

Bond Market Developments in the Second Quarter of 2010

Size and Composition

Total LCY bonds outstanding in emerging East Asia in 2Q10 rose by 5.1% q-o-q to USD4.8 trillion, driven by strong growth in both government and corporate bonds.

Growth in emerging East Asia's³ local currency (LCY) bond market in 2Q10, which exceeded 1Q10's growth rate of 3.8% quarter-on-quarter (q-o-q), was backed across the region by significant policy measures and strong innovation in both government and corporate bond markets. However, excluding the People's Republic of China (PRC), the q-o-q growth rate in 2Q10 was only 2.6%. Total bonds outstanding in the PRC, the region's dominant LCY bond market, grew by 6.9% q-o-q to USD2.85 trillion. Meanwhile, Viet Nam registered the region's highest growth rate at 29.0% q-o-q, followed by Malaysia at 7.4%. Bonds outstanding in the Republic of Korea (Korea), the second largest bond market in the region, grew by just 1.5% q-o-q, while growth was almost flat in Indonesia.

Total bonds outstanding grew by 18.8% year-on-year (y-o-y) in 2Q10 (**Table 1**). However, y-o-y growth excluding the PRC was significantly lower at 13.8%. This was mainly due to a lower growth rate of 9.6% y-o-y in Korea (**Figure 1**).

Total government bonds outstanding grew by 5.1% q-o-q in 2Q10, led by Viet Nam; Malaysia; Hong Kong, China; and the PRC.

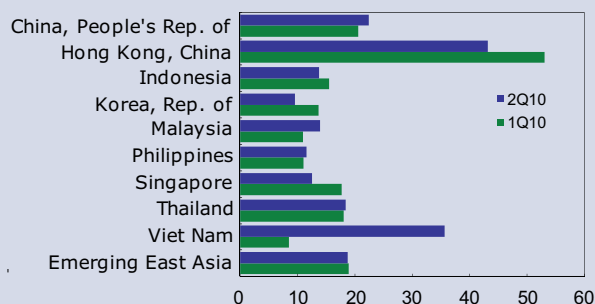
The strong growth in government bond markets was driven in some cases—including Viet Nam, the PRC, and Philippines—by the need to finance budget deficits. Perhaps the most significant feature of

government bond markets in 2Q10 has been the innovative policy reforms ushered in to deepen domestic bond markets, expand cross-border transactions, and lengthen maturity profiles.

The PRC announced in mid-August that it will permit non-resident financial institutions greater access to its interbank bond market to promote use of the yuan in cross-border trade. In addition, the State Administration of Foreign Exchange (SAFE) has been investing in Asian debt, including the purchase of JPY1.73 billion of Japanese debt during the first half of the year. According to Korea's Financial Supervisory Service, the PRC's holdings of Korean Treasury bonds (KTBs) surged 111% to KRW4.0 trillion in June from KRW1.9 trillion in December.

In May, Hong Kong, China sold HKD3.0 billion worth of 10-year government bonds under the government's Institutional Bond Issuance

Figure 1: Growth of Emerging East Asian LCY Bond Markets in 1Q10 and 2Q10 (y-o-y %)



LCY = local currency, y-o-y = year on year.

Notes:

1. Calculated using data from national sources.
 2. Growth rates are calculated from local currency (LCY) base and do not include currency effects.
 3. Emerging East Asia growth figure is based on end-June 2010 currency exchange rates and do not include currency effects.
- Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Singapore Government Securities, Monetary Authority of Singapore, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

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

Table 1: Size and Composition of Emerging East Asian LCY Bond Markets

	2Q09		1Q10		2Q10		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	2Q09		2Q10		2Q09		2Q10	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)														
Total	2,309	100.0	2,648	100.0	2,848	100.0	5.3	14.8	6.9	22.5	5.3	15.2	7.6	23.4
Government	1,954	84.6	2,157	81.4	2,302	80.8	2.9	7.0	6.0	17.0	2.9	7.4	6.7	17.8
Corporate	355	15.4	492	18.6	546	19.2	21.1	90.9	10.4	52.7	21.1	91.6	11.1	53.8
Hong Kong, China														
Total	111	100.0	155	100.0	159	100.0	9.8	19.4	2.7	43.3	9.8	20.2	2.4	42.7
Government	37	33.4	80	51.8	86	54.0	31.8	99.9	6.9	131.4	31.8	101.1	6.6	130.3
Corporate	74	66.6	75	48.2	73	46.0	1.3	(0.6)	(1.9)	(0.9)	1.3	(0.03)	(2.2)	(1.3)
Indonesia														
Total	85	100.0	108	100.0	109	100.0	1.5	12.8	(0.03)	13.8	16.4	1.9	0.4	28.3
Government	77	90.8	98	90.6	99	90.6	0.8	14.7	(0.1)	13.5	15.6	3.6	0.3	28.0
Corporate	8	9.2	10	9.4	10	9.4	9.0	(3.2)	0.9	16.5	24.9	(12.5)	1.4	31.3
Korea, Rep. of														
Total	901	100.0	1,095	100.0	1,029	100.0	5.3	13.1	1.5	9.6	13.2	(6.9)	(6.1)	14.2
Government	415	46.0	490	44.8	458	44.5	5.9	10.7	0.8	5.9	13.8	(8.9)	(6.7)	10.3
Corporate	486	54.0	605	55.2	571	55.5	4.8	15.2	2.0	12.7	12.6	(5.2)	(5.6)	17.4
Malaysia														
Total	174	100.0	199	100.0	216	100.0	4.6	0.3	7.4	14.0	8.5	(6.7)	8.6	24.2
Government	96	55.6	111	55.9	124	57.7	5.5	(4.2)	10.8	18.3	9.4	(11.0)	12.0	28.9
Corporate	77	44.4	88	44.1	91	42.3	3.5	6.8	3.1	8.6	7.3	(0.8)	4.3	18.4
Philippines														
Total	57	100.0	66	100.0	66	100.0	2.1	8.2	2.5	11.6	2.4	0.9	(0.1)	15.7
Government	51	89.2	58	88.1	58	87.8	(0.2)	4.0	2.1	9.8	0.1	(3.0)	(0.5)	13.8
Corporate	6	10.8	8	11.9	8	12.2	25.6	62.4	5.5	26.8	26.0	51.5	2.8	31.5
Singapore														
Total	139	100.0	159	100.0	162	100.0	6.5	6.3	1.8	12.6	12.0	(0.1)	1.9	16.7
Government	80	57.7	90	57.0	92	56.7	6.9	7.1	1.2	10.7	12.4	0.7	1.3	14.8
Corporate	59	42.3	68	43.0	70	43.3	6.0	5.2	2.6	15.1	11.4	(1.1)	2.7	19.4
Thailand														
Total	159	100.0	191	100.0	198	100.0	3.6	7.8	3.9	18.4	7.9	5.8	3.7	24.5
Government	126	79.0	153	80.4	160	80.7	1.6	5.6	4.3	21.0	5.8	3.6	4.1	27.2
Corporate	33	21.0	38	19.6	38	19.3	11.8	17.1	2.3	9.0	16.4	15.0	2.1	14.6
Viet Nam														
Total	12	100.0	12	100.0	15	100.0	3.0	6.4	29.0	35.8	3.0	0.7	29.1	26.8
Government	12	95.1	11	89.9	14	90.1	2.7	6.2	29.4	28.8	2.7	0.5	29.5	20.2
Corporate	0.6	4.9	1	10.1	2	9.9	10.3	10.3	25.3	170.9	10.3	4.4	25.5	152.9
Total Emerging East Asia														
Total	3,947	100.0	4,633	100.0	4,802	100.0	5.2	13.0	5.1	18.8	7.8	6.9	3.6	21.7
Government	2,847	72.1	3,250	70.1	3,392	70.6	3.6	7.8	5.1	16.7	5.5	3.9	4.4	19.1
Corporate	1,100	27.9	1,384	29.9	1,410	29.4	9.5	28.6	5.0	24.4	14.1	15.5	1.9	28.3
Less PRC														
Total	1,638	100.0	1,985	100.0	1,954	100.0	5.1	10.6	2.6	13.8	11.4	(3.0)	(1.6)	19.3
Government	893	54.6	1,093	55.1	1,090	55.8	5.2	9.5	3.1	16.0	11.7	(3.0)	(0.3)	22.0
Corporate	744	45.4	892	44.9	864	44.2	4.9	11.8	1.9	11.3	11.1	(2.9)	(3.2)	16.1
Japan														
Total	9,038	100.0	9,754	100.0	10,465	100.0	0.7	0.7	1.7	6.5	3.9	11.0	7.3	15.8
Government	8,116	89.8	8,797	90.2	9,452	90.3	0.7	0.6	1.9	7.1	3.9	10.9	7.4	16.5
Corporate	922	10.2	957	9.8	1,013	9.7	0.5	1.6	0.4	1.1	3.7	12.0	5.9	9.9

LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

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

2. Corporate bonds include issues by financial institutions.

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

4. For LCY-base, total emerging East Asia growth figures are based on end-June 2010 currency exchange rates and do not include currency effects.

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

Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Singapore Government Securities, Monetary Authority of Singapore and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Programme (SAR bonds). This issue was followed by another HKD1.5 billion sale of 5-year SAR bonds in June, bringing Hong Kong, China's SAR bonds outstanding to HKD16.0 billion. The SAR bonds are direct obligations of Hong Kong, China's government, while Exchange Fund Bills and Notes (EFBN) are obligations of the Hong Kong Monetary Authority (HKMA).

