in large sizes during the weekly Treasury auctions, the government also sold bonds through private placements of select government bonds. Issuance during the period also included government bond sales directly to Bank Indonesia, as part of their debt monetization agreement for this year. Also, the government sold conventional retail bonds and retail *sukuk* during the quarter, raising IDR18.3 trillion and IDR25.7 trillion, respectively. More active borrowing was necessitated by the need to fund large-scale stimulus and relief measures by the government.

Central bank bonds. At the end of September, the outstanding size of central bank bills and bonds reached IDR38.4 trillion. This represented a decline of 22.6% q-o-q in Q3 2020 following a 2.5% q-o-q hike in Q2 2020. On a y-o-y basis, the central bank bond stock declined 67.1% y-o-y in Q3 2020 after contracting 59.2% y-o-y in the preceding quarter. In Q3 2020, issuance of central bank bills and bonds summed to IDR133.2 trillion, up 17.9% q-o-q and 15.0% y-o-y.

Corporate bonds. The outstanding stock of corporate bonds totaled IDR440.7 trillion at the end of September, up 2.6% q-o-q in Q3 2020 following a decline of 3.0% q-o-q in the prior quarter. In the same period, corporate bonds grew a marginal 0.7% y-o-y after rising

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.	Perusahaan Listrik Negara	35,986	2.42	Yes	No	Energy
2.	Indonesia Eximbank	29,600	1.99	Yes	No	Banking
3.	Sarana Multi Infrastruktur	22,292	1.50	Yes	No	Finance
4.	Bank Rakyat Indonesia	20,882	1.40	Yes	Yes	Banking
5.	Sarana Multigriya Finansial	17,524	1.18	Yes	No	Finance
6.	Bank Tabungan Negara	15,975	1.07	Yes	Yes	Banking
7.	Bank Mandiri	14,000	0.94	Yes	Yes	Banking
8.	Bank Pan Indonesia	13,427	0.90	No	Yes	Banking
9.	Waskita Karya	13,096	0.88	Yes	Yes	Building Construction
10.	Indosat	13,013	0.87	No	Yes	Telecommunications
11.	Pegadaian	10,805	0.73	Yes	No	Finance
12.	Bank CIMB Niaga	9,339	0.63	No	Yes	Banking
13.	Pupuk Indonesia	8,897	0.60	Yes	No	Chemical Manufacturing
14.	Adira Dinamika Multi Finance	8,886	0.60	No	Yes	Finance
15.	Astra Sedaya Finance	8,458	0.57	No	No	Finance
16.	Permodalan Nasional Madani	7,689	0.52	Yes	No	Finance
17.	Semen Indonesia	7,078	0.48	Yes	Yes	Cement Manufacturing
18.	Telekomunikasi Indonesia	7,000	0.47	Yes	Yes	Telecommunications
19.	Hutama Karya	6,500	0.44	Yes	No	Nonbuilding Construction
20.	Medco-Energi Internasional	6,183	0.42	No	Yes	Petroleum and Natural Gas
21.	Federal International Finance	5,452	0.37	No	No	Finance
22.	Angkasa Pura II	5,000	0.34	Yes	No	Airport Management Serivces
23.	Bank Pembangunan Daerah Jawa Barat Dan Banten	5,000	0.34	Yes	Yes	Banking
24.	Mandiri Tunas Finance	4,978	0.33	No	No	Finance
25.	Bank Maybank Indonesia	4,849	0.33	No	yes	Banking
26.	Chandra Asri Petrochemical	4,139	0.28	No	Yes	Petrochemicals
27.	Adhi Karya	4,027	0.27	Yes	Yes	Building Construction
28.	Kereta Api Indonesia	4,000	0.27	Yes	No	Transportation
29.	Maybank Indonesia Finance	3,550	0.24	No	No	Finance
30.	XL Axiata	3,413	0.23	No	Yes	Telecommunications
Total Top 30 LCY Corporate Issuers		**321,038**	**21.58**			
Total LCY Corporate Bonds		**429,715**	**28.88**			
Top 30 as % of Total LCY Corporate Bonds		**74.7%**	**74.7%**			

IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 30 September 2020.
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.

3.0% y-o-y. While issuance rebounded strongly in Q3 2020, maturities capped the overall bond total.

The 30 largest issuers of corporate bonds in Indonesia had aggregate bonds of IDR321.0 trillion at the end of September, up from IDR318.7 trillion at the end of June (**Table 2**). Collectively, the top 30 issuers accounted for a 74.7% share of the aggregate corporate bond stock at the end of the review period. Firms from the banking and financing industry continued to dominate the list of top 30 issuers. Other institutions were from highly capitalized industries such as energy, telecommunications, construction, and transportation. Out of the 30 firms on the list, 18 were state-owned firms and 16 institutions had their shares listed on the Indonesia Stock Exchange.

Remaining in the top spot was state-owned energy firm Perusahaan Listrik Negara, whose outstanding bonds climbed to IDR36.0 trillion due to a multitranche issuance in September. Keeping its ranking from the previous quarter in the second spot was Indonesia Eximbank, with its bond stock rising to IDR29.6 trillion following a new bond issuance in July. Sarana Multi Infrastruktur rose to the third spot at the end of September from the fifth spot at the end of June, following its issuance of a triple-tranche bond in July. Dropping to the fourth spot was Bank Rakyat Indonesia (IDR20.9 trillion), while Sarana Multigriya Finansial (IDR17.5 trillion) rose to the fifth spot via its issuance of a triple-tranche bond in July.

In Q3 2020, new issuance of corporate bonds totaled IDR37.7 trillion, a more than four-fold hike from issuance in Q2 2020. Corporates accelerated their issuance of new bonds amid the low-interest-rate environment, which made it conducive to borrow. A total of 38 firms borrowed funds via the debt market and added 116 new bond series to the corporate bond total during Q3 2020. There were 23 new series of *sukuk* that were issued, 14 series of which were structured as *sukuk ijarah* (Islamic bonds backed by lease agreements). The remaining nine series were structured as *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership). New bonds issued during the quarter had maturities ranging from 367 days to 15 years.

Among the new corporate debt issues in Q3 2020, the largest was state-owned pawnshop Pegadaian with total issuance amounting to IDR5,255 billion (**Table 3**). Its

Table 3: Notable Local Currency Corporate Bond Issuances in the Third Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Pegadaian		
370-day bond	6.75	1,055.00
370-day bond	5.50	1,295.00
370-day bond *sukuk mudharabah*	6.75	316.50
370-day bond *sukuk mudharabah*	5.50	704.00
3-year bond	7.60	303.00
3-year bond	6.45	1,125.00
3-year *sukuk mudharabah*	7.60	103.00
3-year *sukuk mudharabah*	6.45	131.00
5-year bond	7.95	142.00
5-year *sukuk mudharabah*	7.95	80.50
Global Mediacom		
370-day bond	10.75	331.43
370-day bond *sukuk ijarah*	10.75	297.97
3-year bond	11.25	367.50
3-year *sukuk ijarah*	11.25	1.60
5-year bond	12.00	1,075.00
5-year *sukuk ijarah*	12.00	430.00

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Sarana Multigriya Finansial		
370-day bond	6.75	1,686.00
370-day bond *sukuk mudharabah*	6.75	346.00
5-year bond	8.10	424.00
Pupuk Indonesia		
3-year bond	7.00	1,146.83
5-year bond	7.70	857.84
7-year bond	8.30	431.85
Angkasa Pura II		
3-year bond	7.80	32.00
5-year bond	8.50	159.00
7-year bond	9.10	1,602
10-year bond	9.25	457.00
Jasa Marga		
3-year bond	7.90	1,100.35
5-year bond	8.25	286.00
7-year bond	8.60	90.05
10-year bond	9.00	523.60

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

issuance comprised both conventional bonds and *sukuk mudharabah*, which were issued as multitranche bonds in July and September. Next was Global Mediacom's multitranche issuance of conventional bonds and *sukuk ijarah* totaling IDR2,503.5 billion. It was followed by Sarana Multigriya Finansial with a triple-tranche issuance amounting to IDR2,456.0 billion.

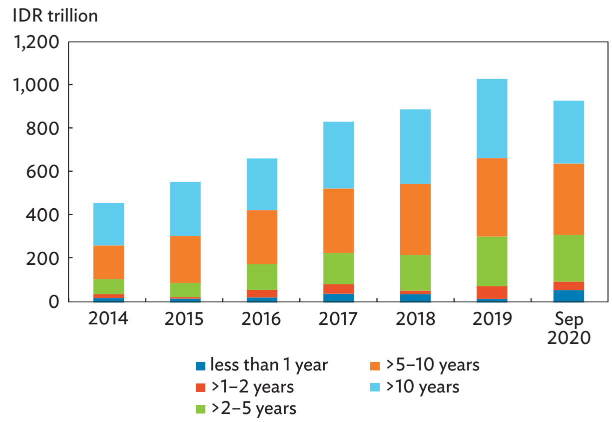
Investor Profiles

Net bond outflows in Indonesia totaled USD0.3 billion during Q3 2020. July was the only month during the quarter that experienced net bond inflows, which amounted to USD0.6 billion. However, bond outflows were recorded in August and September, with the largest outflows observed in September at USD0.6 billion.

As a result, the share of foreign holdings to bonds outstanding declined to 27.0% in Q3 2020 from 38.6% in Q3 2019 (**Figure 2**). The amount held by foreigners fell to IDR933.1 trillion from IDR1,029.4 trillion during the same review period. The share of foreign investors fell much more dramatically as government bonds outstanding growth accelerated as Indonesia issued more to fund its COVID-19 stimulus programs. The exodus of foreign investors was largely due to concerns regarding Indonesia's rising debt levels, debt monetization policy, and economic slowdown.

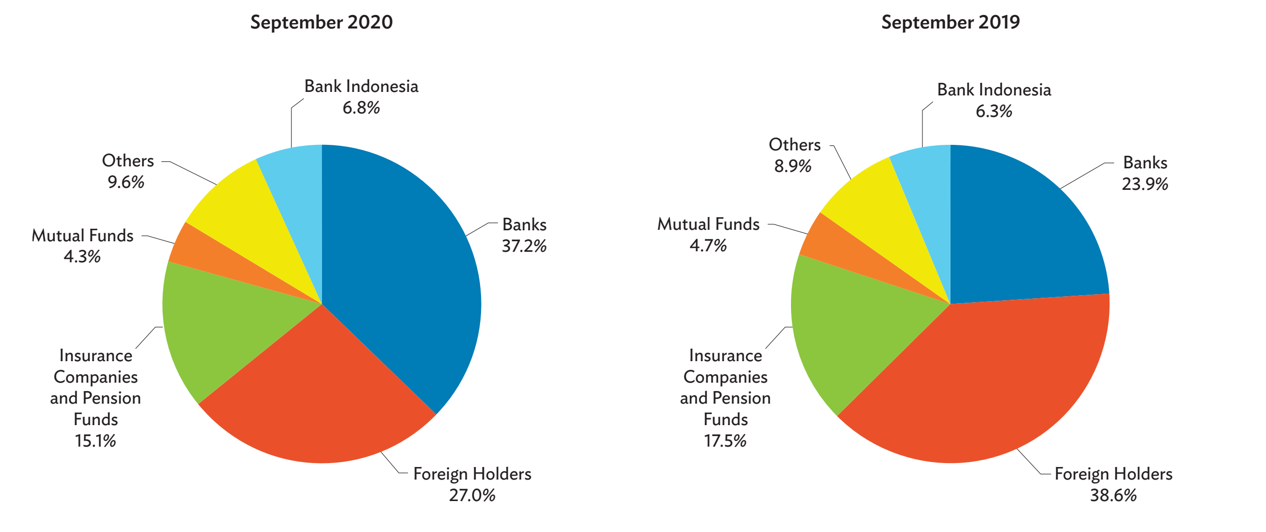
At the end of Q3 2020, foreign investor bond holdings were largely focused in tenors with maturities of between more than 5 years to 10 years, with a share of 35.3% (**Figure 3**). Bonds with maturities greater than 10 years were the next largest target of foreign investment, with a share of 31.2%. The share of bonds held by foreign investors with tenors of less than 1 year was 6.2%.

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.

Figure 2: Local Currency Central Government Bonds Investor Profile



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

With the share of foreign holders declining in Q3 2020, Indonesian banks took up the slack as their share of total holdings shot up to 37.2% at the end of September from 23.9% a year earlier. Banks also bought significantly more government bonds in 2020 than in the previous year, with the amount held by banks rising to IDR1,289 trillion at the end of September from IDR637 trillion a year earlier.

The share of other institutional investors declined slightly on a y-o-y basis. The share of insurance companies fell to 15.1% from 17.5% during the review period, while the share of mutual funds dipped slightly to 4.3% from 4.7%. The share of Bank Indonesia rose to 6.8% at the end of Q3 2020 from 6.3% at the end of Q3 2019. The share of other investors also rose to 9.6% from 8.9%.

Policy, Institutional, and Regulatory Developments

Bank Indonesia and the People's Bank of China Establish Framework on the Use of Local Currencies

In September, Bank Indonesia and the People's Bank of China signed a memorandum of understanding to promote the use of the Indonesian rupiah and the Chinese yuan for the settlement of trade and direct investment. The agreement calls for the availability of direct quotation and interbank trading of the two currencies. In addition, information sharing and periodic discussions will be initiated by the respective central banks.

Indonesia's Parliament Approves 2021 State Budget

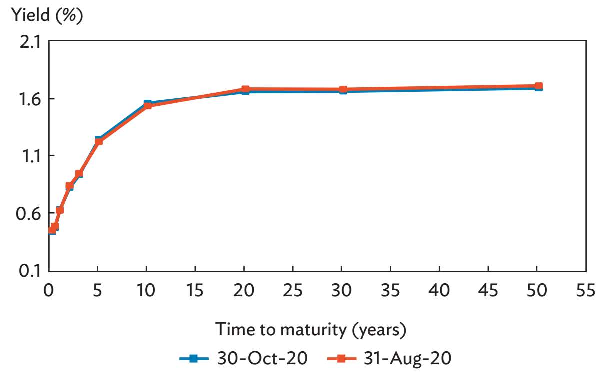
In September, the Indonesian Parliament approved the 2021 state budget, which calls for a deficit equivalent to 5.7% of GDP. The 2021 state budget estimates revenue will reach IDR1,743.7 trillion, while state spending is expected to total IDR2,750.0 trillion. The underlying macroeconomic assumptions for the 2021 state budget include (i) economic growth of 5.0%, (ii) average inflation of 3.0%, (iii) an exchange rate of IDR14,600 per USD1, (iv) an average 10-year bond yield of 7.29%, and (v) Indonesian crude oil price of USD45 per barrel.

