Executive Summary

Recent Developments in Financial Conditions in Emerging East Asia

Financial conditions in emerging East Asia slightly weakened from 2 September to 31 October.[1] While financial conditions improved in September amid monetary easing in advanced and some regional economies, this trend was interrupted in October over uncertainty in the United States (US) Federal Reserve's monetary easing path (following stronger September labor market data) and US elections. Thus, while short-term sovereign bond yields largely declined following policy rate cuts in some regional markets, 10-year sovereign bond yields rose in most regional markets.

Key financial indicators in most regional financial markets slightly weakened during the review period. Regional currencies depreciated by a simple average of 0.7% and a gross-domestic-product-weighted average of 0.3%. Risk premiums, captured by the credit default swap spread, rose by 2.8 basis points (simple average) and 6.1 basis points (gross-domestic-product-weighted average). Excluding the People's Republic of China (PRC), regional equity markets gained 6.2% (market-weighted average) during the review period, with even larger gains recorded in the PRC (16.7%) and Hong Kong, China (14.8%) in response to stimulus measures. During the review period, both regional equity and bond markets recorded net portfolio outflows.

Risks to the regional financial conditions remain balanced. On the upside, moderating inflation and ongoing monetary easing by major advanced economies and many regional central banks are supporting financial conditions. On the downside, there are uncertainties over the Federal Reserve's monetary easing pace, and policy adjustments by the new US administration such as possible larger budget deficits and higher tariffs, which may affect the economic outlook and inflation path. Other downside risks include weaker-than-expected economic growth in the PRC, escalating geopolitical tensions in the Middle East, potential trade tensions between major regional trade partners, and extreme weather that could affect agricultural output and drive up inflation.

Recent Developments in Local Currency Bond Markets in Emerging East Asia

Local currency (LCY) bonds outstanding in emerging East Asia totaled USD26.8 trillion at the end of September, expanding 2.7% quarter-on-quarter (q-o-q) on robust issuance and exceeding the 2.1% q-o-q growth in the previous quarter. Government bonds outstanding rose 3.7% q-o-q to reach USD16.9 trillion at the end of the third quarter (Q3) of 2024, largely buoyed by accelerated growth in the PRC bond market as the government raised funds to finance stimulus measures. The region's outstanding corporate bonds rose 0.8% q-o-q to USD9.2 trillion amid increased corporate financing activities as financial conditions improved. LCY bonds outstanding in Association of Southeast Asian Nations (ASEAN) markets tallied USD2.5 trillion at the end of September, accounting for 9.5% of total emerging East Asian LCY bonds outstanding.

LCY bond issuance in emerging East Asia rose 11.3% q-o-q and 12.8% year-on-year in Q3 2024 to reach USD3.0 trillion, with both the government and corporate segments registering increased issuance amid improved financial conditions. Government bond issuance surged 20.1% q-o-q to reach USD1.3 trillion, largely driven by sovereign debt issuance in the PRC. Corporate bond issuance rose 9.1% q-o-q to USD975.8 billion on lower borrowing costs and improved financial conditions. Aggregate LCY bond issuance among ASEAN markets totaled USD661.8 billion in Q3 2024, comprising 22.2% of the emerging East Asian total.

[1] Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

A majority of outstanding emerging East Asian Treasury bonds have medium- to long-term tenors and are held by long-horizon institutional investors. At the end of September, securities with remaining maturities of longer than 5 years comprised 54.0% of the region's total outstanding Treasury bonds. The size-weighted average tenor of outstanding Treasury bonds was 9.0 years for emerging East Asia, slightly longer than the corresponding averages for the European Union 20 (EU-20) (8.6 years) and the US (8.2 years). Long-horizon institutional investors, such as banks and insurance and pension funds, remained the primary holders of LCY Treasury bonds in emerging East Asia. Banks held around 35.5% of regional outstanding Treasuries, followed by insurance and pension funds with 28.7%.

Recent Developments in ASEAN+3 Sustainable Bond Markets

ASEAN+3's sustainable bond market posted strong growth in Q3 2024 to reach a size of USD893.1 billion at the end of September.[2] ASEAN+3's q-o-q expansion of 4.1% outpaced that of the EU-20 (1.9%) and the US (1.2%). The market's expansion was largely buoyed by robust quarterly issuance on improved financial conditions. Within ASEAN+3, Hong Kong, China (11.6%) and the member markets of ASEAN (9.2%) posted the fastest q-o-q growth rates. At the end of September, ASEAN+3 continued to have the second-largest regional sustainable bond market in the world with an 18.9% global share, trailing only the EU-20's 36.4%. Despite rapid expansion, the sustainable bond market in ASEAN+3 only comprised 2.3% of its general bond market at the end of September, which was lower than the EU-20's corresponding share of 7.9%.

Sustainable bond issuance in ASEAN+3 rose to a record-high level of USD73.7 billion in Q3 2024 on 42.0% q-o-q growth, up from 3.5% q-o-q in the previous quarter. Increased issuance was fueled by improved financial conditions, which in turn were driven by monetary easing. As a result, ASEAN+3's share of global issuance rose to 31.9% in Q3 2024 from 23.2% in the prior quarter. While LCY financing comprised 67.7% of ASEAN+3 sustainable bond issuance in Q3 2024, this was well below the 94.6% share in its general bond market in the same period. In ASEAN economies, however, LCY financing is broadly similar in both the sustainable bond market (68.1%) and the general bond market (70.8%). Sustainable bond issuance with maturities longer than 5 years comprised a share of 28.8% in ASEAN+3 in Q3 2024 compared with 58.9% in ASEAN, partly due to the strong participation of the public sector in the latter market. Public sector participation contributed to a longer size-weighted average maturity of 14.1 years for ASEAN sustainable bond issuance in Q3 2024, compared with 6.7 years for ASEAN+3 and 7.6 years for the EU-20.

[2] ASEAN+3 is defined to include member states of ASEAN plus the People's Republic of China; Hong Kong, China; Japan; and the Republic of Korea.