Beginning in June, Bank Indonesia (BI) reduced the frequency of its *Sertifikat Bank Indonesia* (SBI) auctions to a monthly basis from a weekly basis. BI has also pushed for longer-tenor maturities, with recent and planned issuances to focus on 3- and 6-month tenors, instead of 1-month tenors. This new policy aims to support more active transactions in the interbank money market and encourage banks to manage liquidity over a longer period.

In September, the Financial Services Commission of Korea approved the Korea Exchange's amended version of its Derivatives Market Business Regulation that will enhance the trading of 10-year KTB futures. Korea plans to issue KTBs with maturities of less than 1 year in order to help establish a short-term benchmark bond rate.

The Singapore Exchange launched a series of initiatives in August to promote the listing, trading, and distribution of fixed-income products in Singapore.

Interest in retail bonds increased in 2Q10.

Following several months of delay due to political tensions, the Thai government sold THB80 billion in savings bonds in June out of a planned total of THB100 billion.

The Philippine government's retail bonds have continued to attract domestic investor interest. The Philippines sold a total of PHP97.5 billion of retail treasury bonds in August. One of the most liquid peso bonds at present is a PHP50 billion retail treasury bond issued in September 2009.

The Indonesian government sold its seventh series of retail treasury bonds in August, raising IDR8.0 trillion. The government initially planned to sell IDR5.0 trillion, but increased its target to IDR8.0 trillion amid strong demand from investors.

The corporate bond market in emerging East Asia expanded 5.0% q-o-q in 2Q10, compared with 4.6% in the previous quarter, led by Viet Nam, the PRC, the Philippines, and Malaysia.

Viet Nam's tiny corporate bond market was helped by a key policy announcement from the Ministry of Finance that it will begin allowing limited liability companies to issue corporate bonds in domestic and global capital markets. This measure will provide domestic enterprises more options to raise funds and restructure capital bases.

The fast-growing PRC corporate bond market expanded by 10.4% q-o-q in 2Q10 on the back of a resurgence in the medium-term note (MTN) and commercial paper markets. The MTN market, which has helped spur massive growth in domestic corporate bonds over the past 2 years, posted growth of 17.9% q-o-q in 2Q10, up from 13.2% in the previous quarter. Similarly, total bonds outstanding in the commercial paper market rose 21.0% q-o-q in 2Q10 against 11.5% in 1Q10.

The rise in q-o-q growth for MTNs and commercial paper reflected strong corporate demand in the PRC for short- to medium-term funds, access to which has been facilitated by the relatively fast approval processes for the MTN and commercial paper issuance windows.

Ratio of Bonds Outstanding to Gross Domestic Product

The ratio of LCY bonds outstanding to GDP for emerging East Asia was essentially unchanged in 2Q10 from 1Q10.

The ratio of LCY bonds outstanding to gross domestic product (GDP) in 2Q10 stood at 58.7%, which was nearly unchanged from 58.3% in 1Q10 (**Table 2**). This reflected a slight rise in the ratio of government bonds to GDP from 40.9% in 1Q10 to 41.5% in 2Q10. The two markets that saw the greatest increase in their respective ratios of total bonds outstanding to GDP were Malaysia and Viet Nam, while the market that saw the largest decline in this ratio was Korea. However, the PRC also experienced a substantial increase in its ratio of government and corporate bonds outstanding to GDP, reflecting the growing role of debt markets in domestic financing.

Issuance

LCY bond issuance in emerging East Asia in 2Q10 totaled USD938 billion, which was a 6.5% y-o-y increase, but an 11.7% q-o-q decline.

Total issuance of USD938 billion in 2Q10 represented a decline of 11.7% from USD1.07 trillion in 1Q10 (**Table 3**). This decline was led by a dip in central bank issuance. Total central bank bill and bond sales, which accounted for about 61% of total issuance, fell by 25.7% q-o-q in 2Q10. The decline may have been caused by monetary authorities in a number of markets scaling back sterilization, as most regional currencies—with the exceptions of the Korean won and Philippine peso—have remained stable in 2Q10 compared with 1Q10. In Indonesia, BI's issuance dropped by 59.2% q-o-q in 2Q10, as the central bank reduced the frequency of SBI auctions to a monthly basis beginning in June 2010. Furthermore, BI launched efforts in August to reform its SBI note structure away from 1-month notes towards maturities of 3-, 6-, and 9-months.

Table 2: Size and Composition of Emerging East Asian LCY Bond Markets (% of GDP)

	2Q09	1Q10	2Q10
China, People's Rep. of			
Total	49.0	51.3	52.9
Government	41.5	41.8	42.7
Corporate	7.5	9.5	10.1
Hong Kong, China			
Total	52.8	72.1	73.0
Government	17.6	37.3	39.4
Corporate	35.1	34.7	33.6
Indonesia			
Total	16.3	17.0	16.5
Government	14.8	15.4	14.9
Corporate	1.5	1.6	1.6
Korea, Rep. of			
Total	111.7	113.5	112.5
Government	51.4	50.8	50.0
Corporate	60.3	62.7	62.4
Malaysia			
Total	87.8	91.7	95.3
Government	48.8	51.3	55.0
Corporate	39.0	40.4	40.4
Philippines			
Total	36.6	38.0	37.9
Government	32.6	33.5	33.2
Corporate	3.9	4.5	4.6
Singapore			
Total	76.1	80.9	79.2
Government	43.9	46.1	44.9
Corporate	32.2	34.7	34.3
Thailand			
Total	60.8	65.6	66.1
Government	48.0	52.7	53.3
Corporate	12.8	12.9	12.8
Viet Nam			
Total	13.6	13.3	16.5
Government	12.9	12.0	14.9
Corporate	0.7	1.4	1.6
Total Emerging East Asia			
Total	55.3	58.3	58.7
Government	39.9	40.9	41.5
Corporate	15.4	17.4	17.2
Japan			
Total	179.0	191.3	194.5
Government	160.8	172.6	175.7
Corporate	18.3	18.8	18.8

LCY = local currency.

Note:

1. Data for GDP is from CEIC.

Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Singapore Government Securities, Monetary Authority of Singapore and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Table 3: LCY-Denominated Bond Issuance (gross)

	LCY billion		USD billion		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	2Q10	% share	2Q10	% share	2Q10		2Q10	
					q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)								
Total	2,820	100.0	416	100.0	23.3	23.3	24.1	24.2
Government	2,378	84.3	351	84.3	26.1	34.3	26.9	35.2
Central Bank	1,558	55.3	230	55.3	9.2	68.4	9.9	69.7
Treasury and Other Govt	820	29.1	121	29.1	78.6	(3.1)	79.8	(2.4)
Corporate	442	15.7	65	15.7	10.2	(14.3)	10.9	(13.7)
Hong Kong, China								
Total	1,353	100.0	174	100.0	(49.8)	12.1	(49.9)	11.6
Government	1,315	97.2	169	97.2	(50.3)	14.4	(50.4)	13.9
Central Bank	1,310	96.8	168	96.8	(50.4)	14.0	(50.5)	13.5
Treasury and Other Govt	5	0.3	1	0.3	(25.0)	—	(25.2)	—
Corporate	38	2.8	5	2.8	(19.5)	(34.0)	(19.8)	(34.3)
Indonesia								
Total	331,023	100.0	37	100.0	(55.5)	(9.1)	(55.3)	2.5
Government	323,720	97.8	36	97.8	(56.2)	(8.0)	(56.0)	3.7
Central Bank	281,026	84.9	31	84.9	(59.2)	(13.5)	(59.1)	(2.4)
Treasury and Other Govt	42,694	12.9	5	12.9	(12.5)	57.5	(12.1)	77.6
Corporate	7,303	2.2	0.8	2.2	35.7	(40.1)	36.3	(32.4)
Korea, Rep. of								
Total	185,619	100.0	152	100.0	(0.6)	(18.8)	(8.0)	(15.4)
Government	101,285	54.6	83	54.6	(12.1)	(32.2)	(18.6)	(29.4)
Central Bank	74,350	40.1	61	40.1	(11.3)	(37.0)	(17.9)	(34.3)
Treasury and Other Govt	26,935	14.5	22	14.5	(14.3)	(14.4)	(20.6)	(10.8)
Corporate	84,334	45.4	69	45.4	17.8	6.5	9.1	10.9
Malaysia								
Total	107	100.0	33	100.0	56.6	7.1	58.3	16.7
Government	84	78.5	26	78.5	49.3	16.9	51.0	27.4
Central Bank	68	64.0	21	64.0	92.4	44.8	94.6	57.8
Treasury and Other Govt	16	14.5	5	14.5	(24.8)	(36.7)	(23.9)	(31.0)
Corporate	23	21.5	7	21.5	90.4	(18.0)	92.5	(10.6)
Philippines								
Total	146	100.0	3	100.0	(51.0)	5.1	(52.3)	8.9
Government	128	87.7	3	87.7	(56.3)	62.9	(57.5)	68.8
Central Bank	0	0.0	0	0.0	—	—	—	—
Treasury and Other Govt	128	87.7	3	87.7	(56.3)	62.9	(57.5)	68.8
Corporate	18	12.3	0.4	12.3	260.0	(70.1)	250.8	(69.1)

