Market Summaries

People's Republic of China—Update

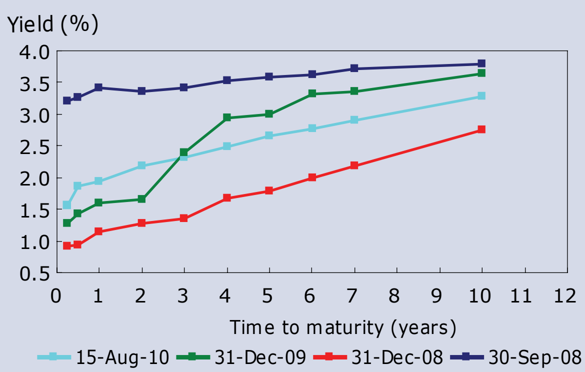
Yield Movements

The government bond yield curve for the People's Republic of China (PRC) flattened between end-December 2009 and mid-August 2010. Yields for maturities ranging from 3 months to 2 years rose significantly, while yields fell for maturities further out along the curve. At the short-end of the curve, yield increases ranged from a low of 29 basis points for the 3-month tenor to a high of 54 basis points for the 2-year tenor. Meanwhile, the yield on the 3-year tenor declined slightly by 8 basis points, while yields posted hefty declines at the longer-end of the curve, ranging from 34 basis points for 5-year bonds to 55 basis points for 6-year bonds **(Figure 1)**.

Due to the rise in short-term yields and a decline in yields for longer-term bonds, the spread between 2- and 10-year government bonds decreased to 110 basis points in mid-August from 199 basis points at end-December.

In 2Q10, the PRC's gross domestic product (GDP) growth rate moderated to 10.3% year-on-year (y-o-y) after having surged to 11.9% in 1Q10. Economic data releases in July pointed towards a continuing moderation of economic growth. Industrial output grew at 13.4% y-o-y in July, down from 13.7% in June. Cumulative (year-to-date) urban fixed-asset investment through July rose 24.9% compared with the same period in 2009. However, for the first 6 months of the year, cumulative urban fixed-asset investment grew 25.5% y-o-y. Finally, new loans extended in July amounted to CNY532.8 billion, compared with CNY603.4 billion in June.

Figure 1: People's Republic of China's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Consumer price inflation stood at 3.1% y-o-y in May, fell to 2.9% in June, and then rose to 3.3% in July. The July spike in inflation was expected to be temporary, as it was largely driven by rising food prices brought on by crop destruction due to recent floods. Despite this, inflationary pressures remain due to wage increases earlier in the year and the large amounts of liquidity still in the financial system. The People's Bank of China (PBOC), which in the first half of the year increased requirements for banks' reserve ratios three separate times in an effort to curb loan growth and asset price inflation, maintained its 1-year lending and deposit rates at 5.31% and 2.25%, respectively.

Size and Composition

The outstanding amount of local currency (LCY) bonds in the PRC reached CNY19.3 trillion at the end of June, representing a y-o-y increase of 22.5% and a quarter-on-quarter (q-o-q) rise of 6.9% **(Table 1)**.

Government bonds outstanding increased 17.0% y-o-y and 6.0% q-o-q in 2Q10, while corporate bonds rose 52.7% y-o-y and 10.4% q-o-q. In the government sector, policy bank bonds posted the highest y-o-y increase, growing 25.1%, followed by central bank and

Table 1: Size and Composition of the LCY Bond Market in the PRC

	Amount (billion)								**Growth Rates** (%)						
	Mar-10		**Apr-10**		**May-10**		**Jun-10**		**Mar-10**		**Apr-10**	**May-10**	**Jun-10**		
	CNY	**USD**	**CNY**	**USD**	**CNY**	**USD**	**CNY**	**USD**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	18,077	2,648	18,504	2,711	18,883	2,765	19,316	2,848	20.7	3.1	2.4	2.0	22.5	6.9	2.3
Government	14,721	2,157	15,016	2,200	15,237	2,232	15,611	2,302	13.5	2.1	2.0	1.5	17.0	6.0	2.5
Treasury Bonds	5,717	837	5,769	845	5,855	858	6,069	895	16.7	(0.4)	0.9	1.5	13.5	6.1	3.6
Central Bank Bonds	4,381	642	4,602	674	4,648	681	4,743	699	0.8	3.5	5.0	1.0	14.0	8.3	2.0
Policy Bank Bonds	4,624	677	4,646	681	4,734	693	4,800	708	24.0	3.9	0.5	1.9	25.1	3.8	1.4
Corporate	3,356	492	3,488	511	3,646	534	3,705	546	67.5	8.2	3.9	4.5	52.7	10.4	1.6
Policy Bank Bonds															
China Development Bank	3,351	491	3,383	496	3,456	506	3,462	510	24.4	4.7	1.0	2.2	25.0	3.3	0.2
Export–Import Bank of China	443	65	433	63	448	66	481	71	37.7	1.1	(2.3)	3.5	42.1	8.4	7.2
Agricultural Dvt. Bank of China	830	122	830	122	830	122	857	126	16.3	2.3	0.0	0.0	17.3	3.3	3.3

LCY = local currency, m-o-m = month on month, q-o-q = quarter on quarter, y-o-y = year on year.
Note:
1.Calculated using data from national sources.
2.Treasury bonds include savings bonds and local government bonds.
3.Bloomberg LP end-of-period LCY–USD rate is used.
4.Growth rates are calculated from LCY base and do not include currency effects.
Source: *ChinaBond*.

treasury bonds, which posted growth rates of 14.0% and 13.5% respectively. On a q-o-q basis, however, the growth rates of central bank bonds and treasury bonds in 2Q10 outpaced the growth of policy bank bonds. Central bank and treasury bonds expanded 6.1% and 6.0% q-o-q, respectively, while policy bank bonds grew 3.8%, approximating their 1Q10 q-o-q growth rate.

Treasury Investor Profile

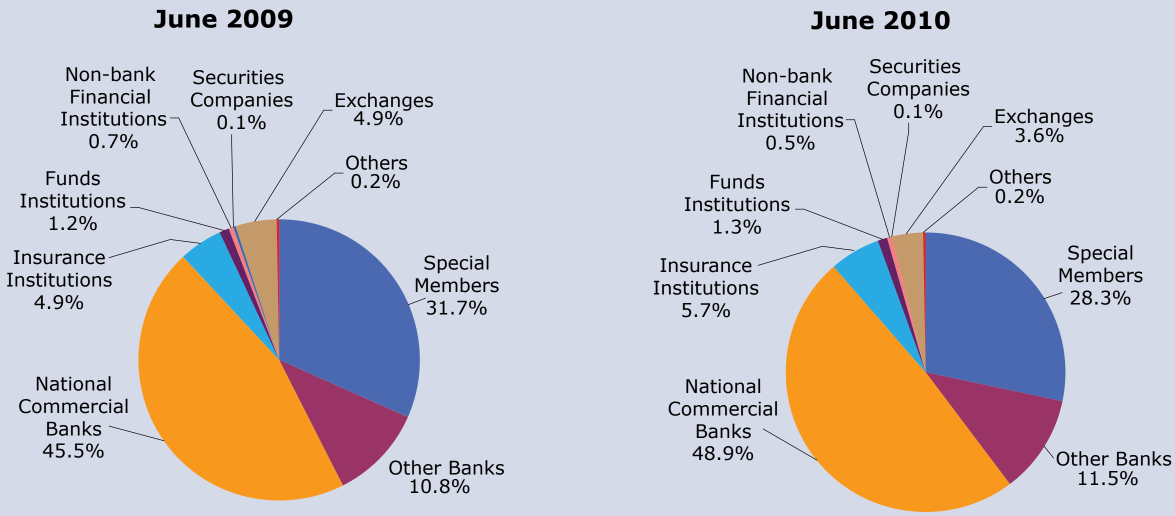
Banks remained the largest category of treasury bond investors in the PRC in 2Q10, holding a larger share of these bonds at the end of June 2010 compared with end-June 2009 **(Figure 2)**. In June 2010, banks held 60.4% of treasury bonds outstanding, compared with 56.3% in June 2009. The share held by PRC Special Members dropped to 28.3% in June from 31.7% a year earlier. Special Members comprise the PBOC, Ministry of Finance, policy banks, China Government Securities Depository Trust and Clearing Co., and China Securities Depository and Clearing Corporation.

Corporate Bonds

With the exception of asset- and mortgage-backed securities, which have been declining since 2Q09, key sectors of the corporate bond market experienced double-digit y-o-y growth in 2Q10. Medium-term notes (MTNs) grew by 94.4% y-o-y, while commercial paper and local corporate bonds posted growth rates of 60.1% and 56.1%, respectively. Meanwhile, state-owned corporate bonds (or state-owned enterprises [SOE] bonds) grew by 38.2% y-o-y and commercial bank bonds grew 25.1%.

On a q-o-q basis, MTNs, commercial paper, and commercial bank bonds posted higher growth rates in 2Q10 compared with the previous quarter **(Table 2)**. MTNs increased 17.9% q-o-q, compared with 13.2% in the previous quarter. Commercial paper grew 21.0% q-o-q, compared with 11.5% in 1Q10. Meanwhile, commercial bank bonds grew at a more subdued pace of 3.2% q-o-q in 2Q10, up from 0.2% in 1Q10.

Figure 2: Treasury Bonds Investor Profile



Source: *ChinaBond.*

Table 2: Corporate Bonds Outstanding in Key Sectors (CNY billion)

	Amount						Growth Rates (%)						
							q-o-q						y-o-y
	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	2Q10
Commercial Bank Bonds	437.7	486.4	589.2	588.4	589.6	608.5	12.6	11.1	21.1	(0.1)	0.2	3.2	25.1
State-Owned Corporate Bonds (SOE)	526.5	565.3	619.3	720.2	771.1	781.1	0.9	7.4	9.6	16.3	7.1	1.3	38.2
Local Corporate Bonds	196.9	295.7	328.8	376.9	420.0	461.7	24.3	50.1	11.2	14.6	11.4	9.9	56.1
Commercial Papers	409.4	384.3	353.1	456.1	508.8	615.4	(2.6)	(6.1)	(8.1)	29.2	11.5	21.0	60.1
Asset/Mortgage-Backed Securities	56.6	55.4	46.0	39.9	31.1	26.5	2.7	(2.1)	(16.9)	(13.4)	(22.1)	(14.8)	(52.2)
Medium Term Notes	340.8	592.1	742.1	862.2	976.4	1,151.2	103.8	73.7	25.3	16.2	13.2	17.9	94.4

q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Source: *ChinaBond.*

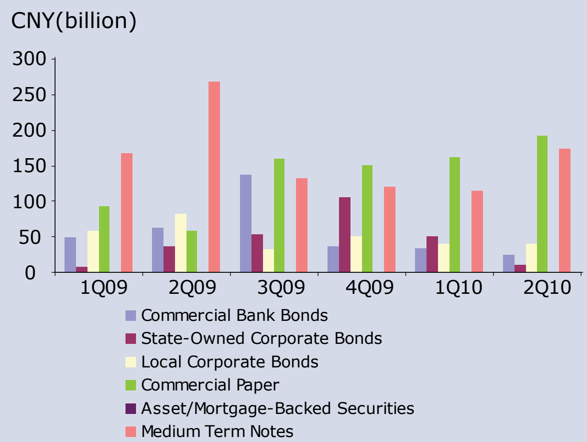
In contrast to MTNs and commercial paper, the growth rates of SOE bonds and local corporate bonds in 2Q10 declined from the previous quarter. As can be seen in Table 2, the q-o-q growth rate of local corporate bonds declined from 14.6% in 4Q09 to 9.9% in 2Q10, while the growth rate of SOE bonds fell more dramatically, from 16.3% in 4Q09 to 1.3% in 2Q10.

The rise in q-o-q growth figures for MTNs and commercial paper in 2Q10 reflected continued strong corporate sector demand for medium- to short-term funds, access to which has been facilitated by the relatively quick issuance approval process for these issuance windows.

