# Market Summaries

## People's Republic of China

### Yield Movements

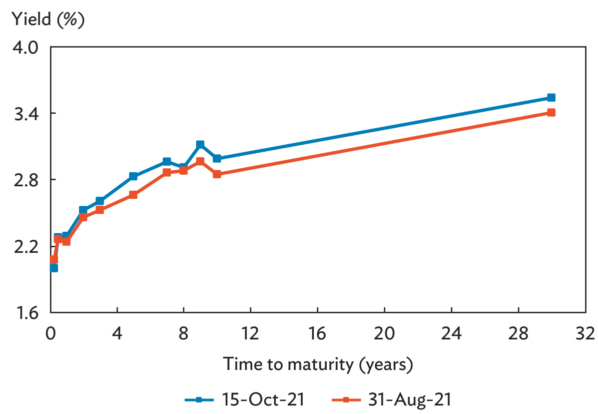
The People's Republic of China's (PRC) yield curve shifted upward for all tenors except the 3-month tenor, which fell 8 basis points (bps), between 31 August and 15 October (**Figure 1**). The remaining tenors rose an average of 9 bps, with the steepest increases seen for the 5-year tenor at 17 bps and for the 9-year to 30-year tenors, which rose between 13 and 15 bps. As a result of the rise in yields, particularly for the longer-dated maturities, the 2-year versus 10-year yield spread rose 8 bps from the end of August to 15 October.

The PRC's yield curve rose despite economic indicators showing that the domestic economy was slowing down. The PRC's gross domestic product growth fell to 4.9% year-on-year (y-o-y) in the third quarter (Q3) of 2021 from 7.9% y-o-y in the second (Q2) quarter. Economic growth fell largely due to a deceleration in the secondary sector, where growth declined from 7.5% in Q2 2021 to 3.6% in Q3 2021, and in the tertiary sector, in which growth fell from 8.3% to 5.4%. The growth rate in the primary sector fell to 7.1% from 7.5% in the same period.

The growth rate of industrial production has also been steadily declining from a high of 35.1% y-o-y in the first 2 months of 2021 to 3.1% y-o-y in September. Consumer demand, as measured by retail sales, also weakened with double-digit growth rates posted from January through June before falling to 8.5% in July and 2.5% in August, and rising to 4.4% in September.

Several reasons abound for the rise in yields despite softening growth. Following the reserve requirement rate reduction by the People's Bank of China (PBOC) in July, markets expected either a reduction in its loan prime rate or additional reserve requirement rate cuts. However, the PBOC so far has done neither, disappointing market expectations. In addition, despite economic weakness and turmoil in the property sector with several real estate companies at the brink of default, the Government of the PRC has not strongly shifted from its risk control focus.

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




Source: Based on data from Bloomberg LP.

Inflationary concerns also manifest. While consumer price inflation has been tame, with the inflation rate trending downward from 1.3% y-o-y in May to 0.7% y-o-y in September, producer price inflation has been rising strongly. September producer price inflation rose to 10.7% y-o-y from 9.5% y-o-y in August. The inflation rate was at 0.3% y-o-y in January. There are concerns that high producer prices will eventually make their way to consumer prices as the cost increases get passed on.

### Size and Composition

Growth in the PRC's local currency (LCY) bond market accelerated to 3.8% quarter-on-quarter (q-o-q) in Q3 2021 from 3.0% q-o-q in Q2 2021, with bonds outstanding at the end of September reaching CNY110.6 trillion (USD17.2 trillion) (**Table 1**). However, the growth rate fell on a y-o-y basis to 12.6% in Q3 2021 from 14.4% in the preceding quarter.

**Government bonds.** Government bonds outstanding in the PRC grew 4.0% q-o-q to CNY71.1 trillion, accelerating from a 3.3% q-o-q gain in the previous quarter. Treasury and other government bonds and bank bonds all showed

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

| | Outstanding Amount (billion) | | | | | | Growth Rates (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q3 2020 | | Q2 2021 | | Q3 2021 | | Q3 2020 | | Q3 2021 | |
| | CNY | USD | CNY | USD | CNY | USD | q-o-q | y-o-y | q-o-q | y-o-y |
| **Total** | **98,178** | **14,457** | **106,590** | **16,507** | **110,589** | **17,159** | **5.4** | **19.9** | **3.8** | **12.6** |
| Government | 62,747 | 9,240 | 68,384 | 10,591 | 71,129 | 11,037 | 6.6 | 18.6 | 4.0 | 13.4 |
| Treasury Bonds and Other Government Bonds | 19,327 | 2,846 | 21,548 | 3,337 | 22,342 | 3,467 | 8.7 | 21.1 | 3.7 | 15.6 |
| Central Bank Bonds | 15 | 2 | 15 | 2 | 15 | 2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Policy Bank Bonds | 17,489 | 2,575 | 18,658 | 2,890 | 19,253 | 2,987 | 5.0 | 13.2 | 3.2 | 10.1 |
| Local Government Bonds | 25,915 | 3,816 | 28,163 | 4,362 | 29,519 | 4,580 | 6.1 | 20.6 | 4.8 | 13.9 |
| Corporate | 35,432 | 5,217 | 38,207 | 5,917 | 39,460 | 6,123 | 3.2 | 22.2 | 3.3 | 11.4 |

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 Data Company and Bloomberg LP.

an acceleration in growth rates, while the outstanding amount of central bank bonds remained unchanged.

The outstanding local government bonds growth rate dipped slightly to 4.8% q-o-q in Q3 2021 from 5.2% q-o-q in Q2 2021 due to base effects. After tepid issuance in the first quarter of 2021, local government bond issuance rose 173.5% q-o-q in Q2 2021 as local governments sought to complete their bond quotas. Local government bond issuance dipped slightly in Q3 2021, falling 7.0% q-o-q. Local government bond issuance is still expected to remain strong for the year, as net issuance for the first 9 months was only 61.0% of the allotted quota for 2021.

Growth in Treasury and other bonds outstanding accelerated to 3.7% q-o-q, to reach CNY22.3 trillion, from 2.5% q-o-q in the previous quarter, driven by a 37.6% q-o-q jump in issuance. Policy bank bonds also gained 3.2% q-o-q to reach CNY19.3 trillion, up from 1.5% q-o-q growth in Q2 2021. However, issuance of policy bank bonds in Q3 2021 was roughly comparable to Q2 2021.

**Corporate bonds.** The PRC's corporate bonds outstanding rose 3.3% q-o-q to CNY39.5 trillion after gaining 2.3% q-o-q in the previous quarter. While overall corporate bond growth accelerated, corporate bond issuance was significantly higher in Q3 2021, rising 17.1% q-o-q as a number of companies issued bonds to refinance maturing obligations.

Growth in outstanding corporate bonds was mainly from financial bonds, with a number of financial institutions issuing tier 2 bonds to raise capital, resulting in a 5.1% q-o-q gain in financial bonds outstanding (**Table 2**). Regulators have encouraged financial institutions to bolster their capital bases in the wake of a potential economic slowdown as well as rising corporate bond defaults. Asset-backed securities were the second-biggest gainer, with such bonds expanding 4.9% q-o-q. Demand for listed corporate bonds only gained 3.2% q-o-q but grew 17.9% y-o-y. Given rising interest rates, interest in commercial paper waned; while commercial paper outstanding gained 2.4% q-o-q, it declined 13.4% y-o-y.

Issuance amounts of financial bonds remained strong with levels in Q3 2021 similar to Q2 2021 (**Figure 2**). Issuance of commercial paper showed an increase as companies rolled over their existing maturities. Issuance of listed corporate bonds was the highest among all the major bond categories, driving the overall increase in the y-o-y growth rate of corporate bonds outstanding.

The top 30 issuers' share of total LCY corporate bonds outstanding stood at 28.3% at end of September (**Table 3**). The total amount of the top 30 was at CNY11.1 trillion and the 10 largest issuers accounted for CNY7.3 trillion. China Railway remained the largest issuer, accounting for 24.5% of the total bonds outstanding of the top 30 issuers. Due to capital-raising efforts, 14 banks were among the top 30 list of top issuers.

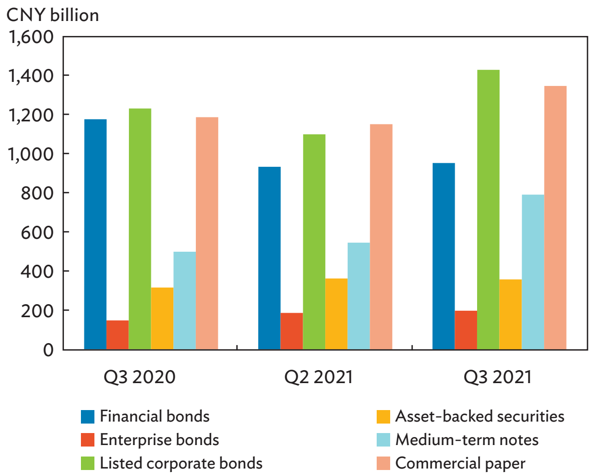
**Table 4** lists the largest corporate bond issuances in Q3 2021. Of the five top issuers, four were financial institutions that sought to bolster their capital bases. China State Railway Group was the sole nonfinancial issuer among the top five issuances for Q3 2021.

Table 2: Corporate Bonds Outstanding in Key Categories

| | Amount (CNY billion) | | | Growth Rate (%) | | | |
|---|---|---|---|---|---|---|---|
| | | | | Q3 2020 | | Q3 2021 | |
| | Q3 2020 | Q2 2021 | Q3 2021 | q-o-q | y-o-y | q-o-q | y-o-y |
| Financial Bonds | 7,166 | 8,038 | 8,447 | 1.1 | 30.2 | 5.1 | 17.9 |
| Enterprise Bonds | 3,826 | 3,808 | 3,876 | 1.0 | (0.3) | 1.8 | 1.3 |
| Listed Corporate Bonds | 9,619 | 10,986 | 11,341 | 1.1 | 32.7 | 3.2 | 17.9 |
| Commercial Paper | 2,694 | 2,279 | 2,334 | 1.0 | 25.2 | 2.4 | (13.4) |
| Medium-Term Notes | 7,351 | 7,457 | 7,623 | 1.0 | 19.7 | 2.2 | 3.7 |
| Asset-Backed Securities | 2,519 | 3,075 | 3,225 | 1.0 | 21.1 | 4.9 | 28.1 |

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

Figure 2: Corporate Bond Issuance in Key Sectors




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

## Investor Profile

**Government bonds.** Commercial banks were still the dominant investor group in government bonds in Q3 2021, but their share of outstanding bonds declined from a year earlier (**Figure 3**). However, banks still have an overwhelming presence in the local government bond market with a share of 86.9%.

Banks are still the major holders of Treasury bonds, with a 65.2% share in Q3 2021. But continued foreign investor interest has led to rapid gains in their share of Treasury bonds, which rose from 9.7% in Q2 2021 to 11.4% in Q3 2021. Foreign investors have also made significant inroads in policy bank bonds, with the foreign investor share rising to 5.5% from 4.8% in the same period.

## Liquidity

The volume of interest rate swaps fell 4.6% q-o-q in Q3 2021 (**Table 5**). The 7-day repo rate was the most active instrument, while repo transactions exclusive to banks and other deposit taking institutions have fallen.

## Policy, Institutional, and Regulatory Developments

### Southbound Trading of Bond Connect Launched

In September, the Hong Kong Monetary Authority and the PBOC jointly announced the opening of the southbound leg of the Bond Connect scheme. This will allow residents in the PRC to buy bonds in Hong Kong, China, thereby facilitating outward investment flows. The PBOC said that total transactions reached CNY4 billion during the first day of the launch.

### Tax Incentives for Foreign Investors Extended

In October, the PRC extended tax exemptions for foreign investors in the PRC's domestic bond market, which was set to expire in November. The incentives exempt foreign investors from corporate income taxes and value-added taxes on bond investments. Exemptions were extended until the end of 2025.

**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 | 2,735.5 | 424.45 | Yes | No | Transportation |
| 2. | Industrial and Commercial Bank of China | 721.4 | 111.93 | Yes | Yes | Banking |
| 3. | Bank of China | 688.1 | 106.77 | Yes | Yes | Banking |
| 4. | Agricultural Bank of China | 650.3 | 100.90 | Yes | Yes | Banking |
| 5. | Bank of Communications | 575.7 | 89.33 | No | Yes | Banking |
| 6. | Shanghai Pudong Development Bank | 470.6 | 73.02 | Yes | Yes | Banking |
| 7. | China Construction Bank | 468.1 | 72.62 | Yes | Yes | Banking |
| 8. | Central Huijin Investment | 416.0 | 64.55 | Yes | No | Asset Management |
| 9. | China CITIC Bank | 315.0 | 48.88 | No | Yes | Banking |
| 10. | Industrial Bank | 286.2 | 44.41 | No | Yes | Banking |
| 11. | China Minsheng Bank | 270.0 | 41.89 | No | Yes | Banking |
| 12. | China National Petroleum | 269.9 | 41.88 | Yes | No | Energy |
| 13. | State Grid Corporation of China | 262.5 | 40.73 | Yes | No | Public Utilities |
| 14. | State Power Investment | 256.5 | 39.81 | Yes | No | Power |
| 15. | China Securities Finance | 242.0 | 37.55 | Yes | No | Finance |
| 16. | Postal Savings Bank of China | 220.0 | 34.14 | Yes | Yes | Banking |
| 17. | China Everbright Bank | 215.9 | 33.50 | No | Yes | Banking |
| 18. | China Merchants Bank | 209.2 | 32.46 | No | Yes | Banking |
| 19. | Ping An Bank | 185.0 | 28.71 | No | Yes | Banking |
| 20. | CITIC Securities | 181.5 | 28.16 | Yes | Yes | Brokerage |
| 21. | Huaxia Bank | 180.0 | 27.93 | No | Yes | Banking |
| 22. | China Southern Power Grid | 165.6 | 25.70 | Yes | No | Public Utilities |
| 23. | Huatai Securities | 163.2 | 25.32 | No | Yes | Brokerage |
| 24. | Tianjin Infrastructure Investment Group | 157.5 | 24.44 | Yes | No | Capital Goods |
| 25. | China Merchants Securities | 155.8 | 24.17 | No | No | Brokerage |
| 26. | Shaanxi Coal and Chemical Industry Group | 155.0 | 24.05 | Yes | Yes | Coal |
| 27. | Shenwan Hongyuan Securities | 139.0 | 21.57 | No | No | Brokerage |
| 28. | GF Securities | 134.0 | 20.79 | No | Yes | Brokerage |
| 29. | Guotai Junan Securities | 131.1 | 20.35 | Yes | Yes | Brokerage |
| 30. | Haitong Securities | 128.3 | 19.91 | No | Yes | Brokerage |
| **Total Top 30 LCY Corporate Issuers** | | **11,149.0** | **1,729.9** | | | |
| **Total LCY Corporate Bonds** | | **39,459.6** | **6,122.7** | | | |
| **Top 30 as % of Total LCY Corporate Bonds** | | **28.3%** | **28.3%** | | | |

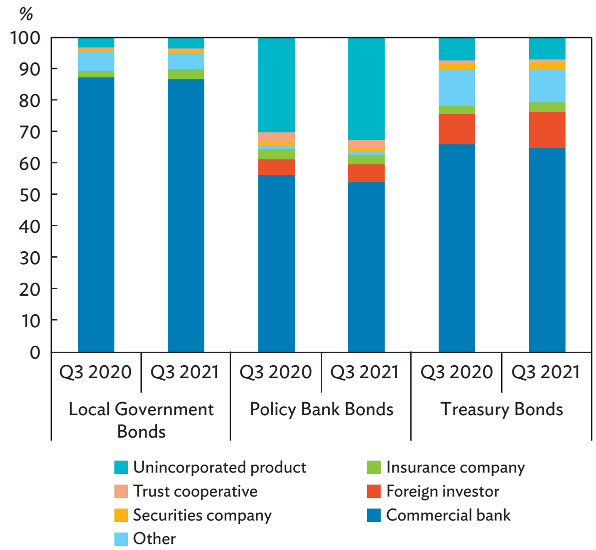
CNY = Chinese yuan, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 30 September 2021.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

**Table 4: Notable Local Currency Corporate Bond Issuances in the Third Quarter of 2021**

| Corporate Issuers | Coupon Rate (%) | Issued Amount (CNY billion) |
|---|---|---|
| Postal Savings Bank of China | | |
| 1-year bond | 4.06 | 41.5 |
| 10-year bond | 3.44 | 50.0 |
| China Construction Bank[a] | | |
| 1-year bond | 3.93 | 20.0 |
| 1-year bond | 3.87 | 20.0 |
| 10-year bond | 3.45 | 6.0 |
| 15-year bond | 3.80 | 15.0 |
| China State Railway Group | | |
| 5-year bond | 316.00 | 15.0 |
| 10-year bond | 3.30 | 20.0 |
| 30-year bond | 3.78 | 5.0 |
| Guotai Junan Securities[a] | | |
| 1-year bond | 2.75 | 2.0 |
| 3-year bond | 3.01 | 2.8 |
| 3-year bond | 3.09 | 4.4 |
| 3-year bond | 3.13 | 1.9 |
| 5-year bond | 3.35 | 4.2 |
| 5-year bond | 3.48 | 6.1 |
| 10-year bond | 3.77 | 3.0 |
| 10-year bond | 3.80 | 3.4 |
| 20-year bond | 3.80 | 5.0 |
| 20-year bond | 3.80 | 5.0 |
| Shenwan Hongyuan Securities[a] | | |
| 2-year bond | 2.95 | 2.3 |
| 3-year bond | 3.04 | 2.8 |
| 3-year bond | 3.13 | 2.0 |
| 3-year bond | 3.02 | 3.0 |
| 3-year bond | 3.05 | 4.8 |
| 3-year bond | 3.10 | 2.3 |
| 5-year bond | 3.40 | 1.0 |
| 5-year bond | 3.38 | 4.2 |
| 10-year bond | 3.77 | 3.0 |
| 10-year bond | 3.75 | 3.0 |
| Perpetual bond | 3.70 | 3.3 |

CNY = Chinese yuan.
[a] Multiple issuance of the same tenor indicates issuance on different dates.
Source: Based on data from Bloomberg LP.

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




Q3 = third quarter.
Source: CEIC Data Company.

**Table 5: Notional Values of the People's Republic of China's Interest Rate Swap Market in the Third Quarter of 2021**

| Interest Rate Swap Benchmarks | Notional Amount (CNY billion) | Share of Total Notional Amount (%) | Growth Rate (%) |
|---|---|---|---|
| | Q3 2021 | | q-o-q |
| 7-Day Repo Rate | 4,692.1 | 86.5 | (3.2) |
| Overnight SHIBOR | 7.2 | 0.1 | (29.8) |
| 3-Month SHIBOR | 688.3 | 12.7 | (14.0) |
| 1-Year Lending Rate | 20.8 | 0.4 | 73.7 |
| 5-Year Lending Rate | 1.5 | 0.03 | (20.5) |
| 10-Year Treasury Yield | 5.5 | 0.1 | 3.8 |
| China Development Bank 10-Year Bond Yield | 5.9 | 0.1 | 22.9 |
| 10-Year Corporate and Government Bond Yield | 5.5 | 0.1 | 22.2 |
| **Total** | **5,426.8** | **100.0** | **(4.6)** |

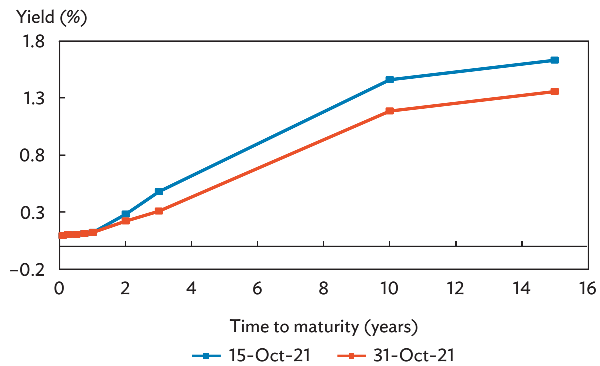
( ) = negative, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q3 = third quarter, Repo = repurchase agreement, SHIBOR = Shanghai Interbank Offered Rate.
Note: Growth rate computed based on notional amounts.
Sources: *AsianBondsOnline* and *ChinaMoney*.

# Hong Kong, China

## Yield Movements

Between 31 August and 15 October, the local currency (LCY) government bond yield curve in Hong Kong, China remained unchanged at the shorter-end but shifted upward for tenors longer than 1 year (**Figure 1**). Yields for bonds with maturities of 1 year or less held steady, while yields for those with maturities longer than 1 year gained an average of 20 basis points (bps). The 10-year and 15-year tenors showed the most gain in yields, with both climbing 29 bps. The spread between the 2-year and the 10-year bond yields widened to 124 bps on 15 October from 101 bps on 31 August.

**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 LCY bond yield movements largely tracked the rate movements of United States (US) Treasuries during the review period as the Hong Kong dollar is pegged to the US dollar. The US bond yield curve shifted upward during the review period, with yields rising an average of 16 bps across all tenors. The rise was driven by inflation fears as supply chain bottlenecks generated upward pressure on prices. As widely expected, the US Federal Reserve announced that they will begin to taper bond purchases in November.

Hong Kong, China's consumer price inflation remained moderate, rising 1.4% year-on-year (y-o-y) in September after a 1.6% y-o-y increase in August. The underlying inflation rate, which nets out the effects of the government's relief measures on prices, also eased to 1.0% in September from 1.2% in August. The Census and Statistics Department expects that inflationary pressures would rise in the near term as the economic recovery continues but projects the underlying consumer inflation to remain modest if economic activities continue to fall short of pre-pandemic levels.

Hong Kong, China's gross domestic product rose 5.4% y-o-y in the third quarter (Q3) of 2021, following 7.6% y-o-y growth in the second quarter (Q2). The growth moderation in Q3 2021 was largely due to base effects and the stronger-than-expected economic expansion in the first half of the year. Robust external and domestic demand underpinned the growth in Q3 2021, with merchandise exports rising 14.2% y-o-y and private consumption expanding 7.1% y-o-y. Hong Kong, China's growth outlook continues to face several risk factors, including uncertainties over the track of major central banks' monetary policies and the continuing geopolitical tensions between the US and the People's Republic of China (PRC).