Republic of Korea

Yield Movements

Between 31 August and 30 October, the Republic of Korea's local currency (LCY) government bond yield curve barely moved. Government bond yields remained range-bound during the review period, with yield changes almost negligible (**Figure 1**). Yields for 1-year, 5-year, and 10-year bonds rose 2 basis points (bps) on average. Meanwhile, the yield for tenors of less than 1 year fell 1 bp on average, and the yield for the remaining tenors fell 2 bps on average. The spread between the 2-year and 10-year yield inched up to 73 bps from 69 bps during the review period.

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



Source: Based on data from Bloomberg LP.

Yields at the shorter-end were almost unchanged amid expectations of the Bank of Korea maintaining the base rate in its October monetary policy meeting. Meanwhile, yield movements in the rest of the curve were minimal given continued supply–demand imbalances in the government bond market and uncertainties in the economic policy measures of major developing economies. Oversupply concerns continued to impact market sentiment amid expectations of increased bond issuance following the approval of the fourth supplementary budget and the release of the proposed 2021 fiscal budget.

In September, yields for tenors of more than 1 year saw a decline, albeit by only 10 bps on average, as the announcement of the Bank of Korea in the early part of the month—of plans to purchase up to KRW5 trillion of Korea Treasury Bonds by the end of 2020—was not enough to ease supply concerns. The pessimistic outlook on the Republic of Korea's economic growth also contributed to the downward trend. However, this trend was almost reversed in October leading up to the monetary policy meeting and as market players awaited the result of elections in the United States (US).

On 22 September, the National Assembly approved the fourth supplementary budget to be used to provide support to various sectors hit by the coronavirus disease (COVID-19) pandemic. The approved budget amounted to KRW7.8 trillion, bringing the aggregate supplementary budgets to KRW62.2 trillion. Earlier in the month, the government also submitted its 2021 fiscal budget plan of KRW555.8 trillion, an 8.5% increase from the original 2020 budget. In October, the Ministry of Economy and Finance announced fiscal rules to address the rapid increase in national debt resulting from increased bond issuances.

On 14 October, the Bank of Korea decided to leave the base rate unchanged at 0.50% amid uncertainties that could affect the global and domestic economic outlook. The global economic recovery has slowed due to a resurgence in virus cases and uncertainties in economic policy measures to be implemented in major developing markets. The same trend has been observed in the domestic economy. Despite the recovery in exports, private consumption was dampened by the reimposition of lockdown measures as the number of new virus cases rose. The Bank of Korea expects risks to the economic outlook to remain elevated, maintaining its August forecast of a 1.3% contraction in economic growth in full-year 2020.

The Republic of Korea's economy rebounded in the third quarter (Q3) of 2020, posting growth of 1.9% quarter-on-quarter (q-o-q) in real gross domestic product (GDP) growth, based on advance estimates from the Bank of Korea, following a contraction of 3.2% q-o-q in the second quarter (Q2) of 2020. This was largely driven by the 15.6% q-o-q jump in exports in Q3 2020 after a sharp 16.1% q-o-q decline in the previous quarter. However, both government and private consumption declined in

Q3 2020. Private spending fell 0.1% q-o-q in Q3 2020, a reversal from the 1.4% q-o-q increase in Q2 2020, as stricter lockdowns were re-implemented. Government spending also posted a decline of 0.1% q-o-q from 1.5% q-o-q growth in the previous quarter. Meanwhile, gross fixed capital formation fell at a faster pace of 1.9% q-o-q versus 0.4% q-o-q during the same period in review. Consumer price inflation turned positive in July, reaching 0.3% y-o-y before gradually rising to 0.7% in August and 1.0% in September.

The Republic of Korea's LCY bond market registered its first net foreign outflows for the year in September at KRW31 billion as foreign investors took profits, particularly for short-term securities with tenors of less than 1 year. The outflows from this category surpassed the foreign buying volume of mid- to long-term tenors.

The Korean won strengthened during the review period, appreciating 4.7% versus the US dollar to KRW1,134.8 per USD1.0 as of 30 October. This can be attributed to the weakening of the US dollar. Furthermore, the currency appreciation has been tied to the strengthening of the Chinese yuan, as both currencies are linked through the People's Republic of China being one of the Republic of Korea's major trading partners.

Size and Composition

The size of the Republic of Korea's LCY bond market inched up 1.9% q-o-q to KRW2,602.1 trillion (USD2,223.7 billion) at the end of September (**Table 1**). The marginal growth was lower than the 3.1% q-o-q growth posted in Q2 2020. Growth for the quarter continued to be mainly driven by the government sector, particularly the rise in the stock of central government bonds, while the corporate segment rose at a slower pace. Compared with the same period in 2019, the Republic of Korea's domestic bond market rose 9.8% year-on-year (y-o-y), almost at par with the 9.5% y-o-y increase posted in Q2 2020.

Government bonds. The outstanding size of the Republic of Korea's LCY government bond market rose 3.0% q-o-q to KRW1,069.1 trillion at end-September. The main driver of the growth was the 4.2% q-o-q rise in central government bonds to KRW707.7 trillion. Bonds issued by state-owned entities also posted an increase of 2.3% q-o-q to KRW194.6 trillion. Monetary Stabilization Bonds issued by the Bank of Korea registered a decrease of 1.3% q-o-q to KRW166.7 trillion.

Issuance of government bonds declined in Q3 2020 to KRW99.1 trillion due to there being a higher base after issuance surged in Q2 2020 as the government needed to fund the supplementary budgets and other fiscal measures implemented to lessen the economic impact of the pandemic.

Corporate bonds. The Republic of Korea's LCY corporate bond market posted marginal growth of 1.1% q-o-q in Q3 2020, increasing the corporate bond stock to a size of KRW1,533.0 trillion at the end of September. **Table 2** lists the top 30 LCY corporate bond

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2019		Q2 2020		Q3 2020		Q3 2019		Q3 2020	
	KRW	USD	KRW	USD	KRW	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,370,666**	**1,982**	**2,553,743**	**2,123**	**2,602,081**	**2,224**	**1.7**	**6.6**	**1.9**	**9.8**
Government	953,854	797	1,038,139	863	1,069,062	914	0.8	2.8	3.0	12.1
Central Government Bonds	607,015	507	679,020	565	707,681	605	1.2	4.8	4.2	16.6
Central Bank Bonds	170,960	143	168,870	140	166,750	143	(0.4)	(2.1)	(1.3)	(2.5)
Others	175,879	147	190,249	158	194,631	166	0.3	0.8	2.3	10.7
Corporate	1,416,812	1,184	1,515,604	1,260	1,533,019	1,310	2.3	9.4	1.1	8.2

( ) = negative, KRW = Korean won, 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. "Others" comprise Korea Development Bank Bonds, National Housing Bonds, and Seoul Metro Bonds.
5. Corporate bonds include equity-linked securities and derivatives-linked securities.

Sources: The Bank of Korea and *EDAILY BondWeb*.

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

		Outstanding Amount			Listed on		
	Issuers	LCY Bonds (KRW billion)	LCY Bonds (USD billion)	State-Owned	KOSPI	KOSDAQ	Type of Industry
1.	Korea Housing Finance Corporation	141,841	121.2	Yes	No	No	Housing Finance
2.	Mirae Asset Daewoo Co.	72,365	61.8	No	Yes	No	Securities
3.	Industrial Bank of Korea	71,380	61.0	Yes	Yes	No	Banking
4.	Korea Investment and Securities	61,858	52.9	No	No	No	Securities
5.	KB Securities	54,091	46.2	No	No	No	Securities
6.	Hana Financial Investment	51,684	44.2	No	No	No	Securities
7.	NH Investment & Securities	41,928	35.8	Yes	Yes	No	Securities
8.	Samsung Securities	33,479	28.6	No	Yes	No	Securities
9.	Korea Electric Power Corporation	28,510	24.4	Yes	Yes	No	Electricity, Energy, and Power
10.	Korea Land & Housing Corporation	28,239	24.1	Yes	No	No	Real Estate
11.	Shinhan Bank	26,712	22.8	No	No	No	Banking
12.	Shinhan Investment Corporation	24,606	21.0	No	No	No	Securities
13.	The Export-Import Bank of Korea	24,025	20.5	Yes	No	No	Banking
14.	Korea Expressway	24,010	20.5	Yes	No	No	Transport Infrastructure
15.	Shinyoung Securities	19,920	17.0	No	Yes	No	Securities
16.	Kookmin Bank	19,614	16.8	No	No	No	Banking
17.	Korea Rail Network Authority	19,100	16.3	Yes	No	No	Transport Infrastructure
18.	Woori Bank	19,070	16.3	Yes	Yes	No	Banking
19.	KEB Hana Bank	18,960	16.2	No	No	No	Banking
20.	NongHyup Bank	18,270	15.6	Yes	No	No	Banking
21.	Hanwha Investment and Securities	16,791	14.3	No	No	No	Securities
22.	Korea SMEs and Startups Agency	16,528	14.1	Yes	No	No	SME Development
23.	Shinhan Card	15,945	13.6	No	No	No	Credit Card
24.	Meritz Securities Co.	15,152	12.9	No	Yes	No	Securities
25.	Hyundai Capital Services	14,325	12.2	No	No	No	Consumer Finance
26.	KB Kookmin Bank Card	14,020	12.0	No	No	No	Consumer Finance
27.	Standard Chartered Bank Korea	13,360	11.4	No	No	No	Banking
28.	Korea Deposit Insurance Corporation	12,720	10.9	Yes	No	No	Insurance
29.	NongHyup	12,430	10.6	Yes	No	No	Banking
30.	Korea Gas Corporation	11,759	10.0	Yes	Yes	No	Gas Utility
Total Top 30 LCY Corporate Issuers		**942,692**	**805.6**				
Total LCY Corporate Bonds		**1,533,019**	**1,310.1**				
Top 30 as % of Total LCY Corporate Bonds		**61.5%**	**61.5%**				

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 2020.
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.

issuers in the Republic of Korea at the end of September with their outstanding bonds reaching an aggregate size of KRW942.7 trillion and comprising 61.5% of the total LCY corporate bond market. Financial companies such as banks and securities and investment firms continued to dominate the list. Government-related entity Korea Housing Finance Corporation remained the largest corporate bond issuer in the market with total bonds outstanding valued at KRW141.8 trillion. Financial companies Mirae Asset Daewoo and Industrial Bank of Korea were the next largest bond issuers with total bonds outstanding of KRW72.4 trillion and KRW71.4 trillion, respectively.

The marginal increase in the size of the LCY corporate bond market was due to tepid issuance during Q3 2020, particularly from both special public entities and private companies, while financial debentures saw increased issuance. Market volatility and economic uncertainty continued to have an impact on the decline of corporate bond issuance during the quarter. **Table 3** lists the notable corporate bond issuances in Q3 2020. Financial firms such as KEB Hana Bank, Kookmin Bank, Sinbo Securitization, and Nonghyup Bank had the largest aggregate issuances during the quarter.

Foreign Exchange Stabilization Fund Bonds. On 10 September, the Government of the Republic of Korea issued USD1.4 billion worth of Foreign Exchange Stabilization Fund Bonds. The issuance consisted of EUR700 million worth of zero coupon 5-year euro bonds with a yield of –0.059% and USD625 million worth of 10-year dollar bonds with a yield of 1.198% and a coupon of 1.000%. The issuance is expected to push down yields of sovereign bonds and provide lower-yield guidance for the foreign borrowings of other private Korean entities.

Table 3: Notable Local Currency Corporate Bond Issuances in the Third Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
KEB Hana Bank		
1-year bond	0.75	500
1-year bond	0.76	390
1-year bond	0.75	250
2-year bond	0.92	250
2-year bond	0.98	220
2-year bond	0.88	200
2-year bond	0.92	200
2-year bond	0.92	200
2-year bond	0.88	200
3-year bond	0.92	300
10-year bond	2.14	340
Kookmin Bank		
2-year bond	0.75	300
2-year bond	0.90	300
2-year bond	0.57	300
2-year bond	0.90	250
2-year bond	0.91	250
2-year bond	0.79	200
2-year bond	0.79	350
2-year bond	0.93	220
2-year bond	1.02	220
10-year bond	2.05	500

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Sinbo Securitization Specialty		
2-year bond	1.09	188
3-year bond	1.22	507
3-year bond	1.19	411
3-year bond	1.19	211
3-year bond	1.15	210
3-year bond	1.15	147
Nonghyup Bank		
1-year bond	0.90	400
2-year bond	0.99	410
2-year bond	1.03	100
3-year bond	1.12	200
3-year bond	1.01	110
3-year bond	1.07	100
5-year bond	1.33	260
Woori Bank		
1-year bond	–	300
1-year bond	0.91	200
2-year bond	0.93	200
3-year bond	1.01	300
3-year bond	1.02	250
5-year bond	1.32	300
Korea Investment Securities		
6-year bond	3.30	470
Shinhan Financial Group		
29-year bond	3.12	450

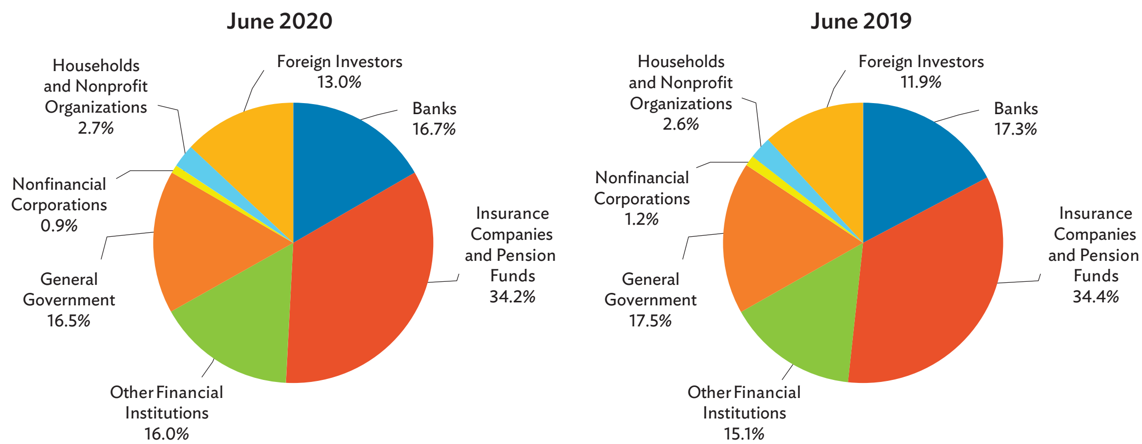
– = not applicable, KRW = Korean won.
Source: Based on data from Bloomberg LP.

Investor Profile

Insurance companies and pension funds remained the largest holders of the Republic of Korea's LCY government bonds at the end of June 2020 with a share of 34.2%, almost at par with its share of 34.4% in June 2019 (**Figure 2**). Banks surpassed the general government as the second-largest investor group at the end of Q2 2020. However, both of their respective shares declined from a year earlier, with banks' share falling to 16.7% at the end of Q2 2020 from 17.3% and the general government declining to 16.5% from 17.5%. Meanwhile, the share of other financial institutions rose to 16.0% from 15.1% during the review period. Foreign holdings of LCY government bonds also increased to 13.0% at the end of June 2020 from 11.9% a year earlier.