Consistent with growth in the outstanding amount of MTNs in 2Q10, MTN issuance rebounded from CNY114.9 billion in 1Q10 to CNY174.1 billion in 2Q10, for a q-o-q increase of 51.5%. Issuance of MTNs had been on a downward trend since peaking at CNY268.6 billion in 2Q09 **(Figure 3).** Notable MTN issuers in 2Q10 were China National Petroleum Corporation, Petrochina, and State Grid Corporation of China.

Also in line with the q-o-q increase in commercial paper outstanding, issuance of commercial paper rose 18.2% from CNY162.1 billion in 1Q10 to CNY191.5 billion in 2Q10.

Figure 3: Corporate Bond Issuance in Key Sectors



Source: *ChinaBond.*

Policy, Institutional, and Regulatory Developments

PBOC Signals Greater Yuan Flexibility

On 20 June, the PBOC announced that the yuan's exchange rate would be allowed to adjust based on floating bands. The announcement signaled a move towards a more flexible exchange rate regime. The PBOC, however, ruled out a one-time revaluation of the currency and no timeframe was announced for the shift in policy.

Yuan Settlement Pilot Program Expanded

The PBOC announced on 22 June that it would expand coverage of its pilot yuan settlement program to include the rest of the world. Previously, the program, which allows for use of the yuan for trade settlement, had been limited to members of the Association of Southeast Asian Nations (ASEAN); Macao, China; and Hong Kong, China. The PBOC also expanded the number of provinces and municipalities participating in the pilot program by eighteen. The pilot program was introduced in July 2009. Shanghai and four cities in Guangdong province were the first cities in the PRC to be allowed to settle external trade using the yuan.

Insurance Regulator Sets Rules on Insurers' Investments

The PRC's insurance regulator, the China Insurance Regulatory Commission, issued a detailed set of rules on insurers' investments on 5 August. According to the Provisional Measures on Insurance Capital Uses, insurance companies will not be permitted to invest more than 10% of their assets (as of the most recent quarter) in the property market. The rules also set ceilings on investments in different asset classes. Insurance companies can invest up to 20% of their assets in equities and up to 5% in stakes in unlisted enterprises. Insurers will also be allowed to invest up to 20% of their assets in unsecured corporate bonds and the debt of non-financial firms, and up to 5% in debt associated with infrastructure projects. PRC insurance companies' assets totaled CNY4.5 trillion at the end of 2Q10, with equity investments accounting for 10% of these assets.

Mini-QFII Program Under Consideration

In July, the PRC was reported to be considering the establishment of a "mini-Qualified Foreign Institutional Investor (QFII)" scheme on a pilot basis. Under the scheme, the Hong Kong, China subsidiaries of PRC-based brokerages and fund managers would be permitted to channel offshore yuan back into the PRC's domestic capital markets, providing them with an expanded range of CNY-denominated investment opportunities. The scheme is reportedly set to be implemented in late 2010 or early 2011. The program, along with the opening up of the PRC's interbank bond market to overseas investors (see below), is part of the PRC's efforts to promote international use of the yuan.

PRC Begins to Open Interbank Bond Market to Overseas Investors

On 17 August, the PBOC announced that it would permit non-resident financial institutions greater access to the PRC's interbank bond market as part of a pilot program to promote cross-border yuan trade settlement and broaden investment channels for yuan to flow back to the PRC. Foreign investment in the PRC's capital markets had previously been limited to QFII program participants.

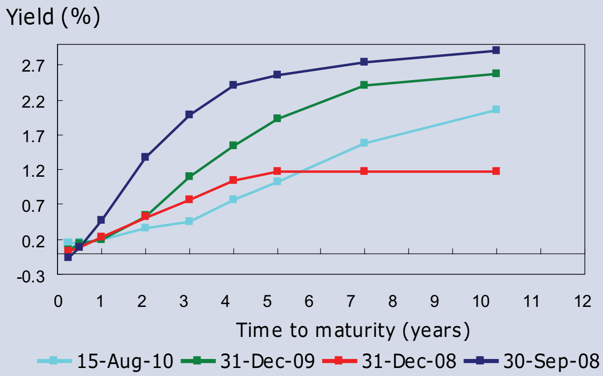
Under the measures announced by the PBOC, central banks, yuan-clearing banks, and banks based in Hong Kong, China and Macao, China that are participating in the PRC's yuan trade settlement program will be allowed to invest their yuan holdings in the PRC's interbank bond market. Institutions approved to participate in the program will be subject to investment quotas set by the PBOC.

Hong Kong, China—Update

Yield Movements

The yield curve for Hong Kong, China's Exchange Fund Bills and Notes (EFBN) shifted downward between end-December 2009 and mid-August 2010 for maturities of 1-year through 10-years **(Figure 1)**. On the other hand, yields at the short-end of the curve rose slightly by 1–8 basis points. Yields fell the most for the 5-year tenor, shedding 89 basis points. The yield spread between 2-year and 10-year maturities narrowed to 170 basis points in mid-August from 203 basis points at end-December.

Figure 1: Hong Kong, China's Benchmark Yield Curve—EFBNs



EFBN = Exchange Fund Bills and Notes.
Source: Bloomberg LP.

The Hong Kong Monetary Authority (HKMA) has kept its base rate steady at a record-low level of 0.5% since December 2008. Consumer price inflation in Hong Kong, China eased to 1.3% year-on-year (y-o-y) in July from 2.8% in June. The slowdown in the inflation rate was largely due to the government's decision to make rental payments for 2 months on behalf of all public housing tenants. All components of the consumer price index recorded y-o-y increases in July, except for housing and durable goods. In the first 7 months of the year, consumer price inflation reached 2.1% y-o-y.

Hong Kong, China recorded gross domestic product (GDP) growth of 6.5% y-o-y in 2Q10, following revised growth of 8.0% in 1Q10. Domestic demand remained resilient as private consumption increased by 4.6% y-o-y in 2Q10 on account of the improving economic situation and rising incomes. Also, investment spending surged 15.2% y-o-y from 8.2% in 1Q10. Merchandise exports remained strong, expanding by 20.1% y-o-y in 2Q10, boosted by growth in many Asian markets and further recovery in import demand.

Size and Composition

At the end of June, Hong Kong, China's local currency (LCY) bonds outstanding reached HKD1.2 trillion (USD159 billion) for y-o-y growth of 43.3% **(Table 1)**. On a quarter-on-quarter (q-o-q) basis, LCY bonds outstanding grew by 2.7% in 2Q10.

Total government bonds outstanding—comprising exchange fund bills (EFB), exchange fund notes (EFN), and Hong Kong Special Administrative Region (HKSAR) bonds—grew by a notable 131.4% to HKD667 billion (USD86 billion) in 2Q10. The growth in government bonds is largely attributed to the 164.4% y-o-y increase in EFBs to HKD581 billion (USD75 billion). EFBs account for 87% of Hong Kong, China's government bonds. On the other hand, the stock of EFNs only grew by 2.3% y-o-y to HKD70 billion (USD9 billion) in 2Q10.

Meanwhile, the stock of HKSAR bonds rose to HKD16 billion (USD2 billion) at the end of June. In May, HKD3 billion of 10-year government bonds were sold under the Institutional Bond Issuance Programme. The bonds were well received by institutional investors, with tenders reaching HKD8 billion, and carried an annualized yield of 2.955%. This was followed by another HKD1.5 billion issue of 5-year government bonds in June. The bonds were oversubscribed with demand reaching HKD4.8 billion. The 5-year bonds carried an annualized yield of 1.658%.

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

	Amount (billion)								Growth Rate (%)						
	Mar-10		Apr-10		May-10		Jun-10		Mar-10		Apr-10	May-10	Jun-10		
	HKD	USD	HKD	USD	HKD	USD	HKD	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	1,204	155	1,220	157	1,238	159	1,237	159	53.3	8.4	1.3	1.5	43.3	2.7	(0.1)
Government	624	80	643	83	665	85	667	86	185.1	16.8	3.1	3.4	131.4	6.9	0.3
Exchange Fund Bills	542	70	561	72	581	75	581	75	259.2	16.8	3.5	3.5	164.4	7.1	0.0
Exchange Fund Notes	70	9	70	9	70	9	70	9	3.2	0.6	0.0	(0.9)	2.3	0.1	1.0
HKSAR Bonds	12	1.5	12	1.5	15	2	16	2	—	—	0.0	26.1	—	39.1	10.3
Corporate	580	75	577	74	573	74	569	73	2.4	0.5	(0.6)	(0.6)	(0.9)	(1.9)	(0.6)

— = not applicable, HKSAR = Hong Kong Special Administrative Region, LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1.Calculated using data from national sources.

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

3.Growth rates are calculated from LCY base and do not include currency effects.

4.The amount of corporate bonds outstanding for April and May were estimated based on the compounded monthly growth rate between March and June.

Source: Hong Kong Monetary Authority and Bloomberg LP.

Corporate bonds outstanding in Hong Kong, China in 2Q10 fell by 0.9% y-o-y and 1.9% q-o-q to HKD569 billion (USD73 billion). The top 20 non-bank corporate issuers in Hong Kong, China accounted for almost 15% of total corporate bonds outstanding in 2Q10 **(Table 2)**. The Hong Kong Mortgage Corporation was Hong Kong, China's top corporate issuer of LCY bonds with bonds outstanding reaching HKD26.4 billion at the end of June, followed by Sun Hung Kai Properties (Capital Market) Limited with bonds outstanding of HKD9.1 billion, and CLP Power Hong Kong Financing Limited with HKD8.5 billion.

At the end of June, corporate bond issuance had declined 34.0% y-o-y to reach HKD38.2 billion (USD4.9 billion).

Table 2: Top 20 Non-Bank Corporate Issuers, June 2010

Top 20 Non-Bank Corporate Issuers	Outstanding Amount	
	LCY Bonds (HKD billion)	LCY Bonds (USD billion)
The Hong Kong Mortgage Corporate Limited	26.39	3.39
Sun Hung Kai Properties (Capital Market) Ltd.	9.13	1.17
CLP Power Hong Kong Financing Limited	8.52	1.09
Kowloon-Canton Railway Corporation	6.60	0.85
MTR Corporation (C.I.) Ltd.	5.35	0.69
Swire Pacific MTN Financing Limited	4.10	0.53
Hongkong Electric Finance Ltd.	3.50	0.45
Airport Authority Hong Kong	3.10	0.40
Cheung Kong Bond Finance Limited	2.95	0.38
HKCG (Finance) Limited	2.76	0.35
Bauhinia MBS Limited	2.66	0.34
The Link Finance (Cayman) 2009 Limited	2.10	0.27
Urban Renewal Authority	1.50	0.19
Hysan (MTN) Ltd.	1.20	0.15
Wharf Finance (No. 1) Ltd.	1.03	0.13
Wharf Finance Ltd.	1.01	0.13
Cheung Kong Finance (MTN) Ltd.	0.80	0.10
Hong Kong Link 2004 Limited	0.79	0.10
Wharf Finance (BVI)	0.65	0.08
The Hong Kong Land Notes Company Limited	0.20	0.03
Swire Pacific Finance Int'l Limited	0.20	0.03
Total	**84.53**	**10.86**

LCY = local currency.
Note:
Based on Central Money Markets Unit (CMU) data on tradeable non-bank debt securities issued and still outstanding as of 29 June 2010.
Source: Hong Kong Monetary Authority.

Policy, Institutional, and Regulatory Developments

HKMA and PBOC Signs Supplementary Memorandum of Cooperation on Yuan Transactions

On 19 July, the HKMA and People's Bank of China (PBOC) signed a supplementary memorandum of cooperation regarding the expansion of the existing yuan trade settlement scheme. The HKMA and PBOC have agreed to strengthen cooperation and further promote Hong Kong, China's status as a yuan market platform in an effort to develop more CNY-denominated business outside of the PRC.