## Size and Composition

Hong Kong, China's outstanding LCY bonds amounted to HKD2,428.6 billion (USD311.9 billion) at the end of September (**Table 1**). The LCY bond market posted a 0.1% quarter-on-quarter (q-o-q) rise in Q3 2021 after an 0.8% q-o-q drop in Q2 2021. The tepid growth in Hong Kong, China's LCY bond market in Q3 2021 was driven by a contraction in the corporate bond segment. On an annual basis, the LCY bond market expanded 6.1% y-o-y in Q3 2021, down from 7.0% y-o-y in the previous quarter. Hong Kong, China's LCY bond market was split almost evenly between government and corporate bonds, with government bonds comprising 51.6% of the total at the end of September.

**Government bonds.** LCY government bonds outstanding totaled HKD1,252.2 billion at the end of September on growth of 3.0% q-o-q and 8.2% y-o-y. The q-o-q growth in Q3 2021 was driven by expansions in the outstanding stock of Exchange Fund Bills (EFBs) and Hong Kong

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

| | Outstanding Amount (billion) | | | | | | Growth Rate (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q3 2020 | | Q2 2021 | | Q3 2021 | | Q3 2020 | | Q3 2021 | |
| | HKD | USD | HKD | USD | HKD | USD | q-o-q | y-o-y | q-o-q | y-o-y |
| **Total** | **2,288** | **295** | **2,427** | **313** | **2,429** | **312** | **0.9** | **1.0** | **0.1** | **6.1** |
| Government | 1,158 | 149 | 1,216 | 157 | 1,252 | 161 | 0.1 | (1.1) | 3.0 | 8.2 |
| Exchange Fund Bills | 1,042 | 134 | 1,044 | 134 | 1,064 | 137 | 0.03 | (0.6) | 1.9 | 2.1 |
| Exchange Fund Notes | 26 | 3 | 24 | 3 | 24 | 3 | 0.0 | (9.2) | 0.0 | (6.2) |
| HKSAR Bonds | 90 | 12 | 147 | 19 | 164 | 21 | 1.1 | (4.4) | 11.1 | 82.8 |
| Corporate | 1,130 | 146 | 1,211 | 156 | 1,176 | 151 | 1.6 | 3.3 | (2.9) | 4.1 |

( ) = negative, HKD = Hong Kong dollar, HKSAR = Hong Kong Special Administrative Region, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period local currency–USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
Source: Hong Kong Monetary Authority.

Special Administrative Region (HKSAR) bonds, as the stock of Exchange Fund Notes (EFNs) remained steady during the quarter.

Issuance of government bonds amounted to HKD882.7 billion in Q3 2021 with growth easing to 3.2% q-o-q in Q3 2021 from 4.5% q-o-q in the prior quarter. The growth in issuance of LCY government bonds in Q3 2021 stemmed largely from strong issuance of EFBs.

**Exchange Fund Bills.** EFBs outstanding totaled HKD1,064.3 billion at the end of September on growth of 1.9% q-o-q and 2.1% y-o-y. EFBs accounted for 85.0% of total LCY government bonds at the end of September. Issuance of EFBs reached HKD850.5 billion in Q3 2021. Issuance growth more than doubled, rising 3.0% q-o-q in Q3 2021 from 1.4% q-o-q in Q2 2021. To absorb excess liquidity in the financial system, the Hong Kong Monetary Authority (HKMA) increased the issuance size of 91-day EFBs in September by a total of HKD20.0 million during the quarter.

**Exchange Fund Notes.** Outstanding EFNs amounted to HKD24.2 billion at the end of September. Since 2015, the HKMA has limited its issuance of EFNs to 2-year tenors. In August, the HKMA issued 2-year EFNs worth HKD1.2 billion. Due to maturities, outstanding EFNs posted zero q-o-q growth in Q3 2021. On a y-o-y basis, outstanding EFNs contracted 6.2% in Q3 2021. EFNs comprised 1.9% of total LCY government bonds at the end of September.

**HKSAR bonds.** HKSAR bonds outstanding reached HKD163.7 billion at the end of September on growth of 11.1% q-o-q and 82.8% y-o-y due to strong issuance. HKSAR bond issuance rose 9.9% q-o-q in Q3 2021. In August, the government issued HKD30.0 billion worth of 3-year Silver Bonds, which are bonds intended for senior citizens. The issuance received strong demand as the eligible age for subscription was lowered to 60 from 65. The government also issued HKD1.0 billion worth of 15-year HKSAR bonds in September. Outstanding HKSAR bonds accounted for 13.1% of total LCY government bonds at the end of Q3 2021.

**Corporate bonds.** Corporate bonds outstanding amounted to HKD1,176.4 billion at the end of September after a 2.9% q-o-q contraction in Q3 2021 due to maturities and a drop in issuance. On an annual basis, growth in LCY corporate bonds outstanding moderated to 4.1% y-o-y in Q3 2021 from 8.9% y-o-y in Q2 2021.

LCY bonds outstanding of Hong Kong, China's top 30 nonbank issuers totaled HKD300.6 billion at the end of Q3 2021, accounting for 25.6% of the total LCY corporate bond market (**Table 2**). Hong Kong Mortgage Corporation, Sung Hung Kai & Co., and The Hong Kong and China Gas Company continued to top the list, with outstanding bonds of HKD69.9 billion, HKD20.9 billion, and HKD18.0 billion, respectively. The top 30 issuers were predominantly finance and real estate companies. Finance firms' outstanding bonds accounted for 44.9% of the total bonds outstanding of the top 30 nonbank issuers, while real estate firms represented a 21.3% share. Among the

## 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 | 69.9 | 9.0 | Yes | No | Finance |
| 2. | Sun Hung Kai & Co. | 20.9 | 2.7 | No | Yes | Finance |
| 3. | The Hong Kong and China Gas Company | 18.0 | 2.3 | No | Yes | Utilities |
| 4. | New World Development | 16.0 | 2.0 | No | Yes | Diversified |
| 5. | Hang Lung Properties | 13.2 | 1.7 | No | Yes | Real Estate |
| 6. | Hong Kong Land | 12.9 | 1.7 | No | No | Real Estate |
| 7. | Link Holdings | 12.7 | 1.6 | No | Yes | Finance |
| 8. | MTR | 12.3 | 1.6 | Yes | Yes | Transportation |
| 9. | Henderson Land Development | 12.0 | 1.5 | No | Yes | Real Estate |
| 10. | Swire Pacific | 10.3 | 1.3 | No | Yes | Diversified |
| 11. | CK Asset Holdings | 10.0 | 1.3 | No | Yes | Real Estate |
| 12. | The Wharf Holdings | 9.7 | 1.2 | No | Yes | Finance |
| 13. | Guotai Junan International Holdings | 9.1 | 1.2 | No | Yes | Finance |
| 14. | Cathay Pacific | 9.0 | 1.1 | No | Yes | Transportation |
| 15. | Airport Authority | 8.9 | 1.1 | Yes | No | Transportation |
| 16. | Hongkong Electric | 8.5 | 1.1 | No | No | Utilities |
| 17. | CLP Power Hong Kong Financing | 7.4 | 1.0 | No | No | Finance |
| 18. | Swire Properties | 7.3 | 0.9 | No | Yes | Diversified |
| 19. | Hysan Development Corporation | 6.1 | 0.8 | No | Yes | Real Estate |
| 20. | Future Days | 4.2 | 0.5 | No | No | Transportation |
| 21. | Haitong International | 3.3 | 0.4 | No | Yes | Finance |
| 22. | Lerthai Group | 3.0 | 0.4 | No | Yes | Real Estate |
| 23. | AIA Group | 2.4 | 0.3 | No | Yes | Insurance |
| 24. | Ev Dynamics Holdings | 2.4 | 0.3 | No | Yes | Diversified |
| 25. | Champion REIT | 2.3 | 0.3 | No | Yes | Real Estate |
| 26. | South Shore Holdings | 2.2 | 0.3 | No | Yes | Industrial |
| 27. | IFC Development | 2.0 | 0.3 | No | No | Finance |
| 28. | Nan Fung | 1.8 | 0.2 | No | No | Real Estate |
| 29. | Wheelock and Company | 1.5 | 0.2 | No | Yes | Real Estate |
| 30. | Emperor International Holdings | 1.4 | 0.2 | No | Yes | Real Estate |
| **Total Top 30 Nonbank LCY Corporate Issuers** | | **300.6** | **38.6** | | | |
| **Total LCY Corporate Bonds** | | **1,176.4** | **151.1** | | | |
| **Top 30 as % of Total LCY Corporate Bonds** | | **25.6%** | **25.6%** | | | |

HKD = Hong Kong dollar, LCY = local currency, REIT = real estate investment trust, USD = United States dollar.
Notes:
1. Data as of 30 September 2021.
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.

top 30 issuers, only three were government-owned while a majority were listed on the Hong Kong Stock Exchange.

Issuance of corporate debt amounted to HKD196.7 billion at the end of September. Issuance contracted 15.8% q-o-q in Q3 2021 as uncertainties regarding the trajectory of the pandemic and economic recovery continued to dampen demand for corporate debt.

**Table 3** shows the largest corporate issuers in Q3 2021. Hong Kong Mortgage Corporation was the largest issuer with an aggregate HKD12.5 billion from 36 issuances, including a 1-year bond worth HKD1.0 billion. The longest tenor issued by Hong Kong Mortgage Corporation was a 7-year bond with a 0.40% coupon worth HKD0.2 billion. The next largest issuer was Haitong International, which raised HKD3.2 billion from seven issuances of bonds with maturities ranging from 3 months to 1 year. The next largest issuers during the quarter were Guotai Junan International, Sun Hung Kai & Co., and Henderson Land. Hong Kong Land's 10-year bond with a 1.96% coupon worth HKD0.4 billion was the longest tenor issued during the quarter.

**Table 3: Notable Local Currency Corporate Bond Issuances in the Third Quarter of 2021**

| Corporate Issuers | Coupon Rate (%) | Issued Amount (HKD billion) |
|---|---|---|
| Hong Kong Mortgage Corporation | | |
| 1-year bond | 0.29 | 1.00 |
| 2-year bond | 0.42 | 0.26 |
| 3-year bond | 0.71 | 0.48 |
| 7-year bond | 0.40 | 0.20 |
| Haitong International | | |
| 3-month bond | 0.40 | 0.30 |
| 6-month bond | 0.60 | 0.80 |
| 1-year bond | 0.70 | 0.25 |
| Guotai Junan International Holdings | | |
| 6-month bond | 0.50 | 0.80 |
| 1-year bond | 0.85 | 0.50 |
| Sun Hung Kai & Co. | | |
| 3-year bond | 0.82 | 0.60 |
| 7-year bond | 1.87 | 0.39 |
| Henderson Land | | |
| 2-year bond | 1.00 | 0.30 |
| 3-year bond | 1.20 | 0.40 |
| Hong Kong Land | | |
| 10-year bond | 1.96 | 0.38 |

HKD = Hong Kong dollar.
Source: Bloomberg LP.

## Policy, Institutional, and Regulatory Developments

### People's Bank of China and Hong Kong Monetary Authority Launch Southbound Bond Connect

On 24 September, the People's Bank of China and the HKMA announced the launch of southbound trading under the Bond Connect platform. The arrangement allows financial institutions in the PRC to invest in Hong Kong, China's bond market. The scheme followed the launch of Northbound Bond Connect 4 years earlier, which provided overseas investors access to the PRC's bond market. Southbound Connect featured an initial daily quota of CNY20 billion (HKD24 billion) and an annual quota of CNY500 billion (HKD600 billion). All bonds traded in Hong Kong, China's bond market were included in the scheme. The HKMA noted that Southbound Bond Connect will help drive the development of Hong Kong, China's bond market and enhance the connection between the financial infrastructures of the PRC and Hong Kong, China.

### Hong Kong Monetary Authority Increases Issuance of Exchange Fund Bills

To meet the rise in demand for EFBs amid excess liquidity in the financial system, the HKMA increased its issuance of 91-day EFBs starting in September. The HKMA increased the planned issuance size of 91-day EFBs by HKD5 billion in each of the tenders scheduled from 7 September to 21 December. The HKMA will monitor market conditions during the period and maintain the flexibility of adjusting or not executing the increases if deemed necessary.

### Hong Kong Monetary Authority Holds Countercyclical Capital Buffer Ratio at 1.0%

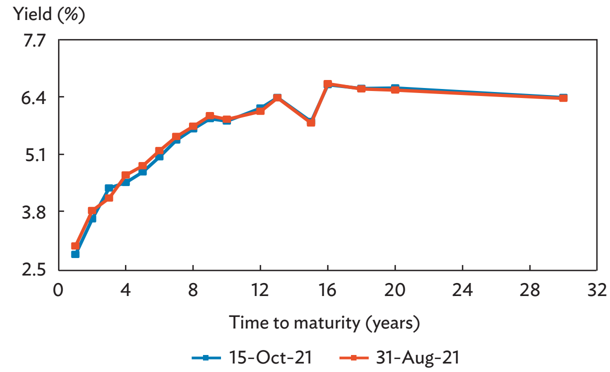
On 28 October, the HKMA held the countercyclical capital buffer ratio (CCyB) at 1.0%. The HKMA noted that despite its nascent recovery, the domestic economy still faces significant risks due to the global pandemic. The latest economic data as of Q2 2021 signaled a CCyB of 2.25%, but the HKMA decided to hold a lower CCyB at 1.0% to support economic recovery amid lingering uncertainties. The CCyB is an integral part of the Basel III regulatory capital framework intended to improve the resilience of the banking sector.

# Indonesia

## Yield Movements

Local currency (LCY) government bond yield curve in Indonesia shifted upward between 31 August and 15 October. Yields for all maturities that gained rose an average of 7 basis points (bps), while the 3-year, 4-year, 6-year, and 9-year bonds shed 38 bps, 17 bps, 8 bps, and 6 bps, respectively (**Figure 1**). Bond yields gained the most for the 13-year (24 bps) and 18-year (21 bps) tenors during the review period. The yield spread between the 2-year and 10-year maturities was barely changed at 203 bps on 15 October from 204 bps on 31 August.

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




Source: Based on data from Bloomberg LP.

Rising yields across the curve largely tracked movements in yields in advanced and regional markets amid rising inflationary concerns and an earlier-than-expected unwinding of asset purchases by the United States (US) Federal Reserve. A shift in monetary stance by the Federal Reserve caused an exodus of funds from the Indonesian government bond market, leading to a continued decline in the foreign holdings share. At the end of September, offshore holdings of government bonds comprised 21.6% of the government bond stock, a decline from 22.8% at the end of June and 27.0% from the same period a year earlier.

The increase in yields was also buoyed by a slew of positive developments pointing to a much improved economic outlook after mobility restrictions were eased in September. Indonesia is expected to log a narrower budget deficit this year as the finance minister estimates the budget gap will be the equivalent of 5.3%–5.4% of gross domestic product (GDP) in 2021 versus an earlier estimate of 5.8%.[11] The budget deficit forecast is fueled by optimism in the economic recovery and rising commodity prices. In addition, a strong export performance is expected to lead to an improvement in the current account balance for the year. Indonesia has enjoyed strong global demand for coal and palm oil amid rising energy prices.

Further fueling the growth outlook is the new tax law passed in October, which is expected to boost tax collection by about 9%–18% from 2022 to 2025.[12] This will provide additional fiscal space for the economy.

To bolster the economic recovery, Bank Indonesia, in its meeting held on 18–19 October, left its 7-day reverse repurchase rate unchanged at 3.50%, the deposit facility rate at 2.75%, and the lending facility rate at 4.25%. Bank Indonesia also continues to work with the government to propel economic recovery. As of 15 October, the central bank purchased a total of IDR142.5 trillion of government bonds and injected liquidity through quantitative easing into the banking industry.

Despite improving optimism in the economic recovery, inflation has remained low. Consumer prices rose 1.6% year-on-year (y-o-y) in September and 1.7% y-o-y in October, both lower than the inflation target of between 2.0% and 4.0% for full-year 2020. Bank Indonesia estimates inflation for 2021 to fall below the midpoint of its target range for the year.

Mobility restrictions imposed from July through August dragged down the economic performance for the third quarter (Q3) of 2021, with real GDP growth moderating to 3.5% y-o-y from 7.1% y-o-y in the second quarter

[11] *Bloomberg*. 2021. "Indonesia's Indrawati Sees Smaller-Than-Expected Budget Deficit." https://www.bloomberg.com/news/articles/2021-10-17/indonesia-s-indrawati-sees-smaller-than-expected-budget-deficit.

[12] *The Jakarta Post*. 2021. "New Tax Law Expected To Raise Tax Revenue by at Least 9%." https://www.thejakartapost.com/news/2021/10/11/new-tax-law-hoped-to-raise-tax-revenue-by-at-least-9.html.

(Q2) 2021. Domestic consumption, which accounts for a large share of GDP, eased to growth of 1.0% y-o-y after rising 6.0% y-o-y in Q2 2021. Growth in government spending also decelerated to 0.7% y-o-y in Q3 2021 from 8.0% y-o-y in Q2 2021, while growth in investments fell to 3.7% y-o-y from 7.5% y-o-y in the same period. Exports contributed the majority of Q3 2021 GDP growth, expanding 29.2% y-o-y, although this was slightly down from the 32.0% y-o-y hike in the prior quarter.

## Size and Composition

The size of Indonesia's LCY bond market reached IDR5,089.5 trillion (USD355.6 billion) at the end of September (**Table 1**). Overall growth inched up to 3.6% quarter-on-quarter (q-o-q) in the third quarter (Q3) of 2021 from 2.4% q-o-q in Q2 2021. The higher growth was largely driven by government bonds, particularly Treasury bills and bonds, following increased issuance during the quarter. The stock of central bank bills also contributed to the growth but only to a minimal extent. On the other hand, both the stocks of nontradable bonds and corporate bonds continued to post q-o-q contractions in Q3 2021. Compared with the same period a year earlier, LCY bond market growth in Indonesia rose 23.9% y-o-y, moderating from a 30.6% y-o-y hike in Q2 2021. Indonesia remained the fastest-growing LCY bond market in emerging East Asia on a y-o-y basis.

Government bonds continued to dominate Indonesia's LCY bond stock at the end of September, accounting for 91.7% of its bond total. Compared with other emerging East Asian markets, the share of government bonds to total bonds outstanding is the largest in Indonesia. The Indonesian bond market also has the region's smallest share of corporate bonds relative to total bonds outstanding at 8.3%. This highlights the importance of LCY borrowing for the government in supporting economic development. It also reflects the vast potential of the corporate bond segment to further develop.

In the same period, Indonesia's bond market largely comprised conventional bonds, representing a share of 81.1% of the total bonds outstanding at the end of September. *Sukuk* (Islamic bonds) only accounted for 18.9% of the total bond stock at the end of September, representing an increase from a share of 17.6% at the end of June and 17.7% in the same period a year earlier.

**Government bonds.** Total government bonds outstanding climbed to IDR4,667.5 trillion at the end of September from IDR4,489.5 trillion at the end of June. Growth in the government bond segment quickened to 4.0% q-o-q in Q3 2021 from 2.8% q-o-q in Q2 2021. On a y-o-y basis, however, growth moderated to 27.3% from 34.8% in Q2 2021.

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

| | Outstanding Amount (billion) | | | | | | Growth Rate (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q3 2020 | | Q2 2021 | | Q3 2021 | | Q3 2020 | | Q3 2021 | |
| | IDR | USD | IDR | USD | IDR | USD | q-o-q | y-o-y | q-o-q | y-o-y |
| **Total** | **4,108,191** | **276** | **4,912,250** | **339** | **5,089,510** | **356** | **9.2** | **19.8** | **3.6** | **23.9** |
| Government | 3,667,452 | 246 | 4,489,539 | 310 | 4,667,501 | 326 | 10.1 | 22.6 | 4.0 | 27.3 |
| Central Govt. Bonds | 3,461,396 | 233 | 4,282,623 | 295 | 4,460,456 | 312 | 11.4 | 29.9 | 4.2 | 28.9 |
| of which: *Sukuk* | 617,771 | 42 | 740,172 | 51 | 834,323 | 58 | 6.6 | 35.2 | 12.7 | 35.1 |
| Central Bank Bonds | 38,416 | 3 | 58,670 | 4 | 60,712 | 4 | (22.6) | (67.1) | 3.5 | 58.0 |
| of which: *Sukuk* | 38,416 | 3 | 58,670 | 4 | 60,712 | 4 | (22.6) | (67.1) | 3.5 | 58.0 |
| Nontradable Bonds | 167,640 | 11 | 148,246 | 10 | 146,334 | 10 | (4.8) | (20.1) | (1.3) | (12.7) |
| of which: *Sukuk* | 38,256 | 3 | 33,106 | 2 | 31,161 | 2 | 2.6 | (9.7) | (5.9) | (18.5) |
| Corporate | 440,739 | 30 | 422,711 | 29 | 422,008 | 29 | 2.6 | 0.7 | (0.2) | (4.2) |
| of which: *Sukuk* | 30,915 | 2 | 31,672 | 2 | 36,143 | 3 | 5.2 | 0.9 | 14.1 | 16.9 |

( ) = 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.
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; and Bloomberg LP.

**Central government bonds.** At the end of September, the outstanding size of central government bonds reached IDR4,460.5 trillion, representing 95.6% of the government bond total. Growth in central government bonds inched up to 4.2% q-o-q in Q3 2021 from 3.1% q-o-q in Q2 2021, buoyed by strong issuance of Treasury instruments during the quarter. On an annual basis, the growth in the stock of central government bonds eased to 28.9% y-o-y in Q3 2021 from 37.9% y-o-y in the preceding quarter.

In Q3 2021, issuance of Treasury bills and Treasury bonds tallied IDR262.2 trillion, up from IDR231.4 trillion in the prior quarter. Growth in central government bond issuance rebounded during the quarter, expanding 13.3% q-o-q after contracting 24.6% q-o-q in Q2 2021. The government issued more bonds during the quarter to support the economy and provide relief measures as mobility restrictions were reimposed in July.

**Central bank bonds.** The outstanding stock of central bank bills and bonds totaled IDR60.7 trillion at the end of September. Growth rose a modest 3.5% q-o-q following a 6.8% q-o-q expansion in Q2 2021. While issuance climbed 26.2% q-o-q in Q3 2021, the outstanding stock of central bank bonds barely changed, owing to the short-term maturities of central bank instruments. In Q3 2021, only Sukuk Bank Indonesia were issued with maturities of 7 days, 14 days, 28 days, 3 months, 9 months, and 12 months.