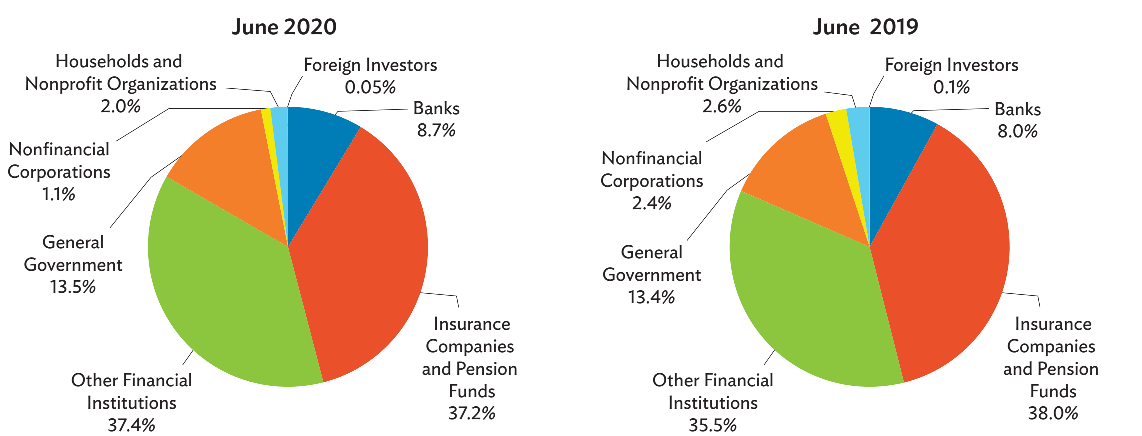
Other financial institutions surpassed insurance companies and pension funds as the largest investor group of the Republic of Korea's LCY corporate bonds at the end of June 2020, with its share rising to 37.4% from 35.5% in the same period in 2019 (**Figure 3**). Meanwhile, the share of insurance companies and pension funds declined to 37.2% from 38.0% during the review period. The share of the general government was almost unchanged at 13.5%, while the share of foreign holders remained negligible.

Figure 2: Local Currency Government Bonds Investor Profile



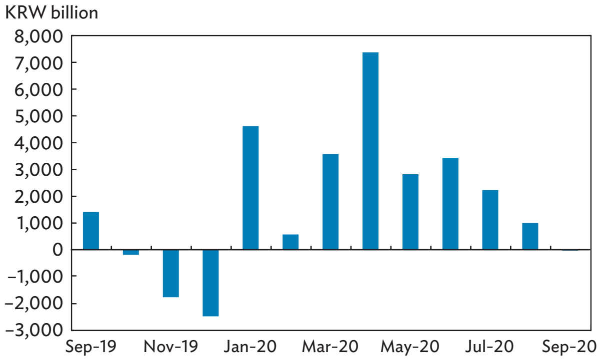
Source: The Bank of Korea.

Figure 3: Local Currency Corporate Bonds Investor Profile



Source: 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.

Foreign investors continued buying the Republic of Korea's LCY bonds in August, albeit at a smaller value of KRW997 billion versus a monthly average of KRW3,521 billion in the first 7 months of the year (**Figure 4**). However, this was reversed as the bond market registered net foreign outflows of KRW31 billion in September, due to profit-taking by foreign investors, particularly for securities with tenors of less than 1 year. Selling in this category surpassed net inflows registered in bonds with mid- to long-term tenors.

Ratings Update

On 6 October, Fitch Ratings affirmed the Republic of Korea's sovereign credit rating at AA– with a stable outlook. The rating agency cited the Republic of Korea's "steady macroeconomic performance, robust external finances, and sufficient fiscal headroom" as the reasons behind the rating affirmation. These, along with other government policies to control the spread of the virus, have helped mitigate the economic impact of the COVID-19 pandemic, especially in comparison with its similarly rated peers. In addition, the rating agency also forecast a 1.1% economic contraction in 2020, based on a gradual recovery in the second half of the year supported by the rebound in exports in recent months. The fiscal deficit for 2020 is also expected to widen to 4.4% of GDP in 2020 given the rise in government debt following financial stimulus to address the economic impact of the virus, but it is still considered modest compared to its peers.

Policy, Institutional, and Regulatory Developments

The National Assembly Passed the Fourth Supplementary Budget

On 22 September, the National Assembly passed the fourth supplementary budget of 2020 worth KRW7.8 trillion. This brings the aggregate amount of all four supplementary budgets to KRW62.2 trillion. The budget is expected to fund additional COVID-19 relief programs to support small businesses and low-income households.

The Republic of Korea Announces New Fiscal Rules

On 5 October, the Government of the Republic of Korea announced new fiscal rules to address the rapid increase in national debt. Although the economy's fiscal soundness and debt ratios are still considered low compared to its similarly rated peers, the government aims to maintain its fiscal sustainability. One rule is to maintain the government-debt-to-GDP ratio below 60% and the consolidated fiscal balance deficit at 3% or less of GDP. Implementation is expected to take effect starting in 2025 after a transition period of 3 years.

The Bank of Korea and the People's Bank of China Renew Currency Swap Agreement

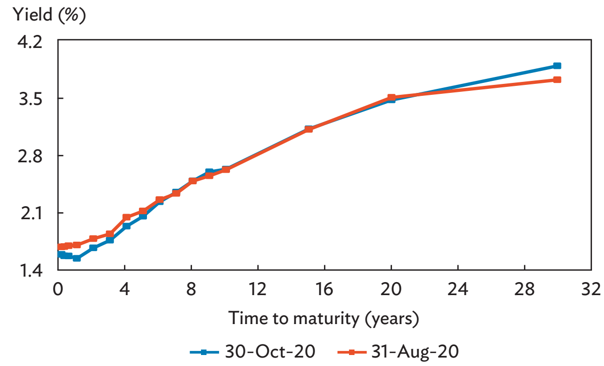
On 22 October, the Bank of Korea and the People's Bank of China signed the renewal of the Korean Won–Chinese Yuan Bilateral Currency Swap Agreement for another 5 years. The swap amount was also increased to KRW70 trillion–CNY400 billion from KRW64 trillion–CNY360 billion.

Malaysia

Yield Movements

Between 31 August and 30 October, Malaysia's local currency (LCY) government bond yield movements were mixed (**Figure 1**). Yields of tenors from 1 month to 6 years declined an average of 10 basis points (bps). The longer-end of the yield curve (from 7 years to 15 years) increased an average of 2 bps, while the 30-year tenor jumped 17 bps. The yield spread between 2-year and 10-year government bonds expanded from 84 bps to 96 bps during the review period.

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



Source: Based on data from Bloomberg LP.

The decline in yields at the shorter-end of the curve can be attributed to the effect of Bank Negara Malaysia's (BNM) cumulative 125-bps reduction in the overnight policy rate year-to-date through 30 October. Attractive real yields, which are driven by persistent consumer price deflation and high liquidity in the financial system, also contributed to high demand for government securities. Adding to the demand were foreign capital inflows after Malaysian Government Securities (MGS) and Government Investment Issues were given a higher weight in the JP Morgan Government Bond Index–Emerging Market Index in September.

On the other hand, the low demand for long-term securities reflects some investors' flight to safety amid uncertainties caused by the coronavirus disease (COVID-19) pandemic. Excess supply concerns may also be a factor as Malaysia's fiscal deficit is projected to increase following the government's stimulus programs that will be funded through domestic borrowing. In August, Malaysia's Parliament raised the government's debt ceiling to 60% of its gross domestic product from 55% as part of measures to counter the effects of the COVID-19 pandemic.

BNM's monetary policy committee previously reduced its policy rate in July but decided to keep it steady at 1.75% during its latest meeting in September given the committee's cautiously optimistic outlook for the economy. Despite some resurgence in COVID-19 cases, analysts expect BNM to maintain its policy rate during its meeting in November as its accommodative and stimulus packages are deemed sufficient to support the economy during the pandemic.

Malaysia's economy contracted 2.7% year-on-year (y-o-y) in the third quarter (Q3) of 2020, an improvement from the contraction of 17.1% y-o-y in the second quarter (Q2) of 2020, as economic activities resumed after the easing of Movement Control Order measures. The sharp decline in Q2 2020 prompted the World Bank in September to downgrade its full-year 2020 economic growth forecast for Malaysia to −4.9% y-o-y from −3.1% y-o-y in June. This was in line with BNM's forecast for growth of between −5.5% y-o-y and −3.5% y-o-y. BNM and the World Bank are cautiously optimistic about the economy's gradual recovery in the second half of 2020 as economic activities resumed in May. Analysts, however, are still wary that recent spikes in COVID-19 cases will greatly affect Malaysia's economic recovery, especially as restrictions may be reintroduced.

Prices of basic goods and services in Malaysia decreased 1.4% y-o-y in September, the same rate of decline recorded in August, after contracting 1.3% y-o-y in July. Consumer prices were pulled down by declines in the cost of transport; housing, water, electricity, gas, and other fuels; and clothing and footwear. BNM expects negative inflation for full-year 2020 due to falling global oil and other commodity prices.

Size and Composition

Malaysia's LCY bond market expanded 1.9% quarter-on-quarter (q-o-q) in Q3 2020 to reach a size of MYR1,583.7 billion (USD381.0 billion), up from MYR1,554.8 billion at the end of Q2 2020 (**Table 1**). The growth corresponds to a 6.1% y-o-y jump from

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2019		Q2 2020		Q3 2020		Q3 2019		Q3 2020	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,493**	**357**	**1,555**	**363**	**1,584**	**381**	**0.3**	**8.3**	**1.9**	**6.1**
Government	786	188	829	193	848	204	0.8	8.3	2.3	8.0
Central Government Bonds	749	179	797	186	820	197	0.9	9.9	2.9	9.6
of which: *Sukuk*	331	79	367	86	377	91	(0.6)	10.1	2.7	13.8
Central Bank Bills	10	2	5	1	4	1	10.9	(34.2)	(20.0)	(60.8)
of which: *Sukuk*	4	0.8	0	0	0	0	133.3	16.7	–	(100.0)
Sukuk Perumahan Kerajaan	27	6	27	6	24	6	(3.9)	(5.6)	(10.1)	(10.1)
Corporate	707	169	726	169	735	177	(0.2)	8.3	1.3	3.9
of which: *Sukuk*	559	133	582	136	592	142	0.7	13.2	1.7	6.0

( ) = 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* refers to Islamic bonds.
5. 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.

MYR1,493.1 billion at the end of Q3 2019. The growth in the LCY bond market in Q3 2020 was supported by expansions in both LCY government and corporate bonds, which accounted for 53.6% and 46.4%, respectively, of the total LCY bonds outstanding at the end of September. Total outstanding *sukuk* (Islamic bonds) at the end of the review period stood at MYR993.2 billion on growth of 1.7% q-o-q from MYR976.2 billion at the end of the previous quarter, spurred by increased stocks of government and corporate *sukuk*.

Issuance of LCY bonds in Q3 2020 declined 4.5% q-o-q to MYR90.0 billion from MYR94.2 billion in Q2 2020, driven by decreased government bond issuance.

Government bonds. The LCY government bond market grew 2.3% q-o-q to MYR848.4 billion in Q3 2020, up from MYR829.0 billion in the previous quarter. The growth was due to the 2.9% q-o-q increase in outstanding central government bonds, which comprised 96.7% of total outstanding LCY government bonds. Outstanding central bank bills, which comprised a 0.5% share of total LCY government bonds outstanding at the end of September, contracted 20.0% q-o-q as some bills matured. The outstanding stock of Sukuk Perumahan Kerajaan (2.8% of total outstanding LCY government bonds) declined 10.1% q-o-q from the previous quarter.

LCY government bonds issued in Q3 2020 fell 14.0% q-o-q to MYR51.6 billion from MYR60.0 billion in the previous quarter, as issuance of Treasury bills declined and no central bank bills were issued during the quarter. The lack of issuance of Bank Negara Monetary Notes may be attributed to the central bank's liquidity enhancement measures. Another move to expand liquidity in the LCY bond market was the increased issuance of MGS from the previous quarter, as MGS switch auctions were conducted in September. The government redeemed some illiquid bonds and replaced them with more liquid benchmark MGS. The high level of MGS issuance may also be attributed to the government's funding needs for its economic programs to battle the COVID-19 pandemic. On the other hand, issuance volume of Government Investment Issues slightly declined from the previous quarter.

Corporate bonds. LCY corporate bonds outstanding expanded 1.3% q-o-q to MYR735.3 billion in Q3 2020 from MYR725.8 billion in Q2 2020. Outstanding corporate *sukuk* rose 1.7% q-o-q to MYR592.0 billion at the end of September from MYR582.3 billion in the prior quarter.

The top 30 corporate bond issuers in Malaysia accounted for an aggregate MYR445.9 billion of corporate bonds outstanding at the end of Q3 2020, or 60.6% of the total corporate bond market (**Table 2**). Government institution Danainfra Nasional continued to dominate all issuers with outstanding LCY corporate bonds amounting to MYR71.6 billion (9.7% of total LCY corporate bonds outstanding). By industry, finance comprised the largest share (53.1%) of the top 30 issuers with MYR236.9 billion

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	71.6	17.2	Yes	No	Finance
2.	Prasarana	36.0	8.7	Yes	No	Transport, Storage, and Communications
3.	Cagamas	31.2	7.5	Yes	No	Finance
4.	Project Lebuhraya Usahasama	29.4	7.1	No	No	Transport, Storage, and Communications
5.	Urusharta Jamaah	27.6	6.6	Yes	No	Finance
6.	Lembaga Pembiayaan Perumahan Sektor Awam	24.4	5.9	Yes	No	Property and Real Estate
7.	Perbadanan Tabung Pendidikan Tinggi Nasional	21.6	5.2	Yes	No	Finance
8.	Pengurusan Air	18.1	4.4	Yes	No	Energy, Gas, and Water
9.	Khazanah	14.2	3.4	Yes	No	Finance
10.	CIMB Bank	14.1	3.4	Yes	No	Banking
11.	Maybank Islamic	13.0	3.1	No	Yes	Banking
12.	Sarawak Energy	13.0	3.1	Yes	No	Energy, Gas, and Water
13.	Maybank	12.8	3.1	No	Yes	Banking
14.	CIMB Group Holdings	11.3	2.7	Yes	No	Finance
15.	Tenaga Nasional	10.0	2.4	No	Yes	Energy, Gas, and Water
16.	Jimah East Power	9.0	2.2	Yes	No	Energy, Gas, and Water
17.	Danum Capital	8.0	1.9	No	No	Finance
18.	Danga Capital	8.0	1.9	Yes	No	Finance
19.	Public Bank	7.9	1.9	No	No	Banking
20.	GOVCO Holdings	7.2	1.7	Yes	No	Finance
21.	Bank Pembangunan Malaysia	7.2	1.7	Yes	No	Banking
22.	GENM Capital	6.5	1.6	No	No	Finance
23.	YTL Power International	6.1	1.5	No	Yes	Energy, Gas, and Water
24.	Bakun Hydro Power Generation	5.9	1.4	No	No	Energy, Gas, and Water
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.	Sunway Treasury Sukuk	5.1	1.2	No	No	Finance
30.	1Malaysia Development	5.0	1.2	Yes	No	Finance
Total Top 30 LCY Corporate Issuers		**445.9**	**107.3**			
Total LCY Corporate Bonds		**735.3**	**176.9**			
Top 30 as % of Total LCY Corporate Bonds		**60.6%**	**60.6%**			

LCY = local currency, MYR = Malaysian ringgit, USD = United States dollar.
Notes:
1. Data as of 30 September 2020.
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.

in outstanding LCY corporate bonds at the end of September.