Also, the PBOC and Bank of China (Hong Kong) signed a revised settlement agreement on yuan clearing. According to the HKMA, following the revision of the settlement agreement, there will no longer be restrictions on banks in Hong Kong, China on establishing yuan accounts for and providing related services to financial institutions. In addition, individuals and corporations will be able to conduct yuan payments and transfers through banks. As a result, many types of CNY-denominated financial intermediation are expected to be introduced in Hong Kong, China.

Indonesia—Update

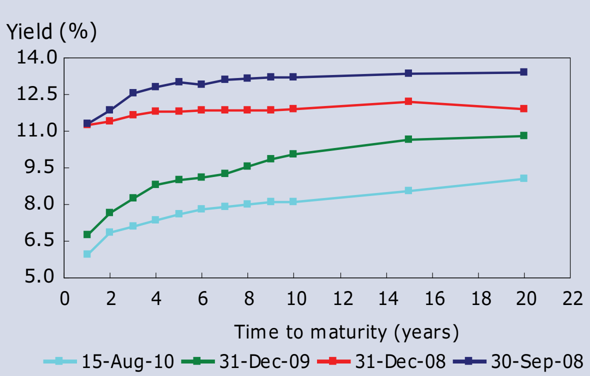
Yield Movements

Indonesia's government bond yield curve shifted downward between end-December 2009 and mid-August 2010 as yields fell for all maturities **(Figure 1)**. The government bond yield curve flattened from the short-end to the long-end of the curve. Yields fell the most for the 15-year tenor, shedding 209 basis points. The yield spread between 2-year and 10-year maturities narrowed to 124 basis points in mid-August from 241 basis points at end-December.

Yields for Treasury bills have fallen below the Bank Indonesia (BI) rate. The new regulation requiring a 1-month holding period for *Sertifikat* Bank Indonesia (SBI) has led investors to switch funds and invest in Treasury bills. This has bolstered the demand for Treasury bills and resulted in a much lower yield rate. As of mid-August, 1-year bills returned a yield of only 5.968%.

BI has kept its benchmark interest rate at a record-low level of 6.5% since August 2009. According to BI, it is closely monitoring the recent rise in inflation and the current BI rate remains adequate to safeguard against expectations of future inflation. Consumer price inflation rose sharply to 6.22% year-on-year (y-o-y) in July, compared with 5.05% y-o-y in June, mainly due to rising food prices and an electricity price hike that took effect on 1 July. For the first 7 months of the year, inflation stood at 4.02%, which was still within the central bank's annual inflation target of 4.0%–6.0%.

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



LCY = local currency.
Source: Bloomberg LP.

Gross domestic product (GDP) grew 6.2% y-o-y in 2Q10 on account of strong household consumption and domestic investment, as well as the continued recovery in exports. GDP growth in 2Q10 was up from the 5.7% y-o-y growth recorded in 1Q10. Household consumption expanded 5.0% y-o-y, while exports and investments grew 14.6% and 8.0% y-o-y, respectively. Most major sectors recorded higher annual growth in 2Q10, compared with the previous quarter, led by manufacturing which expanded 4.3% y-o-y. On a quarter-on-quarter (q-o-q) basis, Indonesia's GDP expanded 2.8% in 2Q10, following a 1.9% expansion in 1Q10. For the full year 2010, the Ministry of Finance estimated a growth target of 5.8% based on the 2010 revised state budget.

Size and Composition

The size of Indonesia's local currency (LCY) bond market expanded 13.8% y-o-y as of end-June, with the total volume of LCY bonds outstanding reaching IDR985.4 trillion (USD109 billion) **(Table 1)**. On a q-o-q basis, however, growth in LCY bonds outstanding remained flat from 1Q10.

Total government bonds outstanding climbed 13.5% y-o-y to IDR892.3 trillion (USD99 billion), with both central government bonds (issued by the Ministry of Finance) and central bank bonds (issued by BI in the form of SBI) posting double-digit growth. The stock of central government bonds increased 12.3% y-o-y in 2Q10, higher than the 8.5% y-o-y growth in 1Q10. On a q-o-q basis, central government bonds rose 4.7% in 2Q10, following a 2.0% q-o-q rise in 1Q10.

The government continued to implement a strategy of frontloading its financing requirements

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

	Amount (billion)								Growth Rate (%)						
	Mar-10		Apr-10		May-10		Jun-10		Mar-10		Apr-10	May-10	Jun-10		
	IDR	USD	IDR	USD	IDR	USD	IDR	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	985,619	108	1,042,418	116	1,002,121	109	985,359	109	15.6	6.0	5.8	(3.9)	13.8	(0.03)	(1.7)
Government	893,420	98	949,945	105	910,185	99	892,328	99	14.6	6.2	6.3	(4.2)	13.5	(0.1)	(2.0)
Central Govt Bonds	593,165	65	603,280	67	609,677	66	621,226	69	8.5	2.0	1.7	1.1	12.3	4.7	1.9
Central Bank Bills	300,255	33	346,666	38	300,509	33	271,103	30	29.0	15.5	15.5	(13.3)	16.5	(9.7)	(9.8)
Corporate	92,199	10	92,473	10	91,936	10	93,030	10	25.8	4.2	0.3	(0.6)	16.5	0.9	1.2

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

Notes:

1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY—USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.

Source: Bank Indonesia, Indonesia Stock Exchange, and Bloomberg LP.

through the issuance of bonds in the domestic and global markets. In 2010, the government had raised about IDR128.3 trillion worth of bonds as of 3 August, which was 72.1% of its original target (gross) of IDR178.0 trillion. The Ministry of Finance also announced that it will reduce its issuance of debt securities as the budget deficit is now expected to be equivalent to only 1.5% of GDP, compared with an original estimate of 2.5% of GDP in the 2010 revised state budget. Since the beginning of the year, the government has issued various types of debt securities, including conventional and Islamic (*sukuk*) debt instruments.

In June, the Ministry of Finance conducted a buy-back of short-dated government debt in exchange for longer-tenor paper. The swap allowed investors to exchange bonds maturing between 2011 and 2013 for 10-year bonds maturing in 2020. The debt exchange was valued at IDR80 billion.

In August, the government raised IDR8.0 trillion from the sale of its seventh series of retail bonds. The government initially planned to raise IDR5.0 trillion, but increased its target to IDR8.0 trillion amid strong demand from investors. The retail bonds carried a maturity of 3 years with a coupon of 7.95%.

The growth in central bank bills, while remaining positive, eased to 16.5% y-o-y in 2Q10, compared with 29.0% in 1Q10. On a q-o-q basis, the growth of central bank bills fell by 9.7% q-o-q, following growth of 15.5% in 1Q10. The lower growth rate in 2Q10 can be attributed to new regulations imposed by BI that seek to encourage banks to manage liquidity over a longer period and support more active transactions in the interbank market. In addition, the auction of SBI was changed from a weekly basis to a monthly basis in June. BI has pushed for longer-tenor maturities with issuance to include more 3-month and 6-month tenors as a replacement for 1-month tenors. BI also announced a policy package to strengthen monetary management and develop financial markets, which is discussed in detail in the Policy, Institutional, and Regulatory Developments section.

Following these new regulations, BI issued SBI with 9-month maturities for the first time in August. At present, investors no longer hold 1-month SBI.

Meanwhile, corporate bonds outstanding rose to IDR93.0 trillion (USD10 billion) in 2Q10, expanding 16.5% y-o-y, compared with 25.8% in 1Q10. On a q-o-q basis, corporate bonds grew by only 0.9% in 2Q10.

As of end-June, the top 30 corporate issuers in Indonesia accounted for about 81% of total corporate bonds outstanding **(Table 2)**. State-power firm PLN remained Indonesia's top corporate issuer of LCY bonds, with total outstanding bonds valued at IDR12.1 trillion. Telecommunications firm PT Indosat ranked second with IDR8.1 trillion in outstanding LCY bonds, while Bank Tabungan Negara was third with outstanding LCY bonds of IDR4.9 trillion. About half of the top 30 LCY bond issuers were from the financial sector. Most were banks that were raising funds to help boost their capital adequacy ratios and fund lending activities.

Among Indonesia's top 30 corporate issuers, only six companies have issued foreign currency (FCY)-denominated bonds. Indonesia's top LCY issuer, PLN, has issued FCY bonds that are the equivalent of nearly three times its outstanding LCY bonds. PLN also issues both conventional bonds and *sukuk*. In contrast, Indosat has issued FCY bonds that are the equivalent of about one-third of its outstanding LCY bonds.

In 2Q10, corporate bond issuance reached IDR7.3 trillion (USD0.8 billion), primarily comprising issuance from financial sector firms. Most of the bonds issued in 2Q10 had coupons of 10% or more and were consistently over-subscribed. Notable issues in 2Q10 are listed in **Table 3**.

State-owned lender Bank Tabungan Negara raised nearly IDR1.7 trillion worth of bonds in June. The bonds carried a maturity of 10 years and a coupon of 10.25%. The bonds were oversubscribed with total order book reaching IDR3.4 trillion.

Table 2: Top 30 Corporate Issuers, June 2010

Top 30 Corporate Issuers	Outstanding Amount		
	LCY Bonds (IDR billion)	**LCY Bonds** (USD billion)	**FCY Bonds** (USD billion)
PLN	12,100	1.34	4.00
Indosat	8,090	0.89	0.34
Bank Tabungan Negara	4,900	0.54	—
Jasa Marga	4,150	0.46	—
Bank Panin	3,900	0.43	—
Indofood Sukses Makmur	3,610	0.40	—
Bank Mandiri	3,500	0.39	—
Perum Pegadaian	3,000	0.33	—
Astra Sedaya Finance	2,862	0.32	—
Federal International Finance	2,845	0.31	—
Bank Ekspor Indonesia	2,541	0.28	—
Oto Multiartha	2,500	0.28	—
Bank Tabungan Pensiunan Nasional	2,050	0.23	—
Bank Rakyat Indonesia	2,000	0.22	—
Bank Jabar	1,750	0.19	—
Excelcom	1,500	0.17	0.25
Medco Energi Internasional	1,500	0.17	0.28
Bentoel	1,350	0.15	—
Berlian Laju Tanker	1,340	0.15	0.13
Bank Danamon	1,250	0.14	—
Danareksa	1,080	0.12	—
Bank Negara Indonesia	1,000	0.11	0.10
Bank Mega	1,000	0.11	—
Bank OCBC NISP	880	0.10	—
BCA Finance	850	0.09	—
Pupuk Kaltim	791	0.09	—
WOM Finance	775	0.09	—
Bank DKI	750	0.08	—
Salim Ivomas Pratama	730	0.08	—
Lontar Papyrus	725	0.08	—
Total Top 30 Corporate Issuers	**75,319**	**8.32**	
Total Corporate Bonds Outstanding	**93,030**	**10.28**	
Top 30 as % of Total Corporate	**80.96%**	**80.96%**	

FCY = foreign currency, LCY = local currency.
Source: Indonesia Stock Exchange.

Table 3: Notable Corporate Issuance in 2Q10

Corporate Issuers	Amount Issued (IDR billion)
Bank Tabungan Negara	1,650
Federal International Finance	1,500
Bank Tabungan Pensiun Nasional	1,300
Bank OCBC NISP	1,000
Bank Sulut	500
Titan Petrokimia Nusantara	273
Reliance Securities	40
Total	**6,263**

Source: Indonesia Stock Exchange.

Motorcycle-financing firm Federal International Finance issued bonds worth IDR1.5 trillion in four tranches in April. The bonds consisted of the following tranches:

(i) 1-year bonds worth IDR300 billion, coupon of 8.10%;

(ii) 2-year bonds worth IDR200 billion, coupon of 8.75%;

(iii) 3-year bonds worth IDR400 billion, coupon of 10.15%; and

(iv) 4-year bonds worth IDR600 billion, coupon of 10.55%.