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Table 3 continued

	LCY billion		USD billion		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	2Q10	% share	2Q10	% share	2Q10		2Q10	
					q-o-q	y-o-y	q-o-q	y-o-y
Singapore								
Total	57	100.0	41	100.0	14.5	18.3	14.7	22.7
Government	54	93.9	39	93.9	19.8	17.0	20.0	21.2
Central Bank	0	0.0	0	0.0	—	—	—	—
Treasury and Other Govt	54	93.9	39	93.9	19.8	17.0	20.0	21.2
Corporate	4	6.1	3	6.1	(31.6)	43.9	(31.5)	49.2
Thailand								
Total	2,568	100.0	79	100.0	(0.8)	(14.3)	(1.0)	(9.8)
Government	2,293	89.3	71	89.3	(4.0)	(15.2)	(4.2)	(10.9)
Central Bank	1,953	76.0	60	76.0	(6.2)	(17.2)	(6.4)	(13.0)
Treasury and Other Govt	340	13.2	10	13.2	10.7	(1.5)	10.5	3.6
Corporate	275	10.7	8	10.7	37.1	(5.2)	36.8	(0.3)
Viet Nam								
Total	69,172	100.0	3.6	100.0	138.4	722.5	138.6	667.8
Government	63,322	91.5	3.3	91.5	135.2	754.6	135.4	697.8
Central Bank	0	0.0	0.0	0.0	—	—	—	—
Treasury and Other Govt	63,322	91.5	3.3	91.5	135.2	754.6	135.4	697.8
Corporate	5,850	8.5	0.3	8.5	179.9	485.0	180.2	446.1
Total Emerging East Asia								
Total	—	—	938	100.0	(11.7)	6.5	(12.6)	9.2
Government	—	—	779	83.1	(15.7)	9.7	(16.3)	12.5
Central Bank	—	—	571	60.9	(25.7)	13.4	(26.2)	16.4
Treasury and Other Govt	—	—	208	22.2	34.0	0.7	32.6	3.0
Corporate	—	—	159	16.9	14.8	(6.9)	11.3	(4.3)
Less PRC								
Total	—	—	522	100.0	(28.0)	(3.9)	(29.3)	(0.3)
Government	—	—	429	82.1	(33.7)	(4.6)	(34.5)	(1.1)
Central Bank	—	—	342	65.4	(38.9)	(7.0)	(39.6)	(3.9)
Treasury and Other Govt	—	—	87	16.7	(0.4)	6.4	(2.8)	11.4
Corporate	—	—	94	17.9	18.3	(0.8)	11.6	3.5
Japan								
Total	49,225	100.0	556	100.0	(3.9)	17.3	1.4	27.6
Government	45,264	92.0	511	92.0	(5.9)	21.2	(0.7)	31.8
Central Bank	0	0.0	0	0.0	—	—	—	—
Treasury and Other Govt	45,264	92.0	511	92.0	(5.9)	21.2	(0.7)	31.8
Corporate	3,961	8.0	45	8.0	27.7	(14.2)	34.7	(6.7)

— = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

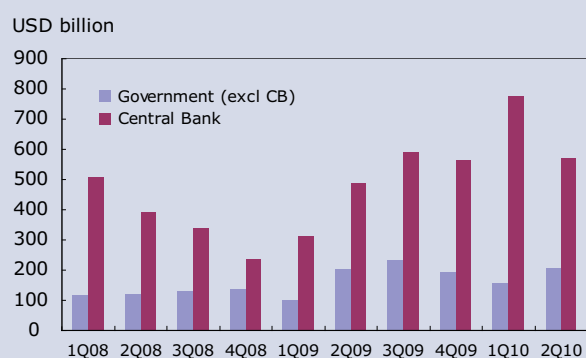
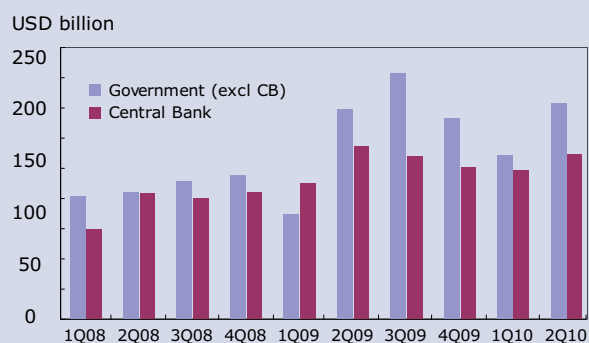
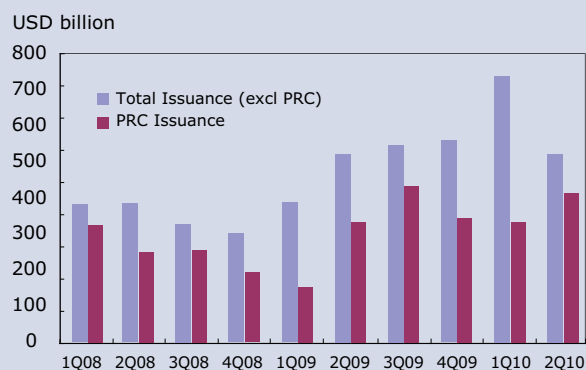
Notes:

1. Corporate bonds include issues by financial institutions.

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

3. For LCY-base, total emerging East Asia growth figures are based on end-June 2010 currency exchange rates and do not include currency effects.

Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Debt Management Office, Bank Indonesia, Indonesia Stock Exchange and Bloomberg LP); Republic of Korea (Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bloomberg LP); Singapore (Singapore Government Securities and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Figure 2a: Government and Central Bank Bond Issuance¹**Figure 2b: Government (excluding Central Bank) and Corporate Bond Issuance¹****Figure 2c: Total LCY Bond Issuance**

CB = Central Bank, LCY = local currency, PRC = People's Republic of China.

¹These data include both bonds and bills issued by governments and central banks as well as commercial paper issued by corporate entities. Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Debt Management Office, Bank Indonesia, and Bloomberg LP); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bloomberg LP); Philippines (Bloomberg LP); Singapore (Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

Bank Negara Malaysia (BNM) was the most active issuer among central banks in 2Q10. The issuance of BNM bills increased as the central bank mopped up excess liquidity in the market amid rising consumer price inflation. Issuance of BNM bills reached MYR68.2 billion in 2Q10 from MYR35.5 billion in 1Q09. Issuance by the People's Bank of China (PBOC), which accounted for 55.3% of total government bond issuance in the PRC, rose by 9.2% q-o-q in 2Q10.

Issuance by government entities (excluding central banks and monetary authorities) in 2Q10 was largely unchanged on a y-o-y basis, but rose significantly by 34% on a q-o-q basis, mainly due to a large increase in issuance from government entities in the PRC and—to a lesser extent—in Singapore and Viet Nam.

Corporate issuance in the region fell by 6.9% y-o-y, but rose by 14.8% on a q-o-q basis. The q-o-q rise in issuance was especially large in Korea, Malaysia, the Philippines, Thailand, and Indonesia. The trend of domestic companies borrowing more from local markets is a significant development that began during the recent global crisis and has continued as liquidity remains ample and the interest rate environment in the region remains benign.

Many of the trends described above are summarized in **Figure 2a**, which compares annual issuance by central banks and government entities (excluding central banks); **Figure 2b**, which compares issuance by governments (excluding central banks) and corporates; and **Figure 2c**, which compares total issuance in the region with issuance by entities in the PRC.

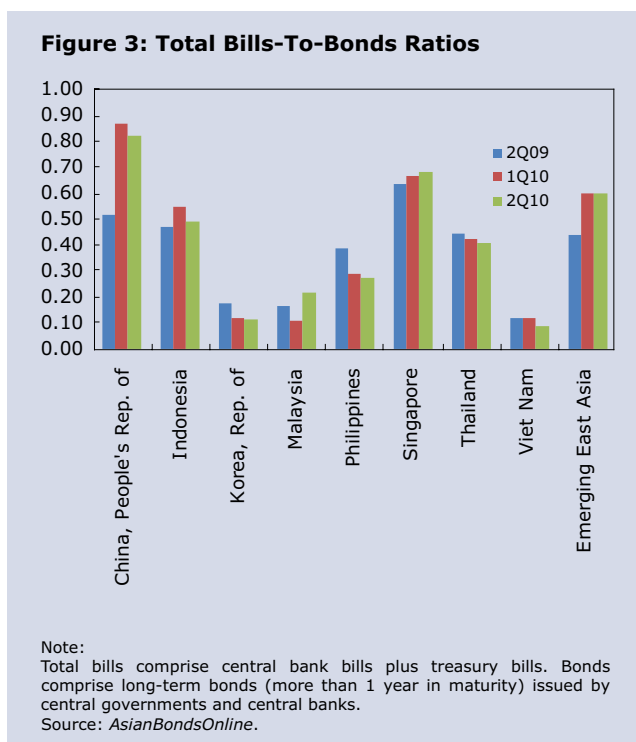
Money Market Trends and Bills-To-Bonds Ratios

The bills-to-bonds ratio for most emerging East Asian markets fell in 2Q10, mainly due to a fall in the ratio of central bank bills to bonds rather than the ratio of treasury bills to bonds, which remained broadly unchanged.

The total bills-to-bonds ratio, a key indicator of a government's funding structure, fell on a q-o-q basis in five out of the nine emerging East Asian markets in 2Q10 (**Figure 3**). This trend reflected a slight decline in the bills-to-bonds ratios for treasury bonds and bills in some markets. Most importantly, it reflected a sudden drop in the PRC's ratio of central bank bills to bonds—from 9.88 in 1Q10 to 6.37 in 2Q10—after this ratio had risen sharply from only 1.53 in 2Q09 (**Table 4**). The PRC's central bank bills-to-bonds ratio rose in 1Q10 due to a sudden increase in the issuance of central bank bills, while the PRC's stock of central bank bonds fell 50% from 2Q09 levels. In 2Q10, the PRC's stock of central bank bills rose by 3.0% q-o-q, while its stock of central bank bonds rose by almost 60%, albeit from a very small base. Both of these developments contributed to total central bank issuance from the PRC rising by 9.2% q-o-q in 2Q10 (Table 3).