**Corporate bonds.** At the end of September, the outstanding size of LCY corporate bonds had declined 0.2% q-o-q in Q3 2021 after contracting 2.4% q-o-q in Q2 2021. The total corporate bond stock reached IDR422.0 trillion at the end of September, down from IDR422.7 trillion at the end of June. The smaller corporate bond stock at the end of September stemmed from a high volume of maturities that exceeded new issuance during the quarter.

**Table 2** presents the 32 largest corporate bond issuers in Indonesia at the end of September.[13] The total aggregate bond stock of the leading issuers tallied IDR304.7 trillion, down from IDR308.7 trillion (aggregate of 31 firms) at the end of June. The outstanding bonds of the 32 largest corporate issuers accounted for 72.2% of the total corporate bond stock at the end of September.

The largest corporate bond issuers in Indonesia were dominated by firms from the banking and financial industry. Firms from large capitalized industries were also included in the list, particularly those coming from energy, telecommunications, construction, and manufacturing. A total of 20 state-owned firms were included in the list, of which nine firms were ranked in the top 10. There were 17 firms who also tapped the equity market for funding, with their shares listed in the Indonesia Stock Exchange.

The five largest corporate bond issuers at the end of September maintained their position since the end of March. At the top spot was energy firm Perusahaan Listrik Negara with total bonds outstanding of IDR35.1 trillion, whose share of the total corporate bond stock during Q3 2021 was steady at 8.3%. Next was financing firm Indonesia Eximbank with outstanding bonds of IDR21.2 trillion and a 5.0% share of the corporate bond total at the end of September. At the third spot was finance company Sarana Multi Infrastruktur with bonds outstanding of IDR18.5 trillion and a 4.4% share of the corporate bond stock. Completing the top five largest corporate bond issuers were Bank Rakyat Indonesia and Sarana Multigriya Finansial with respective shares of 3.9% and 3.3% of the corporate bonds outstanding at the end of the period in review.

In Q3 2021, corporate bond issuance climbed to IDR32.7 trillion, rebounding strongly by 73.3% q-o-q after contracting 8.5% q-o-q in Q2 2021. Corporates tapped the bond market to take advantage of low borrowing costs and to refinance maturing debt obligations. There were 29 corporates that raised funds from the bond market in Q3 2021 compared with only 14 firms in Q2 2021. Some of those who issued bonds during the quarter also had maturing bonds.

A total of 90 bond series were added to the total corporate bond stock at the end of September, of which 31 series were structured as *sukuk*. Both *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership) and *sukuk ijarah* (Islamic bonds backed by lease agreements) were issued during the quarter. Among the new bonds issued during the quarter were one series of convertible bond issued by transport firm Adi Sarana Armada and two series of subordinated bonds issued by Bank KB Bukopin.

[13] Three firms tied for the number 30 spot on the list.

### Table 2: Top 32 Issuers of Local Currency Corporate Bonds in Indonesia

| | Issuers | Outstanding Amount LCY Bonds (IDR billion) | Outstanding Amount LCY Bonds (USD billion) | State-Owned | Listed Company | Type of Industry |
|---|---|---|---|---|---|---|
| 1. | Perusahaan Listrik Negara | 35,121 | 2.45 | Yes | No | Energy |
| 2. | Indonesia Eximbank | 21,230 | 1.48 | Yes | No | Finance |
| 3. | Sarana Multi Infrastruktur | 18,542 | 1.30 | Yes | No | Finance |
| 4. | Bank Rakyat Indonesia | 16,619 | 1.16 | Yes | Yes | Banking |
| 5. | Sarana Multigriya Finansial | 13,741 | 0.96 | Yes | No | Finance |
| 6. | Bank Mandiri | 12,900 | 0.90 | Yes | Yes | Banking |
| 7. | Bank Tabungan Negara | 12,445 | 0.87 | Yes | Yes | Banking |
| 8. | Pegadaian | 11,548 | 0.81 | Yes | No | Finance |
| 9. | Permodalan Nasional Madani | 10,835 | 0.76 | Yes | No | Finance |
| 10. | Indosat | 10,405 | 0.73 | No | Yes | Telecommunications |
| 11. | Bank Pan Indonesia | 9,927 | 0.69 | No | Yes | Banking |
| 12. | Waskita Karya | 9,514 | 0.66 | Yes | Yes | Building Construction |
| 13. | Pupuk Indonesia | 9,046 | 0.63 | Yes | No | Chemical Manufacturing |
| 14. | Indah Kiat Pulp & Paper | 8,579 | 0.60 | No | Yes | Pulp and Paper |
| 15. | Hutama Karya | 8,000 | 0.56 | Yes | No | Nonbuilding Construction |
| 16. | Wijaya Karya | 7,500 | 0.52 | Yes | Yes | Building Construction |
| 17. | Astra Sedaya Finance | 7,179 | 0.50 | No | No | Finance |
| 18. | Tower Bersama Infrastructure | 7,171 | 0.50 | No | Yes | Telecommunications Infrrastructure Provider |
| 19. | Semen Indonesia | 7,078 | 0.49 | Yes | Yes | Cement Manufacturing |
| 20. | Telkom Indonesia | 7,000 | 0.49 | Yes | Yes | Telecommunications |
| 21. | Bank CIMB Niaga | 6,347 | 0.44 | No | Yes | Banking |
| 22. | Adira Dinamika Multi Finance | 5,983 | 0.42 | No | Yes | Finance |
| 23. | Mandiri Tunas Finance | 5,599 | 0.39 | No | No | Finance |
| 24. | Chandra Asri Petrochemical | 5,489 | 0.38 | No | Yes | Petrochemicals |
| 25. | Bank Pembangunan Daerah Jawa Barat Dan Banten | 5,413 | 0.38 | Yes | Yes | Banking |
| 26. | Federal International Finance | 5,412 | 0.38 | No | No | Finance |
| 27. | Adhi Karya | 4,990 | 0.35 | Yes | Yes | Building Construction |
| 28. | Angkasa Pura I | 4,612 | 0.32 | Yes | No | Airport Management Services |
| 29. | Sinar Mas Agro Resources and Technology | 4,500 | 0.31 | No | Yes | Food |
| 30. | Angkasa Pura II | 4,000 | 0.28 | Yes | No | Airport Management Services |
| 31. | Kereta Api Indonesia | 4,000 | 0.28 | Yes | No | Transportation |
| 32. | OKI Pulp & Paper Mills | 4,000 | 0.28 | No | No | Pulp and Paper Manufacturing |
| **Total Top 32 LCY Corporate Issuers** | | **304,725** | **21.29** | | | |
| **Total LCY Corporate Bonds** | | **422,008** | **29.48** | | | |
| **Top 31 as % of Total LCY Corporate Bonds** | | **72.2%** | **72.2%** | | | |

IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 30 September 2021.
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.

Most corporate bonds issued during the quarter carried maturities of 3 years (31 out of 90 new series), 5 years (24 out of 90 series), and 370 days (20 out of 90 series). The longest-dated bonds issued in Q3 2021 were 7 years with nine series and 10 years with two series.

The largest corporate bond issuers during the quarter are presented in **Table 3**. Leading the list was paper manufacturing firm OKI Pulp & Paper Mills, which issued a combined IDR4.0 trillion comprising three tranches of conventional bonds and three tranches of *sukuk mudharabah*. Next was state-owned building and construction firm Wijaya Karya with total issuance of IDR2.5 trillion in six tranches, including three tranches of *sukuk mudharabah*. The next largest issuances came from PT PP, Permodalan Nasional Madani, and Bank KB Bukopin, with aggregate issuance of IDR2.0 trillion each.

## Investor Profile

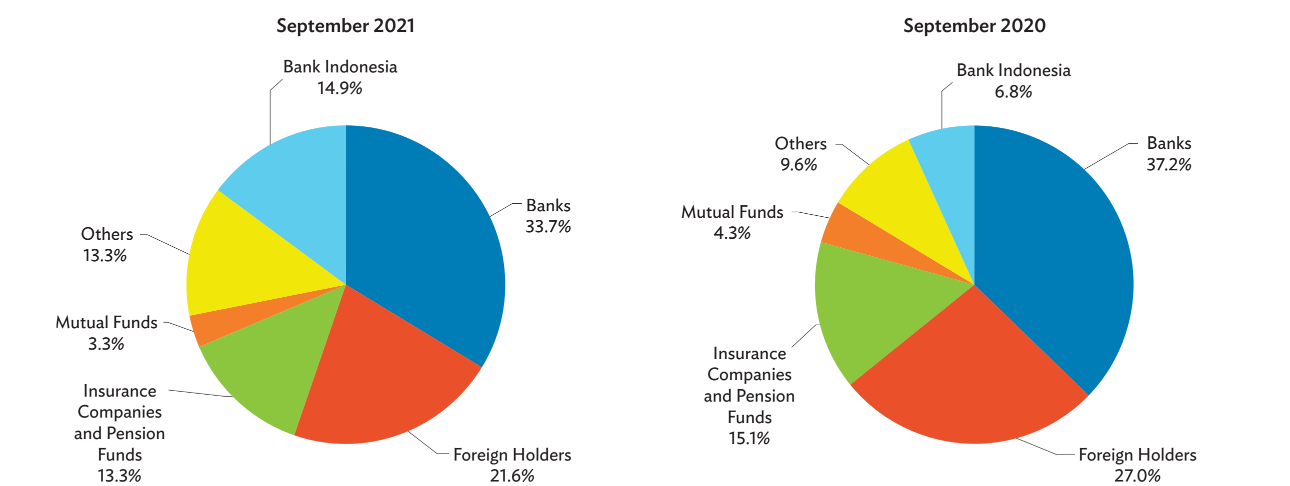
Foreign funds flowed out of Indonesia's bond market in Q3 2021, driven by a shift in monetary stance by the US Federal Reserve. Foreign fund outflows were seen in July and September for a combined amount of USD1.1 billion, which more than exceeded the USD1.0 billion of inflows posted in August. As a result, the foreign holdings share of LCY government bonds further slipped to 21.6% at the end of September, down from 22.8% at the end of June and 27.0% at the end of September 2020 (**Figure 2**). In nominal terms, offshore

**Table 3: Notable Local Currency Corporate Bond Issuances in the Third Quarter of 2021**

| Corporate Issuers | Coupon Rate (%) | Issued Amount (IDR billion) |
|---|---|---|
| OKI Pulp & Paper Mills | | |
| 370-day bond | 7.25 | 1,315 |
| 370-day *sukuk mudharabah* | 7.25 | 1,348 |
| 3-year bond | 9.50 | 336 |
| 3-year *sukuk mudharabah* | 9.50 | 700 |
| 5-year bond | 10.25 | 235 |
| 5-year *sukuk mudharabah* | 10.25 | 65 |
| Wijaya Karya | | |
| 3-year bond | 8.25 | 571 |
| 3-year *sukuk mudharabah* | 8.25 | 197 |
| 5-year bond | 8.55 | 982 |
| 5-year *sukuk mudharabah* | 8.55 | 326 |
| 7-year bond | 9.25 | 92 |
| 7-year *sukuk mudharabah* | 9.25 | 333 |
| PT PP | | |
| 3-year bond | 8.50 | 850 |
| 3-year *sukuk mudharabah* | 8.50 | 650 |
| 5-year bond | 9.10 | 400 |
| 5-year *sukuk mudharabah* | 9.10 | 100 |
| Permodalan Nasional Madani | | |
| 370-day *sukuk mudharabah* | 6.00 | 1,158 |
| 3-year *sukuk mudharabah* | 7.00 | 515 |
| 5-year *sukuk mudharabah* | 8.00 | 327 |
| Bank KB Bukopin | | |
| 3- year bonds | 6.25 | 1,000 |
| 5-year subordinated bonds | 8.00 | 315 |
| 7-year subordinated bonds | 8.90 | 685 |

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

**Figure 2: Local Currency Central Government Bonds Investor Profile**




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

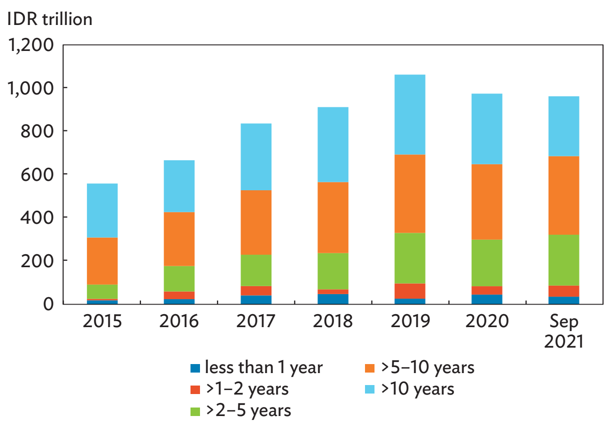
investor holdings of LCY government bonds totaled USD961.8 trillion at the end of September, up from USD933.1 trillion a year earlier.

Offshore investors holdings of bonds with maturities of 10 years or more stood at 28.8% of their total bond holdings at the end of September. However, this was lower compared with their 33.5% share at the end of December 2020 (**Figure 3**). The bond holdings of nonresidents for maturities of more than 1 year to 2 years, more than 2 years to 5 years, and more than 5 years to 10 years increased from the beginning of the year through the end of September. In contrast, bonds with maturities of less than 1 year accounted for 3.6% of total foreign holdings, down from 4.6% at the end of December.

Banking institutions remained the largest investor group in Indonesia's LCY government bond market at the end of September. However, their holdings declined to 33.7% at the end of September from 37.2% in the previous year. Insurance companies and pension funds and mutual funds also saw declines in their respective holdings of government bonds during the review period.

In contrast, only two investor groups recorded increases in their respective holdings of government bonds at the end of September, Bank Indonesia and other investors not elsewhere classified.

**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.

Bank Indonesia continued to shore up its holdings of government bonds as part of synergistic endeavors with the government to support economic growth and recovery efforts. Holdings of government bonds more than doubled to a 14.9% share at the end of September from only 6.8% a year earlier. The central bank participated in primary auctions of government bonds and purchased bonds through green shoe options, in line with its burden-sharing agreement with the government. As of 15 October, Bank Indonesia had purchased a total of IDR142.5 trillion of government bonds.

Aggregate holdings of LCY government bonds by other investor group, which includes individuals, rose by 3.7 percentage points to 13.3% at the end of September from 9.6% in the same period a year earlier.

## Policy, Institutional, and Regulatory Developments

### Tax Cuts on Bond Investments for Domestic Investors

On 30 August, the Government of Indonesia reduced the tax on interest income on bond investments for domestic investors. The tax rate was lowered to 10% from the previous 15% to align the tax rate with that of foreign investors. (In February, the government reduced the tax on interest income for foreign bond investors from 20% to 10%.) The move is expected to further deepen the LCY bond market, encourage greater participation from domestic investors, and enhance liquidity. The tax cut applies to investments in both government bonds and corporate bonds, including *sukuk*.

### Parliament Approves 2022 State Budget

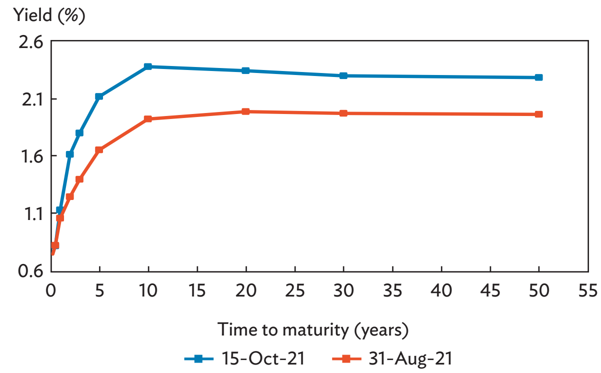
In September, the Indonesian Parliament approved the 2022 state budget, which programs a lower budget deficit equivalent to 4.9% of GDP versus 5.8% in the 2021 state budget. The 2022 state budget sets the state revenue at IDR1,846.1 trillion, while state spending is estimated at IDR2,714.2 trillion. Macroeconomic assumptions used for the 2022 state budget include (i) economic growth of 5.2%, (ii) average consumer price inflation of 3.0%, (iii) an exchange rate of IDR14,350.0 per USD1.0, (iv) an average 10-year bond yield of 6.8%, and (v) an Indonesian crude oil price of USD63.0 per barrel.

# Republic of Korea

## Yield Movements

The Republic of Korea's local currency (LCY) government bond yields surged for most tenors between 31 August and 15 October (**Figure 1**). Yields for the 3-month and 6-month paper were mostly unchanged, while the 1-year bond yield increased 7 basis points (bps). Yields for tenors between 2 years and 50 years surged 38 bps on average, with the 5-year and 10-year bonds posting the largest increases at 46 bps and 45 bps, respectively. The yield spread between the 2-year and 10-year tenors rose to 75 bps from 67 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.

Short-term government bond yields remained range-bound during the review period, following a spike in yields the week before the Bank of Korea's monetary policy meeting on 26 August, when the central bank raised its base rate to 0.75%. Yields barely moved thereafter given expectations that the central bank would maintain its policy rate at its October monetary policy meeting. On 12 October, as expected, the Bank of Korea kept the base rate steady.

The rise in yields for tenors of 2 years and longer continued throughout the review period on heightened expectations of another rate hike by the Bank of Korea in November, its last monetary policy meeting for the year. Subsequently on 25 November, the Bank of Korea raised the base rate by 25 bps to 1.00%. The domestic economy is forecast to continue its recovery supported by an improvement in consumption, exports, and investment. The growth forecast for 2021 was maintained at 4.0%. Meanwhile, inflation is expected to be well above the 2.0% level, with the central bank raising its forecast for 2021 to 2.3% from its August projection of 2.1%. The central bank also stated that it will assess when to further adjust the degree of monetary policy accommodation given sound economic growth and inflation running above the target level, driving expectations of further rate hikes in 2022.

Moreover, domestic yields tracked the rise in global yields as the United States (US) Federal Reserve is expected to announce tapering measures as early as at its November meeting. In addition, foreign selling of Korea Treasury Bond futures also contributed to the rise in domestic yields. This was driven by the weakening of the Korean won that resulted in smaller capital gains, making the instrument less attractive to foreign investors. The domestic currency depreciated 1.9% during the review period to KRW1,182.3 per USD1.0 on 15 October, and reaching a low of KRW1,198.9 per USD1.0 on 12 October due to the continued strengthening of the US dollar and foreign outflows from the equities market.

On 3 September, the government submitted its 2022 budget proposal to the National Assembly for approval. The budget amounts to KRW604.4 trillion, a 13.7% increase from the original 2021 budget and an 8.3% increase when including all supplementary budgets passed in 2021. The budget is also expected to result in lesser issuance of deficit-financing bonds in 2022 compared to 2021, easing bond oversupply concerns. However, this was not enough to drive down yields as the rise in global yields weighed more on the domestic bond market.

The Republic of Korea's economic growth moderated to 4.0% year-on-year (y-o-y) in the third quarter (Q3) of 2021 from 6.0% y-o-y in the second quarter (Q2), based on advance estimates by the Bank of Korea. The slower growth was driven by the lower annual increase in private consumption of 3.2% y-o-y from 3.7% y-o-y in Q2 2021 due to stricter social distancing measures imposed during the quarter. Gross fixed capital formation growth slowed in Q3 2021 to 1.8% y-o-y from 3.8% y-o-y. Export growth also slumped to 6.9% y-o-y from a surge of 22.4% y-o-y in Q2 2021. Meanwhile, government spending posted accelerated growth of 6.3% y-o-y from 5.3% y-o-y. Consumer price inflation in the Republic of Korea remained high at 2.6% y-o-y in both July and August, slightly easing to 2.5% y-o-y in September. In October, inflation surged to 3.2% y-o-y, the highest since January 2012, mainly driven by accelerated annual increases in the prices of utilities, transport, and communication.

Foreign demand for the Republic of Korea's LCY bonds remained strong in the month of July, with registered net inflows of KRW9,290 billion. However, inflows dropped in August to KRW1,689 billion as foreign investors sold domestic bonds due to the rise in short-term yields leading up to the Bank of Korea's rate hike on 26 August. Foreign inflows recovered in September to KRW5,172 billion, however, inflows were capped due to increased expectations of further tightening measures by the central bank and the possibility of tapering by the US Federal Reserve as early as November. Subsequently on its 2–3 November meeting, the Federal Reserve announced that it would begin tapering its asset purchases starting in November.

## Size and Composition

The Republic of Korea's LCY bond market grew 1.6% quarter-on-quarter (q-o-q) to reach a size of KRW2,799.9 trillion (USD2,364.6 billion) at the end of Q3 2021 (**Table 1**). This was slower than the 2.3% q-o-q expansion posted in the previous quarter. The growth was largely driven by the government bond market as the corporate segment grew at a slower pace. From the same period in 2020, the Republic of Korea's bond market rose 7.6% y-o-y, slower than the 7.9% y-o-y growth posted in Q2 2021.

**Government bonds.** The Republic of Korea's LCY government bond market rose 1.9% q-o-q in Q3 2021 to KRW1,179.7 trillion (USD996.3 billion). However, this was lower than the 3.2% q-o-q growth posted in the previous quarter. Growth continued to stem from the rise in the stock of central government bonds, which expanded 3.0% q-o-q to KRW831.7 trillion. Meanwhile, the outstanding size of Monetary Stabilization Bonds issued by the Bank of Korea declined 2.1% q-o-q to KRW151.1 trillion. The outstanding bonds issued by other government-owned entities inched up 0.3% q-o-q to KRW197.0 trillion.

Issuance of government bonds dropped 19.0% q-o-q to KRW92.5 trillion in Q3 2021, as both issuance of central government bonds (–29.0% q-o-q) and central bank bonds (–9.1% q-o-q) bonds declined during the quarter. The lower issuance of central government bonds during the quarter was due to a high base in Q2 2021 in line with the government's frontloading policy in the first half of the year. Bonds issued by other government owned-entities also fell 6.8% q-o-q.