Mid-sized lender Bank Tabungan Pensiunan Nasional sold IDR1.3 trillion in bonds in May with maturities of 3–5 years. The bonds consisted of the following tranches:

(i) 3-year bonds worth IDR715 billion, coupon of 9.90%; and

(ii) 5-year bonds worth IDR585 billion, coupon of 10.6%.

Leasing company Oto Multiartha issued IDR1.3 trillion in bonds in a four-tranche deal in June, which was an increase from its initial plan of only IDR1.0 trillion. The bonds consisted of the following tranches:

(i) 370-day bonds worth IDR300 billion, coupon of 7.90%;

(ii) 2-year bonds worth IDR225 billion, coupon of 8.70%;

(iii) 3-year bonds worth IDR575 billion, coupon of 10.05%; and

(iv) 4-year bonds worth IDR200 billion, coupon of 10.65%.

Also in June, Bank OCBC NISP raised IDR880 billion from a 7-year subordinated bond issue. The subdebt issue carried a coupon of 11.35%.

Foreign Currency Bonds

In August, the government cancelled its planned issue of FCY-denominated *sukuk*. The global *sukuk* issuance has been re-scheduled for early next year.

Rating Changes

In June, Moody's Investor Service (Moody's) revised the outlook for Indonesia's sovereign credit rating to positive. The revised outlook applies to the Ba2 level for Indonesia's LCY and FCY sovereign ratings, as well as to the Ba1 FCY bond ceiling and Ba3 FCY deposit ceiling. According to Moody's, the positive outlook reflects the country's capacity for sustained strong growth, the overall stability and effectiveness of the government's fiscal and monetary policies, and expectations of further improvements in the government's financial and debt positions.

Indonesia's sovereign rating was also raised to investment grade by Japan Credit Rating Agency (JCR) on 13 July. Specifically, Indonesia's FCY long-term debt and LCY long-term debt were upgraded by JCR to BBB- from BB+ and BBB from

Table 4: Selected Sovereign Ratings and Outlook for Indonesia

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Ba2	BB	BB+
Outlook	positive	positive	stable

FCY = foreign currency, LT = long term.
Source: Rating agencies.

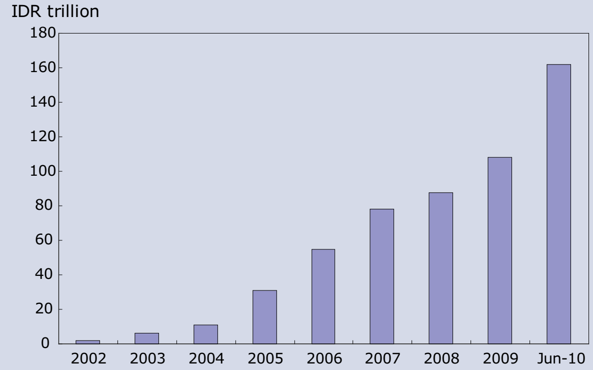
BBB-, respectively, while the ratings outlook for both was stable. According to JCR, the upgrade reflects the country's sustained growth, which is being accompanied by strong domestic demand, a reduced public debt burden, increased resilience to external shocks, improved political and social stability, as well as government efforts to deal with structural issues.

Investor Profile

As of end-June, banking institutions remained the biggest holders of Indonesian LCY government bonds, with holdings equivalent to 38% of total central government bonds outstanding **(Figure 2)**. However, the banks' share of total holdings has declined significantly in recent years. In 2002, banks were holding as much as 82% of total government bonds outstanding.

Foreign investors were the second biggest holder of Indonesian central government bonds as of end-June. Foreign investors' share in LCY bonds has exhibited an upward trend from less than 1% in 2002 to 26% in 2Q10. As of end-June, bonds held by foreign investors reached IDR162.1 trillion **(Figure 3)**.

Figure 3: Foreign Holdings of Government Bonds

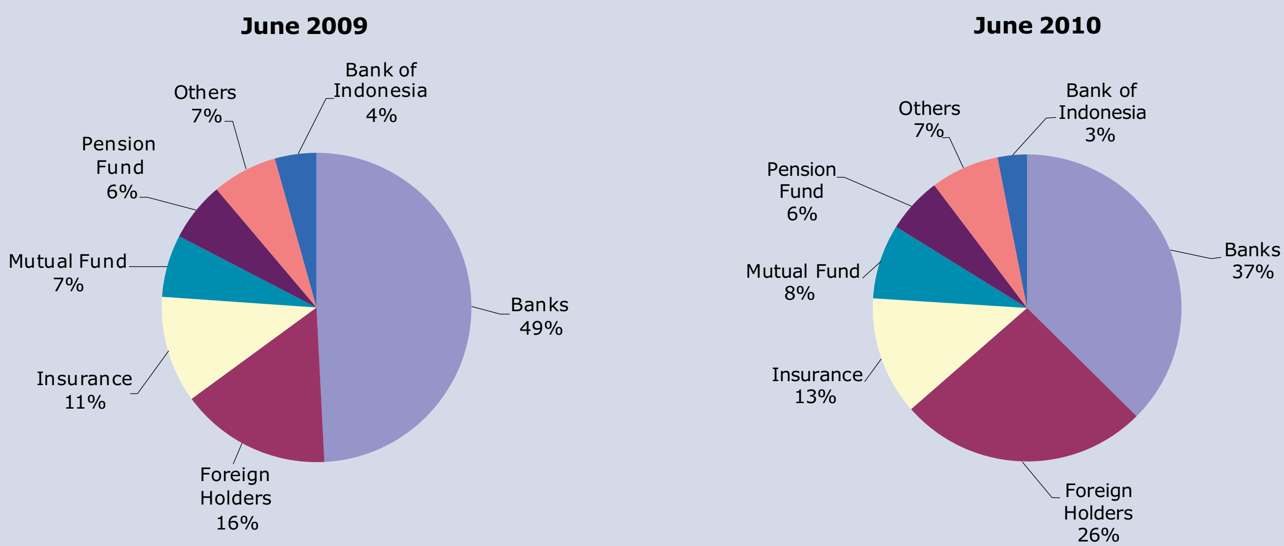


Source: Indonesian Debt Management Office.

As of end-June, about 72% of bonds held by foreigners were invested in long-dated tenors, or those with maturities of 5 years and above. On the other hand, only 10% of bonds held by foreigners carried maturities of 2 years and below.

Meanwhile, the share of LCY bond holdings of insurance companies (12%) and mutual funds (8%) also increased as of end-June compared with their levels 1 year ago.

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.
Source: Indonesia Debt Management Office.

Policy, Institutional, and Regulatory Developments

Policy Package to Strengthen Monetary Management and Develop Financial Markets

In June, BI announced a policy package that aimed to boost the effectiveness of monetary policy transmission, shore up financial system stability, and encourage financial market deepening. The package includes the following measures:

(i) Effective 17 June, BI widened the range of its overnight interbank money market rate from 6.0%–7.0% to 5.5%–7.5%.

(ii) Effective 1 July, the net open position holding limit of foreign exchange by banks was capped at 20% of capital.

(iii) Effective 7 July, a minimum 1-month holding period is required for investors of SBI with 1-month maturities. Also, new monetary instruments in the form of term deposits were introduced.

(iv) BI began issuing longer-tenor SBI with maturities of 9-months, effective the second week of August, and 12-months, effective the second week of September.

(v) By 2011, BI will introduce three-party repurchases of government bonds.

According to BI, these policies are not being instituted to control the foreign exchange market, but rather to support sustainable macroeconomic stability and strengthen the momentum of economic recovery.

Debt Issuance to be Trimmed

In late July, the Ministry of Finance reported that government spending was sluggish in the first half of the year, resulting in a lower-than-projected budget deficit for 2010. The government managed to spend only IDR395.8 trillion, or 35.1% of the target set in the 2010 revised state budget, in the first half of the year. Revenue collection reached 44.7% of the annual target. This resulted in a budget surplus amounting to IDR47.9 trillion in the first half of 2010. The Ministry of Finance now estimates a deficit equivalent to only 1.5% of GDP for the year as a whole, compared with its earlier forecast of 2.1%.

In line with this development, the government will trim its remaining debt issuance by 26%. The debt issuance target will be reduced by IDR15 trillion out of the IDR58 trillion worth of debt still to be issued in 2010.

Treasury Bill Issuance to be Reduced

The government is considering a plan to reduce treasury bill issuance due to strong foreign capital flows into various commercial paper, especially short-term bonds. To curb hot money flows, the government may try to align its policies with the BI policy of channeling foreign capital towards long-term investments.

In mid-August, Rahmat Waluyanto, Director General of Debt Management announced that the Ministry of Finance will reduce treasury bill issuance to control refinancing risks. He explained that the value of short-term treasury bonds with tenures of less than 5 years (including treasury bills) accounts for 18% of total IDR-denominated treasury notes. In the future, this percentage will be cut to less than 10% to attract more capital into the long-term treasury bond market to lessen the market's vulnerability to the risk of capital flight.

BI Announces New Regulations on Reserve Requirements and Bank Lending

In September, BI announced new regulations on reserve requirements and bank lending to help contain inflation and boost economic growth. Beginning in November, the primary reserve requirement will be raised to 8.0% of deposits—from 5.0%—while the secondary reserve requirement will remain at 2.5%. Banks that are able to comply with the new primary reserve requirement will earn 2.5% interest on the amount covering the

3-percentage-point increase in primary reserves. On the other hand, those banks that fail to meet the new 8.0% primary reserve requirement will be fined the equivalent of 125% of the average 1-day overnight Jakarta Interbank Offered Rate (JIBOR). BI also announced a new regulation designed to give banks incentives for maintaining their loan-to-deposit ratio within a range of 78%–100%, effective 1 March 2011.

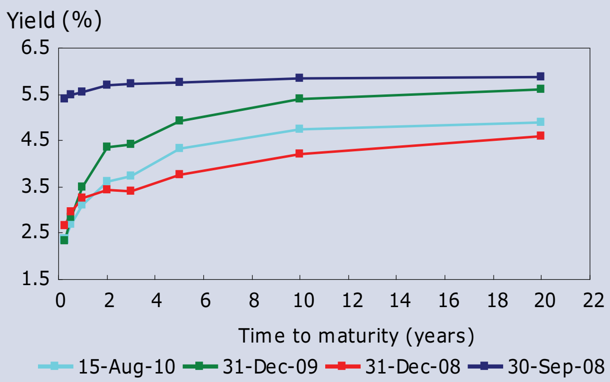
Republic of Korea—Update

Yield Movements

Government bond yields for the Republic of Korea (Korea) for most maturities were down as of mid-August 2010 from their end-December 2009 levels **(Figure 1)**. Yield movements were marginal and mixed for tenors of less than 1 year, while yields for 1-, 2-, 3-, and 5-year maturities dropped 36, 75, 68, and 60 basis points, respectively. Yields for longer-term tenors also fell, by 64 basis points for 10-year maturities and 71 basis points for 20-year maturities. Meanwhile, Korea's yield spreads between 2- and 10-year tenors widened 11 basis points between end-December and mid-August.

The accommodative monetary policy stance of the Bank of Korea (BOK), relatively low interest rates, and increasing foreign investor interest in Korean bonds have all contributed to the decline in government bond yields. Based on Financial Supervisory Service (FSS) data, as of August, foreigners held KRW44.0 trillion of Korean Treasury bonds (KTBs), compared with KRW27.5 trillion in December, and KRW30.0 trillion of monetary stabilization bonds (MSBs), compared with KRW28.2 trillion in December. There was a huge increase in the People's Republic of China's (PRC) holdings of KTBs in 1H10, with holdings surging 111% to KRW4.0 trillion in June from KRW1.9 trillion in December.