The PBOC's stock of bonds outstanding in 1Q10 was only 10.1% of its stock of bills outstanding. In 2Q10, this increased to 15.7%. In 1Q09, the PBOC's ratio of bonds to bills had been nearly 80%. The PBOC's monetary policy over the last year has involved large increases in the issuance of bills, while its stock of bonds has generally fallen from early 2009 levels.

The PBOC's ratio of bills to bonds rose rapidly until 2Q10, in large part because it had ceased to issue new bonds (securities paying coupons) from the end of 2Q08 until the beginning of 2Q10. The PBOC resumed issuing bonds again in 2Q10, and the bills-to-bonds ratio fell somewhat, as described above. However, the PRC domestic money market looks upon PBOC bills and bonds as roughly



equivalent instruments with almost the same bid-ask spread, even though many PBOC bonds have a 3-year maturity and pay a coupon. In fact, the 3-year PBOC bond is referred to by many market participants as the 3-year PBOC bill. Thus, in the PRC market, the bills-to-bonds ratio for PBOC securities has less practical relevance than it does in other emerging East Asian markets.

The ratio of central bank bills to bonds fell slightly in Korea and Thailand in 2Q10 from 1Q10. In Korea, this was due to a 2.7% q-o-q reduction in the stock of central bank bills, while the stock of central bank bonds rose by 8.4%. In Thailand, the central bank bills-to-bonds ratio fell in 2Q10 due to an 8.3% q-o-q rise in central bank bonds outstanding, while central bank bills rose by only 4.8%.

The region's overall ratio of treasury bills to treasury bonds was virtually unchanged in 2Q10 at 0.12, compared with 0.11 in 1Q10. The stabilization of this ratio has been a consequence of the reduction in growth rates for both treasury bonds and bills in recent quarters, as governments appear to be

Table 4: Government Bills-to-Bonds Ratios of Emerging East Asian LCY Bond Markets

	2Q09		1Q10		2Q10		Government Bills to Bonds Ratio			Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	2Q09	1Q10	2Q10	2Q10		2Q10	
										q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)													
Total	1,351.5	100.0	1,418.6	100.0	1,516.6	100.0				6.2	11.4	6.9	12.2
Total Bills	471.6	34.9	670.5	47.3	695.8	45.9	0.54	0.90	0.85	3.1	46.5	3.8	47.5
Treasury Bills	103.4	7.6	88.6	6.2	92.1	6.1	0.16	0.13	0.13	3.3	(11.5)	3.9	(10.9)
Central Bank Bills	368.3	27.2	581.9	41.0	603.7	39.8	1.53	9.88	6.37	3.0	62.7	3.7	63.9
Total Bonds	879.9	65.1	748.0	52.7	820.8	54.1				9.0	(7.4)	9.7	(6.7)
Treasury Bonds	639.9	47.3	689.1	48.6	726.0	47.9				4.7	12.6	5.3	13.5
Central Bank Bonds	240.0	17.8	58.9	4.2	94.8	6.3				59.9	(60.8)	61.0	(60.5)
Hong Kong, China													
Total	37.2	100.0	80.4	100.0	85.7	100.0				6.9	131.4	6.6	130.3
Total Bills	28.4	76.2	69.9	86.9	74.6	87.1	3.20	6.65	6.74	7.1	164.4	6.8	163.2
Treasury Bills	0.0	0.0	0.0	0.0	0.0	0.0	—	—	—	—	—	—	—
Central Bank Bills	28.4	76.2	69.9	86.9	74.6	87.1	3.20	7.74	8.28	7.1	164.4	6.8	163.2
Total Bonds	8.9	23.8	10.5	13.1	11.1	12.9				5.6	25.7	5.3	25.1
Treasury Bonds	0.0	0.0	1.5	1.8	2.1	2.4				39.1	—	38.7	—
Central Bank Bonds	8.9	23.8	9.0	11.2	9.0	10.5				0.1	2.3	(0.1)	1.9
Indonesia													
Total	77.0	100.0	98.2	100.0	98.6	100.0				(0.1)	13.5	0.3	28.0
Total Bills	25.2	32.8	35.6	36.3	33.1	33.6	0.49	0.57	0.51	(7.5)	16.4	(7.1)	31.2
Treasury Bills	2.4	3.2	2.6	2.7	3.2	3.2	0.05	0.04	0.05	20.4	15.2	21.0	30.0
Central Bank Bills	22.8	29.6	33.0	33.6	29.9	30.4	—	—	—	(9.7)	16.5	(9.3)	31.3
Total Bonds	51.8	67.2	62.6	63.7	65.5	66.4				4.1	12.2	4.6	26.5
Treasury Bonds	51.8	67.2	62.6	63.7	65.5	66.4				4.1	12.2	4.6	26.5
Central Bank Bonds	0.0	0.0	0.0	0.0	0.0	0.0				—	—	—	—
Korea, Rep. of													
Total	348.9	100.0	418.6	100.0	393.0	100.0				1.4	8.1	(6.1)	12.7
Total Bills	53.8	15.4	46.2	11.0	41.6	10.6	0.18	0.12	0.12	(2.7)	(25.8)	(9.9)	(22.7)
Treasury Bills	0.0	0.0	0.0	0.0	0.0	0.0	—	—	—	—	—	—	—
Central Bank Bills	53.8	15.4	46.2	11.0	41.6	10.6	0.66	0.48	0.43	(2.7)	(25.8)	(9.9)	(22.7)
Total Bonds	295.0	84.6	372.3	89.0	351.4	89.4				2.0	14.3	(5.6)	19.1
Treasury Bonds	213.8	61.3	275.1	65.7	253.8	64.6				(0.3)	13.9	(7.7)	18.7
Central Bank Bonds	81.3	23.3	97.3	23.2	97.6	24.8				8.4	15.4	0.4	20.2
Malaysia													
Total	94.4	100.0	110.5	100.0	124.1	100.0				11.0	20.7	12.3	31.5
Total Bills	13.7	14.5	11.3	10.2	22.7	18.3	0.17	0.11	0.22	99.5	52.8	101.8	66.5
Treasury Bills	1.2	1.3	1.3	1.2	1.3	1.1	0.02	0.01	0.01	0.0	0.0	1.1	9.0
Central Bank Bills	12.4	13.2	9.9	9.0	21.4	17.3	—	—	—	112.8	58.0	115.2	72.2
Total Bonds	80.7	85.5	99.3	89.8	101.3	81.7				1.0	15.2	2.1	25.6
Treasury Bonds	80.7	85.5	99.3	89.8	101.3	81.7				1.0	15.2	2.1	25.6
Central Bank Bonds	0.0	0.0	0.0	0.0	0.0	0.0				—	—	—	—
Philippines													
Total	49.2	100.0	55.9	100.0	55.3	100.0				1.4	8.3	(1.1)	12.3
Total Bills	14.1	28.7	12.8	22.9	12.2	22.1	0.40	0.30	0.28	(2.0)	(16.5)	(4.5)	(13.5)
Treasury Bills	14.1	28.7	12.8	22.9	12.2	22.1	0.40	0.30	0.28	(2.0)	(16.5)	(4.5)	(13.5)
Central Bank Bills	0.0	0.0	0.0	0.0	0.0	0.0	—	—	—	—	—	—	—
Total Bonds	35.1	71.3	43.1	77.1	43.0	77.9				2.5	18.3	(0.1)	22.7
Treasury Bonds	35.1	71.3	43.1	77.1	43.0	77.9				2.5	18.3	(0.1)	22.7
Central Bank Bonds	0.0	0.0	0.0	0.0	0.0	0.0				—	—	—	—

