

Highlights

- Concerns have been mounting that the global economic recovery and stabilization of world financial markets, which has been underway since the last half of 2009, may stutter as vulnerabilities persist in mature economies.
- Emerging East Asian¹ economies have thus far not been significantly impacted by the sovereign debt crisis in Europe or concerns about the pace of recovery in the United States. Flush liquidity in global markets and higher returns in emerging East Asia's local markets is attracting capital inflows.
- Emerging East Asia's local currency (LCY) bond market grew at a rapid rate of 18.8% year-on-year (y-o-y) in 2Q10 and 5.1% quarter-on-quarter (q-o-q).
- The government bond market grew by 16.7% y-o-y in 2Q10, while the corporate bond market grew at a more rapid rate of 24.4% y-o-y. The q-o-q growth rates of the government and corporate bond markets were almost identical at 5.1% and 5.0%, respectively.
- Emerging East Asia's most rapidly growing LCY corporate bond markets in 2Q10 were in Viet Nam, the People's Republic of China (PRC), the Philippines, and Indonesia.
- New issuance in the emerging East Asian LCY bond market in 2Q10 grew 6.5% y-o-y, but declined 11.7% q-o-q, mainly driven by a q-o-q decline in central bank issuance due to a reduction in sterilization activities, as most regional currencies—with the exceptions of the Korean won and Philippine peso—remained stable in 2Q10 compared with 1Q10.
- The region's most active corporate bond issuers in 2Q10—both publicly-owned companies and private corporations—were found in the financial and infrastructure sectors.
- Foreign currency bond issuance from the region remained on track to equal—or even exceed—the USD63.2 billion of new issuance in 2009. The strong appetite for new G3 currency issuance reflected sustained investor interest in the bonds of major Asian governments, corporations, and financial institutions.
- Yield curves on LCY government bonds in emerging East Asia have flattened since the end of 2009—and, in some cases, shifted downward—as flush global liquidity and low interest rates in mature markets spurred foreign investment in local markets.
- Foreign participation in local bond markets has accelerated as investors hunt for yields and extend duration.
- Higher-grade corporate bond credit spreads have declined since end-December 2009, while credit spreads for lower-rated corporates have generally declined only at the short-end of their respective curves and, in some cases, have risen.
- Risks to the market outlook in the region, which are now tilted to the downside, include (i) a sharp slowdown in mature economies, (ii) destabilizing capital flows, and (iii) a rise in inflationary pressures.
- At the end of 1Q10, emerging East Asia's share of the global bond market stood at 7.4%, compared with 2.1% before the onset of the 1997/98 Asian financial crisis. The region's two largest bond markets—the PRC and Korea—accounted for 4.2% and 1.7% of the global total, respectively.
- Emerging East Asia's corporate bond market increased its share of the global corporate bond market to 4.9% at end-March 2010 from 4.4% at end-December 2009. The region's government bond market increased its share of the global government bond market to 9.4% at end-March from 9.2% at end-December.

¹ Emerging East Asia comprises China, People's Republic of; Hong Kong, China; Indonesia; Korea, Republic of; Malaysia; Philippines; Singapore; Thailand; and Viet Nam.