**Foreign Exchange Stabilization Bonds.** The Republic of Korea issued USD1.3 billion worth of Foreign Exchange Stabilization Bonds on 7 October. These bonds are issued to promote foreign exchange market stability through accumulation of foreign exchange reserves, and the resulting rates will also serve as a guide for prospective companies planning to issue bonds offshore. The bond offer was conducted via a dual-tranche issuance comprising USD500.0 million worth of 10-year bonds priced at 1.796% (25-bps spread over

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

| | Outstanding Amount (billion) | | | | | | Growth Rate (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q3 2020 | | Q2 2021 | | Q3 2021 | | Q3 2020 | | Q3 2021 | |
| | KRW | USD | KRW | USD | KRW | USD | q-o-q | y-o-y | q-o-q | y-o-y |
| **Total** | **2,602,081** | **2,224** | **2,756,445** | **2,447** | **2,799,920** | **2,365** | **1.9** | **9.8** | **1.6** | **7.6** |
| Government | 1,069,062 | 914 | 1,158,252 | 1,028 | 1,179,746 | 996 | 3.0 | 12.1 | 1.9 | 10.4 |
| Central Government Bonds | 707,681 | 605 | 807,725 | 717 | 831,745 | 702 | 4.2 | 16.6 | 3.0 | 17.5 |
| Central Bank Bonds | 166,750 | 143 | 154,230 | 137 | 151,050 | 128 | (1.3) | (2.5) | (2.1) | (9.4) |
| Others | 194,631 | 166 | 196,297 | 174 | 196,951 | 166 | 2.3 | 10.7 | 0.3 | 1.2 |
| Corporate | 1,533,019 | 1,310 | 1,598,193 | 1,419 | 1,620,174 | 1,368 | 1.1 | 8.2 | 1.4 | 5.7 |

( ) = 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 KG Zeroin Corporation.

the 10-year US Treasury) and EUR700.0 million worth of 5-year bonds priced at −0.053% (13 bps spread over the 5-year benchmark euro mid-swap). The euro tranche was also a green bond issuance listed on the Frankfurt Stock Exchange and, eventually, on the London Stock Exchange.

**Corporate bonds.** The outstanding size of the Republic of Korea's LCY corporate bond market inched up 1.4% q-o-q to KRW1,620.2 trillion (USD1,368.3 billion), with growth slightly lower than the 1.6% q-o-q increase posted in the previous quarter. **Table 2** lists the top 30 LCY corporate bond issuers in the Republic of Korea, with aggregate

**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 | 153,269 | 129.4 | Yes | No | No | Housing Finance |
| 2. | Industrial Bank of Korea | 70,250 | 59.3 | Yes | Yes | No | Banking |
| 3. | Mirae Asset Securities Co. | 60,133 | 50.8 | No | Yes | No | Securities |
| 4. | Korea Investment and Securities | 56,780 | 48.0 | No | No | No | Securities |
| 5. | Hana Financial Investment | 50,209 | 42.4 | No | No | No | Securities |
| 6. | KB Securities | 49,620 | 41.9 | No | No | No | Securities |
| 7. | Shinhan Investment Corporation | 40,377 | 34.1 | No | No | No | Securities |
| 8. | NH Investment & Securities | 34,075 | 28.8 | Yes | Yes | No | Securities |
| 9. | Korea Electric Power Corporation | 30,610 | 25.9 | Yes | Yes | No | Electricity, Energy, and Power |
| 10. | Korea Land & Housing Corporation | 30,533 | 25.8 | Yes | No | No | Real Estate |
| 11. | Samsung Securities | 30,341 | 25.6 | No | Yes | No | Securities |
| 12. | Meritz Securities Co. | 29,079 | 24.6 | No | Yes | No | Securities |
| 13. | Shinhan Bank | 28,992 | 24.5 | No | No | No | Banking |
| 14. | Korea Expressway | 25,670 | 21.7 | Yes | No | No | Transport Infrastructure |
| 15. | The Export-Import Bank of Korea | 23,630 | 20.0 | Yes | No | No | Banking |
| 16. | Woori Bank | 22,520 | 19.0 | Yes | Yes | No | Banking |
| 17. | Kookmin Bank | 21,704 | 18.3 | No | No | No | Banking |
| 18. | KEB Hana Bank | 20,815 | 17.6 | No | No | No | Banking |
| 19. | NongHyup Bank | 19,320 | 16.3 | Yes | No | No | Banking |
| 20. | Korea SMEs and Startups Agency | 19,228 | 16.2 | Yes | No | No | SME Development |
| 21. | Korea National Railway | 19,050 | 16.1 | Yes | No | No | Transport Infrastructure |
| 22. | Shinyoung Securities | 17,784 | 15.0 | No | Yes | No | Securities |
| 23. | Hanwha Investment and Securities | 17,378 | 14.7 | No | No | No | Securities |
| 24. | Shinhan Card | 16,185 | 13.7 | No | No | No | Credit Card |
| 25. | KB Kookmin Bank Card | 14,350 | 12.1 | No | No | No | Consumer Finance |
| 26. | Hyundai Capital Services | 14,205 | 12.0 | No | No | No | Consumer Finance |
| 27. | Standard Chartered Bank Korea | 13,760 | 11.6 | No | No | No | Banking |
| 28. | NongHyup | 13,580 | 11.5 | Yes | No | No | Banking |
| 29. | Samsung Card Co. | 12,088 | 10.2 | No | Yes | No | Credit Card |
| 30. | Shinhan Financial Group | 10,865 | 9.2 | No | Yes | No | Banking |
| **Total Top 30 LCY Corporate Issuers** | | **966,401** | **816** | | | | |
| **Total LCY Corporate Bonds** | | **1,620,174** | **1,368.3** | | | | |
| **Top 30 as % of Total LCY Corporate Bonds** | | **59.6%** | **59.6%** | | | | |

KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, KRW = Korean won, LCY = local currency, SMEs = small and medium-sized enterprises, USD = United States dollar.

Notes:
1. Data as of 30 September 2021.
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 KG Zeroin Corporation data.

bonds outstanding of KRW966.4 trillion at the end of September, accounting for 59.6% of the total LCY corporate bond market. Financial institutions, particularly banks and securities and investment firms, continued to comprise a majority of the list and had a collective share of 65.3% of the total volume. Korea Housing Finance Corporation, a government-related institution providing financial assistance for social housing, remained the largest single-largest corporate bond issuer with outstanding bonds of KRW153.3 trillion. Industrial Bank of Korea and Mirae Asset Securities followed with total bonds outstanding of KRW70.2 trillion and KRW60.1 trillion, respectively.

The slower q-o-q growth in the Republic of Korea's corporate bond market was driven by the decline in issuance of 19.9% q-o-q to KRW120.6 trillion from KRW150.5 trillion in the previous quarter. All categories—special public entities, financial debentures, and private companies—posted q-o-q decreases. Firms borrowed less during the quarter, particularly in the month of August, due to the spike in yields leading up to the Bank of Korea rate hike. **Table 3** lists the notable corporate bond issuances in Q2 2021. Financial firms such as Kookmin Bank, Woori Bank, and NongHyup Bank had the largest issuances during the quarter.

## Investor Profile

Insurance companies and pension funds remained the top holders of the Republic of Korea's LCY government bonds with a market share of 34.1% at the end of June 2021, almost at par with 34.2% in June 2020 (**Figure 2**). Banks were the second-largest investor group with a share of 19.1%, up from 16.7% in Q2 2020. The shares of general government and other financial institutions fell in Q2 2021 to 16.2% and 14.6%, respectively, from 16.5% and 16.0% in the same period in 2020. Foreign holdings of LCY government bonds rose to 15.4% at the end June 2021 from 13.0% in the previous year, as high levels of foreign inflows were registered in the first half of 2021.

In Q2 2021, other financial institutions continued to surpass insurance companies and pension funds as the largest investor group of the Republic of Korea's LCY corporate bond market (**Figure 3**). The share of other financial institutions jumped to 40.2% from 37.4% in the same period in 2020, while the share of insurance companies and pension funds fell to 35.5% from 37.2%. The respective shares of the general government and banks increased to 14.3% and 9.5%. Meanwhile, the share of foreign holders remained negligible at 0.1%.

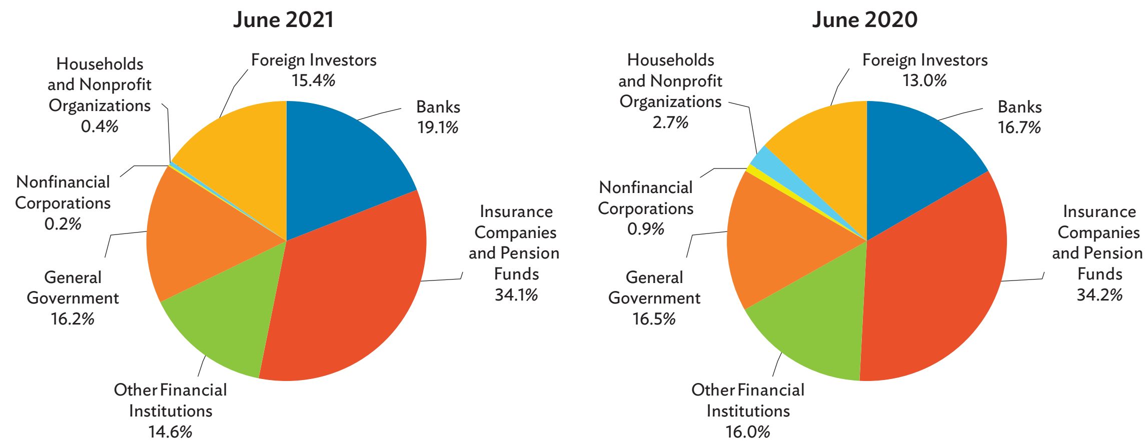
**Table 3: Notable Local Currency Corporate Bond Issuances in the Third Quarter of 2021**

| Corporate Issuers | Coupon Rate (%) | Issued Amount (KRW billion) |
|---|---|---|
| Kookmin Bank[a] | | |
| 1-year bond | 1.14 | 530 |
| 1-year bond | 1.10 | 400 |
| 1-year bond | 1.11 | 400 |
| 1-year bond | 1.12 | 380 |
| 1-year bond | 1.07 | 380 |
| 1-year bond | 1.14 | 370 |
| 1-year bond | 1.10 | 350 |
| 1-year bond | 1.10 | 300 |
| 1-year bond | 1.15 | 270 |
| 1-year bond | 1.15 | 250 |
| Woori Bank[a] | | |
| 1-year bond | 1.10 | 590 |
| 1-year bond | 1.10 | 500 |
| 1-year bond | 1.15 | 300 |
| 1-year bond | 1.10 | 300 |
| 1-year bond | 1.55 | 280 |
| 1-year bond | 0.13 | 280 |
| 1-year bond | 1.13 | 250 |
| 1-year bond | 1.12 | 250 |
| 3-year bond | 1.58 | 300 |

| Corporate Issuers | Coupon Rate (%) | Issued Amount (KRW billion) |
|---|---|---|
| NongHyup Bank[a] | | |
| 1-year bond | 1.11 | 700 |
| 1-year bond | 1.14 | 550 |
| 1-year bond | 1.23 | 480 |
| 1-year bond | 0.13 | 340 |
| 1-year bond | 1.09 | 300 |
| Sinbo Securitization Specialty[a] | | |
| 3-year bond | 1.77 | 609 |
| 3-year bond | 2.01 | 326 |
| Shinhan Bank[a] | | |
| 1-year bond | 1.17 | 480 |
| 1-year bond | 1.11 | 240 |
| 1-year bond | 1.14 | 200 |
| Kyobo Life Insurance | | |
| 30-year bond | 3.72 | 470 |
| Cube Banpo Securitization | | |
| 4-year bond | 1.88 | 400 |
| Samsung Biologics | | |
| 3-year bond | 1.89 | 380 |

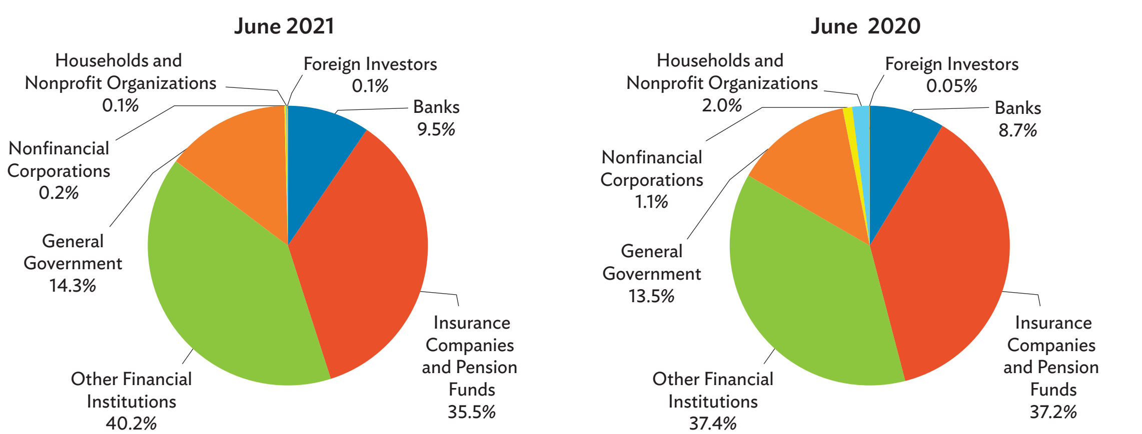
KRW = Korean won.
[a] Multiple issuance of the same tenor indicates issuance on different dates.
Source: Based on data from Bloomberg LP.

**Figure 2: Local Currency Government Bonds Investor Profile**




Source: *AsianBondsOnline* and The Bank of Korea.

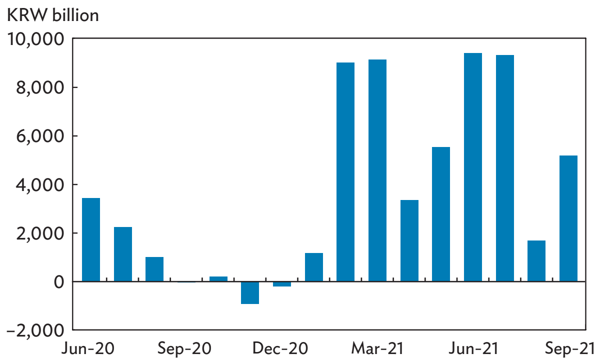
**Figure 3: Local Currency Corporate Bonds Investor Profile**




Source: *AsianBondsOnline* and The Bank of Korea.

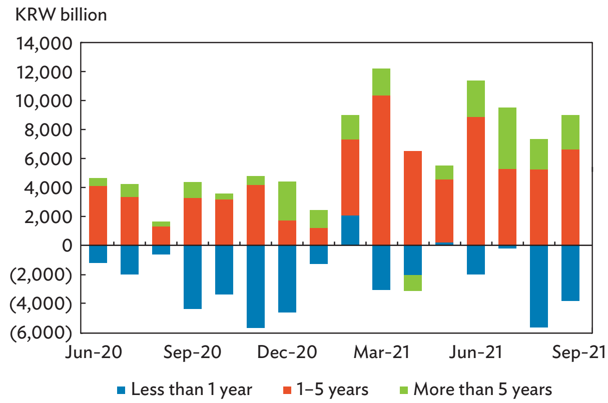
Net foreign inflows into the Republic of Korea's LCY bond market remained high in July with another record volume of KRW9,290 billion, the second-highest level for the year (**Figure 4**). However, net inflows fell to KRW1,689 billion in August as net foreign purchases of longer-tenor bonds were offset by the net outflows from short-term bonds (**Figure 5**). Foreign investors sold Korean LCY bonds, particularly those with tenors of less than 1 year, amid a surge in short-term yields leading up to the rate hike by the Bank of Korea in its 26 August monetary policy meeting. Foreign inflows recovered in September to KRW5,172 billion. However, this was capped by the continued outflows from the short-term bond segment, which were driven by expectations of another rate hike by the Bank of Korea before the year ends and the Federal Reserve announcement of possible tightening measures beginning as early as November.

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




KRW = Korean won.
Source: Financial Supervisory Service.

**Figure 5: Net Foreign Investment in Local Currency Bonds in the Republic of Korea by Remaining Maturity**




KRW = Korean won.
Source: Financial Supervisory Service.

## Policy, Institutional, and Regulatory Developments

### The Government of the Republic of Korea Passes 2022 Budget Proposal

On 3 September, the Government of the Republic of Korea passed for approval to the National Assembly its 2022 budget proposal of KRW604.4 trillion. The proposed budget is 8.3% higher than the original 2021 budget of KRW558.0 trillion, and almost at par with the revised KRW604.9 trillion budget that includes all supplementary budgets passed during the year. The budget aims to aid citizens and society in the recovery from the pandemic, promote inclusive growth, and prepare for a post-pandemic economy. The 2022 budget is also expected to reduce the fiscal deficit by KRW20.0 trillion as tax revenues are expected to improve on the back of the continued economic recovery. The fiscal deficit as a percentage of gross domestic product is forecast to decline to 2.6% in 2022 from 4.4% in 2021.

# Malaysia

## Yield Movements

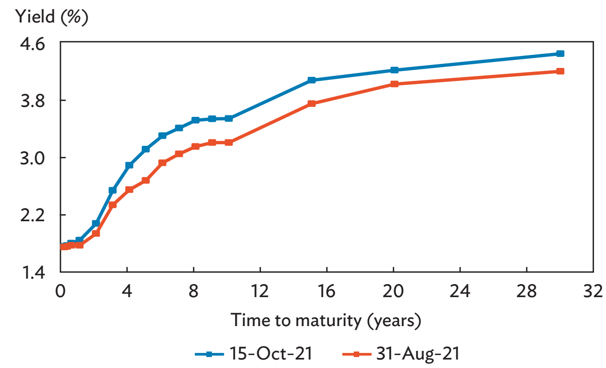
Local currency (LCY) government bond yields in Malaysia increased for all tenors between 31 August and 15 October (**Figure 1**). Yields for short-term tenors (1 month to 1 year) jumped an average of 3 basis points (bps), while bonds with 4-year to 15-year tenors soared an average of 36 bps. Yields of 1-month and 3-month tenors jumped the least at 1 bp each, while the 5-year yield rose the most among all tenors with a 44-bps gain during the review period. The yield spread between 2-year and 10-year government bonds expanded from 126 bps to 146 bps during the review period.

Investors flocked to safe-haven assets, leading to low demand for Malaysian government bonds. Net capital inflows in the third quarter (Q3) of 2021 were just MYR3.0 billion, a contraction of 67.1% quarter-on-quarter (q-o-q) from MYR9.0 billion in the previous quarter. Investors moved their investments to safe-haven assets in Q3 2021 to take advantage of the the prospect of the United States (US) Federal Reserve's earlier-than-expected normalization of interest rates.

Developments on the domestic political front also contributed to this guarded stance as investors observed how the new administration would tackle the economic challenges Malaysia is facing. The less-than-enthusiastic reception for government securities may also be attributed to short-term bond supply concerns amid an increased number of auctions in October and the anticipation of the 2022 budget announcement. Malaysia continued to have a low-interest-rate environment as Bank Negara Malaysia (BNM) kept its overnight policy rate unchanged in September.

On 9 September, the monetary policy committee of BNM maintained its policy rate at 1.75%. The committee is optimistic that the global and domestic economies are still on track to their path to recovery. Even as movement restrictions dampened Malaysia's economic growth in the second quarter (Q2) of 2021, the gradual reopening of the economy and policy support mitigated the impact. The year-to-date consumer price inflation of 2.3% was still within the range of 2.0%–3.0% expected by BNM for full-year 2021.

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




Source: Based on data from Bloomberg LP.

A lack of major developments on the financial front during the review period could be seen in the performance of Malaysia's currency. The Malaysian ringgit slightly weakened 0.1% against the US dollar during the review period to close at MYR4.1575 per USD1.0 dollar on 15 October.

Malaysia's economy contracted 4.5% year-on-year (y-o-y) in Q3 2021, after contracting 16.1% y-o-y in Q2 2021, due to coronavirus disease (COVID-19)-induced restrictions imposed in July affecting all major economic sectors. BNM expects Malaysia's full-year 2021 economic growth to fall in the range of 3.0%–4.0%.

The increase in prices of basic goods and services in Malaysia was largely unchanged during Q3 2021. Coming from a high level of 3.4% y-o-y in June, consumer price inflation decelerated in July and August, recording inflation of 2.2% y-o-y and 2.0% y-o-y, respectively. Inflation picked up slightly to 2.2% y-o-y in September, back to its July level, as prices of food and nonalcoholic beverages increased.

As part of the Government of Malaysia's National Recovery Plan, which is an exit strategy from the COVID-19 crisis, states have been classified according to four phases based on various thresholds, with Phase 1 having the strictest restrictions. As of 18 October, no state was in Phases 1 and 2, nine states were in Phase 3, while seven states were in Phase 4. As of 18 October, 70.2% of Malaysia's adult population had been fully vaccinated.

## Size and Composition

Malaysia's LCY bond market grew 1.5% q-o-q in Q3 2021, reaching a size of MYR1,718.8 billion (USD410.6 billion) at the end of the quarter, up from MYR1,693.3 billion at the end of the prior quarter (**Table 1**). The expansion in Q3 2021 was slower than the 2.7% q-o-q growth logged in Q2 2021. On a y-o-y basis, the LCY bond market expanded 8.5% y-o-y, a moderation from the 8.9% y-o-y growth posted in Q2 2021. The growth may be attributed to increases in both LCY government and corporate bonds, which accounted for 54.6% and 45.4%, respectively, of total LCY bonds outstanding at the end of Q3 2021. Total outstanding *sukuk* (Islamic bonds) reached MYR1,096.7 billion at the end of September on growth of 3.0% q-o-q. This rise was supported by increased stocks of government and corporate *sukuk*.

LCY bonds issued in Q3 2021 declined 14.2% q-o-q to MYR86.8 billion from MYR101.2 billion in Q2 2021 as government and corporate bond issuances both decreased.

**Government bonds.** At the end of Q3 2021, Malaysia's LCY government bond market expanded 1.5% q-o-q to a size of MYR938.4 billion from MYR924.1 billion at the end of June. The growth was slower than the increase of 3.9% q-o-q in the prior quarter. The LCY government bond market's growth was driven by the 1.6% q-o-q growth in outstanding central government bonds, which comprised 97.4% of total outstanding LCY government bonds at the end of September. No outstanding central bank bills were recorded at the end of Q3 2021, while the amount of outstanding Sukuk Perumahan Kerajaan, which comprised 2.6% of total outstanding LCY government bonds at the end of September, was unchanged from Q2 2021.

Issuance of LCY government bonds in Q3 2021 contracted 13.4% q-o-q to MYR48.5 billion from MYR56.0 billion in Q2 2021. The decline was due to a drop in issuances of Treasury bills. Total Malaysian Government Securities (conventional bonds) issued during the quarter declined, while Government Investment Issues increased in Q3 2021 compared to Q2 2021 at MYR24.1 billion.