continued on next page

Table 4 continued

	2Q09		1Q10		2Q10		Government Bills to Bonds Ratio			Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	2Q09	1Q10	2Q10	2Q10		2Q10	
										q-o-q	y-o-y	q-o-q	y-o-y
Singapore													
Total	79.9	100.0	90.5	100.0	91.7	100.0				1.2	10.7	1.3	14.8
Total Bills	31.8	39.8	37.0	40.8	38.0	41.5	0.66	0.69	0.71	2.7	15.4	2.8	19.7
Treasury Bills	31.8	39.8	37.0	40.8	38.0	41.5	0.66	0.69	0.71	2.7	15.4	2.8	19.7
Central Bank Bills	0.0	0.0	0.0	0.0	0.0	0.0	—	—	—	—	—	—	—
Total Bonds	48.1	60.2	53.5	59.2	53.7	58.5				0.1	7.6	0.2	11.5
Treasury Bonds	48.1	60.2	53.5	59.2	53.7	58.5				0.1	7.6	0.2	11.5
Central Bank Bonds	0.0	0.0	0.0	0.0	0.0	0.0				—	—	—	—
Thailand													
Total	110.4	100.0	137.4	100.0	143.8	100.0				4.9	23.9	4.7	30.3
Total Bills	34.9	31.6	41.9	30.5	42.9	29.8	0.46	0.44	0.43	2.5	16.9	2.3	22.9
Treasury Bills	8.3	7.5	6.4	4.7	5.8	4.0	0.15	0.09	0.08	(10.1)	(34.2)	(10.3)	(30.8)
Central Bank Bills	26.6	24.1	35.5	25.8	37.1	25.8	1.47	1.39	1.35	4.8	32.9	4.6	39.8
Total Bonds	75.5	68.4	95.4	69.5	100.9	70.2				6.0	27.1	5.8	33.7
Treasury Bonds	57.4	52.0	70.0	50.9	73.4	51.0				5.2	21.5	4.9	27.8
Central Bank Bonds	18.1	16.4	25.5	18.6	27.5	19.1				8.3	45.0	8.1	52.4
Viet Nam													
Total	5.8	100.0	4.9	100.0	6.3	100.0				30.1	16.1	30.2	8.4
Total Bills	0.6	11.0	0.5	10.9	0.5	8.3	0.12	0.12	0.09	(0.1)	(11.9)	0.0	(17.7)
Treasury Bills	0.6	11.0	0.5	10.6	0.5	8.2	0.12	0.12	0.09	(0.1)	(13.6)	0.0	(19.4)
Central Bank Bills	0.0	0.0	0.0	0.2	0.0	0.2	—	—	—	0.0	—	0.1	—
Total Bonds	5.2	89.0	4.3	89.1	5.8	91.7				33.8	19.6	33.9	11.6
Treasury Bonds	5.2	89.0	4.3	89.1	5.8	91.7				33.8	19.6	33.9	11.6
Central Bank Bonds	0.0	0.0	0.0	0.0	0.0	0.0				—	—	—	—
Total Emerging East Asia													
Total	2,154.3	100.0	2,414.9	100.0	2,515.1	100.0				5.1	14.0	4.1	16.7
Total Bills	674.1	31.3	925.7	38.3	961.6	38.2	0.46	0.62	0.62	3.8	39.8	3.9	42.6
Treasury Bills	161.9	7.5	149.3	6.2	153.1	6.1	0.14	0.11	0.12	2.4	(7.3)	2.6	(5.4)
Central Bank Bills	512.3	23.8	776.5	32.2	808.4	32.1	1.47	4.07	3.53	4.1	54.7	4.1	57.8
Total Bonds	1,480.2	68.7	1,489.2	61.7	1,553.5	61.8				5.9	2.3	4.3	5.0
Treasury Bonds	1,131.9	52.5	1,298.5	53.8	1,324.5	52.7				3.2	13.7	2.0	17.0
Central Bank Bonds	348.2	16.2	190.7	7.9	229.0	9.1				24.6	(35.3)	20.1	(34.2)
Less PRC													
Total	802.8	100.0	996.3	100.0	998.5	100.0				3.5	18.1	0.2	24.4
Total Bills	202.5	25.2	255.2	25.6	265.8	26.6	0.34	0.34	0.36	5.7	25.1	4.1	31.2
Treasury Bills	58.5	7.3	60.7	6.1	61.0	6.1	0.12	0.10	0.10	1.1	0.0	0.6	4.3
Central Bank Bills	144.0	17.9	194.6	19.5	204.8	20.5	1.33	1.48	1.53	7.1	35.2	5.3	42.2
Total Bonds	600.3	74.8	741.1	74.4	732.7	73.4				2.7	15.8	(1.1)	22.1
Treasury Bonds	492.1	61.3	609.3	61.2	598.5	59.9				1.6	15.0	(1.8)	21.6
Central Bank Bonds	108.2	13.5	131.8	13.2	134.2	13.4				7.8	19.3	1.8	24.1
Japan													
Total	7,074.5	100.0	7,665.2	100.0	8,236.8	100.0				1.9	7.1	7.5	16.4
Total Bills	233.6	3.3	352.1	4.6	386.6	4.7	0.03	0.05	0.05	4.1	52.2	9.8	65.5
Treasury Bills	233.6	3.3	352.1	4.6	386.6	4.7	0.03	0.05	0.05	4.1	52.2	9.8	65.5
Central Bank Bills	0.0	0.0	0.0	0.0	0.0	0.0	—	—	—	—	—	—	—
Total Bonds	6,840.9	96.7	7,313.1	95.4	7,850.1	95.3				1.8	5.5	7.3	14.8
Treasury Bonds	6,840.9	96.7	7,313.1	95.4	7,850.1	95.3				1.8	5.5	7.3	14.8
Central Bank Bonds	0.0	0.0	0.0	0.0	0.0	0.0				—	—	—	—

— = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

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

2. For LCY-base, total emerging East Asia growth figures are based on end-June 2010 currency exchange rates and do not include currency effects.

3. Total figures per market refer to bills and bonds issued by the central government and the central bank. It excludes bonds issued by policy banks and state-owned enterprises. Bills are defined as securities with original maturities of less than 1 year.

Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bloomberg LP); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); Singapore (Monetary Authority of Singapore); Thailand (Bloomberg LP); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

easing up on their respective economic stimulus programs. The overall modest decline of the region's central bank bills-to-bonds ratio in 2Q10 indicates that central banks and monetary authorities in the region may have cut back on sterilization.

Foreign Holdings

Foreign holdings of local domestic bonds continue to soar as investors chase yields, seek to participate in the region's economic recovery, and make additional gains from the anticipated appreciation of regional currencies.

At the end of July, foreigners held 27.4% of Indonesian government debt (**Figure 4**). High yields and better economic prospects continued to attract foreign investors to Indonesian government bonds. Meanwhile, the portion of foreign holdings was 18.1% in Malaysia, 7.4% in Korea, and 4.2% in Thailand. Malaysian government securities are seeing increased attention from foreign investors due to expectations of further appreciation of the Malaysian ringgit.

Korea has seen a substantial rise in its foreign holdings this year, reflecting the (i) removal of the

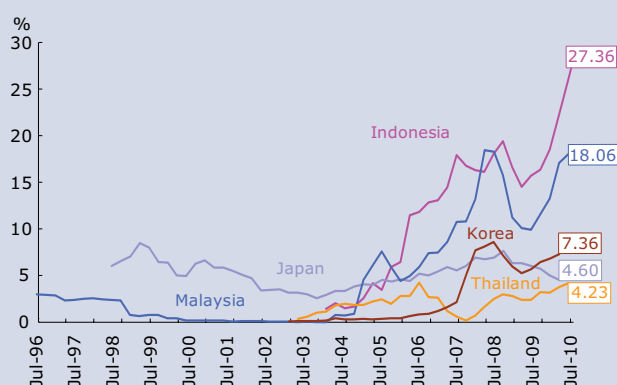
withholding tax on government bonds in May of last year; (ii) improving performance of the KTB futures market, which makes it easier for market participants to hedge their investment positions; and (iii) PRC government seeking to diversify its foreign exchange holdings. The PRC's holdings of KTBs surged 111% to KRW4.0 trillion in June from KRW1.9 trillion in December. The PRC's share at the end of 2Q10 accounted for about 10% of total foreign holdings of KTBs.

Maturity Profiles

The maturity profile for most emerging East Asian government markets has changed little since 4Q09.

Maturities are concentrated at the shorter-end of the yield curve in Hong Kong, China; Korea; and Viet Nam. These three markets, as well as markets in Malaysia and the Philippines, have 10% or less of their bonds outstanding in maturities of more than 10 years. The PRC, Thailand, and Singapore have a proportionately larger share of their bonds outstanding in maturities greater than 10 years. Indonesia, however, has structured its debt so that maturities of more than 10 years are the largest segment of its market (**Figure 5**). It remains to be seen whether the region's governments will take advantage of lower bond yields to reduce the magnitude of their respective shorter-term maturities in the remaining months of 2010.

Figure 4: Foreign Holdings of LCY Government Bonds (% of total)



LCY = local currency.

Note: Data for the Republic of Korea and Japan as of March 2010; Malaysia and Thailand as of June 2010; and Indonesia as of July 2010.

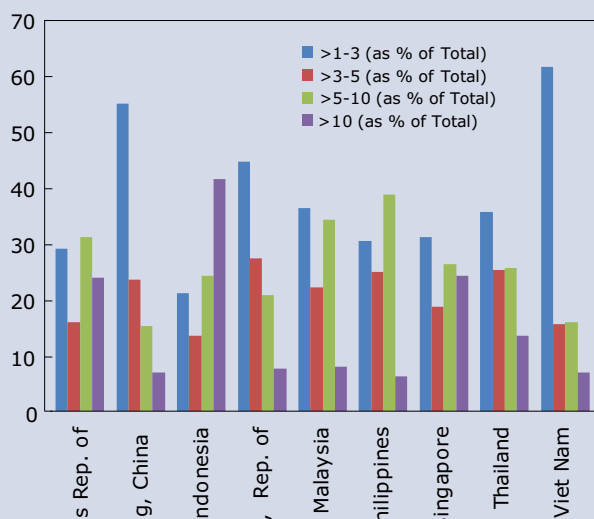
Source: *AsianBondsOnline*.

Bond Turnover Ratios

The increase in government bond turnover ratios for Hong Kong, China; Korea; Thailand; and the Philippines reflected specific economic and political developments in each of these markets in 2Q10.

In keeping with the experience from most quarters over the last several years, turnover ratios for government bonds (**Figure 6a**) in 2Q10 were much higher than for corporate bonds (**Figure 6b**) in all of the region's markets, except the PRC. However, turnover among government bonds varied greatly.

Figure 5: Maturity Profiles
(individual maturities as % of total)



Source: AsianBondsOnline.

Quarterly government bond turnover ratios in 2Q10 fell in four markets—Hong Kong, China; Korea; the Philippines; and Thailand—but rose in the other four markets surveyed—the PRC, Indonesia, Malaysia, and Singapore. As has been the case in the past, the turnover ratio for government bonds in Hong Kong, China was higher than all other markets by a factor of 10 or more. Most of Hong Kong, China’s government debt consists of EFBNs issued by the HKMA for monetary policy purposes. EFBNs are important for bank liquidity management purposes since they can be used as collateral when borrowing from the HKMA through repurchase agreements. Another factor contributing to the high liquidity of EFBNs is that they can be used as margin collateral for stock options and futures trading.

Recent changes in Hong Kong, China’s market, especially the PRC’s efforts to expand the role of the yuan in currency trading and bond purchases, also seem to be benefiting liquidity in this market.