Issuance of LCY corporate bonds increased 12.1% q-o-q to MYR38.4 billion in Q3 2020 from MYR34.2 billion in Q2 2020. The growth may be attributed to corporations taking advantage of, and investors chasing yields in, a low-interest-rate environment.

Danainfra Nasional issued the most tranches of Islamic medium-term notes (MTNs), issuing six tranches with tenors ranging from 7 years to 30 years (**Table 3**). The issuance was via the state-owned funding vehicle's Islamic MTN program. Government-owned utility company Tenaga Nasional Berhad issued three tranches of Islamic MTNs, with its MYR1.5 billion 20-year tranche recording the highest issuance amount during the quarter. Malaysia Rail Link issued two multitranche bonds. In July, Malaysia Rail Link issued four tranches from its Islamic MTN program to fund its East Coast Rail project. In September, it issued a triple-tranche bond to further fund the same project. Malaysia Rail Link raised a total of MYR2.8 billion from the two issuances.

Table 3: Notable Local Currency Corporate Bond Issuances in the Third Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Danainfra Nasional		
7-year Islamic MTN	2.66	600
10-year Islamic MTN	2.86	500
15-year Islamic MTN	3.35	500
20-year Islamic MTN	3.72	600
25-year Islamic MTN	3.87	600
30-year Islamic MTN	4.01	1,200
Tenaga Nasional Berhad		
10-year Islamic MTN	2.90	750
15-year Islamic MTN	3.25	750
20-year Islamic MTN	3.55	1,500
Malaysia Rail Link		
10-year Islamic MTN	3.13	895
15-year Islamic MTN	3.58	390
20-year Islamic MTN	3.88	405
25-year Islamic MTN	4.11	310
10-year Islamic MTN	2.87	200
20-year Islamic MTN	3.75	300
25-year Islamic MTN	3.89	300

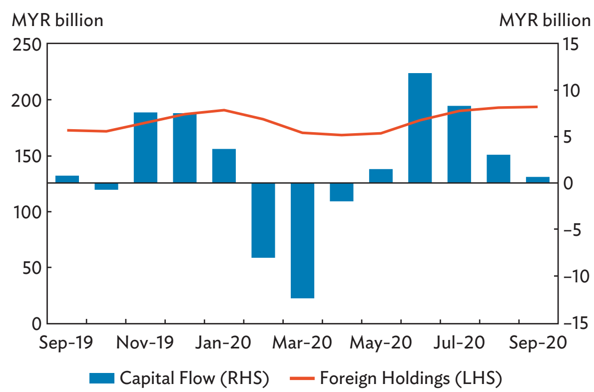
MTN = medium-term note, MYR = Malaysian ringgit.
Source: Bank Negara Malaysia Bond Info Hub.

Investor Profile

Foreign holdings of LCY government bonds in Q3 2020 jumped to MYR575.2 billion from MYR518.5 billion in Q2 2020, with monthly holdings increasing during the quarter, an extension of the trend of expanded monthly holdings in place since May (**Figure 2**). A total of MYR12.0 billion in net capital inflows were recorded in Q3 2020, with most of the inflows coming in July. The September inflows were driven by increased foreign holdings of MGS after the JP Morgan Government Bond Index–Emerging Market Index gave more weight to Malaysian debt securities. The net inflows in Q2 2020 and Q3 2020 were due to improving global investor sentiment and a sustained nonresident investor base in the Malaysian LCY bond market. However, investors remain cautious as FTSE Russell retained Malaysia on its fixed-income watch list for possible exclusion from its FTSE World Government Bond Index. As a share of LCY government bonds, foreign holdings increased to 23.6% at the end of Q3 2020 from 22.7% at the end of Q2 2020.

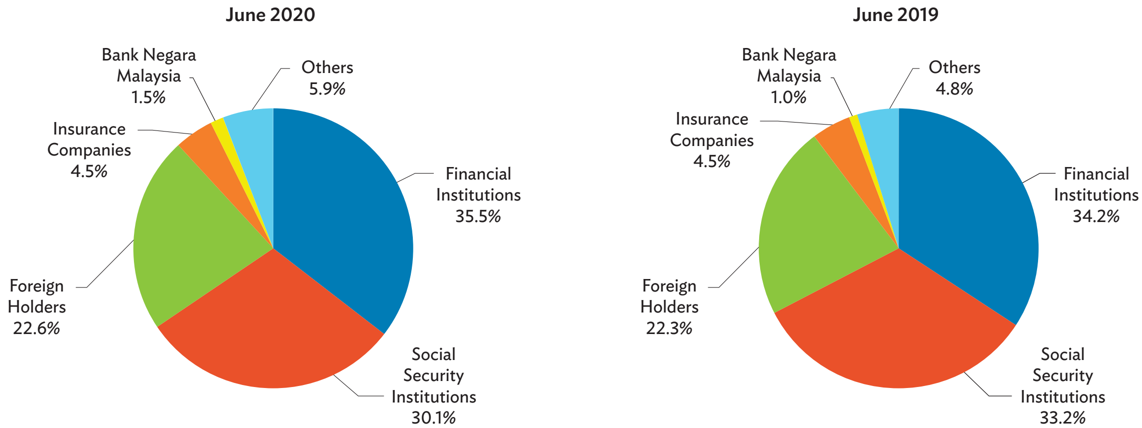
At the end of Q2 2020, financial institutions and social security institutions led all investors in LCY government bond holdings with 35.5% and 30.1% of the total, respectively (**Figure 3**). Financial institutions held a larger share at the end of June compared to the same month in 2019, while the share of social security institutions

Figure 2: Foreign Holdings and Capital Flows in the Malaysian Local Currency Government Bond Market



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.

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.

dropped. Foreign holders slightly increased their share of total holdings to 22.6% from 22.3% during the review period. The holdings share of insurance companies remained unchanged at 4.5% between Q2 2019 and Q2 2020, while the share of total holdings of BNM increased to 1.5% from 1.0%.

Policy, Institutional, and Regulatory Developments

Japan and Malaysia Sign Bilateral Swap Agreement

On 18 September, the Bank of Japan and BNM signed a bilateral swap agreement allowing the two central banks to swap their Japanese yen and Malaysian ringgit, respectively, for United States dollars. The swap agreement provides up to USD3.0 billion each for Japan and Malaysia. The agreement supports stability in the financial markets of both economies, and strengthens ties and economic cooperation between the two economies.

FTSE Russell Keeps Malaysia in Its FTSE World Government Bond Index

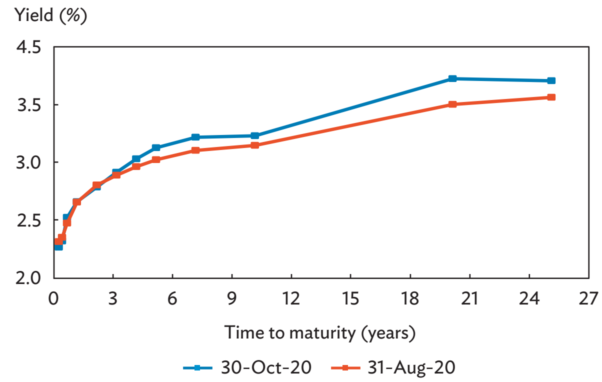
On 24 September, FTSE Russell decided to keep Malaysia in its FTSE World Government Bond Index, but the economy remained on the data provider's FTSE Russell Fixed Income Watch List for possible exclusion. In its September 2020 fixed-income review, FTSE Russell acknowledged BNM's policy reforms to enhance secondary market bond liquidity and improve foreign exchange market structure. FTSE Russell will continue to monitor developments in the Malaysian bond market as BNM's policies take effect and assess whether these regulatory reforms translate into practical improvements for international participants.

Philippines

Yield Movements

The yield curve of local currency (LCY) government bonds in the Philippines steepened between 31 August and 30 October (**Figure 1**). Yields on bonds with 1-month, 3-month, and 2-year maturities dropped on an average of 7 basis points (bps). The remaining tenors all saw increases in their yields. Bond yield for 1-year tenor increased the least at 0.6 bps, while those for 6-month and 3-year to 10-year tenors increased an average of 15 bps. Larger yield increases were seen in 20-year and 25-year maturities at 45 bps and 29 bps, respectively. This steepening led to a widening of the yield spread between 2-year and 10-year tenors during the review period from 69 bps to 89 bps.

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



Source: Based on data from Bloomberg LP.

The decline in government bond yields at the shorter-end of the curve was due largely to the accommodative monetary policy stance of the Bangko Sentral ng Pilipinas (BSP) and the inflation rate remaining subdued.

The reverse repurchase rate was held steady at 2.25% for the second consecutive time during the BSP's monetary policy meeting on 1 October, citing easing inflation and encouraging signs of domestic economic recovery. Since the start of the year through October 2020, the central bank had slashed 175 bps from the policy rate, placing it to a historically low level. The BSP maintained the view that the pause will allow it to evaluate previous easing measures' effect in the economy. The BSP is expected to reassess its policy actions based on the third quarter (Q3) economic performance which remained sluggish. The slower-than-expected gross domestic product (GDP) growth provides room for a rate cut, while excess liquidity and negative real interest rates will likely restrain the central bank's policy space.

Consumer price inflation picked up to 2.5% y-o-y in October after easing in September (2.3% y-o-y) and August (2.4% y-o-y). The acceleration mainly came on the back of higher prices of heavily-weighted food and non-alcoholic beverages. Inflation rate averaged 2.5% for the first 10 months of the year and is within the government target of 2.0%–4.0% for full-year 2020. With domestic demand remaining weak due to the coronavirus disease (COVID-19) pandemic, the BSP has forecast inflation to average 2.3% in 2020, 2.8% in 2021, and 3.0% in 2022.[8]

High liquidity in the financial system, along with a sustained preference for liquid assets, has also kept bond yields grounded at the shorter-end of the curve. The uncertainty and risks surrounding the pandemic have made investors position their funds in the more liquid portion of the curve as they await fresh developments.

On the other hand, yield increases at the longer-end of the curve stem from expectations that inflation may pick up with the further reopening of the economy and easing of quarantine restrictions that will spur economic activities. Gloomy economic growth forecasts may have also weighed on investor sentiment, leading some to trim their demand for long-term investments to avoid looming risks.

The Philippine economy remained in a recession after recording a GDP contraction of 11.5% y-o-y in Q3 2020; however, it was an improvement from the revised 16.9% y-o-y decline in Q2 2020. The double-digit decline in growth rate can be attributed to the 2-week reimposition of stricter quarantine measures in August in some areas, including the country's economic center of Metro Manila, after daily cases of COVID-19

[8] BSP forecast as of October 2020.

had escalated. Only government consumption on the expenditure side and agriculture sector on the income side saw y-o-y increases. The government expects the economy to contract between 4.5% y-o-y and 6.6% y-o-y in 2020, but will review its projections to account for the Q3 2020 figure.

The Philippine peso sustained its strength against the United States (US) dollar despite the recession and the extended community quarantine resulting from the Philippines having the highest number of COVID-19 cases in emerging East Asia.[9] The strength of the peso is generally traced to low domestic demand that reflects low imports and thus weak demand for US dollars. In October, the exchange rate movement was range-bound, prompted by the passage of the 2021 Philippine national budget, continued reopening of the economy, decline in daily COVID-19 cases, easing of some community quarantine restrictions, and ongoing negotiations over a COVID-19 pandemic stimulus package as well as elections in the US. The peso traded at PHP48.41 to the US dollar on 30 October, reflecting a year-to-date gain of 4.6%.

Size and Composition

Total LCY bond outstanding in the Philippines reached PHP8,136.4 billion (USD167.8 billion) at the end of September on growth of 8.8% quarter-on-quarter (q-o-q) and 21.5% y-o-y (**Table 1**). The rate of expansion in Q3 2020 was faster than in Q2 2020 and was supported by both the government and corporate segments on the back of higher issuance volumes. At the end of Q3 2020, government bonds comprised 79.9% of the LCY bond market, and corporate bonds accounted for the remaining 21.1%.

Government bonds. LCY government bonds outstanding amounted PHP6,503.0 billion at the end of Q3 2020, increasing 10.1% q-o-q. The increase in market size was supported by Treasury bills and, in particular, Treasury bonds. The Bureau of the Treasury (BTr) issued another tranche of Retail Treasury Bonds (RTBs) to raise more funds for the government's pandemic responses. At the same time, the BSP started issuing its own securities as additional instrument for its monetary policy implementation and liquidity management operations, adding to the government's debt.

Government bond issuance in Q3 2020 strongly rebounded on growth of 65.4% q-o-q, following a decline of 6.9% q-o-q in Q2 2020. It totaled PHP1,105.8 billion, lifted by Treasury bonds and the maiden issuances of central bank securities.

Treasury bonds issued in the quarter reached PHP651.3 billion, more than triple the amount issued in Q2 2020. The high debt sales volume was due to the issuance of RTBs in August when the BTr raised a record PHP516.3 billion. The timing has been conducive for

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2019		Q2 2020		Q3 2020		Q3 2019		Q3 2020	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**6,699**	**129**	**7,477**	**150**	**8,136**	**168**	**(0.1)**	**15.7**	**8.8**	**21.5**
Government	5,253	101	5,904	119	6,503	134	(0.7)	14.4	10.1	23.8
Treasury Bills	553	11	797	16	876	18	(15.3)	25.9	10.0	58.5
Treasury Bonds	4,678	90	5,068	102	5,537	114	1.3	13.5	9.3	18.4
Central Bank Securities	0	0	0	0	50	1	–	–	–	–
Others	22	0.4	40	0.8	40	0.8	(0.03)	(35.5)	(0.02)	83.3
Corporate	1,447	28	1,573	32	1,633	34	2.1	20.7	3.8	12.9

( ) = negative, – = not applicable, 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 USD) are not included.
Sources: Bloomberg LP and Bureau of the Treasury.