**Corporate bonds.** LCY corporate bonds outstanding jumped 1.4% q-o-q to MYR780.4 billion at the end of September from MYR769.2 billion at the end of June. This growth was faster than the 1.3% q-o-q expansion recorded in Q2 2021. The amount of outstanding corporate *sukuk* expanded 1.9% q-o-q to MYR638.0 billion in Q3 2021 from MYR626.4 billion in Q2 2021, with growth easing from 2.0% q-o-q in the prior quarter.

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

| | Outstanding Amount (billion) | | | | | | Growth Rate (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q3 2020 | | Q2 2021 | | Q3 2021 | | Q3 2020 | | Q3 2021 | |
| | MYR | USD | MYR | USD | MYR | USD | q-o-q | y-o-y | q-o-q | y-o-y |
| **Total** | **1,584** | **381** | **1,693** | **408** | **1,719** | **411** | **1.9** | **6.1** | **1.5** | **8.5** |
| Government | 848 | 204 | 924 | 223 | 938 | 224 | 2.3 | 8.0 | 1.5 | 10.6 |
| Central Government Bonds | 820 | 197 | 900 | 217 | 914 | 218 | 2.9 | 9.6 | 1.6 | 11.5 |
| of which: *Sukuk* | 377 | 91 | 415 | 100 | 435 | 104 | 2.7 | 13.8 | 4.8 | 15.2 |
| Central Bank Bills | 4 | 1 | 0 | 0 | 0 | 0 | (20.0) | (60.8) | – | (100.0) |
| of which: *Sukuk* | 0 | 0 | 0 | 0 | 0 | 0 | – | (100.0) | – | – |
| Sukuk Perumahan Kerajaan | 24 | 6 | 24 | 6 | 24 | 6 | (10.1) | (10.1) | 0.0 | 0.0 |
| Corporate | 735 | 177 | 769 | 185 | 780 | 186 | 1.3 | 3.9 | 1.4 | 6.1 |
| of which: *Sukuk* | 592 | 142 | 626 | 151 | 638 | 152 | 1.7 | 6.0 | 1.9 | 7.8 |

( ) = 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.

The top 30 corporate bond issuers in Malaysia comprised MYR462.8 billion of LCY corporate bonds outstanding at the end of September, representing 59.3% of the total LCY corporate bond market (**Table 2**). Government institution Danainfra Nasional led all issuers with outstanding LCY corporate bonds totaling MYR74.9 billion. The largest share among all sectors in the top 30 list belonged to financial institutions (51.8%) with MYR239.7 billion of outstanding LCY corporate bonds at the end of September.

Issuances of LCY corporate bonds in Q3 2021 declined 15.3% q-o-q to MYR38.3 billion from MYR45.2 billion in Q2 2021. The contraction was a reversal from the growth of 4.7% q-o-q posted in the previous quarter due to slow issuance activities in July and August.

In September, Lembaga Pembiayaan Perumahan Sektor Awam, Malaysia's statutory body in charge of handling public housing financing services, issued eight tranches of Islamic bond totaling MYR4.0 billion with tenors ranging from 7 years to 30 years and coupon rates from 3.34% to 4.58% (**Table 3**). Guaranteed by the Government of Malaysia, the bond was drawn from the company's Islamic Commercial Paper and Medium-Term Note Programme. In July, another government agency, Malaysia Rail Link, issued a six-tranche *sukuk* totaling MYR3.0 billion. The tenors of the tranches ranged from 5 years to 25 years and the periodic distribution rate came as low as 2.88% and as high as 4.48%. Proceeds from the issuance will be used for the East Coast Rail Link project. In August, Cagamas, the National Mortgage Corporation of Malaysia, had a double issuance of a 3-year ASEAN sustainability sukuk and 3-year conventional ASEAN sustainability bond totaling MYR300.0 million. In the same month, Cagamas raised MYR200.0 million from a 1-year floating rate conventional note, MYR85.0 million from a 1-year conventional medium-term note, and MYR25.0 million from a 1-year Islamic bond. Funds raised from these issuances will be used to purchase Islamic financing and affordable housing loans. In September, Cagamas continued its fundraising efforts, successfully issuing MYR550.0 million of 2-year conventional bonds and a total of MYR1.5 billion from a triple-tranche *sukuk* with tenors of 1 year, 2 years, and 3 years. Proceeds from the September fundraising efforts will be used to fund the purchase of housing loans and other eligible assets from Malaysia's financial system.

## Investor Profile

In the Malaysian market, foreign holdings of LCY government bonds slightly fell in July, with holdings of foreign investors amounting to MYR230.1 billion worth of LCY government bonds from MYR233.8 billion in June. Foreign holdings increased in both August and September to MYR236.5 billion and MYR236.8 billion, respectively (**Figure 2**). Net capital outflows from the bond market were recorded in July totaling MYR3.7 billion, offseting some of the inflows of MYR6.4 billion and MYR0.3 billion in the succeeding 2 months. The pullback in July can be attributed to persistently high COVID-19 cases and political uncertainties in Malaysia. The positive sentiment from foreign investors in August, on the other hand, was due to positive progress in the government's National Recovery Plan and the National Immunization Programme, leading to the gradual reopening of the economy. The selling pressure in September was due to the US Federal Reserve's shift in monetary stance allowing the possibility of policy rate normalization in 2022, which would be earlier than previously expected by investors. Foreign holdings as a share of LCY government bonds declined from 26.0% at the end of June to 25.5% at the end of July before recovering to 26.0% in August and slightly falling by the end of September to 25.9%.

At the end of June 2021, financial institutions and social security institutions led all investors in LCY government bonds with holdings equivalent to 34.7% and 27.2% of the total market, respectively (**Figure 3**). The holdings of financial institutions and social security institutions each declined compared to the same month in 2020. The foreign holders' share expanded to 25.7% during the review period from 22.6% in the previous year. The holdings of insurance companies and BNM grew to 4.8% and 1.9%, respectively, from 4.5% and 1.5% between June 2020 and June 2021.

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

| | Issuers | Outstanding Amount LCY Bonds (MYR billion) | Outstanding Amount LCY Bonds (USD billion) | State-Owned | Listed Company | Type of Industry |
|---|---|---|---|---|---|---|
| 1. | Danainfra Nasional | 74.9 | 17.9 | Yes | No | Finance |
| 2. | Prasarana | 38.7 | 9.2 | Yes | No | Transport, Storage, and Communications |
| 3. | Lembaga Pembiayaan Perumahan Sektor Awam | 37.6 | 9.0 | Yes | No | Property and Real Estate |
| 4. | Cagamas | 31.9 | 7.6 | Yes | No | Finance |
| 5. | Project Lebuhraya Usahasama | 28.9 | 6.9 | No | No | Transport, Storage, and Communications |
| 6. | Urusharta Jamaah | 27.3 | 6.5 | Yes | No | Finance |
| 7. | Perbadanan Tabung Pendidikan Tinggi Nasional | 23.8 | 5.7 | Yes | No | Finance |
| 8. | Pengurusan Air | 18.5 | 4.4 | Yes | No | Energy, Gas, and Water |
| 9. | Malayan Banking | 14.6 | 3.5 | No | Yes | Banking |
| 10. | Maybank Islamic | 13.0 | 3.1 | No | Yes | Banking |
| 11. | Sarawak Energy | 12.0 | 2.9 | Yes | No | Energy, Gas, and Water |
| 12. | Khazanah | 11.9 | 2.8 | Yes | No | Finance |
| 13. | CIMB Bank | 11.9 | 2.8 | Yes | No | Finance |
| 14. | CIMB Group Holdings | 11.6 | 2.8 | Yes | No | Finance |
| 15. | Tenaga Nasional | 10.3 | 2.4 | No | Yes | Energy, Gas, and Water |
| 16. | Danga Capital | 10.0 | 2.4 | Yes | No | Finance |
| 17. | Jimah East Power | 8.9 | 2.1 | Yes | No | Energy, Gas, and Water |
| 18. | Danum Capital | 8.4 | 2.0 | No | No | Finance |
| 19. | Public Bank | 6.9 | 1.6 | No | No | Banking |
| 20. | Sapura TMC | 6.4 | 1.5 | No | No | Finance |
| 21. | YTL Power International | 6.1 | 1.5 | No | Yes | Energy, Gas, and Water |
| 22. | Bank Pembangunan Malaysia | 6.1 | 1.4 | Yes | No | Banking |
| 23. | Malaysia Rail Link | 5.8 | 1.4 | Yes | No | Construction |
| 24. | Infracap Resources | 5.8 | 1.4 | Yes | No | Finance |
| 25. | GOVCO Holdings | 5.7 | 1.4 | Yes | No | Finance |
| 26. | Bakun Hydro Power Generation | 5.5 | 1.3 | No | No | Energy, Gas, and Water |
| 27. | Turus Pesawat | 5.3 | 1.3 | Yes | No | Transport, Storage, and Communications |
| 28. | GENM Capital | 5.3 | 1.3 | No | No | Finance |
| 29. | EDRA Energy | 5.1 | 1.2 | No | Yes | Energy, Gas, and Water |
| 30. | 1Malaysia Development | 5.0 | 1.2 | Yes | No | Finance |
| **Total Top 30 LCY Corporate Issuers** | | **462.8** | **110.6** | | | |
| **Total LCY Corporate Bonds** | | **780.4** | **186.4** | | | |
| **Top 30 as % of Total LCY Corporate Bonds** | | **59.3%** | **59.3%** | | | |

LCY = local currency, MYR = Malaysian ringgit, USD = United States dollar.
Notes:
1. Data as of 30 September 2021.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

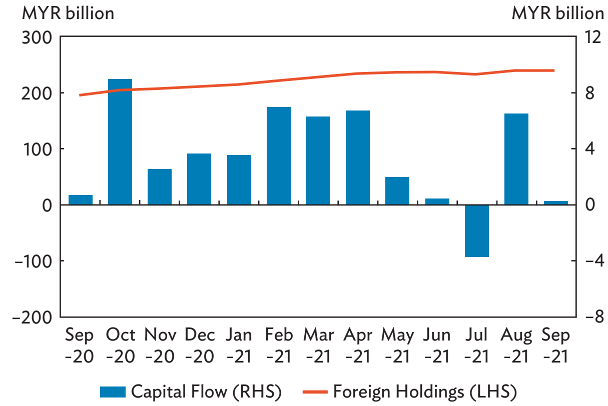
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering data.

**Table 3: Notable Local Currency Corporate Bond Issuances in the Second Quarter of 2021**

| Corporate Issuers | Coupon Rate (%) | Issued Amount (MYR million) |
|---|---|---|
| Lembaga Pembiayaan Perumahan Sektor Awam | | |
| 7-year *sukuk murabahah* | 3.34 | 235.0 |
| 8-year *sukuk murabahah* | 3.44 | 785.0 |
| 13-year *sukuk murabahah* | 3.86 | 600.0 |
| 14-year *sukuk murabahah* | 4.00 | 600.0 |
| 18-year *sukuk murabahah* | 4.27 | 900.0 |
| 19-year *sukuk murabahah* | 4.33 | 200.0 |
| 24-year *sukuk murabahah* | 4.48 | 100.0 |
| 30-year *sukuk murabahah* | 4.58 | 580.0 |
| Malaysia Rail Link[a] | | |
| 5-year *sukuk murabahah* | 2.88 | 400.0 |
| 7-year *sukuk murabahah* | 3.33 | 465.0 |
| 15-year *sukuk murabahah* | 4.12 | 635.0 |
| 15-year *sukuk murabahah* | 4.06 | 500.0 |
| 20-year *sukuk murabahah* | 4.41 | 500.0 |
| 25-year *sukuk murabahah* | 4.48 | 500.0 |
| Cagamas[a] | | |
| 1-year Islamic MTN | 2.15 | 25.0 |
| 1-year Islamic MTN | 2.18 | 200.0 |
| 1-year MTN | Floating | 200.0 |
| 1-year MTN | 2.15 | 85.0 |
| 2-year Islamic MTN | 2.40 | 150.0 |
| 2-year MTN | 2.37 | 300.0 |
| 2-year MTN | 2.40 | 250.0 |
| 3-year ASEAN Sustainability Sukuk | 2.67 | 100.0 |
| 3-year ASEAN Sustainability Bond | 2.67 | 200.0 |
| 3-year Islamic MTN | 2.78 | 1,150.0 |

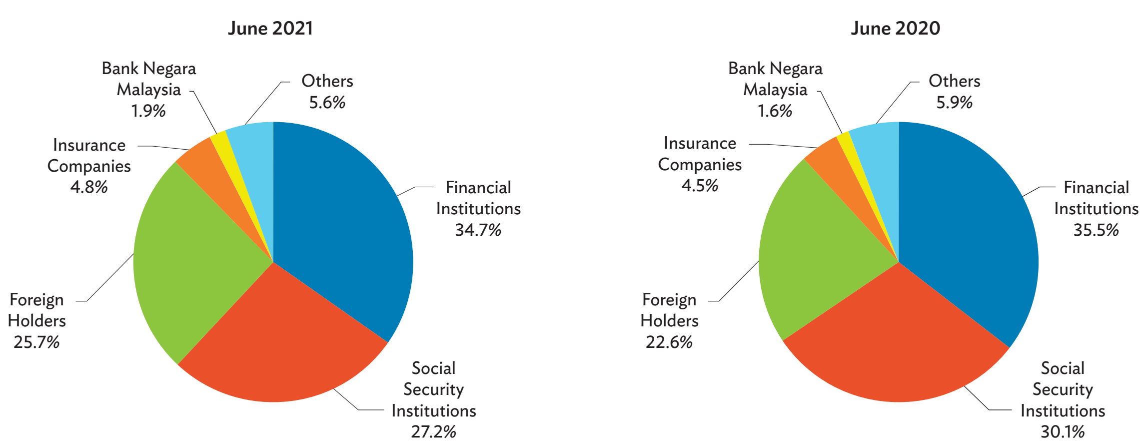
MTN = medium-term note, MYR = Malaysian ringgit.
Note: *Sukuk murabahah* are Islamic bonds in which bondholders are entitled to a share of the revenues generated by the assets.
[a] Multiple issuance of the same tenor indicates issuance on different dates.
Source: Bank Negara Malaysia Bond Info Hub.

**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.

## Policy, Institutional, and Regulatory Developments

### Bank Negara Malaysia Launches Malaysia Overnight Rate

On 24 September, BNM announced that the Malaysia overnight rate (MYOR) will be the new alternative reference rate for Malaysia. MYOR will be based on transactions in liquid markets, reflecting accurately Malaysia's financial environment. BNM clarified that the Kuala Lumpur interbank offered rate (KLIBOR) will still be used for other financial transactions. Periodic reviews will be conducted, however, to ensure that MYOR and KLIBOR are reflective of current market conditions. These benchmarks allow consumers to have the flexibility of choosing whichever rate suits their needs. The introduction of MYOR also broadens investors' risk management strategies. BNM also announced the discontinuation of the 2-month and 12-month KLIBOR starting 1 January 2023, as these rates are not used much in the financial market. Efforts are ongoing to develop a new Islamic benchmark rate to replace the Kuala Lumpur Islamic Reference Rate by the first half of 2022.

### Malaysian Banks to Stop Issuing London Interbank Offered Rate-Referenced Contracts

On 22 October, BNM announced that by 31 December banks under its supervision must stop issuing new contracts referencing the London interbank offered rate (LIBOR). This is in line with global developments wherein other benchmark rates for major currencies will be replacing LIBOR starting January 2022. BNM set the fourth quarter of 2021 as a period when banks must ensure that contracts currently referencing the USD-denominated LIBOR and maturing after June 2023 have a fallback provision (i.e., a procedure for replacing LIBOR as a benchmark rate). Banks must also make sure that their systems and procedures are ready for the transition from LIBOR. In recent months, BNM has been preparing for the discontinuation of LIBOR by developing an alternative reference rate that will be used in parallel with the existing KLIBOR.

# Philippines

## Yield Movements

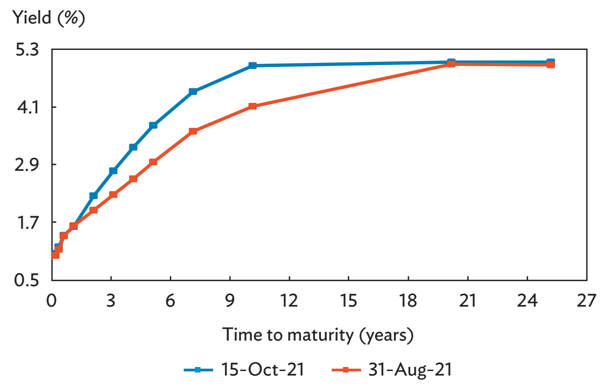
The yields of local currency (LCY) government bonds in the Philippines increased for all tenors between 31 August and 15 October except for 1-year bonds (**Figure 1**). Yields on the shorter end of the curve (1-month to 6-month tenors) climbed 4 basis points (bps) on average, while those at the longer end of the curve (20-year and 25-year tenors) increased an average of 5 bps. Much larger increases were seen for the yields of bonds with 2-year to 10-year maturities, which rose by 64 bps on average. The largest was for 10-year bonds with an 84-bps increase. In contrast, the yield fell 2 bps for 1-year bonds. The yield spread between the 2-year and 10-year tenors widened during the review period from 215 bps to 269 bps.

Inflation concerns and the impending winding down of the United States (US) Federal Reserve's monetary stimulus largely caused the upward movement of the yield curve.

Inflation remained elevated even as it slowed to 4.6% year-on-year (y-o-y) in October from 4.8% y-o-y in September and from a 32-month high of 4.9% y-o-y in August. The slower rate of consumer price inflation was primarily due to lower food prices. The October inflation reading and the resulting year-to-date average of 4.5% y-o-y were above the Bangko Sentral ng Pilipinas' (BSP) target of 2.0%–4.0% for 2021. Inflation has been above the BSP's annual target every month since January, except in July when it was at 4.0%. In November, the BSP lowered its 2021 inflation forecast to 4.3% from 4.4% in September. Its 2022 and 2023 forecasts were unchanged at 3.3% and 3.2%, respectively.

The increase in yields may have also been due to some uncertainty in the domestic economic recovery, resulting in investors requiring a premium for the associated risks. For example, persistently high inflation might temper the recovery by discouraging consumer spending on the back of a weak labor market. In addition, while its vaccination rate is improving, the Philippines remained among the lowest in the region in terms of the percentage of the population vaccinated, making it vulnerable to economic setbacks. Nonetheless, the Philippine economy grew 7.1% y-o-y in the third quarter (Q3) of 2021 despite the tighter restrictions on movements imposed in August.

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




Source: Based on data from Bloomberg LP.

To an extent, the growth was magnified by a base effect, owing to the economic contraction a year earlier. On the supply side, the industrial and services sectors posted expansions, while the primary sector contracted. On the demand side, all components posted positive y-o-y growth. Year-to-date through the end of September, gross domestic product grew 4.9% y-o-y, which was at the upper end of the government's growth target for full-year 2021 of 4.0%–5.0%.

Meanwhile, yield increases in short-tenor bonds were anchored by the BSP's dovish monetary policy signals. The central bank stated that there will be no policy setting adjustment until the end of the year, stressing that tightening monetary policy prematurely could harm the economy's recovery. The BSP maintained the policy rate at 2.00% in its 18 November policy meeting to allow the economic recovery to gain more ground, while also saying that elevated inflation is transitory in nature and remained manageable.

The Philippine peso traded at PHP50.7 per USD1.0 on 15 October, weakening by 1.9% from 31 August. The domestic currency's depreciation versus the US dollar was largely due to the shift in the Federal Reserve's monetary policy stance. In November, the Federal Reserve announced that it will start reducing its bond purchase program during the month. Soaring global oil prices and an improvement in the Philippines' import prospects as the economy reopened contributed to increased demand for US dollars.

## Size and Composition

The Philippine LCY bond market expanded 4.4% quarter-on-quarter (q-o-q) in Q3 2021 to reach a size of PHP9,761.7 billion (USD191.4 billion) at the end of September, which was faster than the growth of 2.5% q-o-q in the second quarter (Q2) of 2021 (**Table 1**). The quarterly growth was driven solely by the government segment as the corporate segment contracted during the quarter. On an annual basis, the size of the LCY bond market increased 20.0% y-o-y. Government bonds accounted for 85.3% of the total bond market at the end of September, while corporate bonds accounted for 14.7%.

**Government bonds.** Total LCY government bonds outstanding amounted to PHP8,322.0 billion at the end of Q3 2021, with growth accelerating to 6.2% q-o-q from 3.9% q-o-q in the previous quarter. The market expansion was driven by Treasury bonds and BSP bills.

Treasury bonds outstanding increased 8.3% q-o-q to PHP6,879.6 billion in Q3 2021, more than doubling the growth of 3.6% q-o-q in Q2 2021, on the back of higher bond offer volume and sales during the quarter. On the other hand, outstanding Treasury bills fell to PHP942.5 billion in Q3 2021 on an accelerated decline of 7.9% q-o-q, following a 2.5% q-o-q contraction in Q2 2021, due to a drop in short-term security issuance.

The BSP also added to the expansion in the government bond market's size with its outstanding securities increasing 10.0% q-o-q to PHP440.0 billion at the end of September. Outstanding debt from government-related entities barely changed during quarter.

Total government securities issuances increased 4.5% q-o-q to PHP2,099.8 billion in Q3 2021, following a decline of 3.5% q-o-q in Q2 2021. The increase was mainly propelled by Treasury bonds and supplemented by BSP securities. On the other hand, the drop in the sale of Treasury bills restrained issuance growth in the government segment.

Debt raised via Treasury bonds in Q3 2021 amounted to PHP487.8 billion, increasing 46.9% q-o-q. The Bureau of the Treasury (BTr) increased the offer volume for Treasury bonds during the quarter as it wanted to extend its debt maturity profile to take advantage of favorable interest rates. Despite having one auction with partial awards and one unsuccessful auction, the resulting total debt sales in Q3 2021 were still up significantly from the previous quarter as the BTr opened its tap facility on several occasions.