Figure 1: Republic of Korea's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

In September, the BOK kept its base rate—the 7-day repurchase rate—steady at 2.25%. The BOK noted that it continues to maintain an accommodative monetary policy to ensure price stability and sustain Korea's sound growth. In 2Q10, Korea's gross domestic product (GDP) expanded 7.2% year-on-year (y-o-y) and 1.4% quarter-on-quarter (q-o-q) on the back of buoyant export growth, rising domestic demand, and a solid performance in the manufacturing sector. Consumer price inflation in August remained the same as in the previous 2 months at 2.6% y-o-y.

Size and Composition

Korea's total local currency (LCY) bonds outstanding rose 9.6% y-o-y and 1.5% q-o-q to KRW1,256.6 trillion (USD1,029 billion) in June **(Table 1)**. The expansion in the size of Korea's LCY bond market was led by positive growth in both government bonds and corporate bonds.

The total amount of LCY government bonds in Korea reached KRW558.9 trillion (USD458 billion) at the end of June, a 5.9% increase from June 2009. This increase was driven by central government bonds, which climbed 14.8% y-o-y to KRW357.5 trillion (USD293 billion), mainly led by a 16.5% y-o-y increase in KTBs. MSBs, which are issued by the BOK, rose 1.2% y-o-y and 3.4% q-o-q to KRW167.6 trillion (USD137 billion). The largest government bond issues in 2Q10 included KRW12.0 trillion of 2-year MSBs with a coupon of 3.62%, and KRW3.5 trillion of 10-year KTBs with a 5.0% coupon.

Korea's LCY corporate bonds outstanding expanded 12.7% y-o-y and 2.0% q-o-q to KRW697.7 trillion (USD571 billion) in June. This expansion stemmed from 36.7% y-o-y growth in special public bonds as well as 8.0% y-o-y growth in private corporate bonds, more than offsetting the 1.4% y-o-y decline in financial debentures. As of June, private corporate bonds remained the largest type of

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

	Amount (billion)								**Growth Rate** (%)						
	Mar-10		**Apr-10**		**May-10**		**Jun-10**		**Mar-10**		**Apr-10**	**May-10**	**Jun-10**		
	KRW	**USD**	**KRW**	**USD**	**KRW**	**USD**	**KRW**	**USD**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	1,238,390	1,095	1,243,126	1,119	1,255,894	1,043	1,256,605	1,029	13.7	4.7	0.4	1.0	9.6	1.5	0.1
Total Government	554,368	490	559,651	504	562,349	467	558,900	458	11.2	7.2	1.0	0.5	5.9	0.8	(0.6)
Central Bank Bonds	162,120	143	165,050	149	162,440	135	167,610	137	12.1	8.6	1.8	(1.6)	1.2	3.4	3.2
Central Government Bonds	356,875	316	361,785	326	367,118	305	357,475	293	17.6	7.3	1.4	1.5	14.8	0.2	(2.6)
Industrial Finance Debentures	35,372	31	32,816	30	32,791	27	33,815	28	(29.8)	0.9	(7.2)	(0.1)	(33.2)	(4.4)	3.1
Corporate	684,022	605	683,475	615	693,545	576	697,705	571	15.8	2.7	(0.1)	1.5	12.7	2.0	0.6

LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Note:
1. Calculated using data from national sources.
2. Central government bonds include Treasury bonds, National Housing bonds, and Seoul Metropolitan Subway bonds.
3. Bloomberg end-of-period LCY—USD rates are used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Source: Bank of Korea and *KoreaBondWeb*.

corporate bonds in Korea at KRW252.1 trillion (USD206 billion), followed by special public bonds at KRW235.1 trillion (USD193 billion), and financial debentures at KRW210.5 trillion (USD172 billion).

The top 10 issuers of LCY special public bonds as of end-June had a combined KRW208.5 trillion (USD171 billion) of bonds outstanding and accounted for about 89% of total LCY special public bonds outstanding **(Table 2)**. Among the largest issuers of LCY special public bonds were Korea Land Housing Corp., Korea Housing Finance Corp., and Korea Deposit Insurance Corp. Eight of the top 10 LCY special public bond issuers also had foreign currency (FCY) bonds outstanding, with the largest amount of FCY bonds being issued by Korea Electric Power Corp.

The outstanding amount of LCY financial debentures of the top 10 Korean issuers (excluding Korea Development Bank) as of June amounted to KRW174.7 trillion (USD143 billion), which comprised 83% of the country's total financial debentures **(Table 3)**. The largest three issuers of LCY financial

Table 2: Top 10 Issuers of LCY Special Public Bonds in Korea, June 2010

	Outstanding Amount		
Issuer	**LCY Bonds** (KRW billion)	**LCY Bonds** (USD billion)	**FCY Bonds** (USD billion)
1. Korea Land & Housing Corp.	51,385	42.1	2.4
2. Korea Housing Finance Corp.	31,001	25.4	0.0
3. Korea Deposit Insurance Corp.	27,381	22.4	0.0
4. Korea Finance Corp.	20,780	17.0	0.1
5. Korea Electric Power Corp.	20,150	16.5	3.2
6. Korea Highway	16,440	13.5	0.8
7. Small & Medium Business Corp.	14,723	12.1	0.4
8. Korea Gas Corp.	10,220	8.4	2.0
9. Korea Rail Network Authority	9,905	8.1	0.3
10. Korea Railroad Corp.	6,560	5.4	0.8
Total Top 10	**208,545**	**170.7**	
Total LCY Special Public Bonds	**235,082**	**192.5**	
Top 10 as % of Total LCY Special Public Bonds	**88.7%**	**88.7%**	

FCY = foreign currency, LCY = local currency.
Source: *AsianBondsOnline*, Bloomberg LP, and *KoreaBondWeb*.

Table 3: Top 10 Issuers of LCY Financial Debentures in Korea (as of June 2010)

Issuer	Outstanding Amount		
	LCY Bonds (KRW billion)	**LCY Bonds** (USD billion)	**FCY Bonds** (USD billion)
1. Industrial Bank of Korea	38,056	31.2	5.3
2. Kookmin Bank	35,484	29.1	3.2
3. Woori Bank	22,322	18.3	6.1
4. Shinhan Bank	19,817	16.2	2.8
5. Nonghyup	15,924	13.0	2.9
6. Hana Bank	15,486	12.7	2.8
7. Shinhan Card	9,019	7.4	0.7
8. Export–Import Bank of Korea	6,270	5.1	92.3
9. Hyundai Capital Services	6,190	5.1	3.1
10. Korea Exchange Bank	6,140	5.0	0.6
Total Top 10	**174,708**	**143.0**	
Total LCY Financial Debentures	**210,476**	**172.3**	
Top 10 as % of Total LCY Financial Debentures	**83.0%**	**83.0%**	

FCY = foreign currency, LCY = local currency.
Note: Financial debentures exclude Korea Development Bank.
Source: *AsianBondsOnline*, Bloomberg LP, and *KoreaBondWeb*.

Table 4: Top 10 Issuers of LCY Private Corporate Bonds in Korea (as of June 2010)

Issuer	Outstanding Amount		
	LCY Bonds (KRW billion)	**LCY Bonds** (USD billion)	**FCY Bonds** (USD billion)
1. Daewoo Securities	20,869	17.1	0.0
2. Woori Investment and Securities	16,148	13.2	0.0
3. Korea Investment and Securities	10,102	8.3	0.2
4. Hyundai Securities	8,812	7.2	0.0
5. Mirae Asset Securities	6,719	5.5	0.0
6. Tong Yang Securities	6,303	5.2	0.0
7. Shinhan Financial Group	5,680	4.7	0.2
8. Samsung Securities	5,260	4.3	0.0
9. KT Corporation	5,020	4.1	2.4
10. Hana Daetoo Securities	4,404	3.6	0.0
Total Top 10	**89,315**	**73.1**	
Total LCY Private Corporate Bonds	**252,147**	**206.4**	
Top 10 as % of Total LCY Private Corporate Bonds	**35.4%**	**35.4%**	

FCY = foreign currency, LCY = local currency.
Source: *AsianBondsOnline*, Bloomberg LP, and *KoreaBondWeb.*

debentures were the Industrial Bank of Korea, Kookmin Bank, and Woori Bank. Each of the top 10 issuers of LCY financial debentures also had FCY bonds outstanding, with the largest amount issued by the Export–Import Bank of Korea.

The combined amount of bonds outstanding of the top 10 issuers of LCY private corporate bonds in Korea as of June totaled KRW89.3 trillion (USD73.1 billion), which represented about 35% of the total LCY private corporate bonds in the country **(Table 4)**. Eight out of the top 10 issuers were securities companies, with the largest being Daewoo Securities, Woori Investment and Securities, and Korea Investment and Securities. Only three of the top 10 issuers had FCY bonds outstanding, with the largest being issued by KT Corporation.

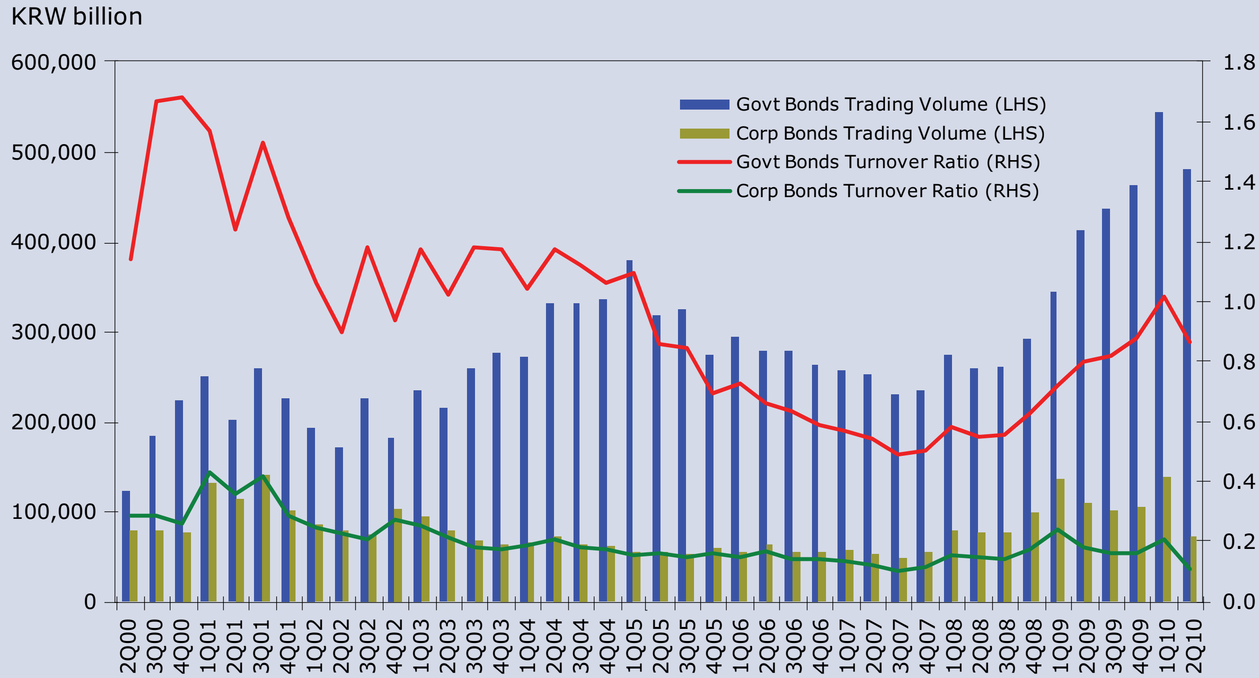
Liquidity

Trading volumes and turnover ratios fell on a quarterly basis in 2Q10 for both Korean government and corporate LCY bonds **(Figure 2)**. Trading volume in 2Q10 for government bonds fell 11.8% q-o-q to KRW479.3 billion. For corporate bonds, trading volume decreased 47.9% q-o-q to KRW71.9 trillion. Similarly, the turnover ratio for government bonds declined to 0.86 in 2Q10 from 1.02 in 1Q10. For corporate bonds, the turnover ratio dropped to 0.10 in 2Q10 from 0.20 in 1Q10. On a y-o-y basis, however, trading volume for government bonds rose 16.6% in 2Q10, while the turnover ratio of government bonds also increased to 0.86 from 0.80 in 2Q09. Trading volume for corporate bonds plunged 34.7% y-o-y in 2Q10, while the turnover ratio also decreased to 0.10 from 0.18 in 2Q09.