Traditional patterns reasserted themselves once again in the turnover ratios for the region’s corporate bonds. The quarterly turnover ratio for the PRC’s corporate bonds was larger than most other markets by a factor of four or more. In fact, the PRC’s corporate bond turnover ratio in 2Q10 was slightly higher than that for most other emerging East Asian governments. Furthermore, the PRC’s corporate bond turnover ratio rose slightly in 2Q10, as did the turnover ratio in most other markets. Only the quarterly turnover ratios for Korea and Thailand declined.

Figure 6a: Quarterly Government Bond Turnover Ratios¹

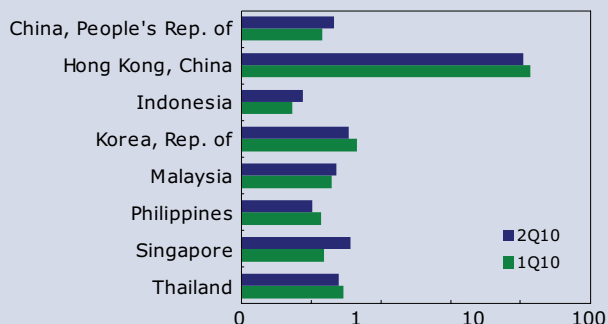
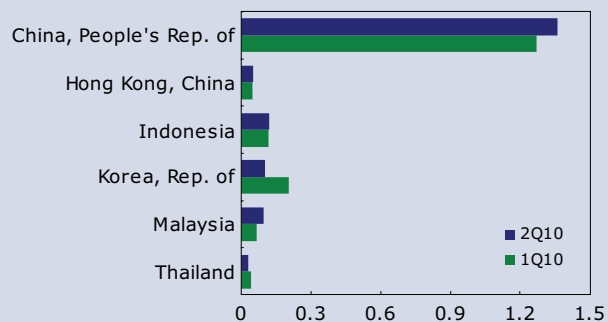


Figure 6b: Quarterly Corporate Bond Turnover Ratios¹



¹ Calculated as local currency (LCY) trading volume (sales amount only) divided by average LCY value of outstanding bonds during each 3-month period.

Figure 6a is based on a logarithmic scale.

Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange); Republic of Korea (Bloomberg, LP and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); Singapore (Monetary Authority of Singapore and Singapore Government Securities); and Thailand (Bank of Thailand and Thai Bond Market Association).

Bond Yield Curves

Yield curves for LCY government bonds in emerging East Asia have continued to flatten since the end of 2009 and, in some cases, have shifted downward.

The uncertain global economic outlook, low interest rates in developed markets, and flush global liquidity have combined to benefit LCY bonds in emerging East Asia. Foreign fund flows into local markets have accelerated as investors extend duration in search for yields.

Most LCY yield curves have flattened, especially at the long-end, in the past few months as demand for government bonds emerged stronger in recent quarters on a combination of factors, including (i) attractive yields and a strong regional growth trajectory in the face of simmering uncertainty over the global economic outlook, (ii) reserve diversification demand from central banks, (iii) anticipation of appreciation of regional currencies, and (iv) availability of improved hedging and risk management products (**Figure 7**).

These factors have led to a bullish flattening of yield curves in most markets. However, the exact path of yield compression since end-December 2009 differs from market to market:

- (i) Government bond yield curves for the PRC, Philippines, Malaysia, Singapore, and Thailand have flattened from the belly to the long-end of the curve.
- (ii) In the Philippines, yields beyond 5 years have fallen since the conclusion of the May presidential election, which resolved earlier concerns over political uncertainty.
- (iii) The Indonesian yield curve flattened from the short-end through the very long-end of the curve.
- (iv) The yield curves for Hong Kong, China and Korea have simply shifted downward over

most of their respective lengths, except at their very short-ends.

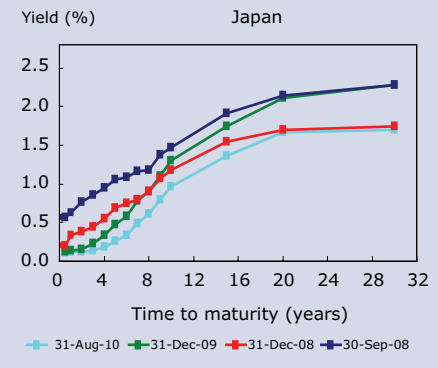
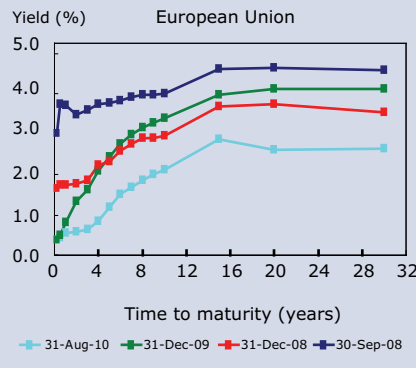
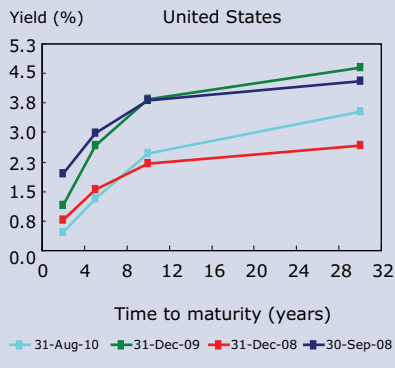
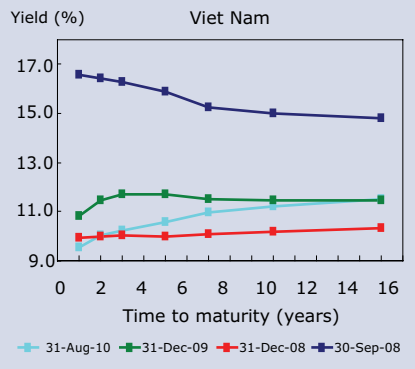
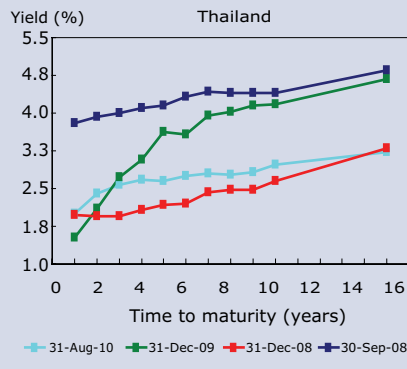
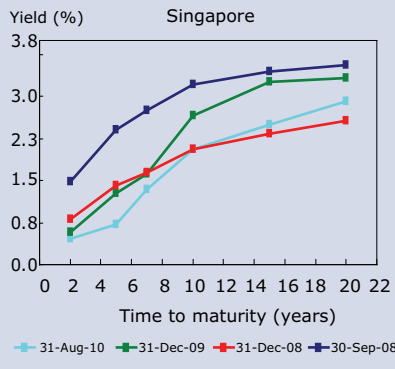
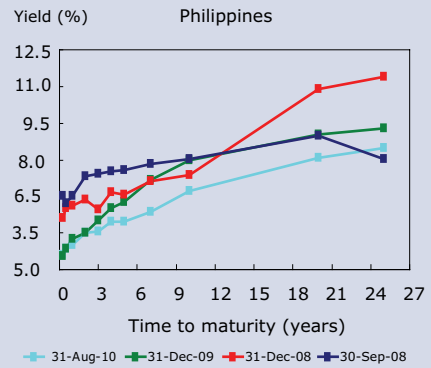
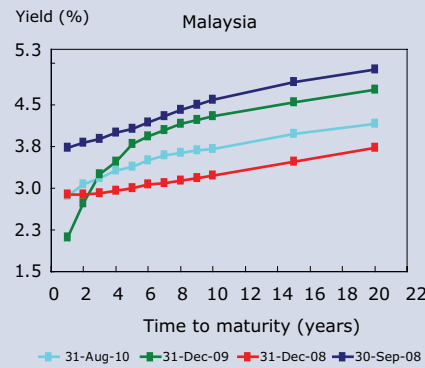
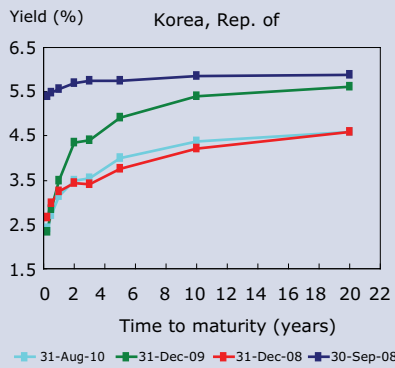
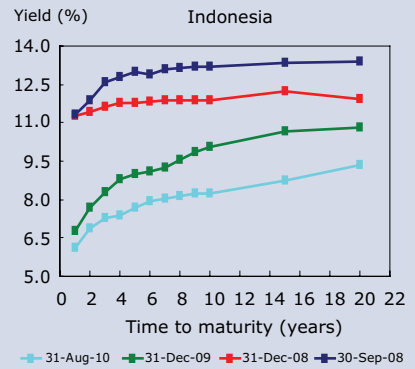
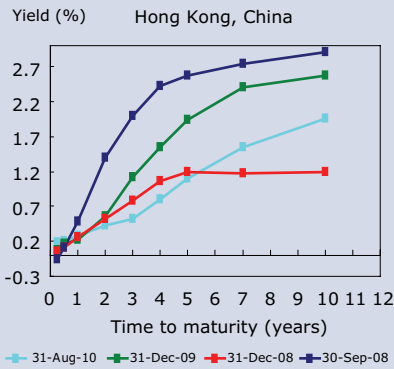
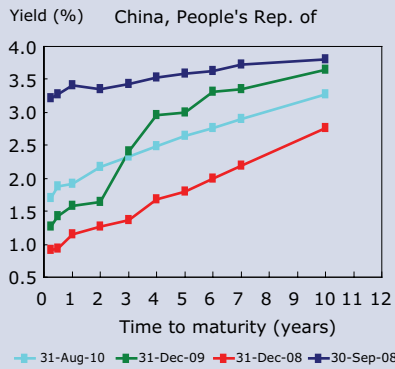
- (v) The Vietnamese yield curve steepened along most of its curve, with the steepening being most dramatic for maturities under 5 years.