Issuance of Treasury bills declined by 36.4% q-o-q to PHP272.0 billion in Q3 2021 after posting an increase of 14.7% q-o-q in the previous quarter. Even though all

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

| | Outstanding Amount (billion) | | | | | | Growth Rate (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q3 2020 | | Q2 2021 | | Q3 2021 | | Q3 2020 | | Q3 2021 | |
| | PHP | USD | PHP | USD | PHP | USD | q-o-q | y-o-y | q-o-q | y-o-y |
| **Total** | **8,136** | **168** | **9,351** | **192** | **9,762** | **191** | **8.8** | **21.5** | **4.4** | **20.0** |
| Government | 6,503 | 134 | 7,834 | 160 | 8,322 | 163 | 10.1 | 23.8 | 6.2 | 28.0 |
| Treasury Bills | 876 | 18 | 1,023 | 21 | 943 | 18 | 10.0 | 58.5 | (7.9) | 7.5 |
| Treasury Bonds | 5,537 | 114 | 6,351 | 130 | 6,880 | 135 | 9.3 | 18.4 | 8.3 | 24.3 |
| Central Bank Securities | 50 | 1 | 400 | 8 | 440 | 9 | – | – | 10.0 | 780.0 |
| Others | 40 | 0.8 | 60 | 1 | 60 | 1 | (0.02) | 83.3 | (0.01) | 50.2 |
| Corporate | 1,633 | 34 | 1,517 | 31 | 1,440 | 28 | 3.8 | 12.9 | (5.1) | (11.9) |

( ) = 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.

auctions for Treasury bills were successful, the BTr's move to adjust its borrowing program in favor of longer-term securities caused the quarterly decline.

Following the successful issuance of EUR- and JPY-denominated bonds in Q2 2021, the Philippines tapped again the international bond market with its two-tranche sale of USD-denominated bonds. In July, it raised USD3.0 billion comprising 10.5-year bonds amounting to USD750.0 million (1.95% coupon) and 25-year bonds amounting USD2,250.0 million (3.20% coupon). The international issuance reflected investor confidence in Philippine debt remaining intact despite the adverse effect of the coronavirus disease (COVID-19) pandemic to the economy.

The issuance of BSP bills climbed 7.2% q-o-q to PHP1,340.0 billion in Q3 2021, underpinned by higher volumes offered during the quarter. All issuances were met with strong demand, which was indicative of market liquidity remaining abundant. Meanwhile, there was no securities issuance from government-related entities during the quarter.

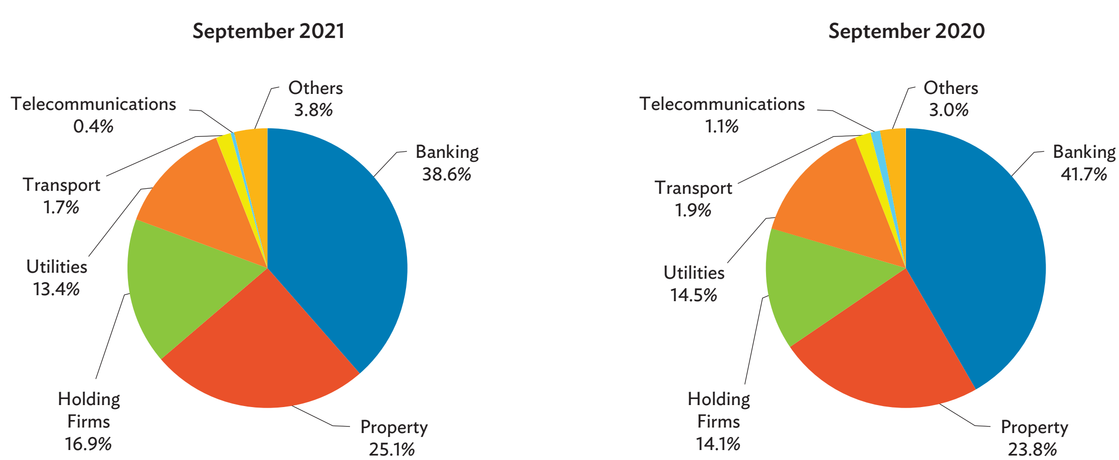
The government plans to borrow a total of PHP3.0 trillion in 2021 to fund its widening budget gap in response to COVID-19 relief measures and associated economic recovery plans.

**Corporate bonds.** Debt outstanding in the corporate sector registered a faster decline of 5.1% q-o-q in Q3 2021 compared with a 3.9% q-o-q dip in the previous quarter. The corporate bond market contracted to PHP1,439.7 billion on the back of the maturation of bonds amid low issuance volume during the quarter.

The banking sector remained the largest segment of the LCY corporate bond market with a share of 38.6% at the end of September, albeit this represented a decline from 41.7% from a year earlier (**Figure 2**). Property companies remained in the second spot with a share of 25.1%, up from 23.8% in September 2020. Holding firms came next in terms of corporate bonds outstanding with their market share rising to 16.9% at the end of September, overtaking utilities firms whose share dipped to 13.4%. Transport and telecommunications firms each saw lower market shares in September 2021 versus a year earlier, while the share of "others" went up.

The top 30 corporate issuers had aggregate debt outstanding of PHP1,278.3 billion at the end of September, which comprised 88.8% of the total corporate bond market (**Table 2**). The banking sector continued to have the largest share at 41.4% (PHP529.5 billion), followed by holdings firms with a share of 24.0% (PHP307.4 billion) and property firms with a share of 18.0% (PHP229.7 billion). BDO Unibank had the

**Figure 2: Local Currency Corporate Bonds Outstanding by Sector**




Source: Based on data from Bloomberg LP.

**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. | BDO Unibank | 109.9 | 2.2 | No | Yes | Banking |
| 2. | Ayala Land | 108.9 | 2.1 | No | Yes | Property |
| 3. | Metropolitan Bank | 100.1 | 2.0 | No | Yes | Banking |
| 4. | SM Prime Holdings | 93.3 | 1.8 | No | Yes | Holding Firms |
| 5. | San Miguel | 90.0 | 1.8 | No | Yes | Holding Firms |
| 6. | SMC Global Power | 73.8 | 1.4 | No | No | Electricity, Energy, and Power |
| 7. | China Bank | 61.2 | 1.2 | No | Yes | Banking |
| 8. | Rizal Commercial Banking Corporation | 55.1 | 1.1 | No | Yes | Banking |
| 9. | Bank of the Philippine Islands | 52.2 | 1.0 | No | Yes | Banking |
| 10. | Security Bank | 48.3 | 0.9 | No | Yes | Banking |
| 11. | SM Investments | 43.3 | 0.8 | No | Yes | Holding Firms |
| 12. | Petron | 42.9 | 0.8 | No | Yes | Electricity, Energy, and Power |
| 13. | Vista Land | 42.8 | 0.8 | No | Yes | Property |
| 14. | Ayala Corporation | 40.0 | 0.8 | No | Yes | Holding Firms |
| 15. | Aboitiz Power | 38.0 | 0.7 | No | Yes | Electricity, Energy, and Power |
| 16. | Philippine National Bank | 31.8 | 0.6 | No | Yes | Banking |
| 17. | Aboitiz Equity Ventures | 29.4 | 0.6 | No | Yes | Holding Firms |
| 18. | Filinvest Land | 25.8 | 0.5 | No | Yes | Property |
| 19. | Robinsons Land | 25.2 | 0.5 | No | Yes | Property |
| 20. | Union Bank of the Philippines | 24.6 | 0.5 | No | Yes | Banking |
| 21. | Philippine Savings Bank | 19.1 | 0.4 | No | Yes | Banking |
| 22. | Maynilad | 18.5 | 0.4 | No | No | Water |
| 23. | East West Banking | 16.2 | 0.3 | No | Yes | Banking |
| 24. | Doubledragon | 15.0 | 0.3 | No | Yes | Property |
| 25. | San Miguel Food and Beverage | 15.0 | 0.3 | No | Yes | Food and Beverage |
| 26. | Megaworld | 12.0 | 0.2 | No | Yes | Property |
| 27. | Puregold | 12.0 | 0.2 | No | Yes | Whole and Retail Trading |
| 28. | MTD Manila Expressway | 11.5 | 0.2 | No | No | Infrastructure |
| 29. | Metro Pacific Investments | 11.4 | 0.2 | No | Yes | Holding Firms |
| 30. | Robinsons Bank | 11.0 | 0.2 | No | No | Banking |
| **Total Top 30 LCY Corporate Issuers** | | **1,278.3** | **25.1** | | | |
| **Total LCY Corporate Bonds** | | **1,439.7** | **28.2** | | | |
| **Top 30 as % of Total LCY Corporate Bonds** | | **88.8%** | **88.8%** | | | |

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of 30 September 2021.
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.

most corporate bonds outstanding among all issuers, followed by Ayala Land and Metropolitan Bank. Each had outstanding debt of over PHP100 billion at the end of September.

Issuance activity in the corporate sector improved in Q3 2021 following three consecutive quarters of q-o-q declines. Debt sales from firms rose 5.1% q-o-q to PHP49.4 billion during the quarter. Proceeds will mainly be used for general corporate purposes, with its decision to tap the local bond market likely influenced by the optimism of the reopening of the economy. **Table 3** lists all issuances in Q3 2021. Notable debt sales included San Miguel Corporation's 6-year bond amounting to PHP30.0 billion, which will be used to redenominate existing USD-denominated obligations of the company. D&L Industries made its first bond issuance with a two-tranche sale comprising 3-year and 5-year bonds amounting to PHP3.0 billion and PHP2.0 billion, respectively.

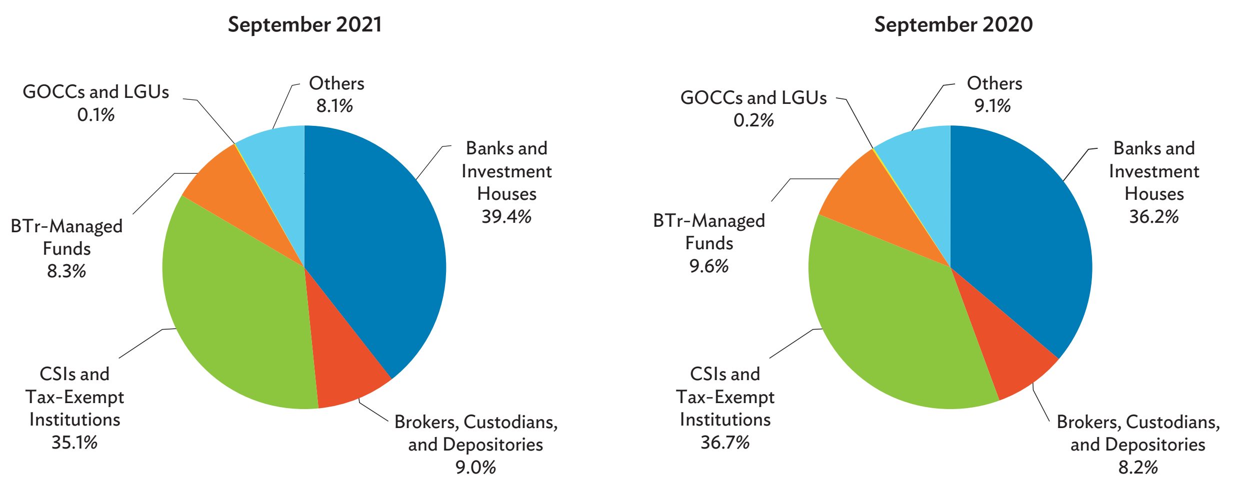
**Table 3: Notable Local Currency Corporate Bond Issuances in the Third Quarter of 2021**

| Corporate Issuers | Coupon Rate (%) | Issued Amount (PHP billion) |
|---|---|---|
| San Miguel Corporation | | |
| 6-year bond | 3.38 | 30.00 |
| Aboitiz Equity Ventures | | |
| 4-year bond | 3.30 | 5.00 |
| 7-year bond | 4.10 | 5.00 |
| D&L Industries | | |
| 3-year bond | 2.79 | 3.00 |
| 5-year bond | 3.60 | 2.00 |
| PHINMA Corporation | | |
| 3-year bond | 3.53 | 3.00 |
| Alsons Consolidated Resources[a] | | |
| 1-year bond | zero coupon | 1.14 |
| 1-year bond | zero coupon | 0.27 |

PHP = Philippine peso.
[a] Multiple issuance of the same tenor indicates issuance on different dates.
Source: Based on data from Bloomberg LP.

Two firms turned to the international debt market to generate funds in Q3 2021. In September, AYC Finance Limited issued a USD-denominated perpetual bond amounting to USD400.0 million with a coupon rate of 3.9%. Proceeds will be used to refinance its outstanding USD-denominated obligations. In the same month, ACEN Finance Limited raised USD400.0 million from its sale of a perpetual green bond that carried a 4.0% coupon. Funds raised will be used to finance or refinance ACEN's renewable energy projects.

**Figure 3: Local Currency Government Bonds Investor Profile**




BTr = Bureau of the Treasury, CSI = contractual savings institution, GOCC = government-owned or -controlled corporation, LGU = local government unit.
Source: Bureau of the Treasury.

## Investor Profile

Banks and investment houses were the largest investor group in LCY government bonds at the end of September, overtaking contractual savings and tax-exempt institutions (**Figure 3**). Banks and investment houses' market share climbed to 39.4% from 36.2% a year earlier, while that of contractual savings and tax-exempt institutions declined to 35.1% from 36.7%. Brokers, custodians, and depositories (9.0%) overtook BTr-managed funds (8.3%) in having the third-largest market share, with the former group posting an increase in their aggregate market share from September 2020 and the latter posting a decrease. The "others" investor group was the fifth largest by market share (8.1%), while government-owned or -controlled corporations and local government units remained the investor group with the smallest holdings of government bonds (0.1%).

## Ratings Update

On 6 September, Japan Credit Rating Agency affirmed the Philippines sovereign credit rating of A– with a stable outlook. According to the ratings agency, the affirmation was due to the Philippines' high and sustainable economic growth performance backed by solid domestic demand, resilience to external shocks with its low external debt-to-gross domestic product ratio and ample foreign exchange reserves, solid fiscal position despite widening budget deficit, and sound banking sector. The stable outlook was further backed by strong remittance flows, which can help cushion the economy from external shocks.

## Policy, Institutional, and Regulatory Developments

### Bureau of the Treasury Sets Borrowing Program to PHP400 Billion in October and November

The BTr, which sets its borrowing plan on a monthly basis, planned to borrow PHP200 billion each in the months of October and November. The monthly amount is lower compared to the borrowing program in September, which was set at PHP250 billion. The planned monthly debt sale is composed of PHP60 billion of Treasury bills and PHP140 billion of Treasury bonds. It remained focused on longer-term debt as the BTr wanted to extend the debt maturity profile.

### Bureau of the Treasury Issues Its First Onshore Retail Dollar Bonds

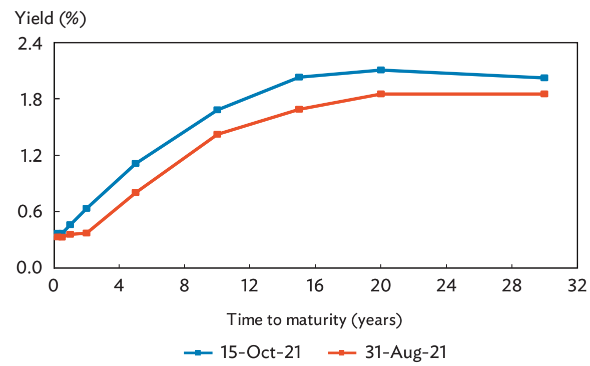
On 15 September, the BTr launched its maiden issuance of Retail Dollar Bonds (RDBs). The BTr stated that the RDB offer aimed to further advance financial inclusion in the Philippines by diversifying the investor portfolio. At the same time, the RDBs also diversified the government's funding types and sources. The RDB issuance comprised 5-year and 10-year tenors with coupon rates of 1.375% and 2.250%, respectively. The BTr issued a total of USD1.59 billion: USD1.11 billion of 5-year bonds and USD0.48 billion of 10-year bonds. The last time the BTr issued onshore USD-denominated bonds was in December 2012, when they were offered to institutional investors only.

# Singapore

## Yield Movements

Between 31 August and 15 October, the local currency (LCY) government bond yield curve of Singapore shifted upward with yields rising across all tenors (**Figure 1**). Short-term tenors (from 3 months to 1 year) jumped an average of 6 basis points (bps), while bonds with tenors of 2 years to 30 years soared an average of 27 bps. The smallest gain for the review period was recorded for the 3-month and 6-month yields, which rose 4 bps each. On the other hand, the highest jump was registered for the 15-year yield, which surged 34 bps. The yield spread between 2-year and 10-year government bonds slightly contracted from 105 bps to 104 bps during the review period.

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




Source: Based on data from Bloomberg LP.

The higher yields for Singapore government bonds was due to the decision by Monetary Authority of Singapore (MAS) to tighten its monetary policy to rein in the economy's consumer price inflation. Despite encouraging signs from the stock market, investors decided to remain cautiously optimistic as the economy recovers slowly from the coronavirus disease (COVID-19) pandemic.

On 14 October, MAS decided to slightly raise from zero the slope of its Singapore dollar nominal effective exchange rate policy band. The tightening of the monetary policy aims to ensure consumer price stability amid the accumulation of inflation pressures. The central bank expects Singapore's trade-dependent economy to continue its path to recovery as global and domestic economies gradually reopen.

During the review period, the Singapore dollar slightly weakened by 0.3% against the United States (US) dollar, closing at SGD1.3483 per USD1.0 dollar on 15 October, the day after MAS's monetary policy statement was released. On the other hand, the equity market, represented by the Straits Times Index, jumped 3.9% from 31 August, reaching a level of 3,173.9 on 15 October amid optimistic growth prospects for the Singapore economy.

Singapore's economy grew 7.1% year-on-year (y-o-y) in the third quarter (Q3) of 2021, extending the 15.2% y-o-y growth recorded in the second quarter (Q2). The slower expansion was due to restrained growth in the performance of all sectors as businesses were affected by tightened restrictions aimed at slowing the spread of COVID-19 during the quarter. On a quarter-on-quarter (q-o-q) basis, Singapore's economy expanded 1.3% in Q3 2021, a reversal of the contraction of 1.4% q-o-q recorded in the previous quarter. On an annual basis, MAS expects Singapore's economic growth to be around 7.0% for full-year 2021.

Consumer price inflation in Singapore increased 2.5% y-o-y in September, the same level as in July after dipping a little to 2.4% y-o-y in August. In its September report, MAS noted that the supply–demand gap in some commodities and goods is expected to persist in the short term. Singapore's sluggish labor market is also expected to recover, leading to increased wages. Year-to-date, consumer price inflation in Singapore averaged 1.8% y-o-y. MAS expects the full-year 2021 inflation to be around 2.0% y-o-y due to rising imported and labor costs brought about by the normalization of domestic activities. Strengthening global demand and tight supply also contribute to the accumulation of inflationary pressures.

Singapore was placed under the less restrictive Preparatory Stage of Phase 2 (Safe Transition) starting 19 August after being under Phase 2 (Heightened Alert) in July. However, due to the rising number of cases straining Singapore's health-care system toward the end of August, tightened measures, such as limited social gatherings and stricter vaccination and testing requirements for entering establishments, were announced in September. The measures took effect from 27 September through 24 October to curb the community transmission of the virus. Under the city-state's national vaccination program, 84% of Singapore's population had been fully vaccinated as of 17 October.

## Size and Composition

Singapore's LCY bond market grew 6.3% q-o-q in Q3 2021, increasing to a size of SGD590.0 billion (USD434.6 billion) at the end of September from SGD555.0 billion at the end of June 2021 (**Table 1**). This rate of expansion was the same as in the previous quarter. On a y-o-y basis, the LCY bond market expanded 21.9% y-o-y in Q3 2021, accelerating from the 17.1% y-o-y growth logged in Q2 2021. The growth of Singapore's LCY bond market was due to the growth in both LCY government and corporate bonds, which accounted for 67.0% and 33.0%, respectively, of total outstanding LCY bonds at the end of September.

Issuance of LCY bonds in Q3 2021 increased 6.7% q-o-q to SGD278.9 billion from SGD261.4 billion in the previous quarter due to the expansion of government bond issuances. The growth in issuance of government bonds was dampened by the decline in corporate bond issuance. The Q3 2021 growth was slower than the expansion of 15.3% q-o-q recorded in the previous quarter.

**Government bonds.** During the review period, LCY government bonds outstanding expanded 8.0% q-o-q to SGD395.3 billion from SGD365.9 billion in Q2 2021. The bond growth in Q3 2021 was an acceleration from the growth of 4.8% q-o-q posted in the prior quarter. Outstanding Singapore Government Securities (SGS) bills and bonds, which comprised 54.5% of total LCY government bonds outstanding at the end of Q3 2021, jumped 4.3% q-o-q. MAS bills, which comprised 45.5% of all LCY government bonds outstanding, increased 12.9% q-o-q.

LCY government bond issuance expanded 8.9% q-o-q in Q3 2021. Central bank bills jumped 13.2% q-o-q due to higher issuance amounts granted to meet investor demand. In contrast, issuances of SGS bills and bonds declined 12.9% q-o-q due to low issuance in September, as MAS scaled down the issuance amount of 20-year SGS bonds to pave the way for the issuance of its first 30-year infrastructure bond in October.

**Corporate bonds.** LCY corporate bonds outstanding expanded 3.0% q-o-q to SGD194.7 billion in Q3 2021 from SGD189.1 billion in the prior quarter. The growth was an extension of the 9.3% q-o-q gain in Q2 2021, albeit smaller, as investors took advantage of the low-interest-rate environment.