KTBs were the most traded type of government bonds in Korea as of June 2010 , with the top 30 traded KTBs amounting to KRW299.4 trillion, which comprised 98% of total KTBs **(Figure 3)**. In terms of tenor, the top 30 traded KTBs consisted of four 20-year KTBs, ten 10-year KTBs, ten 5-year KTBs, and six 3-year KTBs **(Figure 4)**.

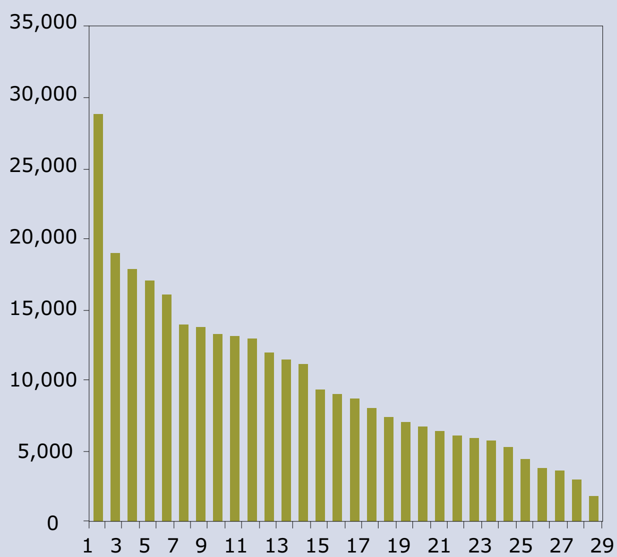
The KTB futures market includes 3-, 5-, and 10-year KTB futures contracts, but only 3-year

Figure 2: Trading Volumes and Turnover Ratios of Korean Government and Corporate Bonds, 2Q00–2Q10



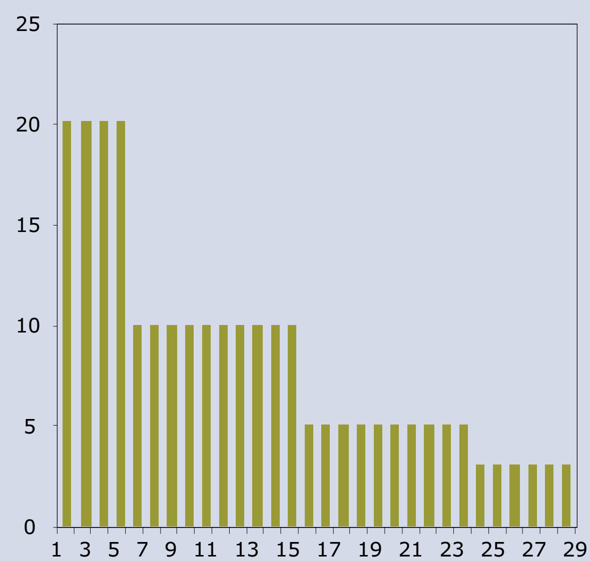
LHS = Left-hand side, RHS = Right-hand side.
Source: *AsianBondsOnline*, Bloomberg LP, and *KoreaBondWeb*.

Figure 3: Top 30 KTBs by Size, June 2010
(KRW billion)



Source: Bloomberg LP.

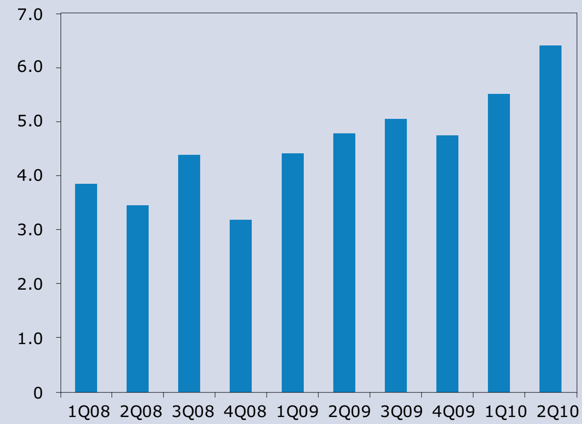
Figure 4: Top 30 KTBs by Tenor, June 2010
(Years)



Source: Bloomberg LP.

KTB futures are widely traded. Recently, there has been an increase in the trading volume of 3-year KTB futures. In 2Q10, the number of 3-year KTB futures contracts traded reached 6.4 million, up 15.9% q-o-q and 33.9% y-o-y **(Figure 5)**.

Figure 5: Trading Volume of 3-Year KTB Futures, 1Q08–2Q10 (number of contracts traded, million)



KTB = Korea Treasury bonds.
Source: Korea Exchange.

Policy, Institutional, and Regulatory Developments

FSC Approves Regulation to Improve Trading of Long-Term KTB Futures

In September, the Financial Services Commission (FSC) of Korea approved the Korea Exchange's amended version of its Derivatives Market Business Regulation, which aims to enhance the trading of long-term KTB futures. The revised version calls for harmonizing regulations on short-term and long-term KTB futures to improve the accessibility of KTB futures and facilitate the trading of these derivative instruments. Part of this provision is to change the final settlement method for 10-year KTB futures to cash settlement (from physical delivery) in order for primary dealers to actively trade 10-year KTB futures. The amended version, which is expected to be implemented in October, aims to stabilize price movements and enhance market-making functions in the KTB futures market.

Korea To Introduce Short-Term KTBs

In July, Korea publicized its plan to issue KTBs with maturities of less than 1 year in order to form a short-term benchmark bond rate. The issuance of short-term KTBs will take place following revisions to the National Finance Act to be made in 2011/12.

Korea Sets Ceiling on Call Money Borrowings

The Korean government revealed in July that it will establish a cap in call money borrowings equivalent to 100% of a securities firm's equity capital in order to reduce the potential systemic risk associated with firms' heavy reliance on call money loans. The new rule is intended to be implemented in the third quarter of this year.

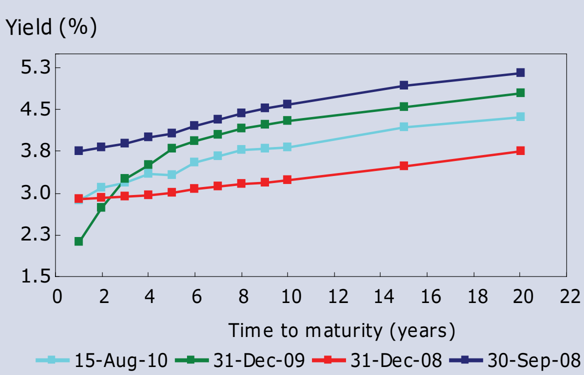
Malaysia—Update

Yield Movements

An increase in the overnight policy rate (OPR), an uptick in consumer price inflation, and robust growth in the first half of the year resulted in the flattening of Malaysia's government bond yield curve. Between end-2009 and mid-August, yields rose at the short-end and dropped in the belly and at the long-end of the curve **(Figure 1)**. Bank Negara Malaysia (BNM) has already raised its key rate three times this year, increasing the OPR by a total of 75 basis points to 2.75%. Before an initial increase in February, the OPR had been kept at a historic low of 2.0% since February 2009.

Driven by sustained growth in domestic and external demand, Malaysia's economy expanded 8.9% year-on-year (y-o-y) in 2Q10, which brought the country's gross domestic product (GDP) growth to 9.5% in the first half of the year. Domestic demand grew 9.0% y-o-y in 2Q10, higher than growth of 5.3% recorded in 1Q10, mainly due to higher levels of private consumption as well as increased business and public sector spending. Relatively low inflation coupled with favorable labor market conditions and improved consumer confidence led to 7.9% y-o-y growth in private consumption. Meanwhile, public sector spending increased 6.9% y-o-y in 2Q10 and gross fixed capital formation grew 9.4% y-o-y.

Figure 1: Malaysia's Benchmark Yield Curve–LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Prices in Malaysia continued to rise as domestic demand and public sector spending fueled economic growth. In July, consumer price inflation rose slightly to 1.9% y-o-y from 1.7% in June and 1.6% in May. For January–July, consumer price inflation was reported at 1.5% y-o-y.

Size and Composition

At the end of June, total outstanding local currency (LCY) bonds in Malaysia stood at MYR695.9 billion, up 14.0% y-o-y. Outstanding government LCY bonds expanded 18.3% y-o-y to MYR401.2 billion. Excluding central bank bills, outstanding government LCY bonds rose 12.5% y-o-y **(Table1)**.

Issuance of government LCY bonds (excluding central bank bills) was lower in 1H10 compared with 1H09, as the government had issued more bonds in 2009 to fund its MYR60.0 billion stimulus program. The government issued a total of MYR21.0 billion of Malaysian Government Securities (MGS) in the first 6 months of 2010 compared with MYR32.0 billion in the same period last year. Issuance of Government Investment Issues (GII) likewise fell, from MYR16.5 billion in 1H09 to MYR12.0 billion in 1H10.

The issuance of central bank bills increased as the central bank mopped up excess liquidity in the market amid rising consumer price inflation. Issuance of central bank bills reached MYR68.2 billion in 2Q10 from MYR35.5 billion in 1Q09.

In 2Q10, total corporate LCY bonds outstanding grew 8.6% y-o-y, and 3.1% on a quarter-on-quarter (q-o-q) basis, to reach MYR294.7 billion.

After a slow start in 1Q10, the issuance of corporate LCY bonds picked up in 2Q10.

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

	Amount (billion)								Growth Rate (%)						
	Mar-10		Apr-10		May-10		Jun-10		Mar-10		Apr-10	May-10	Jun-10		
	MYR	USD	MYR	USD	MYR	USD	MYR	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	648.0	198.6	674.3	211.8	686.2	210.3	695.9	215.7	11.0	(98.4)	4.1	1.8	14.0	7.4	1.4
Government	362.2	111.1	381.7	119.9	392.8	120.4	401.2	124.4	12.7	4.4	5.4	2.9	18.3	10.8	2.1
Central Government Bonds	328.1	100.6	322.7	101.3	322.7	98.9	331.2	102.7	22.2	5.0	(1.6)	—	15.0	0.9	2.6
Central Bank Bills	32.5	9.9	57.6	18.1	69.2	21.2	69.1	21.4	(27.1)	8.2	77.3	20.2	58.0	112.8	(0.1)
Others	1.7	0.5	1.5	0.5	1.0	0.3	1.0	0.3	(79.9)	(60.1)	(14.4)	(34.2)	(87.1)	(43.7)	—
Corporate	285.7	87.6	292.6	91.9	293.4	89.9	294.7	91.4	9.0	(0.9)	2.4	0.3	8.6	3.1	0.4

LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY—USD rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. "Others" refer to Khazanah Bonds issued by Khazanah Nasional Berhad and Cagamas, Bonds and Notes, Bithaman Ajil Islamic Securities, Sanadat ABBA Cagamas and Sanadat Mudharabah Cagamas issued by Cagamas Berhad.

Source: Bank Negara Malaysia and Bloomberg LP.

Malaysia's corporate LCY bond issuance totaled MYR22.9 billion in 2Q10, 90.4% higher than the MYR12.0 billion posted in 1Q10, but 18.0% lower compared with the MYR28.0 billion issued in 2Q09. Among the biggest issuances during the period were Bank Pembangunan Malaysia (MYR2.5 billion), Khazanah Nasional subsidiary Danga Capital (MYR2.0 billion), national mortgage corporation Cagamas Berhard (MYR1.8 billion), AmBank (MYR1.3 billion), RHB Bank (MYR1.0 billion), and CIMB Group (MYR750 million).