[9] This covers the period from 6 August to 15 October. 2020. COVID-19 in Charts: Where Does PH Stand in ASEAN, World? 16 October. https://www.rappler.com/newsbreak/data-documents/coronavirus-charts-where-philippines-stands-asean-world.

the government to secure a good portion of funds for its spending needs amid the COVID-19 pandemic as interest rates remain low while high liquidity in the market drew in strong demand from investors. The 5-year security is the Treasury's second RTB issuance in 2020, following its PHP310.8 billion sale in February. During the quarter, the BTr rejected bids for 10-year and 20-year Treasury bonds at two auctions subsequent to the RTB sale as investors sought higher yields and, to some extent, the government had already secured sufficient financing.

The BSP issued central bank securities totaling PHP50.0 billion in Q3 2020. The initial offerings were small in volume with short maturities, but they will be adjusted depending on market response as well as the market liquidity forecast.

Issuance of Treasury bills, on the other hand, amounted to PHP488.6 billion on a decline of 17.2% q-o-q in contrast to the double-digit growth posted in Q2 2020. The drop in debt sales was traced to lower offer volumes during the quarter. The BTr also rejected bids for 365-day Treasury bills in one of the auctions as investors demanded higher rates.

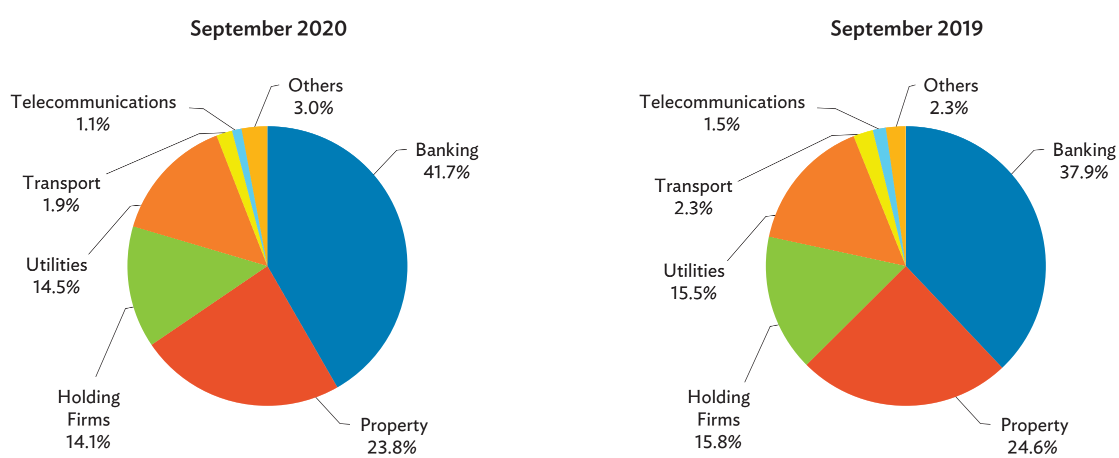
The BTr deferred its plan to issue samurai and panda bonds in 2020 as funds raised domestically were enough to cover the government's financing requirements. At the onset of the COVID-19 pandemic, the BTr considered tapping debt markets in the People's Republic of China and Japan to raise funds. However, the government's PHP540 billion advance credit from the BSP allowed the BTr to shelf this plan. Instead, the BTr will issue a second tranche of *Premyo* bonds to retail investors in November.[9]

Corporate bonds. The LCY corporate bond market rebounded in Q3 2020 to expand 3.8% q-o-q after contracting 0.4% q-o-q in Q2 2020. Corporate bonds outstanding reached PHP1,633.3 billion at the end of Q3 2020 on the back of more bond issuances during the quarter as the economy gradually reopened.

The banking sector remained the largest segment of the LCY corporate bond market in Q3 2020. The sector's share increased to 41.7% at the end of September from 37.9% at the end of September 2019 as banks upped their issuance volume over the past year (**Figure 2**). Properties and utilities companies hold the second and third spots, respectively, comprising 23.8% and 14.5% of the market; however, their shares were lower compared with September 2019. The holding firms, transport, and telecommunications sector saw lower shares in September 2020 versus a year earlier, while the share of "others" was slightly up.

The top 30 corporate issuers have an aggregate debt outstanding of PHP1,451.3 billion at the end of September or 88.9% of the total corporate bond market (**Table 2**). The banking sector comprised the largest share at 43.8%, which was equivalent to PHP649.9 billion. This was

Figure 2: Local Currency Corporate Bonds Outstanding by Sector



Source: Based on data from Bloomberg LP.

10 *Premyo* bonds act as an investment and a ticket to win cash and noncash prizes for retail investors.

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	130.8	2.7	No	Yes	Banking
2.	Ayala Land	121.2	2.5	No	Yes	Property
3.	BDO Unibank	117.4	2.4	No	Yes	Banking
4.	SM Prime Holdings	103.6	2.1	No	Yes	Holding Firms
5.	Bank of the Philippine Islands	86.1	1.8	No	Yes	Banking
6.	SMC Global Power	80.0	1.6	No	No	Electricity, Energy, and Power
7.	Security Bank	66.3	1.4	No	Yes	Banking
8.	San Miguel	60.0	1.2	No	Yes	Holding Firms
9.	China Bank	56.2	1.2	No	Yes	Banking
10.	Rizal Commercial Banking Corporation	55.3	1.1	No	Yes	Banking
11.	Philippine National Bank	52.2	1.1	No	Yes	Banking
12.	SM Investments	48.3	1.0	No	Yes	Holding Firms
13.	Vista Land	43.6	0.9	No	Yes	Property
14.	Petron	42.9	0.9	No	Yes	Electricity, Energy, and Power
15.	Ayala Corporation	40.0	0.8	No	Yes	Holding Firms
16.	Aboitiz Power	40.0	0.8	No	Yes	Electricity, Energy, and Power
17.	Aboitiz Equity Ventures	37.0	0.8	No	Yes	Holding Firms
18.	Maynilad	32.5	0.7	No	No	Water
19.	Union Bank of the Philippines	26.6	0.5	No	Yes	Banking
20.	Philippine Savings Bank	25.4	0.5	No	Yes	Banking
21.	Robinsons Land	25.2	0.5	No	Yes	Property
22.	Manila Electric Company	23.0	0.5	No	Yes	Electricity, Energy, and Power
23.	Filinvest Land	22.0	0.5	No	Yes	Property
24.	San Miguel Brewery	22.0	0.5	No	No	Brewery
25.	East West Banking	17.7	0.4	No	Yes	Banking
26.	Robinsons Bank	16.0	0.3	No	No	Banking
27.	GT Capital	15.1	0.3	No	Yes	Holding Firms
28.	Doubledragon	15.0	0.3	No	Yes	Property
29.	PLDT	15.0	0.3	No	Yes	Telecommunications
30.	San Miguel Food and Beverage	15.0	0.3	No	Yes	Food and Beverage
Total Top 30 LCY Corporate Issuers		**1,451.3**	**29.9**			
Total LCY Corporate Bonds		**1,633.3**	**33.7**			
Top 30 as % of Total LCY Corporate Bonds		**88.9%**	**88.9%**			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of 30 September 2020.
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.

followed by holdings firms and property firms with shares of 20.5% (PHP304.0 billion) and 15.3% (PHP227.0 billion), respectively. The corporate issuers are Metropolitan Bank, Ayala Land, BDO Unibank, and SM Prime Holdings with bonds outstanding of over PHP100 billion each.

Bond issuance activities from the corporate sector picked up in Q3 2020 to PHP126.3 billion from PHP27.6 billion in the previous quarter. As the economy gradually reopened, even amid continued uncertainty from the COVID-19 pandemic, firms returned to tap the capital market to fund their business operations and recovery plans. The timing is favorable as firms can take advantage of the low-interest-rate environment and abundant liquidity in the market.

Notable debt issuances in Q3 2020 were predominantly from the banking sector with the purpose largely to support their lending activities. BDO Unibank had the largest bond issuance during the quarter with a PHP36.0 billion 2-year bond (**Table 3**). Another notable bond issuance was the Bank of the Philippine Islands' landmark COVID-19 response bond, which raised PHP21.5 billion. It was the Philippines' first bond issued as a direct response to the COVID-19 pandemic. The proceeds will be used to support lending activities to eligible micro, small, and medium-sized enterprises to sustain or restart their operations amid financial difficulties caused by the pandemic.

Table 3: Notable Local Currency Corporate Bond Issuances in the Third Quarter of 2020

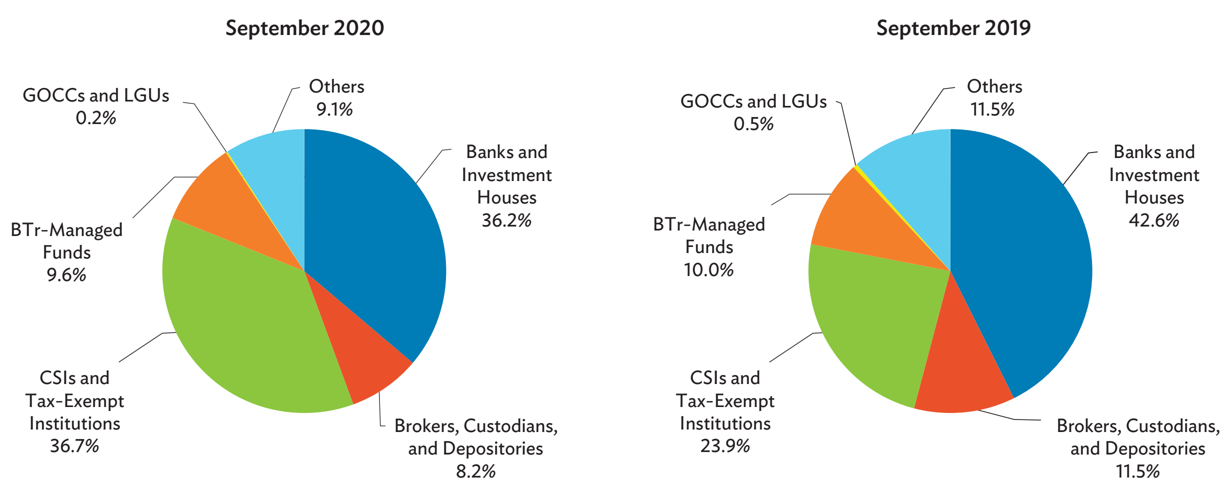
Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
BDO Unibank		
2-year bond	3.13	36.00
Bank of the Philippine Islands		
2-year bond	3.05	21.50
Rizal Commercial Banking Corporation		
2-year bond	3.25	16.62
Security Bank		
2-year bond	3.13	13.50
Robinsons Land		
3-year bond	3.68	12.76

PHP = Philippine peso.
Source: Based on data from Bloomberg LP.

Investor Profile

Contractual savings and tax-exempt institutions and banks and investment houses had nearly the same share of LCY government bond holdings as one another at the end of September, which reflected a change in the investor landscape from a year earlier (**Figure 3**). Contractual savings and tax-exempt institutions' market shares rose significantly to 36.7% from 23.9% in September 2019. During the same period, banks and investment houses market share dropped to 36.2% from 42.6% a year earlier. BTr-managed funds had the third-largest market share with 9.6%, outpacing the "others"

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.

investor group and brokers, custodians, and depositories with 9.1% and 8.2% shares, respectively. Government-owned or -controlled corporations and local government units remained the smallest investor group with only a 0.2% market share.

Policy, Institutional, and Regulatory Developments

Bangko Sentral ng Pilipinas Issues Central Bank Securities

The BSP started issuing BSP securities on 18 September as an additional instrument to manage liquidity in the financial system. According to the BSP, this initiative will help the central bank shift to more market-based monetary operations and support the implementation of monetary policy under the interest rate corridor framework. The addition of BSP securities to the supply of risk-free financial instruments in the banking system could help in the development of the LCY bond market. The BSP securities will be one of the monetary policy tools to mop up excess liquidity. Initial offerings will be small in volume and have shorter tenors but will eventually be scaled up and have longer maturities. The issuance of the securities is allowed under the New Central Bank Act that was signed in February 2019.

Bangko Sentral ng Pilipinas Approves Provisional Advance to the Government of the Philippines

On 1 October, the BSP approved the Government of the Philippines' request for a provisional advance of PHP540.0 billion to be used for budget deficit financing amid the COVID-19 pandemic. This came after the BTr fully settled the previous PHP300.0 billion repurchase agreement on 29 September. The fresh funds will be settled on or before 29 December and will have zero interest. The new tranche is pursuant to Section 89 of the New Central Bank Act as amended in the Bayanihan II Act, which allows the government to avail of provisional advances from the central bank of up to PHP846.0 billion. Market participants expect the new funds to lift some burden from the government to increase borrowing.

Singapore

Yield Movements

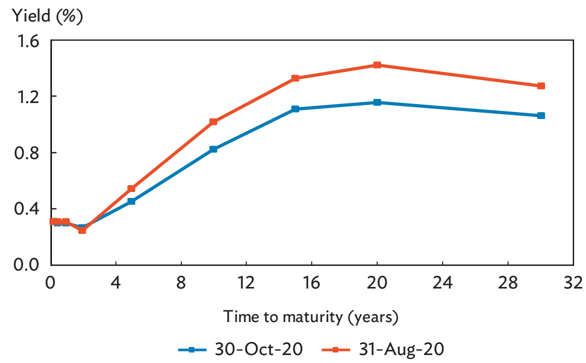
Between 31 August and 30 October, Singapore's local currency (LCY) government bond yields declined for most tenors (**Figure 1**). The shorter-end of the yield curve (from 3 months to 1 year) declined an average of 1 basis point (bp). Yields of longer-term tenors (from 5 years to 30 years) recorded larger declines, decreasing an average of 20 bps. The yield spread between 2-year and 10-year government bonds contracted from 77 bps to 56 bps during the review period.

The yield curve for Singapore's LCY government bonds shifted downward during the review period because of the impact of the monetary policy of Monetary Authority of Singapore (MAS). At the end of March, MAS decided to reduce the slope of its exchange rate policy and lower the midpoint of its policy band. These measures weakened the exchange rate and arrested deflation, supporting Singapore's export-oriented economy amid the coronavirus disease (COVID-19) pandemic. Singapore's nonoil domestic exports have been expanding monthly since June, with August exports recording 7.7% year-on-year (y-o-y) growth.

In October, MAS kept its monetary policy unchanged. The appreciation rate of the Singapore dollar nominal effective exchange rate remained at zero, and the center of the policy band was left unchanged. MAS expects the economy to continue improving in the last quarter of 2020, albeit at a weak pace. The sluggish growth is expected to continue until 2021 amid limited improvements in domestic services and cross-border travel. The central bank also factored in receding deflation risks in its monetary policy decision. The decision was in line with most analysts' expectations and the view that economic recovery would also be supported by more fiscal stimulus.