The top 30 issuers of LCY corporate bonds in Singapore had total outstanding bonds of SGD104.0 billion, or 53.4% of the total LCY corporate bond market, at the end of Q3 2021 (**Table 2**). Government institution Housing & Development Board was the largest issuer during the quarter with outstanding LCY corporate bonds totaling SGD24.9 billion. Among the top 30 LCY corporate bonds issuers, the largest sectoral share came from

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

| | Outstanding Amount (billion) | | | | | | Growth Rate (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q3 2020 | | Q2 2021 | | Q3 2021 | | Q3 2020 | | Q3 2021 | |
| | SGD | USD | SGD | USD | SGD | USD | q-o-q | y-o-y | q-o-q | y-o-y |
| **Total** | **484** | **355** | **555** | **412** | **590** | **435** | **2.1** | **10.2** | **6.3** | **21.9** |
| Government | 313 | 229 | 366 | 272 | 395 | 291 | 2.4 | 13.0 | 8.0 | 26.3 |
| SGS Bills and Bonds | 191 | 140 | 207 | 154 | 216 | 159 | (1.7) | 17.7 | 4.3 | 12.7 |
| MAS Bills | 122 | 89 | 159 | 118 | 180 | 132 | 9.5 | 6.4 | 12.9 | 47.7 |
| Corporate | 171 | 125 | 189 | 141 | 195 | 143 | 1.6 | 5.5 | 3.0 | 13.8 |

( ) = 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 | 24.9 | 18.3 | Yes | No | Real Estate |
| 2. | Singapore Airlines | 14.7 | 10.8 | Yes | Yes | Transportation |
| 3. | Land Transport Authority | 9.5 | 7.0 | Yes | No | Transportation |
| 4. | CapitaLand | 5.6 | 4.1 | Yes | Yes | Real Estate |
| 5. | Temasek Financial | 4.6 | 3.4 | Yes | No | Finance |
| 6. | Frasers Property | 4.0 | 3.0 | No | Yes | Real Estate |
| 7. | United Overseas Bank | 4.0 | 2.9 | No | Yes | Banking |
| 8. | Mapletree Treasury Services | 3.3 | 2.4 | No | No | Finance |
| 9. | Sembcorp Industries | 3.3 | 2.4 | No | Yes | Diversified |
| 10. | DBS Bank | 2.9 | 2.1 | No | Yes | Banking |
| 11. | Keppel Corporation | 2.6 | 1.9 | No | Yes | Diversified |
| 12. | City Developments Limited | 2.1 | 1.5 | No | Yes | Real Estate |
| 13. | CapitaLand Mall Trust | 2.0 | 1.5 | No | No | Finance |
| 14. | Olam International | 1.8 | 1.4 | No | Yes | Consumer Goods |
| 15. | Oversea-Chinese Banking Corporation | 1.7 | 1.3 | No | Yes | Banking |
| 16. | National Environment Agency | 1.7 | 1.2 | Yes | No | Environmental Services |
| 17. | Shangri-La Hotel | 1.5 | 1.1 | No | Yes | Real Estate |
| 18. | Ascendas Real Estate Investment Trust | 1.5 | 1.1 | No | Yes | Finance |
| 19. | NTUC Income | 1.4 | 1.0 | No | No | Finance |
| 20. | Singtel Group Treasury | 1.3 | 0.9 | No | No | Finance |
| 21. | Suntec Real Estate Investment Trust | 1.2 | 0.9 | No | Yes | Real Estate |
| 22. | Singapore Technologies Telemedia | 1.2 | 0.9 | Yes | No | Utilities |
| 23. | GuocoLand Limited IHT | 1.1 | 0.8 | No | No | Real Estate |
| 24. | Public Utilities Board | 1.0 | 0.7 | Yes | No | Utilities |
| 25. | Ascott Residence | 1.0 | 0.7 | No | Yes | Real Estate |
| 26. | Singapore Press Holdings | 1.0 | 0.7 | No | Yes | Communications |
| 27. | Keppel Real Estate Investment Trust | 0.9 | 0.7 | No | No | Real Estate |
| 28. | StarHub | 0.9 | 0.7 | No | Yes | Diversified |
| 29. | Keppel Land International | 0.9 | 0.7 | No | No | Real Estate |
| 30. | Hyflux | 0.9 | 0.7 | No | Yes | Utilities |
| **Total Top 30 LCY Corporate Issuers** | | **104.0** | **76.6** | | | |
| **Total LCY Corporate Bonds** | | **194.7** | **143.4** | | | |
| **Top 30 as % of Total LCY Corporate Bonds** | | **53.4%** | **53.4%** | | | |

LCY = local currency, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of 30 September 2021.
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.

real estate companies (41.4%) with SGD43.1 billion of aggregate outstanding LCY corporate bonds at the end of September.

During the review period, LCY corporate bond issuance fell to SGD7.2 billion, a contraction of 39.8% q-o-q from SGD12.0 billion in the previous quarter. The decline in LCY corporate bond issuances was due to a high base after a huge issuance by flagship carrier Singapore Airlines in June. Without Singapore Airlines' issuance in the previous quarter, LCY corporate bond issuance would have recorded an expansion of 24.5% q-o-q in Q3 2021.

Singapore's National Environment Agency issued a dual-tranche green bond totaling SGD1.65 billion in September (**Table 3**). The bond had a 10-year and a 30-year tranche, and was the first green bond and the largest first issuance by a public agency in Singapore. Proceeds from the issuance will be used for projects under the agency's green bond framework. Temasek Financial issued a SGD1.5 billion 50-year bond in August. The bond had the longest tenor among nonperpetual bonds issued during the quarter. The 50-year tenor was the first such issuance from Temasek Financial, which aims to provide the company with funding flexibility and an expanded investor base. Proceeds from the issuance will be used for the ordinary course of business. Mapletree Treasury Services raised SGD600.0 million in August from Singapore's first subordinated fixed-for-life perpetual noncallable bond. The issuance was drawn from the company's Medium-Term Note Programme. In September, Keppel Corporation issued a SGD400.0 million perpetual bond with a coupon of 2.9%, the lowest coupon for a Singaporean corporate issuer outside the financial sector. Property developer Oxley Holdings raised SGD155.0 million in July from the reopening of its 3-year bond to fund its buyback of a part of its SGD150.0 million 5.7% notes due in 2022. The issuances also had the highest coupon during the review period.

**Table 3: Notable Local Currency Corporate Bond Issuances in the Third Quarter of 2021**

| Corporate Issuers | Coupon Rate (%) | Issued Amount (SGD million) |
|---|---|---|
| National Environment Agency | | |
| 10-year bond | 1.670 | 350.0 |
| 30-year bond | 2.500 | 1,300.0 |
| Temasek Financial | | |
| 50-year bond | 2.800 | 1,500.0 |
| Mapletree Treasury Services | | |
| Perpetual bond | 3.700 | 600.0 |
| Keppel Corporation | | |
| Perpetual bond | 2.900 | 400.0 |
| AIMS APAC Real Estate Investment Trust | | |
| Perpetual bond | 5.375 | 250.0 |
| Oxley Holdings | | |
| 3-year bond | 6.900 | 155.0 |
| Aspial Treasury | | |
| 1-year bond | 6.000 | 70.0 |

SGD = Singapore dollar.
Source: Bloomberg LP.

## Policy, Institutional, and Regulatory Developments

### Monetary Authority of Singapore Issues Cash Management Treasury Bills

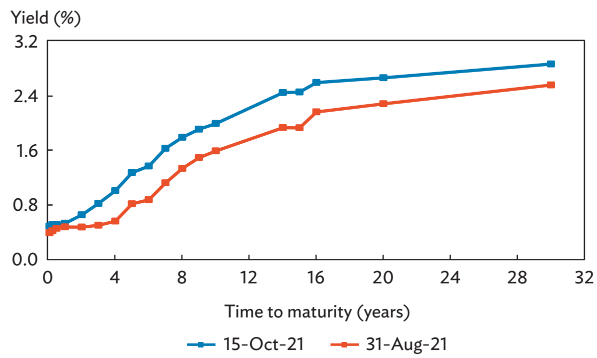
On 3 November, MAS issued a 7-day Cash Management Treasury Bill (CMTB) under the Local Treasury Bills Act to test the operational preparedness of the issuance. CMTBs are MAS's new financial instruments that are SGS bills with tenors of less than 6 months. CMTBs will be issued as a cash management instrument to allow the government to manage its short-term cashflows. MAS will not adhere to a schedule for the issuance of CMTBs, which will be issued on an ad hoc basis.

# Thailand

## Yield Movements

Between 31 August and 15 October, Thailand's local currency (LCY) government bond yields rose across all tenors, shifting the yield curve upward (**Figure 1**). Yields jumped an average of 34 basis points (bps), with the 15-year tenor gaining the most at 52 bps. The yield on 2-year bonds rose 18 bps, while the yield on 10-year bonds jumped 40 bps. As a result, the spread between the 2-year and 10-year yields widened to 134 bps on 15 October from 111 bps on 31 August.

**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 Thai LCY bond yields tracked the movements of other sovereign bond yields in the region, which rose in tandem with United States (US) Treasury yields. The uptick in yields was primarily due to inflation fears and uncertainties over the US Federal Reserve's plan to taper its quantitative easing measures starting in November. The Thai bond market saw net outflows of foreign funds in September amounting to THB36.7 billion, the biggest monthly net outflows since March 2020.

Domestic conditions also factored into the rise in Thai sovereign debt yields. In September, the Government of Thailand lifted the public debt ceiling from 60% to 70% of gross domestic product (GDP) to accommodate the additional borrowing needed to continue funding stimulus measures. Expectations of an increased supply of government bonds in the near to medium term put upward pressure on bonds yields.

The Thai economy contracted in the third quarter (Q3) of 2021 as mobility restrictions imposed to arrest the Delta variant-driven surge of infections capped consumption and investment. GDP dipped 0.3% year-on-year (y-o-y) in Q3 2021 after recording a 7.6% y-o-y expansion in the second quarter (Q2) of 2021. Private consumption and investment contracted 3.2% y-o-y and 0.4% y-o-y, respectively, after recording positive growth in the previous quarter. Growth in government consumption rose to 2.5% y-o-y in Q3 2021 from 1.0% y-o-y in the prior quarter.

Thailand's path to recovery remained clouded by risks brought about by the uncertain trajectory of the pandemic. In September, the Bank of Thailand (BOT) revised downward its GDP growth forecast for full-year 2021 to 0.7% from the 1.8% projection announced in June, but it maintained the growth forecast for 2022 at 3.9%. The BOT also lowered the projected foreign tourist arrivals for full-year 2021 to 200,000 from the previous estimate of 700,000. Estimated foreign tourist arrivals for 2022 were also reduced to 6 million from the June forecast of 10 million.

Thailand's consumer price inflation rose to 2.4% y-o-y in October from 1.7% y-o-y in September. The jump in headline inflation was primarily due to a hike in energy costs, as global oil prices increased and government subsidies on utilities ended. Thailand's core inflation, which excludes volatile food and energy prices, was steady at 0.2% y-o-y from September to October. The BOT expects headline inflation to rise temporarily owing to global supply shocks, but remain within its target range of 1.0%–3.0%.

On 10 November, the BOT's Monetary Policy Committee held the policy rate steady at 0.5%. The BOT assessed that the Thai economy has entered a recovery phase following the relaxation of restrictions and reopening of tourism, but decided to maintain an accommodative monetary policy to support continued recovery amid lingering uncertainties. In response to the pandemic, the BOT had earlier reduced the policy rate by 25 bps each in its February, March, and May 2020 meetings.

## Size and Composition

Thailand's outstanding LCY bond stock amounted to THB14,479.7 billion (USD429.6 billion) at the end of September (**Table 1**). Overall growth eased to 1.9% quarter-on-quarter (q-o-q) in Q3 2021 from 2.6% q-o-q in the previous quarter, driven by weaker growth in the corporate bond segment. Annual growth also slowed to 3.3% y-o-y in Q3 2021 from 5.6% y-o-y in Q2 2021. Government bonds continued to dominate the Thai LCY bond market with a share of 72.9% of total bonds outstanding at the end of September.

**Government bonds.** The LCY government bond market reached a size of THB10,552.0 billion at the end of September. Growth in total government bonds outstanding rose to 2.2% q-o-q in Q3 2021 from 1.7% q-o-q in Q2 2021. The faster expansion was driven primarily by stronger growth in government bonds and Treasury bills, which rose 3.1% q-o-q in Q3 2021 versus 2.1% q-o-q in the previous quarter. Growth in BOT bonds outstanding remained negligible at 0.3% q-o-q in Q3 2021, similar to the 0.2% q-o-q growth posted in Q2 2021. Growth in the stock of state-owned enterprise and other bonds dropped to 2.4% q-o-q in Q3 2021 from 3.2% q-o-q in the prior quarter. On a y-o-y basis, the Thai LCY government bond market expanded 2.8% in Q2 2021, down from 6.1% in Q2 2021. At the end of September, outstanding government bonds and Treasury bills reached THB6,683.5 billion, accounting for the largest share of total outstanding LCY government bonds at 63.3%. Outstanding BOT bonds (THB2,925.8 billion) and state-owned enterprise and other bonds (THB942.8 billion) comprised smaller shares at 27.7% and 8.9%, respectively.

The issuance of LCY government bonds totaled THB1,865.5 billion in Q3 2021. Issuance growth jumped to 7.8% q-o-q in Q3 2021 from 2.6% q-o-q in the previous quarter, driven mainly by a hike in the issuance of BOT bonds and a rebound in the issuance of state-owned enterprise and other bonds. Growth in issuance of BOT bonds rose to 10.8% q-o-q in Q3 2021 from 7.0% q-o-q in the previous quarter. Issuance of government bonds and Treasury bills posted modest growth of 0.7% q-o-q in Q3 2021 after contracting 3.7% q-o-q in the previous quarter. Issuance of state-owned enterprise and other bonds rebounded, rising 25.4% q-o-q in Q3 2021 after a 17.7% q-o-q drop in Q2 2021. On an annual basis, issuance of Thai LCY government bonds posted a steeper decline of 28.9% y-o-y in Q3 2021 after a 20.8% y-o-y drop in the previous quarter, due to a high base in both Q2 2020 and Q3 2020 at the height of government borrowing to fund pandemic relief measures.

**Corporate bonds.** Outstanding corporate bonds reached a size of THB3,927.6 billion at the end of September. Growth eased to 1.2% q-o-q in Q3 2021 from 5.1% in the previous quarter as the spread of the Delta variant dampened investor confidence. On a y-o-y basis, growth in the outstanding stock of LCY corporate bonds inched up to 4.5% in Q3 2021 from 4.4% in Q2 2021.

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

| | Outstanding Amount (billion) | | | | | | Growth Rate (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q3 2020 | | Q2 2021 | | Q3 2021 | | Q3 2020 | | Q3 2021 | |
| | THB | USD | THB | USD | THB | USD | q-o-q | y-o-y | q-o-q | y-o-y |
| **Total** | **14,018** | **444** | **14,203** | **443** | **14,480** | **430** | **4.2** | **8.3** | **1.9** | **3.3** |
| Government | 10,260 | 325 | 10,324 | 322 | 10,552 | 313 | 5.4 | 11.3 | 2.2 | 2.8 |
| Government Bonds and Treasury Bills | 5,735 | 182 | 6,485 | 202 | 6,683 | 198 | 8.1 | 18.8 | 3.1 | 16.5 |
| Central Bank Bonds | 3,702 | 117 | 2,917 | 91 | 2,926 | 87 | 1.9 | 1.8 | 0.3 | (21.0) |
| State-Owned Enterprise and Other Bonds | 823 | 26 | 921 | 29 | 943 | 28 | 3.9 | 8.7 | 2.4 | 14.5 |
| Corporate | 3,758 | 119 | 3,880 | 121 | 3,928 | 117 | 1.1 | 0.9 | 1.2 | 4.5 |

( ) = 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.

At the end of September, the LCY bonds outstanding of the top 30 corporate issuers totaled THB2,338.6 billion, accounting for 59.5% of the Thai corporate bond market (**Table 2**). The top 30 issuers were dominated by companies in the following sectors: food and beverage, commerce, energy and utilities, and finance and securities. Only four of the top 30 were state-owned firms, while the majority were listed on the Stock Exchange of Thailand. CP ALL topped the list, with an outstanding bond stock amounting to THB246.5 billion. Thai Beverage and Siam Cement were the next largest issuers, with outstanding bond stocks of THB173.1 billion and THB165.0 billion, respectively. PTT and True Corp followed, with outstanding bond stocks of THB134.6 billion and THB134.3 billion, respectively.

Corporate bond issuance slipped to THB470.5 billion in Q3 2021 from THB477.2 billion in the previous quarter. Issuance of corporate debt contracted 1.4% q-o-q in Q3 2021, after strong growth of 61.9% q-o-q in Q2 2021, as the spread of the Delta variant restricted economic activities. Compared with a year prior, corporate debt issuance was still relatively robust as borrowing costs remained low. On an annual basis, corporate bond issuance expanded 45.0% y-o-y in Q3 2021 after rising 87.4% y-o-y in Q2 2021.

The top 3 corporate issuers in Q3 2021 were energy companies (**Table 3**). PTT, a state-owned and exchange-listed oil and gas company, was the top issuer, raising a total of THB43.0 billion from bonds with tenors of 3–10 years and carrying coupons ranging from 0.96% to 2.37%. Gulf Energy Development was the second-largest issuer, raising a total of THB30.0 billion from bonds with tenors of 3–10 years. Banpu, another energy company, was the next largest issuer with total issuance amounting to THB16.0 billion. CPF Thailand, a food and beverage company, was the fourth largest issuer in Q3 2021, with total issuance of THB15.0 from a triple-tranche issuance of bonds with tenors of 6–12 years.

## Investor Profile

**Central government bonds.** Financial corporations continued to hold the largest share of Thai government bonds, although their share slipped to 38.1% in September 2021 from 39.9% in September 2020 (**Figure 2**). The second-largest holder of government bonds were other depository corporations with a 23.2% share in September 2021, up from 19.2% a year earlier. The share of the two largest holders of central government bonds increased to 61.2% in September 2021 from 59.1% a year earlier. The central government's holdings of government bonds decreased to 15.2% from 16.4% during the same period. Nonresidents' holdings of Thai government bonds inched down to 13.4% in September 2021 from 14.0% a year earlier. The BOT's holdings of government bonds dropped to 3.2% in September 2021 from 4.0% in September 2020, as the central bank eased its purchases of government debt during the review period.

**Central bank bonds.** Other depository corporations held the largest share of BOT bonds at 41.7% in September 2021, though their share dipped from 45.7% in September 2020 (**Figure 3)**. Financial corporations had the second-largest holdings of BOT bonds, with their share inching up to 30.6% in September 2021 from 29.3% in September 2020. The combined shares of the two top holders amounted to 72.3% of total BOT bonds outstanding at the end of September 2021, down from 75.0% a year earlier. During the same period, the BOT's holdings of its own LCY bonds rose slightly to 13.6% from 12.7%. The central government's holdings of BOT bonds also increased to 9.9% from 8.8% during the review period. Nonresidents' holdings of BOT bonds held steady at 0.9% from September 2020 to September 2021.

Net inflows from foreign investors to the Thai LCY bond market fell to THB20.1 billion in Q3 2021 from THB83.7 billion in Q2 2021 (**Figure 4**). The Thai LCY bond market recorded net inflows in July (THB9.3 billion) and August (THB47.5 billion), but saw net outflows of THB36.7 billion in September as inflation expectations and fears that the Federal Reserve would start tapering its quantitative easing measures by November prompted global investors to sell emerging market bonds, including Thai LCY bonds. The net outflows of foreign investment from the Thai LCY bond market in September were the highest monthly net outflows recorded since March 2020.

## Ratings Update

On 20 September, S&P Global Ratings held Thailand's long-term foreign currency issuer default rating at BBB+ with a stable outlook. The rating affirmation was based on Thailand's robust financial and external positions amid the ongoing global pandemic. S&P Global Ratings expects

## 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 | 246.5 | 7.3 | No | Yes | Commerce |
| 2. | Thai Beverage | 173.1 | 5.1 | No | No | Food and Beverage |
| 3. | Siam Cement | 165.0 | 4.9 | Yes | Yes | Construction Material |
| 4. | PTT | 134.6 | 4.0 | Yes | Yes | Energy and Utilities |
| 5. | True Corp | 134.3 | 4.0 | No | No | Communications |
| 6. | Charoen Pokphand Foods | 131.2 | 3.9 | No | Yes | Food and Beverage |
| 7. | Berli Jucker | 117.6 | 3.5 | No | Yes | Commerce |
| 8. | True Move H Universal Communication | 105.0 | 3.1 | No | No | Communication |
| 9. | Bank of Ayudhya | 94.8 | 2.8 | No | Yes | Banking |
| 10. | CPF Thailand | 79.1 | 2.3 | No | No | Food and Beverage |
| 11. | Toyota Leasing Thailand | 73.6 | 2.2 | No | No | Finance and Securities |
| 12. | Minor International | 68.1 | 2.0 | No | Yes | Hospitality and Leisure |
| 13. | Indorama Ventures | 66.5 | 2.0 | No | Yes | Petrochemicals and Chemicals |
| 14. | Banpu | 61.3 | 1.8 | No | Yes | Energy and Utilities |
| 15. | Bangkok Commercial Asset Management | 59.2 | 1.8 | No | Yes | Finance and Securities |
| 16. | Frasers Property Thailand | 49.3 | 1.5 | No | Yes | Property and Construction |
| 17. | Gulf Energy Development | 47.5 | 1.4 | No | Yes | Energy and Utilities |
| 18. | Muangthai Capital | 46.0 | 1.4 | No | Yes | Finance and Securities |
| 19. | BTS Group Holdings | 45.1 | 1.3 | No | Yes | Diversified |
| 20. | Krung Thai Bank | 44.0 | 1.3 | Yes | Yes | Banking |
| 21. | dtac TriNet | 43.5 | 1.3 | No | Yes | Communications |
| 22. | Krungthai Card | 42.6 | 1.3 | Yes | Yes | Banking |
| 23. | Global Power Synergy | 41.5 | 1.2 | No | Yes | Energy and Utilies |
| 24. | Sansiri | 40.5 | 1.2 | No | Yes | Property and Construction |
| 25. | Bangkok Expressway & Metro | 40.1 | 1.2 | No | Yes | Transportation and Logistics |
| 26. | TPI Polene | 39.5 | 1.2 | No | Yes | Property and Construction |
| 27. | ICBC Thai Leasing | 38.5 | 1.1 | No | No | Finance and Securities |
| 28. | CH Karnchang | 38.4 | 1.1 | No | Yes | Property and Construction |
| 29. | B Grimm | 36.8 | 1.1 | No | Yes | Energy and Utilities |
| 30. | Land & Houses | 35.6 | 1.1 | No | Yes | Property and Construction |
| **Total Top 30 LCY Corporate Issuers** | | **2,338.6** | **69.4** | | | |
| **Total LCY Corporate Bonds** | | **3,938.2** | **116.9** | | | |
| **Top 30 as % of Total LCY Corporate Bonds** | | **59.5%** | **59.5%** | | | |

LCY = local currency, THB = Thai baht, USD = United States dollar.
Notes:
1. Data as of 30 September 2021.
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 2021**

| Corporate Issuers | Coupon Rate (%) | Issued Amount (THB billion) |
|---|---|---|
| PTT | | |
| 3-year bond | 0.96 | 15.0 |
| 5-year bond | 1.31 | 15.0 |
| 7-year bond | 1.79 | 5.0 |
| 10-year bond | 2.37 | 8.0 |
| Gulf Energy Development | | |
| 3-year bond | 1.74 | 12.0 |
| 5-year bond | 2.48 | 6.0 |
| 7-year bond | 3.01 | 3.0 |
| 10-year bond | 3.40 | 9.0 |
| Banpu | | |
| 3-year bond | 1.58 | 2.0 |
| 5-year bond | 2.90 | 3.9 |
| 7-year bond | 3.30 | 4.0 |
| 10-year bond | 3.80 | 6.0 |
| CPF Thailand | | |
| 6-year bond | 2.50 | 4.5 |
| 8-year bond | 3.18 | 6.0 |
| 12 year bond | 3.70 | 4.5 |

THB = Thai baht.
Source: Bloomberg LP.