The top 20 corporate issuers in Malaysia comprised 48.3% of total corporate bonds outstanding in 2Q10 **(Table 2)**. Cagamas Berhad remained the top issuer of corporate bonds with MYR18.2 billion outstanding in conventional and Islamic *(sukuk)* medium-term notes, followed by the government's investment holding arm, Khazanah Nasional, and the investment holding company, Binariang GSM, with MYR13.2 billion and MYR11.5 billion, respectively.

Investor Profile

At the end of June, financial institutions were the largest holders of government bonds, with 43.7% of total outstanding MGS and GII, followed by social security institutions, which held 30.2%. Foreign holders and insurance companies held 18.1% and 6.0%, respectively, of total outstanding MGS and GII **(Figure 2)**.

Meanwhile, foreign holdings of MGS increased from 16.9% at end-December to 23.4% at end-June **(Figure 3)**.With the relaxation of foreign exchange rules (see Policy, Institutional, and Regulatory Developments), the Malaysian ringgit gained against the US dollar in 2Q10 and government bonds rallied on expectations of the ringgit's further appreciation, which has already gained 9.4% against the US dollar since the beginning of the year.

Turnover Ratio

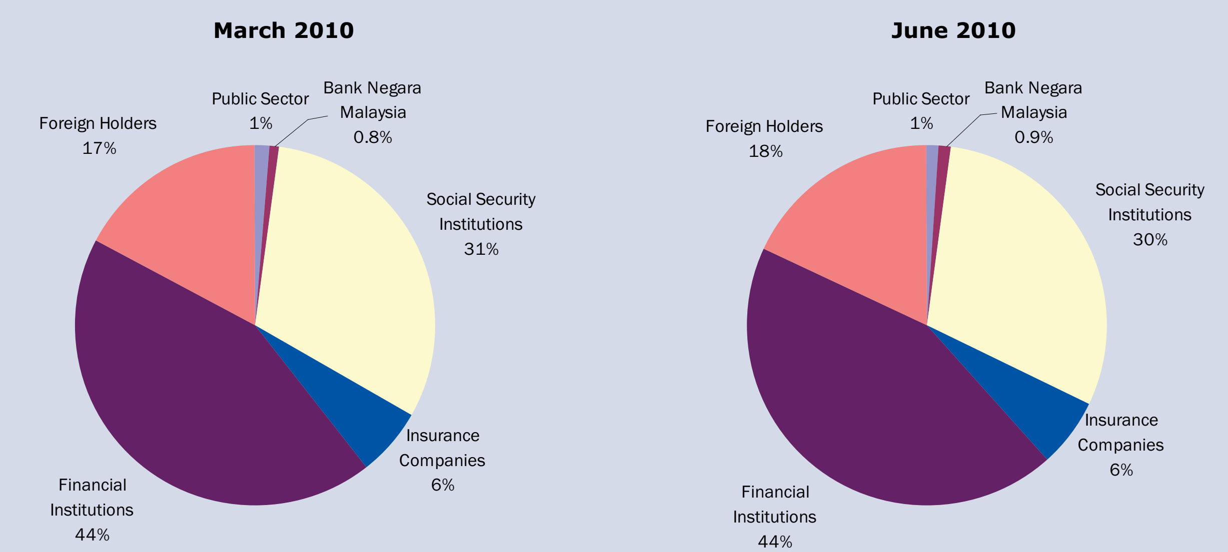
Monthly data showed government bond trading volume rose to MYR71.5 billion in January

Table 2: Top 20 Corporate Issuers, June 2010 (MYR billion)

Issuer	Industry	Conventional Bonds	Islamic Bonds	Conventional MTN	Islamic MTN	Total
Cagamas	Finance	—	—	9.30	8.85	18.15
Khazanah	Quasi-Govt. and Other	—	13.20	—	—	13.20
Binariang GSM	Transport, Storage & Comm.	—	3.17	—	8.28	11.45
Project Lebuhraya	Transport, Storage & Comm.	—	6.57	—	3.68	10.25
Prasarana	Finance	5.11	2.00	—	2.00	9.11
Maybank	Finance	6.10	2.50	—		8.60
Rantau Abang Capital Bhd	Quasi-Govt. and Other	—	—	—	8.00	8.00
Malakoff Corp	Finance	—	1.70	—	5.60	7.30
KL International Airport	Transport, Storage & Comm.	1.60	4.76	—	—	6.36
AM Bank	Finance	1.60	—	4.33	—	5.93
Value Cap	Finance	5.10	—	—	—	5.10
1 Malaysia Development Bhd.	Finance	—	—	—	5.00	5.00
Jimah Energy Ventures	Utilities	—	—	—	4.77	4.77
Tanjung Bin	Utilities	—	—	—	4.59	4.59
Bank Pembangunan Malaysia	Finance	1.00	—	2.60	0.90	4.50
Putrajaya Holdings	Finance	—	1.70	—	3.65	5.35
YTL Power International	Utilities	2.20	—	1.70	—	3.90
Tenaga Nasional	Utilities	1.50	2.15	—	—	3.65
Danga Capital	Finance	—	—	—	3.60	3.60
RHB Bank	Finance	0.60	—	3.00	—	3.60
Total		**24.81**	**37.75**	**20.93**	**58.91**	**142.40**
Total Outstanding		**63.48**	**70.47**	**45.48**	**89.40**	**294.65**
Top 20 as % of Outstanding		**39.1%**	**53.6%**	**46.0%**	**65.9%**	**48.3%**

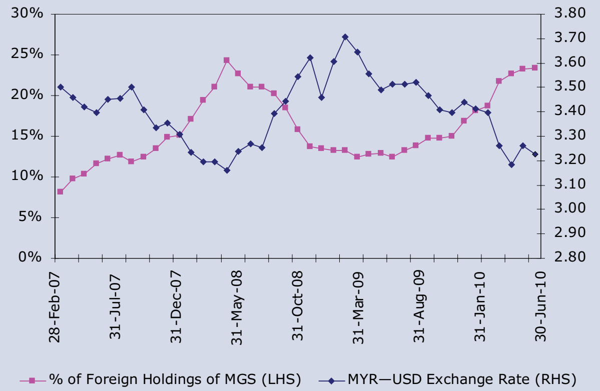
— = not applicable, MTN = medium-term notes.
Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST).

Figure 2. LCY Government Bonds Investor Profile



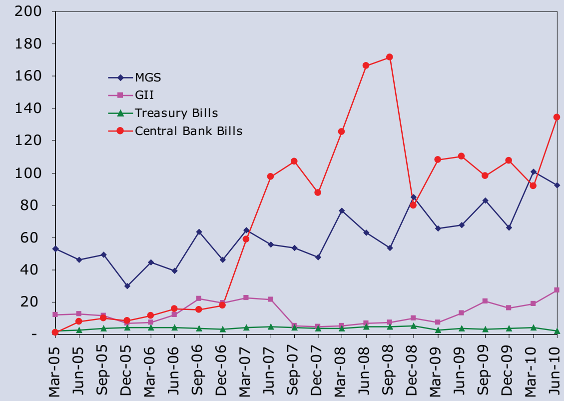
LCY = local currency.
Source: Bank Negara Malaysia.

Figure 3. Foreign Holdings of MGS vs. the MYR—USD Exchange Rate



LHS = left hand side, RHS = right hand side, MGS = Malaysian Government Securities.
Source: Bank Negara Malaysia.

Figure 4. Quarterly Trading Volume for LCY Government Bonds (MYR billion)



LCY = local currency, MGS = Malaysian Government Securities, GII = Government Investment Issues.
Source: Bank Negara Malaysia.

after having fallen in 4Q09, when trading volume averaged MYR65.5 billion per month. Trading volume fell again to MYR54.9 billion in February before rising to MYR89.4 billion in March **(Figure 4)**. The quarterly turnover ratio was 0.61 in 1Q10, compared with 0.56 in 4Q09.

In April, government bond trading volume surged to MYR104.0 billion due to an increase in trading of central bank bills, which reached MYR53.6 billion as their issuance was increased to mop up excess liquidity. Government bond trading volume fell to MYR80.5 billion and MYR71.9 billion in May and June, respectively. The turnover ratio for government bonds stood at 0.67 in 2Q10.

For January–June, the bulk of the trading of government bonds and central bank bills were interbank transactions **(Table 3)**. Of the MYR232.8 billion in government bonds traded in 1H10, MYR184.0 billion of these bonds were traded in the interbank market. About 70% of the trading volume of central bank bills was in the interbank market.

Corporate bond trading volume reached MYR19.2 billion in 1Q10 from MYR16.2 billion in 4Q09. The trading volume increased further in 2Q10 to MYR28.3 billion. As a result, the turnover ratio for corporate bonds increased to 0.10 in 2Q10 from 0.06 and 0.07 in 4Q09 and 1Q10, respectively.

Table 3: Securities Turnover by Participant for January–June 2010 (MYR million)

	Interbank	Non-Interbank	Total
Government Bonds	184,018	48,812	232,830
MGS	143,279	45,594	188,872
GII	40,740	3,218	43,958
Treasury Bills	4,311	2,342	6,653
Central Bank Bills	156,150	65,388	221,538

MGS = Malaysian Government Securities, GII = Government Investment Issues.
Note:
Interbank—both buyers and sellers are financial institutions.
Non-Interbank—either the buyer or seller is a financial institution.
Source: Bank Negara Malaysia.

Policy, Institutional, and Regulatory Developments

Corporate Debt Restructuring Committee Revises Eligibility Criteria

The Corporate Debt Restructuring Committee (CDRC) has revised its eligibility criteria to allow more companies to seek assistance from the CDRC in restructuring their debt obligations.

Under the revised eligibility criteria, companies seeking to resolve their debt obligations under the CDRC must fulfill the following:

(i) aggregate indebtedness of MYR30 million or more;

(ii) at least two financial creditors;

(iii) not in receivership or liquidation, except in cases where receivers have been appointed over certain specified assets and the directors remain in control over the companies' overall operations; and

(iv) difficulties in servicing debt obligations, which may not include having already defaulted, provided criteria (i) and (ii) are met.

The revised criteria extends eligibility to any company listed on Bursa Malaysia that has been classified as either PN17 (Main Market—the merged main board and second board of Bursa Malaysia) or GN3 (ACE market—the revamp of the Malaysian Exchange Securities Dealing and Automated Quotation [MESDAQ]), irrespective of the amount of debt outstanding.

BNM Further Liberalizes FX Rules

In August, BNM announced the further liberalization of foreign exchange (FX) administrative rules to promote efficiency in trade. The new rules provide for the following:

(i) the use of the ringgit as a settlement currency for the international trade of goods and services between residents and non-residents;

(ii) the borrowing of any amount of foreign currency by a resident company from its respective non-resident, non-bank related company (thus abolishing all limits on cross-border foreign currency inter-company borrowings); and

(iii) the lifting of the limit on residents' anticipatory hedging of current account transactions with licensed onshore banks.

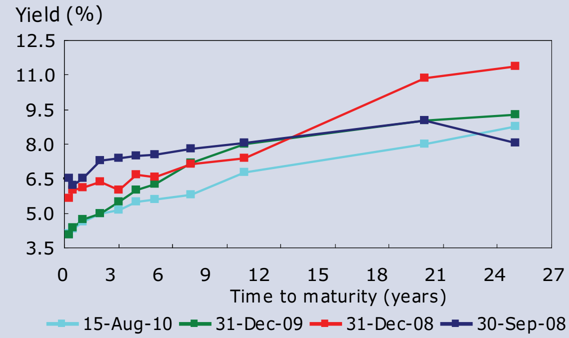
To promote bilateral trade between the People's Republic of China (PRC) and Malaysia, the China Foreign Exchange Trading System (CFETS) has issued a separate statement that allows trading of the PRC yuan against the ringgit. Aside from the ringgit, other currencies that are traded on the CFETS are the US dollar, euro, pound sterling, yen, and Hong Kong dollar.