Based on advance estimates, Singapore's economy contracted 7.0% y-o-y in the third quarter (Q3) of 2020, moderating from the contraction of 13.3% y-o-y in the second quarter (Q2) of 2020. On a quarter-on-quarter (q-o-q) seasonally adjusted basis, Singapore's gross domestic product expanded 7.9% y-o-y as output in manufacturing, construction, and services picked up from

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



Source: Based on data from Bloomberg LP.

the preceding quarter due to the phased reopening of the economy that allowed domestic economic activities to resume. Policy stimulus also started taking effect, contributing to the rebound. The Ministry of Trade and Industry forecasts Singapore's economic growth to fall between −7.0% y-o-y and −5.0% y-o-y for full-year 2020. In June, Singapore exited from Circuit Breaker measures—measures limiting the population's movement inside the city-state to prevent the spread of COVID-19—and transitioned to a planned reopening of the economy in three phases. Singapore is currently in Phase 2 in which more activities are permitted if infection rates remain stable and manageable. As cases remain low and testing and tracing scale up, Singapore may see a transition to Phase 3 by the end of 2020.

Consumer price inflation in Singapore was flat in September after falling 0.4% y-o-y in both August and July. The overall steady prices of basic goods and services was driven by smaller price declines for services, electricity, and gas, and private transport. Core inflation, which excludes the cost of accommodations and private transport, was −0.1% y-o-y, compared with −0.3% y-o-y recorded in August. Domestically, inflationary pressures are expected to remain subdued. MAS projects inflation for full-year 2020 to fall between −0.5% and 0.0%.

As the COVID-19 pandemic continues to affect the world economy, authorities in Singapore are ensuring continued support to employees and businesses by extending the duration of various relief measures. Expected to save hundreds of thousands of jobs, the government's wage subsidy was extended to May 2021. Subsidies for employee trainings in various sectors were extended to June 2021. The government's program ensuring that businesses have access to loans has been extended to September 2021. The extension of relief measures prevented Singapore's economic growth from dipping further.

Size and Composition

Singapore's LCY bond market expanded 1.8% q-o-q in Q3 2020 to reach SGD489.5 billion (USD358.5 billion) at the end of September, up from SGD480.6 billion at the end of June (**Table 1**). On an annual basis, growth slowed to 9.8% y-o-y in Q3 2020 from 11.9% y-o-y a year earlier. The expansion in the LCY bond market was supported by growth in both government and corporate bonds, which accounted for 63.7% and 36.3%, respectively, of total LCY bonds outstanding at the end of Q3 2020.

Issuance of LCY bonds in Q3 2020 increased 6.8% q-o-q to SGD201.7 billion from SGD188.8 billion in Q2 2020, driven by rising government bond issuance. This was slightly offset by a drop in the issuance of corporate bonds.

Government bonds. The LCY government bond market grew 2.0% q-o-q to SGD311.7 billion in Q3 2020 from SGD305.7 billion in the previous quarter, spurred by the new MAS floating-rate notes. On an annual basis, outstanding Singapore Government Securities (SGS) bills and bonds, which comprised 61.4% of total outstanding LCY government bonds at the end of September, jumped 17.7% y-o-y. Since July 2019, 6-month SGS bills have gradually replaced 24-week MAS bills in order to meet the demand for short-term SGD-denominated securities as SGS bills are more accessible to a wider range of investors.

LCY government bond issuance in Q3 2020 rose 7.5% q-o-q. The growth was due to an increase in MAS bills spurred by issuances of 6-month floating-rate notes meant to promote the use of the Singapore Overnight Rate Average as a benchmark in Singapore's financial market.

Corporate bonds. LCY corporate bonds outstanding increased 1.6% q-o-q in Q3 2020 to reach SGD177.8 billion at the end of September, up from SGD174.9 billion at the end of June, buoyed by the increase in outstanding corporate bonds in the real estate and finance industries.

The top 30 LCY corporate bond issuers in Singapore accounted for combined outstanding bonds of SGD88.0 billion, or 49.5% of the total LCY corporate bond market, at the end of Q3 2020 (**Table 2**). The government-owned Housing & Development Board continued to be the largest issuer with outstanding LCY corporate bonds amounting to SGD26.0 billion (14.6% of total LCY corporate bonds outstanding). By industry type, real estate companies continued to comprise the largest share (43.4%) among the top 30 issuers of LCY corporate bonds with SGD38.2 billion of aggregate LCY corporate bonds outstanding at the end of Q3 2020.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2019		Q2 2020		Q3 2020		Q3 2019		Q3 2020	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**446**	**322**	**481**	**345**	**489**	**358**	**4.9**	**11.9**	**1.8**	**9.8**
Government	277	200	306	219	312	228	5.6	15.0	2.0	12.5
SGS Bills and Bonds	163	118	195	140	191	140	25.8	33.0	(1.7)	17.7
MAS Bills	114	83	111	80	120	88	(14.0)	(3.5)	8.4	5.2
Corporate	169	122	175	126	178	130	3.8	7.2	1.6	5.4

( ) = 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.

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	26.0	19.0	Yes	No	Real Estate
2.	Land Transport Authority	9.5	6.9	Yes	No	Transportation
3.	Singapore Airlines	7.4	5.4	Yes	Yes	Transportation
4.	Frasers Property	4.0	3.0	No	Yes	Real Estate
5.	United Overseas Bank	3.3	2.4	No	Yes	Banking
6.	Capitaland Treasury	3.1	2.3	No	No	Finance
7.	Mapletree Treasury Services	2.7	2.0	No	No	Finance
8.	Keppel Corporation	2.7	1.9	No	Yes	Diversified
9.	Temasek Financial	2.6	1.9	Yes	No	Finance
10.	DBS Group Holdings	2.5	1.9	No	Yes	Banking
11.	Sembcorp Financial Services	2.1	1.5	No	No	Engineering
12.	City Developments Limited	1.7	1.3	No	Yes	Real Estate
13.	Oversea-Chinese Banking Corporation	1.7	1.2	No	Yes	Banking
14.	Ascendas REIT	1.6	1.2	No	Yes	Finance
15.	NTUC Income	1.4	1.0	No	No	Finance
16.	CMT MTN	1.4	1.0	No	No	Finance
17.	Shangri-La Hotel	1.4	1.0	No	Yes	Real Estate
18.	Olam International	1.3	1.0	No	Yes	Consumer Goods
19.	Public Utilities Board	1.3	1.0	Yes	No	Utilities
20.	GLL IHT	1.2	0.9	No	No	Real Estate
21.	Capitaland	1.2	0.9	Yes	Yes	Real Estate
22.	Singapore Technologies Telemedia	1.2	0.9	Yes	No	Utilities
23.	Suntec REIT	1.0	0.8	No	Yes	Real Estate
24.	Singapore Press Holdings	1.0	0.7	No	Yes	Communications
25.	Hyflux	0.9	0.7	No	Yes	Utilities
26.	Mapletree Commercial Trust	0.9	0.7	No	Yes	Real Estate
27.	DBS Bank	0.8	0.6	No	Yes	Banking
28.	SMRT Capital	0.8	0.6	No	No	Transportation
29.	Sembcorp Industries	0.8	0.6	No	Yes	Shipbuilding
30.	Wing Tai Holdings	0.8	0.6	No	Yes	Real Estate
Total Top 30 LCY Corporate Issuers		**88.0**	**64.5**			
Total LCY Corporate Bonds		**177.8**	**130.2**			
Top 30 as % of Total LCY Corporate Bonds		**49.5%**	**49.5%**			

LCY = local currency, MTN = medium-term note, REIT = real estate investment trust, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of 30 September 2020.
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.

In Q3 2020, issuance of LCY corporate bonds declined to SGD5.1 billion, a contraction of 16.1% q-o-q from SGD6.0 billion in the previous quarter, due to a large base effect. The high level of issuance in Q2 2020 compensated for the limited issuance in the first quarter of 2020 as companies were affected by the COVID-19 pandemic. Q3 2020 issuance was in line with typical issuance levels seen in 2019.

Insurance cooperative NTUC Income issued the single-largest LCY corporate bond in Q3 2020, an SGD800.0 million 30-year callable bond with coupon rate of 3.10% (**Table 3**). Several companies issued callable perpetual bonds during the quarter, three of which were real estate investment trust (REIT) companies. Most notable among the perpetual bonds was Ascendas REIT, as it became the first nonfinancial green perpetual bond. At 3.00%, it also achieved the lowest yield for a perpetual bond issued by a corporation outside the banking sector. On the other hand, the effect of the COVID-19 pandemic on credit spreads was felt by AIMS APAC, REIT as it had to price its perpetual bond at a high rate of 5.65% in August. The 2-year convertible bond issued by Banyan Tree Holdings had the highest coupon rate during the review period at 7.50%.

Table 3: Notable Local Currency Corporate Bond Issuances in the Third Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
NTUC Income		
30-year bond	3.10	800.0
Singapore Technologies Telemedia		
Perpetual bond	4.10	375.0
Keppel Real Estate Investment Trust		
Perpetual bond	3.15	300.0
Ascendas Real Estate Investment Trust		
Perpetual bond	3.00	300.0
Oversea-Chinese Banking Corporation		
Perpetual bond	3.00	200.0
AIMS APAC Real Estate Investment Trust		
Perpetual bond	5.65	125.0
Banyan Tree Holdings		
2-year bond	7.50	50.4

SGD = Singapore dollar.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

Monetary Authority of Singapore Expands Access to Liquidity Facilities

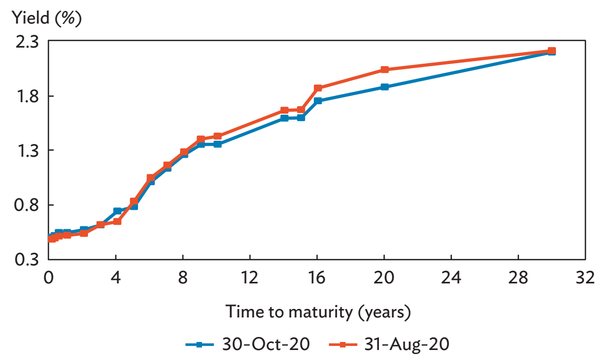
On 3 September, MAS announced various measures to enhance financial institutions' access to Singapore dollar and United States (US) dollar funding. On 28 September, a Singapore Dollar Term Facility was launched to provide financial institutions flexible options in terms of SGD-denominated borrowing at longer tenors. The facility, which compliments the overnight MAS Standing Facility, offers SGD-denominated funds with 1-month and 3-month tenors. The new facility makes available more options for collateral composed of cash and other marketable securities in various currencies. For domestic systemically important banks, residential property loans may be pledged as collateral with the Singapore Dollar Term Facility. MAS also enhanced the US Dollar Facility, established in March, which allows banks to borrow US dollars by pledging SGD-denominated collateral. Similar to the Singapore Dollar Term Facility guidelines, options for collateral for the US Dollar Facility were also expanded.

Thailand

Yield Movements

Movements in Thailand's local currency (LCY) government bond yield curve were mixed between 31 August and 30 October (**Figure 1**). Bonds with maturities of 2 years or below gained 3 basis points (bps) on average, while the 3-year tenor held steady, and the 4-year tenor jumped 10 bps. Meanwhile, yields fell an average of 6 bps for bonds with maturities of 5 years or longer, with the 20-year tenor showing the steepest drop at 16 bps. Yields dropped an average of 3 bps across all tenors. The spread between the 2-year and 10-year tenors narrowed from 89 bps to 78 bps during the review period.

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



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

The rise in yields at the shorter-end of the curve reflected weakened appetite for Thai sovereign bonds amid the recession brought by the coronavirus disease (COVID-19) and rising political uncertainty. Expectations of a gradual recovery helped boost yields for tenors with maturities of 5 years or more.

Thailand's gross domestic product dropped 6.4% year-on-year (y-o-y) in the third quarter (Q3) of 2020 after declining 12.1% y-o-y in the second quarter. Economic contraction narrowed in the third quarter as easing of business lockdowns and expansion of government relief efforts boosted consumption and domestic tourism. The National Economic and Social Development Council revised its full-year 2020 gross domestic product growth forecast to –6.0% from the earlier projection of 7.3%–7.8% decline, while predicting 2021 growth to be within a range of 3.5% to 4.5%.

Consumer prices fell 0.7% y-o-y in September, marking 7 straight months of deflation. Falling energy prices, particularly retail gasoline and electric bills, as well as depressed demand due to COVID-19, drove deflationary pressures.

Thailand's benchmark interest rate remained at a record low as the Bank of Thailand (BOT) decided to leave it unchanged at 0.5% in September. The BOT previously cut the policy rate by 25 bps in May. Since the beginning of the year, the BOT has reduced the benchmark rate by a total of 75 bps in response to the COVID-19 pandemic.

Among emerging East Asian currencies, the Thai baht is among those that has depreciated the most against the United States dollar thus far in 2020. Between 1 January and 30 October, the Thai baht depreciated 3.3% against the dollar.

Rising political risks, as antigovernment protests gain momentum, pose additional threat to Thailand's economic recovery amid the global pandemic.

Size and Composition

Thailand's LCY bonds outstanding amounted to THB14,018.4 billion (USD443.7 billion) at the end of September on growth of 4.2% quarter-on-quarter (q-o-q) and 8.3% y-o-y (**Table 1**). Growth in Q3 2020 accelerated from 2.1% q-o-q and 3.2% y-o-y in Q2 2020, driven by strong growth in the government bond segment as the government continued to issue debt to finance relief measures to boost the economy amid the COVID-19 pandemic. Government bonds dominate Thailand's LCY bond market, accounting for a 73.2% share at the end of September, up from 72.4% at the end of June.

Government bonds. The size of the LCY government bond market amounted to THB10,260.4 billion at the end of September, with growth increasing to 5.4% q-o-q in Q3 2020 from 4.1% q-o-q in Q2 2020. Growth

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2019		Q2 2020		Q3 2020		Q3 2019		Q3 2020	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**12,946**	**423**	**13,449**	**435**	**14,018**	**444**	**(0.7)**	**6.6**	**4.2**	**8.3**
Government	9,220	301	9,732	315	10,260	325	(1.1)	6.0	5.4	11.3
Government Bonds and Treasury Bills	4,827	158	5,306	172	5,735	182	1.5	4.6	8.1	18.8
Central Bank Bonds	3,636	119	3,633	118	3,702	117	(3.6)	9.4	1.9	1.8
State-Owned Enterprise and Other Bonds	757	25	793	26	823	26	(4.5)	(0.6)	3.9	8.7
Corporate	3,726	122	3,716	120	3,758	119	0.2	8.3	1.1	0.9

( ) = 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.
Source: Bank of Thailand.

in outstanding government bonds and Treasury bills drove much of the gain, rising 8.1% q-o-q to reach THB5,735.1 billion at the end of September. BOT bonds outstanding stood at THB3,702.0 billion at the end of September, with growth moderating to 1.9% q-o-q in Q3 2020 from 4.0% q-o-q in the prior quarter. State-owned enterprise and other bonds reached THB823.3 billion at the end of September, as growth more than doubled to 3.9% q-o-q in Q3 2020 from 1.4% q-o-q in Q2 2020. On an annual basis, growth in Thailand's government bond segment accelerated to 11.3% y-o-y in Q3 2020 from 4.4% y-o-y in the previous quarter.