This underlying trend of declining long-term yields since the end of 2009, while short-term yields rose in some markets—including the PRC, Malaysia, and Thailand—has resulted in a decline of the spread between 2- and 10-year government bonds in most emerging East Asian bond markets (**Figure 8**). The only market to experience a rise in its spread since the end of 2009 was Viet Nam.

The near-term outlook for government bond yields is that they may flatten further out along the curve as Asian central banks, while generally tightening monetary policy, have adopted a cautious growth outlook for the second half of 2010 and 2011. Most central banks in the region seem to have concluded their normalization phase. BNM raised its policy rate by 25 basis points in February, May, and July for a total increase of 75 basis points. The central banks of Korea and Thailand have each raised their policy rate once by 25 basis points (**Figure 9**). Most central banks and monetary authorities in the region, however, are likely to wait before making further adjustments to their monetary policy stance. Although economic growth in the region has held up well this year, and price levels are beginning to rise in some markets (largely due to rising food prices), the economic outlook for Europe and the United States (US) remains uncertain, and Asian policymakers are concerned about the possible impact on their respective export sectors.

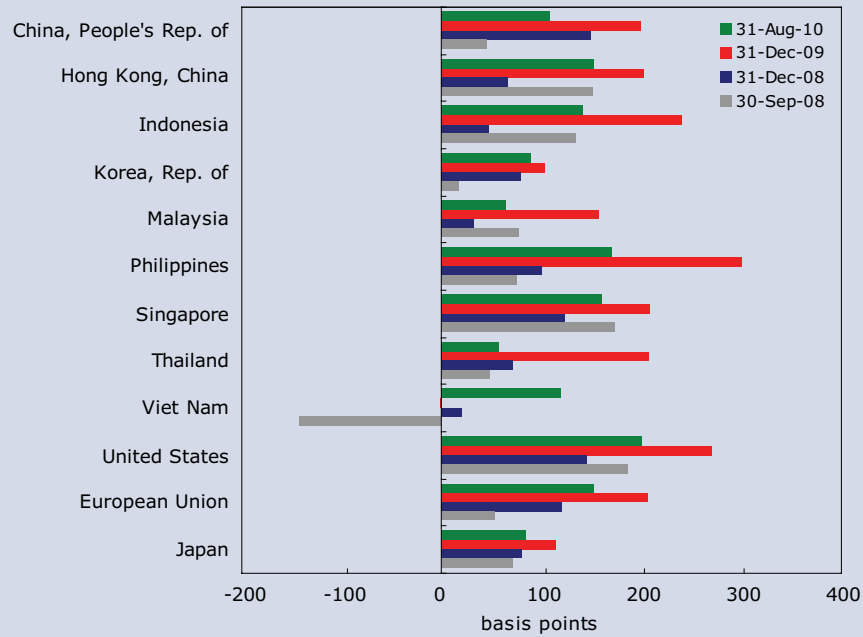
Current inflation trends in the region are more or less stable (**Figure 10**). Some countries are either allowing their currencies to appreciate modestly, or are at least managing their exchange rate as an effective anti-inflationary tool. However a snapback in inflation might push yields higher in some markets.

Figure 7: Benchmark Yield Curves—LCY Bonds



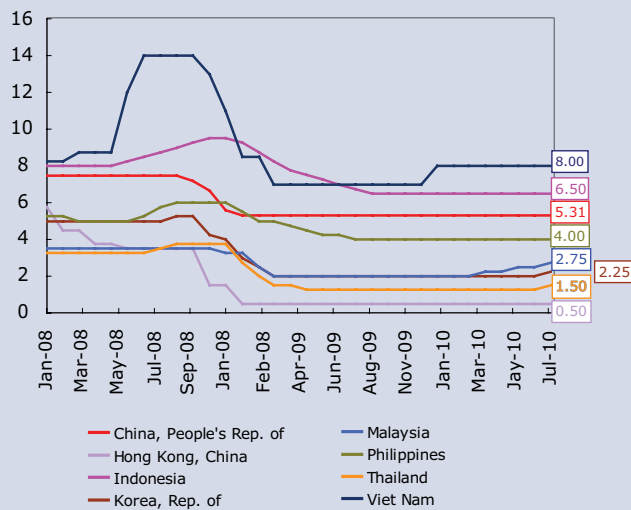
LCY = local currency.
Source: Based on data from Bloomberg LP.

Figure 8: Yield Spreads Between 2- and 10-Year Government Bonds



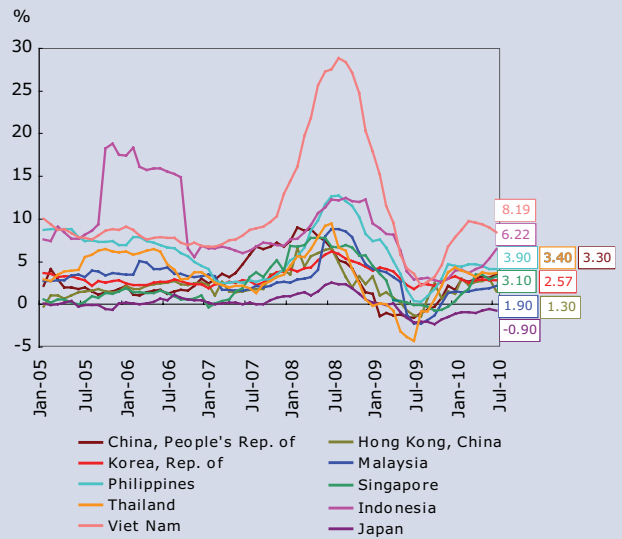
Source: Based on data from Bloomberg LP.

Figure 9: Policy Rates (July 2010)



Source: Bloomberg LP except for Viet Nam (State Bank of Viet Nam).

Figure 10: Headline Inflation Rates (July 2010)



Source: Bloomberg LP.

G3 Currency Issuance

G3 currency issuance remains on track this year in emerging East Asia compared with 2009, having reached USD46.3 billion in August.

New issuance of bonds in G3 currencies in 2010 remains broadly on track to equal—if not exceed—the record USD63.2 billion of new G3 currency issuance in 2009. New issuance in G3 currencies reached USD31.8 billion in the first half of the year and increased an additional USD14.5 billion between 1 July and 20 August (**Table 5**). This upsurge in G3 currency issuance reflected the return of investor appetite for the bonds of major Asian governments, corporations, and financial institutions; a renewed search for yield; and low US interest rates. For example, low US interest rates have allowed many banks and corporations in Korea to issue bonds at lower coupons.

Korea accounted for the largest amount of new G3 currency issuance between the beginning of the year and August at USD15.95 billion. The largest group of issuers in Korea were banks; the Export-Import Bank of Korea issued two bonds for a total of USD2.25 billion in the first half of the year, while the Korea Development Bank and Shinhan Bank issued bonds of USD750 million and USD700 million, respectively. In July and August, Woori Bank issued a bond for USD600 million, while Korea Exchange Bank, Korea Housing Finance Corp., and the National Agricultural Cooperative Federation each issued bonds of USD500 million.

The next largest issuers of G3 currency bonds through mid-August were the PRC and Hong Kong, China. The PRC's total G3 issuance amounted to USD7.9 billion and contained a number of prominent real estate developers. Issuance out of Hong Kong, China amounted to USD7.4 billion, including two issues from Bank of China (Hong Kong) totaling USD2.5 billion. Meanwhile, the Viet Nam sovereign issued a USD1.0 billion bond. And finally, the Philippine government issued two bonds, one of which was a *samurai* issue, totaling USD1.7 billion.

Bond Market Returns

Returns on LCY bonds for most markets have been buoyant in 2010, with Indonesia, the Philippines, and Thailand posting the largest gains.

The Asian Bond Fund (ABF) Pan Asian Bond Index has gained 7.9% to date in 2010, compared with 5.0% for all of 2009 (**Table 6**). Indonesian bonds were the best performers, gaining 15.0%, followed by the Philippines (9.3%) and Thailand (7.5%).

The year-to-date returns for emerging East Asia's bond market have in many cases been overtaken by returns in individual equity markets (**Table 7**). The equity markets of Indonesia, Malaysia, the Philippines, and Thailand have all delivered double-digit returns. The only negative performance in the equity markets was from the PRC and Singapore, while Hong Kong, China and Korea delivered low single-digit returns.

The appreciation of the region's currencies in 2010 has helped to push up returns on LCY bonds (**Table 8**). The Indonesian rupiah and Malaysian ringgit both gained slightly more than 10% against the US dollar between end-December and end-August. This appreciation contributed to Indonesia's status as the best performing segment of the ABF iBoxx Index in 2010, and also helped the Malaysian segment of the index perform well on a USD-unhedged basis. Almost all currencies in emerging East Asia have performed well versus the US dollar in 2010. The Philippine peso and the Singapore dollar have appreciated 6%–7% to date, while the Thai baht has appreciated 8.4%. Currency appreciation would also seem to be a factor in the individual equity markets that have performed better than the region as a whole in 2010, especially Indonesia, the Philippines, and Thailand.