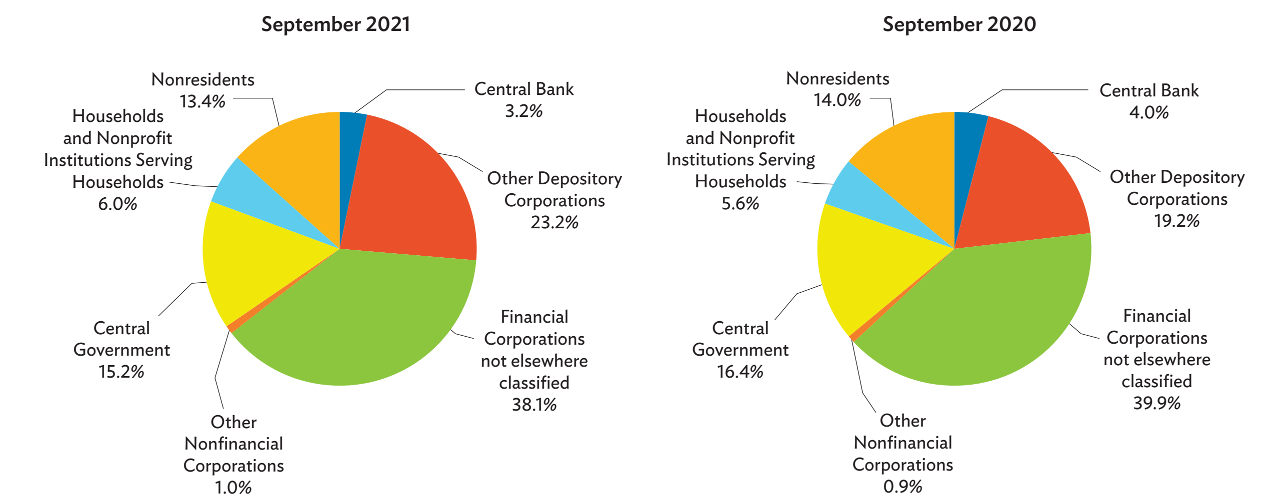
the Thai economy to grow 1.1% in 2021. The ratings body also maintained Thailand's long-term local currency issuer default rating at A– with a stable outlook.

## Policy, Institutional, and Regulatory Developments

### Thai Government Raises Debt Ceiling

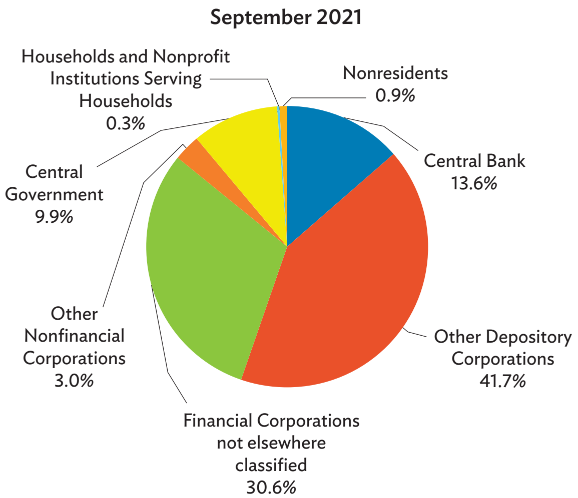
On 20 September, the Government of Thailand increased the debt ceiling from 60% to 70% of GDP to allow the government to raise more funds for its economic recovery efforts. The government had earlier issued an emergency loan decree in 2020 that authorized the Ministry of Finance to borrow THB1 trillion for economic stimulus measures. A second decree was issued in June 2021 allowing the government to borrow an additional THB500 billion to fund relief measures to combat the impacts of the prolonged pandemic. Thailand's public debt-to-GDP ratio stood at 57% as of September 2021.

**Figure 2: Local Currency Government Bonds Investor Profile**



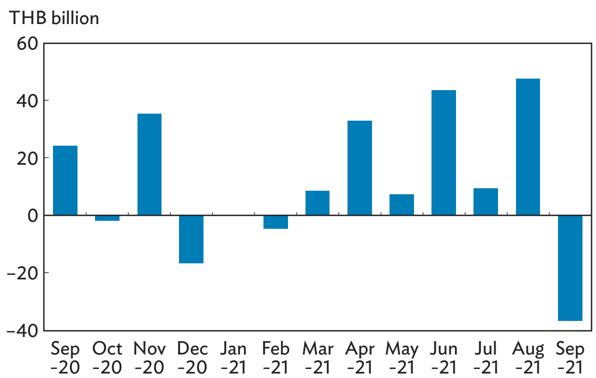

Note: Government bonds include Treasury bills and bonds.
Source: *AsianBondsOnline* and Bank of Thailand.

**Figure 3: Local Currency Central Bank Securities Investor Profile**




Source: Bank of Thailand.

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




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

## Thailand to Issue More Long-Term Government Bonds

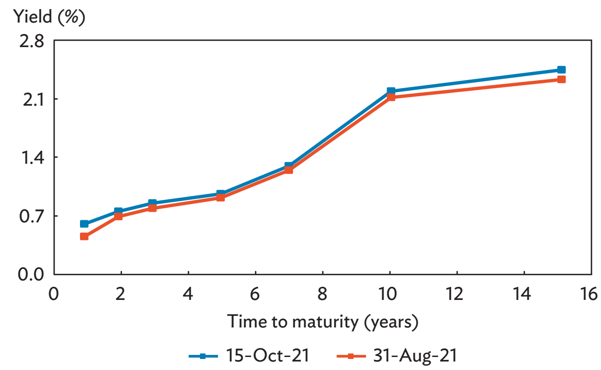
On 1 October, Thailand's Public Debt Management Office announced its plan to increase the share of long-dated bonds to finance the government's economic stimulus programs. Government bonds will comprise 48%–56% of total borrowing in fiscal year 2021–2022. In the previous fiscal year, government bonds comprised 31% of total borrowing as the government relied more on short-term instruments such as promissory notes and Treasury bills. For fiscal year 2021–2022, Treasury bills will comprise 23% of total borrowing, while promissory notes will comprise a 16%–25% share. Savings bonds and bond switching will each account for a 6% share of the total borrowing.

# Viet Nam

## Yield Movements

The yield curve of local currency (LCY) government bonds in Viet Nam shifted upward, with rates increasing across the board between 31 August and 15 October (**Figure 1**). Yields increased 8 basis points (bps) on average for all tenors. The largest increase was seen for the 1-year tenor at 15 bps, while the smallest gain was for the 5-year and 7-year tenors at 5 bps each. The yield spread between the 2-year and 10-year tenors marginally widened during the review period from 143 bps to 144 bps.

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




Source: Based on data from Bloomberg LP.

The upward adjustment of the yield curve is in line with the regional trend of increasing bond yields in response to the shift in the monetary stance of the United States Federal Reserve of cutting back its asset purchases later in the year and the possibility of earlier rate hikes thereafter. Viet Nam's economic downturn in the third quarter (Q3) of 2021 also affected the rise in yields as it renewed uncertainty over recovery prospects, prompting investors to ask for higher returns for the risks. Nonetheless, the increases were not as high as in other regional markets as the central bank maintained its accommodative stance, inflation rate remained low, and liquidity was still abundant.

Viet Nam's economy contracted in Q3 2021 with its gross domestic product (GDP) declining 6.2% year-on-year (y-o-y) after posting 6.6% y-o-y growth in the second quarter (Q2) of 2021. It is the largest recorded drop since quarterly GDP was tracked in 2000. The domestic economy managed to sustain its positive growth since the start of the coronavirus disease (COVID-19) pandemic in early 2020. However, the fourth wave of COVID-19 had a deeply adverse impact on the economy as the imposition of quarantine restrictions disrupted production and consumption. In the first 3 quarters of 2021, the Vietnamese economy expanded 1.4% y-o-y. The government forecasts GDP growth of 3.0% y-o-y to 3.5% y-o-y for 2021.

The State Bank of Vietnam (SBV) announced in October that there would be no rate cuts for the year and it would be monitoring the developments on the COVID-19 situation and its impact on the economy and financial markets to appropriately manage rates. The key policy rate remained at 4.00% after the central bank last reduced it by 50 bps in October 2020. In 2020, the SBV cut the policy rate by a total of 200 bps to support the economy from the impact of the COVID-19 pandemic.

The prices of consumer goods in Viet Nam inched up 1.8% y-o-y in October, easing from a 2.1% y-o-y gain in September. The downward adjustment in prices was attributed to lower goods prices as the COVID-19 situation improved, decreased utilities demand, and lower housing rentals. Year-to-date through the end of September, consumer price inflation was 1.8%. The government has put a ceiling of 4.0% for inflation in 2021.

The Vietnamese dong traded at VND22,749.0 per USD1.0 on 15 October, appreciating only 0.2% from its value on 31 August, reflecting the stability of the domestic currency. The strength of the dong, while subtle, is supported by net inflows from trade and foreign direct investment.

## Size and Composition

Viet Nam's LCY bond market expanded 8.1% quarter-on-quarter (q-o-q) to VND1,902.1 trillion (USD83.6 billion) at the end of Q3 2021, on faster growth compared to the previous quarter's increase of 6.1% q-o-q (**Table 1**). The quarterly growth emanated from both the government and corporate segments as both posted quarterly

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

| | Outstanding Amount (billion) | | | | | | Growth Rate (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q3 2020 | | Q2 2021 | | Q3 2021 | | Q3 2020 | | Q3 2021 | |
| | VND | USD | VND | USD | VND | USD | q-o-q | y-o-y | q-o-q | y-o-y |
| Total | 1,540,040 | 66 | 1,758,977 | 76 | 1,902,088 | 84 | 11.6 | 17.1 | 8.1 | 23.5 |
| Government | 1,289,363 | 56 | 1,357,573 | 59 | 1,414,481 | 62 | 8.9 | 6.8 | 4.2 | 9.7 |
| Treasury Bonds | 1,149,375 | 50 | 1,221,237 | 53 | 1,276,988 | 56 | 10.6 | 17.8 | 4.6 | 11.1 |
| Central Bank Bills | 0 | 0 | 0 | 0 | 0 | 0 | – | (100.0) | – | – |
| Government-Guaranteed and Municipal Bonds | 139,988 | 6 | 136,337 | 6 | 137,494 | 6 | (2.7) | (12.5) | 0.8 | (1.8) |
| Corporate | 250,677 | 11 | 401,404 | 17 | 487,607 | 21 | 27.7 | 132.4 | 21.5 | 94.5 |

( ) = 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.

increases. At the end of September, government bonds accounted for 74.4% of Viet Nam's bond market, while corporate bonds comprised 25.6%. On an annual basis, the bond market expanded 23.5% y-o-y in Q3 2021, slowing from 27.5% y-o-y growth in Q2 2021.

**Government bonds.** The government bond market increased 4.2% q-o-q in Q3 2021, reversing the slight contraction of 0.5% q-o-q in the previous quarter. The government's outstanding debt amounted to VND1,414.5 trillion, with increases across all government bond segments except for central bank bills, which remained at zero.

Treasury bonds outstanding increased 4.6% q-o-q to VND1,277.0 trillion in Q3 2021, accelerating from growth of 0.1% q-o-q in Q2 2021. The growth was supported by the issuance of Treasury bonds amounting to VND96.2 trillion during the quarter. Total debt sales were about 80% of the planned issuance of VND120.0 trillion for Q3 2021.

Outstanding government-guaranteed and municipal bonds also increased in Q3 2021, albeit slightly, by 0.8% q-o-q to VND137.5 trillion after declining by 5.3% q-o-q in the previous quarter. The rebound can be attributed to bond issuance during the quarter from the government-guaranteed Vietnam Bank for Social Policies totaling VND11.0 trillion, which offset the maturing debts. In Q2 2021, there was no issuance from the government segment, while there was a considerable amount of maturing securities.

**Corporate bonds.** The corporate bond market maintained its strong expansion at 21.5% q-o-q in Q3 2021, although this was slower compared to Q2 2021 growth of 36.6% q-o-q. Outstanding corporate bonds reached VND487.6 trillion at the end of September. The growth was underpinned by vibrant issuance activity in the corporate sector during the quarter.

The top 30 LCY corporate issuers had aggregate bonds outstanding of VND309.1 trillion at the end of September, comprising 63.4% of the total corporate bond market (**Table 2**). The outstanding bonds were largely from banks and property firms. Banks had the largest amount of outstanding bonds totaling VND217.2 trillion, or 70.3% of the top 30's total debt, and property firms had VND49.0 billion with a share of 15.8%. The Bank for Investment and Development of Vietnam remained the largest issuer at the end of Q3 2021 with outstanding debt of VND37.6 trillion, growing from VND25.9 trillion at the end of Q2 2021.

Issuance activity from the corporate sector remained fairly active in Q3 2021 with total debt sales of VND94.4 trillion. However, this was down 15.9% from total corporate bond issuance in Q2 2021, likely as a result of a fourth COVID-19 outbreak that hit economic centers and halted business activities during the most recent quarter.

Firms resorted to the bond market for funding as regulations from the SBV cautioned against lending to risky sectors. Despite the risk, corporate bonds,

**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 | 37,590 | 1.65 | Yes | Yes | Banking |
| 2. | Asia Commercial Joint Stock Bank | 20,400 | 0.90 | No | Yes | Banking |
| 3. | Ho Chi Minh City Development Joint Stock Commercial Bank | 20,348 | 0.89 | No | Yes | Banking |
| 4. | Lien Viet Post Joint Stock Commercial Bank | 20,100 | 0.88 | No | Yes | Banking |
| 5. | Vietnam Prosperity Joint Stock Commercial Bank | 19,080 | 0.84 | No | Yes | Banking |
| 6. | Vietnam International Joint Stock Commercial Bank | 17,150 | 0.75 | No | Yes | Banking |
| 7. | Masan Group | 16,900 | 0.74 | No | Yes | Finance |
| 8. | Orient Commercial Joint Stock Bank | 16,535 | 0.73 | No | No | Banking |
| 9. | Tien Phong Commercial Joint Stock Bank | 15,649 | 0.69 | No | Yes | Banking |
| 10. | Vietnam Joint Stock Commercial Bank for Industry and Trade | 13,339 | 0.59 | Yes | Yes | Banking |
| 11. | Vinhomes Joint Stock Company | 8,890 | 0.39 | No | Yes | Property |
| 12. | Saigon - Ha Noi Commercial Joint Stock Bank | 8,450 | 0.37 | No | Yes | Banking |
| 13. | Saigon Glory Company Limited | 8,000 | 0.35 | No | No | Property |
| 14. | Sovico Group Joint Stock Company | 7,550 | 0.33 | No | Yes | Property |
| 15. | An Binh Commercial Joint Stock Bank | 7,000 | 0.31 | No | No | Banking |
| 16. | Vietnam Maritime Joint Stock Commercial Bank | 6,699 | 0.29 | No | Yes | Banking |
| 17. | Bac A Commercial Joint Stock Bank | 6,140 | 0.27 | No | Yes | Banking |
| 18. | Golden Hill Real Estate JSC | 5,701 | 0.25 | No | No | Property |
| 19. | Vingroup | 5,425 | 0.24 | No | Yes | Property |
| 20. | Mediterranean Revival Villas Company Limited | 5,000 | 0.22 | No | No | Property |
| 21. | Vietnam Technological and Commercial Joint Stock Bank | 5,000 | 0.22 | No | Yes | Banking |
| 22 | Bong Sen JSC | 4,800 | 0.21 | No | No | Manufacturing |
| 23. | Trung Nam Dak Lak 1 Wind Power JSC | 4,500 | 0.20 | No | No | Energy |
| 24. | Phu My Hung Corporation | 4,497 | 0.20 | No | No | Property |
| 25. | Truong Hai Auto Corp | 4,400 | 0.19 | No | Yes | Manufacturing |
| 26. | Ho Chi Minh City Infrastructure Investment Joint Stock Company | 4,370 | 0.19 | No | Yes | Construction |
| 27. | Nui Phao Mining and Processing Co., Ltd. | 4,310 | 0.19 | No | No | Mining |
| 28. | NoVa Real Estate Investment Corporation JSC | 3,907 | 0.17 | No | Yes | Property |
| 29. | Vietnam Bank for Agriculture and Rural Development | 3,760 | 0.17 | Yes | No | Banking |
| 30. | VP Bank Finance Company Limited | 3,600 | 0.16 | No | No | Finance |
| **Total Top 30 LCY Corporate Issuers** | | **309,089** | **13.58** | | | |
| **Total LCY Corporate Bonds** | | **487,607** | **21.42** | | | |
| **Top 30 as % of Total LCY Corporate Bonds** | | **63.4%** | **63.4%** | | | |

LCY = local currency, USD = United States dollar, VND = Vietnamese dong.
Notes:
1. Data as of 30 September 2021.
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.

particularly from property firms, remained attractive to investors as they offered higher rates.

Banks dominated the debt market, raising an aggregate VND46.7 trillion in Q3 2021, which accounted for about half of total issuance. The debt sales were down from VND64.9 trillion in Q2 2021. Property firms were second, raising VND28.6 trillion, which was up from VND26.5 trillion in the previous quarter. Large bond issuances during the quarter are listed in **Table 3**. Bong Sen JSC had the largest single issuance with a 1-year bond worth VND4.3 trillion. In aggregate terms, the Bank for Investment and Development of Vietnam was the biggest debt issuer in Q3 2021 with VND10.9 trillion.

**Table 3: Notable Local Currency Corporate Bond Issuances in the Third Quarter of 2021**

| Corporate Issuers | Coupon Rate (%) | Issued Amount (VND billion) |
|---|---|---|
| Bank for Investment and Development of Vietnam[a] | | |
| 6-year bond | – | 3,000 |
| 8-year bond | 0.9% + average interest rate for 12-month deposit | 3,000 |
| 8-year bond | – | 2,000 |
| Mediterranean Revival Villas Company Limited[a] | | |
| 1-year bond | – | 2,500 |
| 1-year bond | – | 2,500 |
| Bong Sen JSC | | |
| 1-year bond | 11.00 | 4,320 |
| Asia Commercial Joint Stock Bank | | |
| 3-year bond | – | 2,500 |

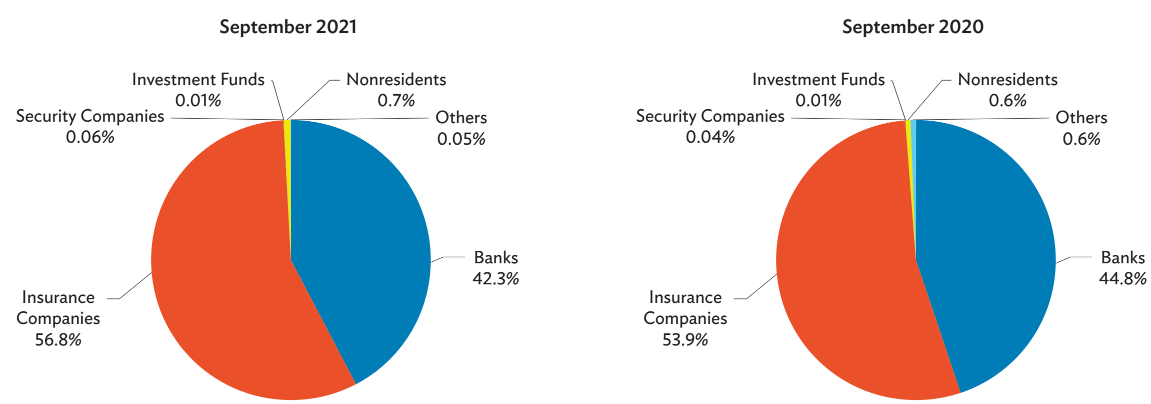
– = not available, VND = Vietnamese dong.
[a] Multiple issuance of the same tenor indicates issuance on different dates.
Source: Vietnam Bond Market Association.

In Q3 2021, two firms tapped the international bond market to raise funds. In July, Novaland issued more USD-denominated debt amounting to USD300.0 million after it had successfully mobilized USD500.0 million in April. The recently issued bond has a 5-year maturity and a coupon of 5.25%. The capital will be allocated to land acquisition and project development. In September, Vinpearl issued world's first exchange sustainable bond amounting to USD425.0 million with a maturity of 5 years and a coupon of 3.25%.

## Investor Profile

Government securities outstanding were held almost entirely by insurance firms and banks at the end of September, which together accounted for 99.1% of the total holdings. Insurance firms held 56.8% of government securities, up from 53.9% at the end of September 2020, while banks held 42.3%, down from 44.8% during the same period. The remaining outstanding bonds were held by securities companies, investment funds, offshore investors, and other investors. Foreign investors held 0.7% of government securities at the end of September, increasing from 0.6% a year earlier. Viet Nam's LCY bond market had the smallest foreign holdings share among emerging East Asian economies.

**Figure 2: Local Currency Government Bonds Investor Profile**




Source: Ministry of Finance, Government of Viet Nam.

## Policy, Institutional, and Regulatory Developments

### State Treasury Implements Multiple Price Auction for 5-Year Treasury Bonds

On 6 October, the State Treasury implemented a pilot auction using a multiple price method for 5-year Treasury bonds. In a multiple price auction, the successful bidders pay the price stated in their respective bids for the allotted quantity of securities. The expected offering volume for the 5-year Treasury bond auctions was VND1,000–VND2,000 billion per session. For the rest of the tenors, the auction followed the uniform price method.[14]

[14] *Vietnam Bond Market Association*. 2021. "The State Treasury to Implement Pilot Auctions of Government Bonds by Multi-Price Method." 21 September. https://vbma.org.vn/en/activities/kho-bac-nha-nuoc-thi-diem-trien-khai-phat-hanh-trai-phieu-chinh-phu-theo-phuong-thuc-dau-thau-da-gia.