Total LCY bond issuance from the government amounted to THB2,624.9 billion in Q3 2020. Growth in total government bond issuance jumped to 20.2% q-o-q in Q3 2020 from 7.5% q-o-q in Q2 2020, driven by strong issuance from all government bond segments. Growth in issuance of government bonds and Treasury bills moderated to 62.7% q-o-q in Q3 2020 from 117.7% q-o-q in Q2 2020, as the government continued to issue debt to finance economic relief measures, albeit at a weaker pace than in the prior quarter. Issuance of BOT bonds expanded 11.2% q-o-q in Q3 2020, reversing the 0.4% q-o-q decline in the previous quarter. Issuance of state-owned enterprise bonds rose 124.0% q-o-q in Q3 2020, rebounding from a 38.5% q-o-q drop in Q2 2020. On a y-o-y basis, issuance of government bonds increased 32.7% in Q3 2020, a reversal of the 5.8% decline posted in the previous quarter.

Corporate bonds. Outstanding corporate bonds totaled THB3,758.1 billion at the end of September on growth of 1.1% q-o-q and 0.9% y-o-y. Growth in Q3 2020 showed modest recovery from the 2.6% q-o-q and 0.03% y-o-y contractions in Q2 2020. Corporate bond issuance recovered strongly in Q3 2020, rising 27.4% q-o-q after contracting 23.7% q-o-q in Q2 2020, as the easing of lockdown measures revived business confidence.

The LCY bonds outstanding of the top 30 corporate issuers amounted to THB2,186.5 billion at the end of September, representing 58.2% of the total corporate bond market (**Table 2**). Food and beverage firms dominated the list, with an outstanding bond stock amounting to THB432.9 billion. Firms in commerce, banking, and communications industries were the next largest issuers, with bonds totaling THB305.8 billion, THB258.8 billion, and THB257.6 billion, respectively. The majority of the top 30 issuers were listed on the Thai Stock Exchange, while only four were state-owned. Due to a large issuance during the quarter, CP ALL became the top issuer in the market in Q3 2020, with a total outstanding bond stock amounting to THB183.9 billion. Siam Cement and Thai Beverage had the next largest total bond stocks at THB175.0 billion and THB170.3 billion, respectively.

In Q3 2020, PTT and CP ALL were the two largest issuers, with corporate debt issuance of THB35.0 billion and THB25.0 billion, respectively (**Table 3**). PTT raised funds from seven issuances of bonds with tenors ranging from 2 years to 25 years and carrying coupons ranging from 1.21% to 3.74%. CP ALL issued bonds with tenors ranging from 2.5 years to 15.0 years and carrying coupons ranging from 1.9% to 3.9%. True Corp was the third-largest issuer during the quarter, with issuances amounting to THB23.4 billion from bonds with

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.	CP ALL	183.9	5.8	No	Yes	Commerce
2.	Siam Cement	175.0	5.5	Yes	Yes	Construction Materials
3.	Thai Beverage	170.3	5.4	No	No	Food and Beverage
4.	Bank of Ayudhya	133.8	4.2	No	Yes	Banking
5.	Berli Jucker	121.9	3.9	No	Yes	Commerce
6.	Charoen Pokphand Foods	116.4	3.7	No	Yes	Food and Beverage
7.	PTT	114.6	3.6	Yes	Yes	Energy and Utilities
8.	True Move H Universal Communication	112.2	3.6	No	No	Communications
9.	True Corp	106.4	3.4	No	No	Communications
10.	CPF Thailand	76.0	2.4	No	No	Food and Beverage
11.	Toyota Leasing Thailand	71.9	2.3	No	No	Finance and Securities
12.	Minor International	62.0	2.0	No	Yes	Hospitality and Leisure
13.	Indorama Ventures	61.4	1.9	No	Yes	Petrochemicals and Chemicals
14.	PTT Global Chemical	51.7	1.6	No	Yes	Petrochemicals and Chemicals
15.	Krungthai Card	45.6	1.4	Yes	Yes	Banking
16.	Global Power Synergy	45.0	1.4	No	Yes	Energy and Utilities
17.	Bangkok Commercial Asset Management	44.2	1.4	No	Yes	Finance and Securities
18.	Krung Thai Bank	44.0	1.4	Yes	Yes	Banking
19.	Banpu	43.6	1.4	No	Yes	Energy and Utilities
20.	Bangkok Expressway & Metro	41.2	1.3	No	Yes	Transportation and Logistics
21.	TPI Polene	39.3	1.2	No	Yes	Property and Construction
22.	dtac TriNet	39.0	1.2	No	Yes	Communications
23.	CH Karnchang	37.9	1.2	No	Yes	Property and Construction
24.	Land & Houses	37.6	1.2	No	Yes	Property and Construction
25.	Mitr Phol Sugar	37.1	1.2	No	No	Food and Beverage
26.	Muangthai Capital	36.8	1.2	No	Yes	Finance and Securities
27.	Bangchak	36.0	1.1	No	Yes	Energy and Utilities
28.	TMB Bank	35.4	1.1	No	Yes	Banking
29.	Sansiri	33.3	1.1	No	Yes	Property and Construction
30.	Thai Union Group	33.1	1.0	No	Yes	Food and Beverage
Total Top 30 LCY Corporate Issuers		**2,186.5**	**69.2**			
Total LCY Corporate Bonds		**3,758.1**	**118.9**			
Top 30 as % of Total LCY Corporate Bonds		**58.2%**	**58.2%**			

LCY = local currency, THB = Thai baht, USD = United States dollar.
Notes:
1. Data as of 30 September 2020.
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 Issuances in the Third Quarter of 2020

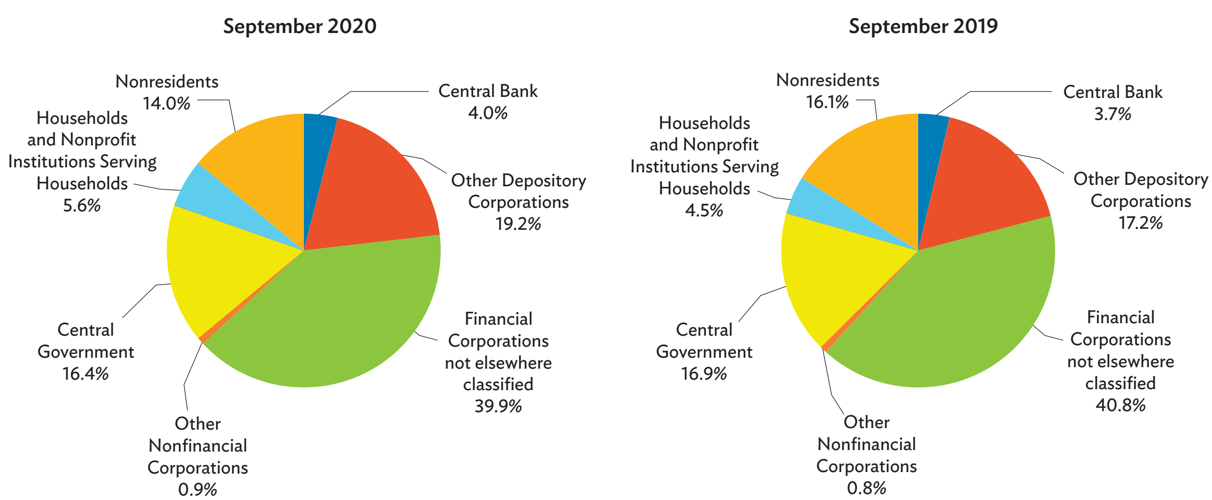
Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)	Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
PTT			True Corp		
2-year bond	1.21	2.0	1.8-year bond	3.00	5.9
3-year bond	2.25	2.0	3-year bond	3.50	6.4
5-year bond	2.05	3.0	4.5-year bond	4.15	4.0
7-year bond	2.85	13.0	5.5-year bond	4.40	7.1
10-year bond	2.84	2.0	CPF Thailand		
15-year bond	3.20	6.0	4.5-year bond	3.15	13.4
25-year bond	3.74	7.0	7-year bond	3.35	2.4
CP ALL			10-year bond	3.55	0.8
2.5-year bond	1.90	6.0	12-year bond	3.80	0.9
4.8-year bond	3.00	13.2	15-year bond	4.11	2.5
9.6-year bond	3.40	2.4	Ananda		
15-year bond	3.90	3.5	Perpetual bond	0.00	1.0

THB = Thai baht.
Source: Bloomberg LP.

tenors ranging from 1.8 years to 5.5 years and carrying coupons ranging from 3.0% to 4.4%. CPF Thailand was the next largest issuer, with multitranche issuances ranging from 4.5 years to 15 years and amounting to THB20.0 billion. Another notable issuance during the quarter was property developer Ananda's zero-coupon perpetual bond.

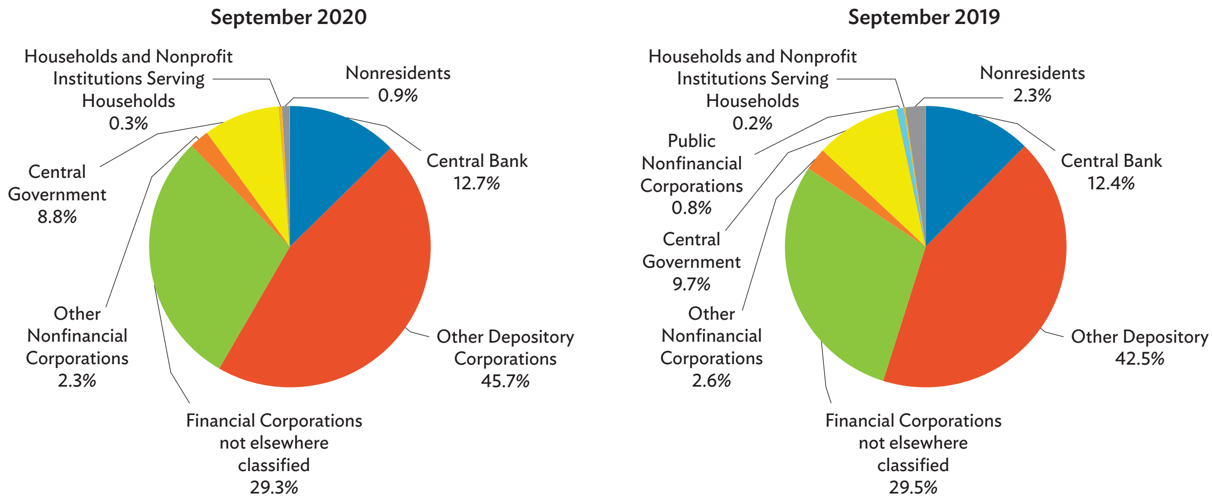
Central government bonds. The combined shares of the four largest holders of government bonds in Thailand dropped slightly to 89.5% at the end of September 2020 from 91.0% a year earlier (**Figure 2**). Financial corporations continued to hold the largest share of government bonds, although their share inched down to 39.9% at the end of September from 40.8% in September 2019. The share of other depository corporations rose to 19.2% from 17.2% a year earlier. The central government's share dipped to 16.4% from 16.9% between September 2019 and September 2020. During the same period, nonresidents' share of government bonds dropped to 14.0% from 16.1% amid outflows driven by weakening investor confidence, as Thailand's economy suffered from the adverse impact of COVID-19.

Figure 2: Local Currency Government Bonds Investor Profile



Notes:
1. Government bonds include Treasury bills and bonds.
2. Local government not presented in the chart due to its relatively small shares of 0.00002% in September 2019 and 0.00003% in September 2020.
Source: Bank of Thailand.

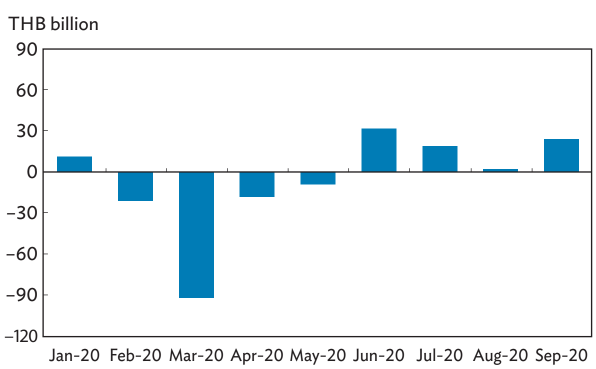
Figure 3: Local Currency Central Bank Securities Investor Profile



Source: Bank of Thailand.

Central bank bonds. The combined shares of the top four holders of BOT bonds rose to 96.5% in September from 94.1% in September 2019 (**Figure 3**). Other depository corporations held the largest share of BOT bonds at 45.7%, up from 42.5% a year earlier. The share of financial corporations inched down to 29.3% from 29.5% in the previous year. During the same period, the BOT's holdings rose to 12.7% from 12.4%, while central government holdings dropped to 8.8% from 9.7%. Nonresidents held a marginal amount of BOT bonds at the end of September 2020 at 0.9%, down from 2.3% a year earlier.

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



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

Foreign investors in Thailand's LCY bond market recorded net inflows of THB45.1 billion in Q3 2020, up from THB4.6 billion in Q2 2020 (**Figure 4**). The bond market saw net foreign fund outflows amounting to THB101.8 billion in the first quarter of 2020 amid the COVID-19 outbreak. The easing of lockdown measures and the government's stimulus packages provided a boost to investor confidence, resulting in net foreign inflows in June through September.

Policy, Institutional, and Regulatory Developments

Thailand Issues First Sustainable Government Bonds

In August, the Public Debt Management Office issued Thailand's first sustainable government bonds. The issuance was divided in two tranches. The first tranche, amounting to THB10.0 billion, will be used to finance green infrastructure, the Mass Rail Transit's Orange (East) Project. The second tranche, amounting to THB20.0 billion, will be used to finance measures to combat the adverse effects of COVID-19, including public health measures, support for small- and medium-sized enterprises, and local public infrastructure development with social and environmental benefits.

Securities and Exchange Commission and Thai Bond Market Association Launch Environment, Social, and Governance Bond Hub

On 21 October, the Securities and Exchange Commission and the Thai Bond Market Association jointly launched an environment, social, and governance (ESG) information platform to support investors and issuers of ESG bonds by making information publicly available. The ESG bond information hub was created by the Thai Bond Market Association from a platform developed by Luxembourg Green Exchange.