Table 5: G3 Currency Bond Issuance (1H10 and 1 July–20 August 2010)

Issued 1H10			Issued 1 July–20 August 2010		
Issuer	USD million	Issue Date	Issuer	USD million	Issue Date
China, People's Rep. of	4,770		China, People's Rep. of	3,100	
Evergrande 13% 2015	1,350	27-Jan-10	Sino-Ocean Land Capital 8.0% Perpetual	900	27-Jul-10
Agile Property 8.875% 2017	650	28-Apr-10	China Resources Power 3.75% 2015	500	3-Aug-10
MCE Finance 10.25% 2017	600	17-May-10	Shimao Property 9.65% 2017	500	3-Aug-10
Country Garden 11.25% 2017	550	22-Apr-10	China Development Bank 1.6331% 2013	400	15-Jul-10
Citic Bank 6.875% 2020	500	24-Jun-10	Country Garden 10.5% 2015	400	11-Aug-10
Others	1,120		Others	400	
Hong Kong, China	5,405		Hong Kong, China	2,002	
Bank of China (Hong Kong) 5.55% 2020	1,600	11-Feb-10	Bank of East Asia 6.125% 2020	600	16-Jul-10
Bank of China (Hong Kong) 5.55% 2020	900	19-Apr-10	China Oriental 8.0% 2015	550	18-Aug-10
Li & Fung 5.25% 2020	750	13-May-10	Noble Group 4.875% 2015	500	5-Aug-10
Fita International 7.0% 2020	750	10-Feb-10	Others	352	
CLP Power 4.75% 2020	500	19-Mar-10			
Others	905		Indonesia	1,100	
Indonesia	4,004		Indosat 7.375% 2020	650	29-Jul-10
Indonesia Sovereign 5.875% 2020	2,000	19-Jan-10	Berau Capital Resources 12.5% 2015	450	8-Jul-10
Star Energy 11.5% 2015	350	12-Feb-10			
Listrindo Capital 9.25% 2015	300	29-Jan-10	Korea, Rep. of	5,118	
Others	1,354		Woori Bank 4.75% 2016	600	20-Jul-10
Korea, Rep. of	10,833		Korea Exchange Bank 4.875% 2016	500	14-Jul-10
Export-Import Bank of Korea 5.125% 2020	1,250	29-Jun-10	Korea Housing Finance Corp. 4.125% 2015	500	15-Jul-10
Export-Import Bank of Korea 4.125% 2015	1,000	9-Mar-10	Korea National Oil Corp. 1.72469% 2013	500	19-Jul-10
Korea Development Bank 4.375% 2015	750	10-Feb-10	NACF 4.25% 2016	500	28-Jul-10
Shinhan Bank 4.375% 2015	700	15-Mar-10	Industrial Bank of Korea (<i>Samurai</i>) 1.7% 2012	361	23-Jul-10
Hana Bank 4.5% 2015	500	30-Apr-10	Korea Development Bank (<i>Samurai</i>) 1.48% 2012	261	1-Jul-10
Woori Bank 4.5% 2015	500	7-Apr-10	Others	1,896	
Hynix Semiconductor 2.65% 2015	500	14-May-10	Malaysia	0	
Hyundai Motors 4.5% 2015	500	15-Apr-10	Philippines	800	
Others	5,133		Alliance Global 6.5% 2017	500	18-Aug-10
Malaysia	1,950		FPMH Finance 7.375% 2017	300	23-Jul-10
1Malaysia <i>Sukuk</i> 3.928% 2015	1,250	4-Jun-10	Singapore	1,646	
Others	700		STATS ChipPAC 7.5% 2015	600	12-Aug-10
Philippines	2,829		PSA International 3.875% 2021	500	11-Aug-10
Philippines Sovereign (<i>Samurai</i>) 2.32% 2020	1,070	2-Mar-10	Olam International 7.5% 2020	250	12-Aug-10
Philippines Sovereign 6.5% 2020	650	13-Jan-10	Others	296	
International Container Terminal 7.375% 2020	450	17-Mar-10	Thailand	700	
Others	658		PTTEP Australia International Finance 4.152% 2015	500	19-Jul-10
Singapore	845		PTTEP Australia International Finance 4.152% 2015	200	4-Aug-10
CMT MTN 4.321% 2015	500	8-Apr-10	Viet Nam	0	
Others	345		Emerging East Asia Grand Total	14,466	
Thailand	200		Memo Item:		
Export-Import Bank 0.9% 2015	200	14-Jan-10	India	2,330	
Viet Nam	1,000		State Bank of India (London) 4.5% 2015	1,000	27-Jul-10
Viet Nam Sovereign 6.75% 2020	1,000	29-Jan-10	ICICI Bank 5.0% 2016	500	15-Jul-10
Emerging East Asia Grand Total	31,835		Union Bank of India 4.625% 2016	400	11-Aug-10
Memo Item:			Others	430	
India	3,579				
Vedanta Resources 4.0% 2017	883	30-Mar-10			
Bank of India (London) 4.75% 2015	500	31-Mar-10			
IndianOil 4.75% 2015	500	22-Jan-10			
Others	1,696				

Sources: Compilation from newspaper and wire reports.

Table 6: iBoxx Asia Bond Fund Index Family Returns

Market	Modified Duration (years)	2009 Returns (%)		2Q10 Returns (%)		2010 YTD Returns (%)	
		LCY Total Return Index	USD Unhedged Total Return Index	LCY Total Return Index	USD Unhedged Total Return Index	LCY Total Return Index	USD Unhedged Total Return Index
China, People's Republic of	6.00	(0.64)	(0.69)	3.18	3.73	4.39	4.65
Hong Kong, China	3.75	(0.76)	(0.82)	2.17	1.79	3.79	3.45
Indonesia	5.40	20.22	35.61	11.80	15.50	15.03	18.90
Korea, Rep. of	3.68	1.94	9.73	4.36	(0.40)	6.77	3.91
Malaysia	4.67	0.48	1.64	2.87	8.15	4.47	13.20
Philippines	4.28	9.00	11.88	4.54	4.27	9.27	11.08
Singapore	5.57	0.48	3.06	3.52	3.68	5.17	8.29
Thailand	5.05	(3.47)	0.73	5.85	8.60	7.48	13.76
Pan-Asian Index	4.81	—	5.00	—	4.44	—	7.85
HSBC ALBI	8.18	—	6.13	—	4.61	—	7.74
US Govt 1-10 years	3.91	—	(1.38)	—	4.76	—	6.74

— = not applicable, ALBI = Asian Local Bond Index, LCY = local currency, US = United States.

Notes:

1. The Asian Bond Fund (ABF) indices contain only government debt and government-guaranteed debt obligations.
2. Market bond indices are from iBoxx Index Family. 2010 returns are year-to-date as of 31 August 2010.
3. Annual return is computed for each year using natural logarithm of end-of-year index value/beginning year index value.
4. Duration is as of 31 August 2010.

Source: *AsianBondsOnline* and Bloomberg LP.

Table 7: MSCI Index Returns

Market	2008 Returns (%)		2009 Returns (%)		2010 YTD Returns (%)	
	LCY terms	USD terms	LCY terms	USD terms	LCY terms	USD terms
China, People's Rep. of	(52.23)	(51.94)	58.89	58.80	(6.04)	(6.34)
Hong Kong, China	(53.16)	(52.88)	55.28	55.20	1.34	1.02
Indonesia	(50.76)	(57.57)	90.27	120.75	11.92	16.38
Korea, Republic of	(40.62)	(55.87)	56.63	69.42	2.23	(0.71)
Malaysia	(40.77)	(43.39)	46.25	47.78	10.57	20.64
Philippines	(46.77)	(53.79)	55.79	60.24	11.42	13.56
Singapore	(49.50)	(49.55)	63.02	67.29	(0.29)	3.33
Thailand	(48.72)	(50.34)	63.00	70.04	17.99	25.70
Far East ex-Japan Index	(48.14)	(51.96)	60.32	65.01	(1.48)	(1.34)
MSCI USA	—	(38.58)	—	24.20	—	(5.92)

— = not applicable, LCY = local currency.

Notes:

1. Market indices are from MSCI country indexes. 2010 returns are year-to-date as of 31 August 2010.
2. Far East ex Japan includes PRC; Hong Kong, China; Indonesia; Korea, Rep. of; Malaysia; Philippines; Singapore; Taipei, China; and Thailand.

Source: *AsianBondsOnline* and Bloomberg LP.

Table 8: Appreciation (Depreciation) of Emerging East Asian Currencies (%)

Currency	2008	2009	2Q10		as of 31 Aug 2010	
	y-o-y	y-o-y	y-o-y	q-o-q	y-o-y	q-o-q
CNY	6.7	(0.02)	0.7	0.7	0.3	(0.4)
HKD	0.6	(0.04)	(0.5)	(0.3)	(0.4)	0.1
IDR	(18.7)	17.8	12.0	0.5	10.8	0.1
KRW	(29.7)	8.4	4.1	(7.7)	4.3	2.0
MYR	(4.5)	0.6	8.6	1.1	11.2	2.4
PHP	(13.9)	2.7	3.6	(2.6)	7.4	2.3
SGD	0.1	2.2	3.6	0.1	6.2	3.1
THB	(3.1)	3.9	5.0	(0.2)	8.4	3.6
VND	(8.8)	(5.5)	(6.9)	0.1	(8.9)	(2.2)
JPY	20.8	(2.6)	8.4	5.3	9.9	5.2

q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Note: Appreciation (depreciation) is computed as follows: $-\ln(\text{end-of-period rate}/\text{start-of-period rate}) \times 100$.

Source: Bloomberg LP.