Viet Nam

Yield Movements

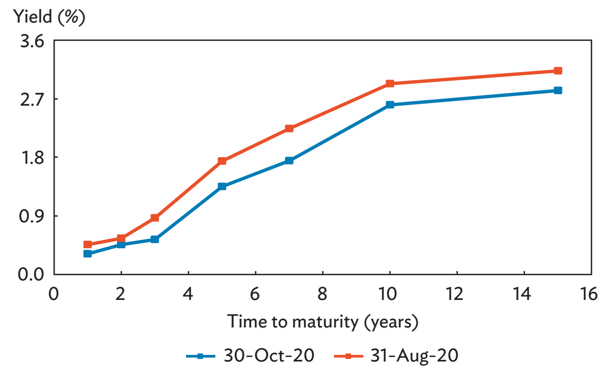
The yields of local currency (LCY) government securities in Viet Nam fell across the length of the curve between 31 August and 30 October (**Figure 1**). Yields on bonds with 1-year and 2-year maturities dropped 14 basis points (bps) and 10 bps, respectively, while yields on bonds with tenors from 3 years to 15 years had larger declines ranging from 31 bps to 50 bps, with 7-year bonds having the largest drop. The yield spread between the 2-year and 10-year tenors narrowed from 240 bps to 217 bps during the review period.

As elsewhere in the region, a low-interest-rate environment and abundant liquidity in the financial system, as a result of the State Bank of Vietnam's (SBV) accommodative monetary policy stance, and easing inflation drove the downward movement of the yield curve. Good volume participation was observed in bond auctions as investors continued to pick government bonds as a safe investment. Smaller yield declines for bonds with shorter maturities reflected investor interest in this portion of the curve, given the uncertainties brought about by the coronavirus disease (COVID-19) pandemic.

The SBV reduced the refinancing interest rate by 50 bps to 4.00%, effective 1 October, to sustain the domestic economic recovery. It was the third time in 2020 that the central bank had lowered the benchmark interest rate, resulting in a total rate cut of 200 bps, as part of its effort to prop up the economy amid the COVID-19 pandemic.

Weak inflationary pressures remained to keep yields floored. Consumer price inflation sustained its downtrend in October to 2.5% year-on-year (y-o-y) from 3.0% y-o-y in September, despite aggressive monetary easing by the SBV. Transport largely pulled down the inflation rate as prices declined 13.5% y-o-y. Meanwhile, the price of food and catering services increased 9.5% y-o-y. Inflation for the first 10 months of the year averaged 3.7% y-o-y, and the General Statistics Office of Viet Nam expects it to remain within the government's target of below 4.0% y-o-y for full-year 2020.

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



Source: Based on data from Bloomberg LP.

Viet Nam's economic expansion gained momentum in the third quarter (Q3) of 2020 on growth of 2.6% y-o-y, up from revised growth of 0.4% y-o-y in the second quarter (Q2); however, it is the slowest pace of Q3 growth recorded since 2011. The growth was largely supported by the gradual resumption of business operations as the COVID-19 pandemic, including its partial resurgence during the quarter, was successfully contained.

The Vietnamese dong's exchange rate was stable from 1 July through 30 October, with movement in the range of VND23,165 to VND23,206 to USD1. The stability of the dong was supported by the weakness of the United States dollar and the economy's high trade surplus, which allowed the SBV to build its foreign exchange reserves and manage the exchange rate.

Size and Composition

Viet Nam's LCY bond market grew 11.6% quarter-on-quarter (q-o-q) in Q3 2020, recovering strongly from a decline of 1.4% q-o-q in the preceding quarter (**Table 1**). Total bonds outstanding registered VND1,514.3 trillion (USD65.3 billion) at the end of September, supported by the government and corporate bond market segments, which both expanded during the quarter. On an annual basis, growth in LCY bonds outstanding accelerated to 17.0% y-o-y from 9.8% y-o-y in Q2 2020. The LCY bond market comprised 83.8% government bonds and 16.2% corporate bonds at the end of September.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2019		Q2 2020		Q3 2020		Q3 2019		Q3 2020	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,293,992	56	1,356,398	58	1,514,275	65	4.7	3.1	11.6	17.0
Government	1,186,748	51	1,162,754	50	1,268,599	55	5.2	2.9	9.1	6.9
Treasury Bonds	955,061	41	1,019,096	44	1,128,861	49	2.5	6.5	10.8	18.2
Central Bank Bills	71,997	3	0	0	0	0	118.2	(4.0)	–	(100.0)
Government-Guaranteed and Municipal Bonds	159,690	7	143,658	6	139,738	6	(1.7)	(11.9)	(2.7)	(12.5)
Corporate	107,244	5	193,644	8	245,677	11	(0.7)	5.1	26.9	129.1

( ) = negative, – = not applicable, 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.

Government bonds. The size of the government bond market grew 9.1% q-o-q in Q3 2020 to VND1,268.6 trillion, after declining 7.8% q-o-q in Q2 2020. The expansion was driven by Treasury bonds, which grew 10.8% q-o-q, or double the growth rate in Q2 2020, on the back of increased issuance from the State Treasury. There were no outstanding central bank bills at the end of Q3 2020 as the SBV continued to support liquidity in the market. Government-guaranteed and municipal bonds outstanding posted a decline in Q3 2020, albeit at a slower pace of 2.7% q-o-q compared with 6.1% q-o-q in Q2 2020. On an annual basis, total government debt outstanding grew 6.9% y-o-y in Q3 2020.

Issuance of government bonds in Q3 2020 totaled VND116.9 trillion, more than doubling the amount issued in Q2 2020. The State Treasury had a higher bond offering volume as it continued to raise funds for the government's COVID-19 pandemic response. Auctions were met favorably by investors as safe assets like government bonds remained attractive amid lingering uncertainty.

Corporate bonds. Corporate bonds outstanding continued to increase in Q3 2020, reaching VND245.7 trillion, on growth of 26.9% q-o-q and 129.1% y-o-y. While the corporate bond market grew, issuance activity in Q3 2020 was rather meek. Debt sales by corporates amounted to VND67 trillion, down from VND83 billion in Q2 2020. The decline is attributed to the government's Decree No. 81/2020/ND-CP, which raises the standards for corporate bond issuance in the market. The bulk of the issuance was seen in August as firms took advantage of the time before the regulation came into effect on 1 September. In September, debt sales from the corporate sector dropped sharply by about 70% from August.

The combined bonds outstanding of the top 30 issuers in the corporate market amounted to VND189.4 trillion, or 77.1% of the total debt stock in the corporate segment (**Table 2**). Nearly half of the outstanding bonds, totaling VND93.7 trillion, were from the banking sector, followed by property firms with VND47.5 trillion, or 25.1% of the total. The Bank for Investment and Development of Vietnam, Vinhomes, Masan Group, Vietnam International Commercial Joint Stock Bank, and Ho Chi Minh City Development Joint Stock Commercial Bank had the largest amounts of bonds outstanding with over VND10 trillion each.

Banking and property firms remained the largest issuers in Q3 2020, as their combined debt sales comprised almost 75% of the total corporate issuances during the quarter. Notable issuances listed in **Table 3** were largely from banks and comprised of medium-term tenors. HSBC's (Viet Nam) VND600 billion issuance was the first debt sale of a foreign commercial bank in the local market. Proceeds will be used in the bank's operations and as a channel to diversify its funding sources to accelerate its business growth in Viet Nam.

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.	Bank for Investment and Development of Vietnam	20,350	0.88	Yes	Yes	Banking
2.	Vinhomes	16,390	0.71	Yes	Yes	Property
3.	Masan Group	13,500	0.58	Yes	Yes	Diversified Operations
4.	Vietnam International Commercial Joint Stock Bank	10,503	0.45	Yes	Yes	Banking
5.	Ho Chi Minh City Development Joint Stock Commercial Bank	10,248	0.44	Yes	Yes	Banking
6.	Vietnam Prosperity Joint Stock Commercial Bank	9,150	0.39	Yes	Yes	Banking
7.	Lien Viet Post Joint Stock Commercial Bank	9,100	0.39	Yes	Yes	Banking
8.	Vietnam Joint Stock Commercial Bank for Industry and Trade	8,850	0.38	Yes	Yes	Banking
9.	Asia Commercial Joint Stock Bank	8,300	0.36	Yes	Yes	Banking
10.	Saigon Glory Company Limited	8,000	0.35	No	No	Property
11.	Sovico Group Joint Stock Company	7,550	0.33	Yes	Yes	Diversified Operations
12.	Vingroup	7,000	0.30	Yes	Yes	Property
13.	Vinpearl	6,000	0.26	No	No	Hotel Operator
14.	Ho Chi Minh City Infrastructure Investment Joint Stock Company	4,690	0.20	Yes	Yes	Construction
15.	Bac A Commercial Joint Stock Bank	4,640	0.20	Yes	Yes	Banking
16.	Nui Phao Mining and Processing Co., Ltd.	4,310	0.19	No	No	Mining
17.	NoVa Real Estate Investment Corporation JSC	4,207	0.18	Yes	Yes	Property
18.	Orient Commercial Joint Stock Bank	3,635	0.16	No	No	Banking
19.	Sun Ha Long Co., Ltd.	3,500	0.15	No	No	Property
20.	Vietnam Technological and Commercial Joint Stock Bank	3,000	0.13	No	No	Banking
21.	Vietnam Maritime Commercial Joint Stock Bank	2,999	0.13	Yes	Yes	Banking
22	TNL Investment and Leasing Joint Stock Company	2,926	0.13	No	No	Property
23.	Tien Phong Commercial Joint Stock Bank	2,911	0.13	Yes	Yes	Banking
24.	Phu Long Real Estate Joint Stock Company	2,800	0.12	No	No	Property
25.	Binh Hai Golf Investment and Development Joint Stock Company	2,745	0.12	No	No	Leisure
26.	Phu My Hung Corporation	2,640	0.11	No	No	Property
27.	Masan Resources	2,500	0.11	No	No	Manufacturing
28.	Hoan My Medical	2,330	0.10	No	No	Healthcare Services
29.	Refrigeration Electrical	2,318	0.10	Yes	Yes	Manufacturing
30.	Vincommerce General Trading Service Joint Stock Company	2,300	0.10	No	No	Retail Trading
Total Top 30 LCY Corporate Issuers		**189,391**	**8.17**			
Total LCY Corporate Bonds		**245,677**	**10.60**			
Top 30 as % of Total LCY Corporate Bonds		**77.1%**	**77.1%**			

LCY = local currency, USD = United States dollar, VND = Vietnamese dong.
Notes:
1. Data as of 30 September 2020.
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.

Table 3: Notable Local Currency Corporate Bond Issuances in the Third Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (VND billion)
HSBC (Viet Nam) Bank Limited		
3-year bond	5.80	600
Vietnam International Commercial Joint Stock Bank		
3-year bond	–	1,500
3-year bond	–	1,500
3-year bond	–	1,400
3-year bond	–	1,000
Lien Viet Post Joint Stock Commercial Bank		
3-year bond	5.80	1,000
3-year bond	5.80	1,000
3-year bond	5.80	1,000
3-year bond	–	1,000

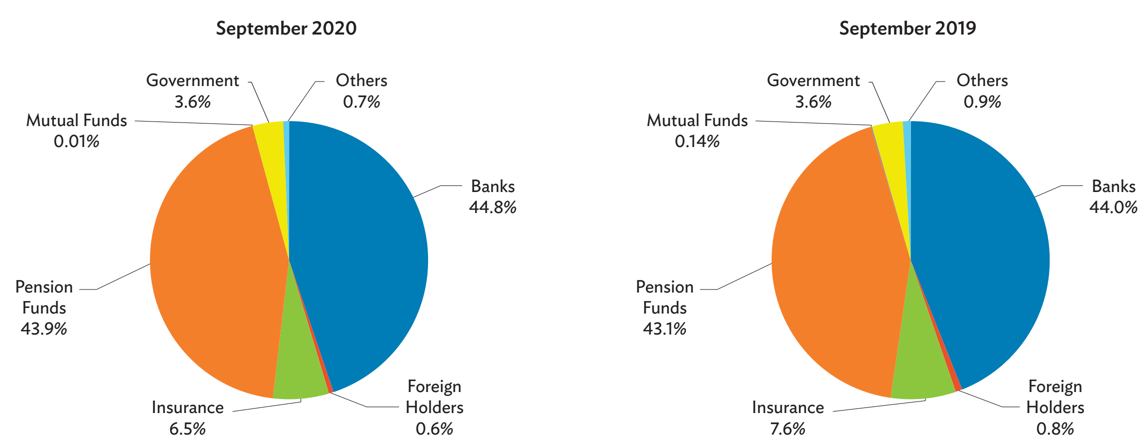
Corporate Issuers	Coupon Rate (%)	Issued Amount (VND billion)
Saigon Glory Company Limited		
3-year bond	Floating	1,000
5-year bond	–	1,000
5-year bond	–	1,000
5-year bond	–	1,000
5-year bond	–	1,000
5-year bond	–	1,000
Bank for Investment and Development of Vietnam		
7-year bond	–	1,500

– = not available, VND = Vietnamese dong.
Sources: Bloomberg LP and Vietnam Bond Market Association.

Investor Profile

Banks were the major holders of LCY government bonds at the end of September, accounting for 44.8% of total government debt (**Figure 2**). This share was 0.8 percentage points higher than in September 2019. Pension funds were the second-largest holders with a 43.9% share, up from 43.1% a year earlier. The shares of the remaining investor groups saw marginal declines between September 2019 and September 2020. Foreign investors held only 0.6% of government securities at the end of September 2020, which was the smallest foreign holdings share among all emerging East Asian economies. Mutual funds had the smallest holdings share in Viet Nam's LCY government bond market at the end of September at 0.01%, down from 0.14% a year earlier.

Figure 2: Local Currency Government Bonds Investor Profile



Source: Viet Nam Ministry of Finance.

Policy, Institutional, and Regulatory Developments

Ministry of Finance Issues Guidance on Bond Issuance Information Disclosure

On 14 August, the Ministry of Finance issued Circular No. 77/2020/TT-BTC to provide guidance on its existing decrees, Decree No. 81/2020/ND-CP and Decree No. 163/2018/ND-CP, on the provision of bond issuance information in the domestic market. In particular, the circular guides the (i) information disclosure regime of bond issuers; (ii) information disclosure on the corporate bond website; and (iii) reporting regime of the stock exchange, corporate bond issuance consulting organizations, and bond depository organizations.[11]

[11] The Ministry of Finance guides the issuance of corporate bonds. See https://english.luatvietnam.vn/circular-no-77-2020-tt-btc-dated-august-14-2020-of-the-ministry-of-finance-on-guiding-a-number-of-provisions-of-the-governments-decree-no-81-2020-189347-Doc1.html.