Philippines—Update

Yield Movements

Yields of Philippine government bonds fell for most maturities between end-December 2009 and mid-August 2010 **(Figure 1)**. Yields dropped for most maturities at the shorter-end of the curve. But the decline was relatively larger from the belly through the longer-end of the curve, falling by 65, 135, 121, 103, and 53 basis points for 5-, 7-, 10-, 20-, and 25-year maturities, respectively. Meanwhile, yield spreads between 2- and 10-year tenors narrowed by 121 basis points between end-December and mid-August.

Figure 1: Philippines' Benchmark Yield Curve–LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

In August, the central bank—Bangko Sentral ng Pilipinas—held the overnight borrowing (reverse repurchase) and overnight lending (repurchase) rates steady at 4.0% and 6.0%, respectively. Consumer price inflation in the Philippines stood at 4.0% year-on-year (y-o-y) in August, compared with 3.9% in July. The Philippines registered gross domestic product (GDP) growth of 7.9% y-o-y in 2Q10, following revised 7.8% growth in 1Q10, on the back of double-digit growth in domestic investment, total exports, and industrial activity.

Size and Composition

The size of the Philippine local currency (LCY) bond market expanded 11.6% y-o-y, and 2.5% quarter-on-quarter (q-o-q), to PHP3.1 trillion (USD66.2 billion) as of end-June **(Table 1)**. This growth stemmed from increases in both government bonds and corporate bonds outstanding.

The size of the Philippine LCY government bond market amounted to PHP2.7 trillion (USD58.1 billion) at the end of June, a 9.8% y-o-y increase. Treasury bonds, which comprised 74% of total government bonds, expanded 18.3% y-o-y to PHP2.0 trillion (USD43 billion). In contrast, treasury bills plunged 16.5% y-o-y to PHP567.4 billion (USD12.2 billion). Other bonds, which include government-guaranteed bonds and bonds owned by government-owned-and-controlled corporations (GOCCs) totaled PHP131.7 billion (USD2.8 billion), which represented increases of 47.9% y-o-y and 18.1% q-o-q.

In 2Q10, the Philippine government issued a total of PHP127.8 billion (USD2.7 billion) in government bonds, of which 63.2% were treasury bills and 13.3% were treasury bonds. The remaining 23.5% were issued by a Philippine GOCC, the Power Sector Assets and Liabilities Management Corp. (PSALM).

In September, the Philippines issued PHP44.1 billion (USD1.0 billion) of 10-year bonds in international capital markets; this served as the first LCY bonds sold offshore by an Asian country. The bonds have a coupon rate of 4.95%, a yield of 5.0%, and were priced at 99.607%. About 37% of the bond purchases came from Asian investors, 33% from US investors, and 30% from European investors. The bonds are exempt from the Philippines' 20% tax on interest income.

Philippine LCY corporate bonds outstanding soared 26.8% y-o-y to PHP376.2 billion (USD8.1 billion) in June. On a q-o-q basis, corporate bonds outstanding climbed 5.5%. During 2Q10, four LCY corporates issued a total of PHP18.0 billion (USD388.1 million) in bonds: Ayala Corporation (PHP10.0 billion), Rizal Commercial Banking Corporation (PHP5.0 billion), Metrobank Card Corporation (PHP2.0 billion), and SM Prime Holdings (PHP1.0 billion).

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

	Amount (billion)								Growth Rate (%)						
	Mar-10		Apr-10		May-10		Jun-10		Mar-10		Apr-10	May-10	Jun-10		
	PHP	USD	PHP	USD	PHP	USD	PHP	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	2,996	66	3,029	68	3,060	66	3,072	66.2	11.1	2.9	1.1	1.0	11.6	2.5	0.4
Government	2,639	58	2,670	60	2,684	58	2,696	58	7.3	3.1	1.2	0.5	9.8	2.1	0.4
Treasury Bills	579	13	579	13	575	12	567	12	(24.6)	(6.9)	0.0	(0.7)	(16.5)	(2.0)	(1.3)
Treasury Bonds	1,948	43	1,938	44	1,977	43	1,996	43	21.0	6.0	(0.6)	2.0	18.3	2.5	1.0
Others	112	2	153	3	132	3	132	3	35.2	12.0	37.0	(13.8)	47.9	18.1	0.0
Corporate	357	8	359	8	376	8	376	8	51.0	1.5	0.8	4.7	26.8	5.5	0.0

LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Note:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY—USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. "Others" includes government-guaranteed bonds such as Land Bank of the Philippines and National Power Corporation (Napocor).
Source: Philippine Bureau of the Treasury and Bloomberg LP.

The top 20 LCY corporate issuers in the Philippines, as of June 2010, had combined LCY bonds outstanding of PHP301.1 billion, which represented 80% of the overall LCY corporate bond market **(Table 2)**. San Miguel Brewery, the largest beer producer in the country, had LCY bonds outstanding of PHP38.8 billion, followed by three commercial banks—Banco de Oro Unibank (PHP30.9 billion), Rizal Commercial Banking Corporation (PHP21.0 billion), and Metrobank (PHP18.5 billion).

Rating Changes

In August, Fitch Ratings affirmed the sovereign credit ratings of the Philippines at BB for its foreign currency (FCY) long-term issuer default

Table 2: Top 20 Issuers of LCY Corporate Bonds in the Philippines, June 2010

Rank	Issuer	Amount Outstanding (PHP billion)
1	San Miguel Brewery	38.80
2	Banco de Oro Unibank	30.90
3	Rizal Commercial Banking Corporation	21.00
4	Metropolitan Bank & Trust Company	18.50
5	Manila Electric Company	18.30
6	Philippine National Bank	17.75
7	Globe Telecom	16.80
8	Petron Corporation	16.30
9	Ayala Corporation	16.00
10	Robinsons Land Corporation	15.00
11	JG Summit Holdings	13.31
12	SM Prime Holdings	12.49
13	Energy Development Corporation	12.00
14	Bank of Philippine Islands	10.00
15	SM Investments Corporation	9.40
16	Allied Banking Corporation	8.00
17	Ayala Land	7.00
18	Aboitiz Power Corporation	6.88
19	Megaworld Corporation	6.40
20	Metrobank Card Corporation	6.30
Total Top 20		**301.13**
Total LCY Corporate Bonds		**376.17**
Top 20 as % of Total LCY Corporate Bonds		**80%**

LCY = local currency.
Source: Bloomberg LP.

rating, BB+ for its LCY long-term issuer default rating and country ceiling, and B for its short-term issuer default rating **(Table 3)**. Fitch Ratings also affirmed its stable outlook for the Philippines.

Table 3: Selected Sovereign Ratings and Outlook for the Philippines

	Moody's	Standard & Poor's	Fitch
FCY Long-Term Rating	Ba3	BB–	BB
Outlook	stable	stable	stable

FCY = foreign currency.
Source: Rating agencies.

Policy, Institutional, and Regulatory Developments

Bond Exchange Program Planned

In August, the Philippine Bureau of the Treasury revealed its plan to allow the exchange of shorter- and longer-term bonds in order to lengthen the maturity profile of the Philippine government's debt. In particular, 5-year government bonds can be exchanged for 10-year bonds, while 10-year bonds can be exchanged for 20- or 25-year bonds. This bond exchange program is expected to be launched by the end of the year.

PDEx Revises Rules on Failed Trades and Delayed Settlements of Fixed-Income Securities

In May, the Philippine Dealing and Exchange Corporation (PDEx) amended its rules for the Philippine fixed-income securities market. PDEx revised certain provisions on the definition, reporting, handling, and penalties of failed trades and delayed settlements of fixed-income securities.

Singapore—Update

Yield Movements

Singapore government bond yields fell throughout the length of the curve between end-December 2009 and mid-August 2010 **(Figure 1)**. The yield on the 2-year tenor declined 9 basis points from its December 2009 level. Yields fell by larger amounts along the rest of the curve, with the most pronounced yield declines being those for the 10- and 15- year tenors, which fell by 75 and 74 basis points, respectively. The decline in yields, particularly at the short-end, was mirrored by the Singapore Interbank Offered Rate (SIBOR), which has been declining since January 2010 **(Figure 2)**.

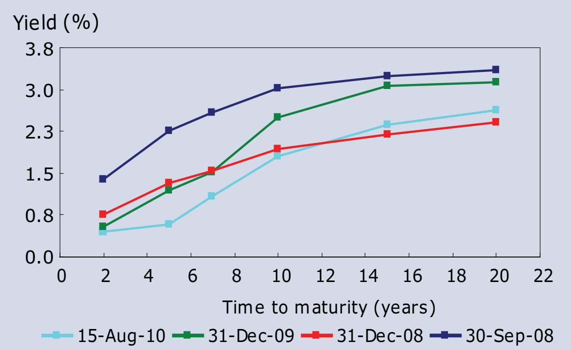
Singapore's gross domestic product (GDP) in 2Q10 surged 18.8% year-on-year (y-o-y), compared with a 16.9% expansion in 1Q10. The economic growth in 2Q10 was underpinned by manufacturing output, which rose 44.5% y-o-y on the back of increased production of active pharmaceutical ingredients and semiconductor chips. The wholesale and retail trade sectors grew 18.9% y-o-y due to high global trade flows, while several other sectors of the economy—construction, financial services, and other service industries such as tourism—posted y-o-y growth rates above 10%.

Citing the slowdown of economic conditions in the United States and European Union, as well as moderating growth in the People's Republic of China (PRC), the Ministry of Trade and Industry (MTI) said Singapore's remarkable first half economic performance was not likely to be sustained. The MTI did project, however, that Singapore's growth would remain healthy for the rest of 2010, and maintained its forecast of 13%–15% economic growth for the full year.

In April, the Monetary Authority of Singapore (MAS) announced that it would re-center its exchange rate policy band to the prevailing level of the Singapore dollar's nominal effective exchange rate, and that it would shift its policy from zero percent appreciation to "modest and gradual appreciation," with the width of the policy band remaining unchanged. As of mid-August, Singapore was continuing to maintain this exchange rate policy.

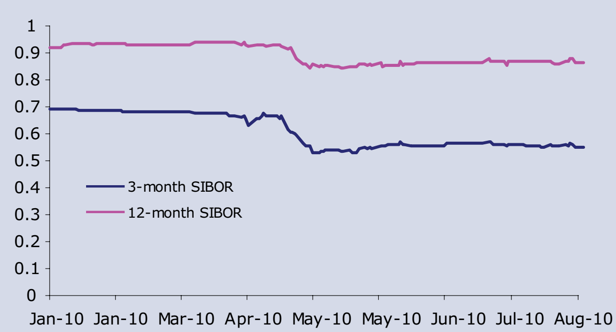
Singapore's consumer price inflation stood at 3.1% y-o-y in July due to higher transportation, housing, and food costs. The July inflation figure compares with 2.7% in June and 3.2% in May. The MAS expects inflation to range between 2.5% and 3.5% for the full year, driven by higher commodity prices and private road transport costs.

Figure 1: Singapore's Benchmark Yield Curve–LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Figure 2: SIBOR Rates



SIBOR = Singapore Interbank Offered Rate.
Source: Bloomberg LP.

Table 1. Size and Composition of the LCY Bond Market in Singapore

	Amount (billion)								Growth Rate (%)						
	Mar-10		Apr-10		May-10		Jun-10		Mar-10		Apr-10	May-10	Jun-10		
	SGD	USD	SGD	USD	SGD	USD	SGD	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	222	159	222	162	225	160	226	162	17.8	5.2	(0.1)	1.3	12.6	1.8	0.6
Government	127	90	125	91	126	90	128	92	17.0	2.3	(1.1)	0.6	10.7	1.2	1.7
Bills	52	37	52	38	53	38	53	38	25.2	(0.8)	0.6	1.3	15.4	2.7	0.8
Bonds	75	54	73	53	73	52	75	54	12.0	4.6	(2.3)	—	7.6	0.1	2.5
Corporate	95	68	97	70	99	70	98	70	18.9	9.3	1.2	2.3	15.1	2.6	(0.9)

— = data not available, LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources. Corporate bonds are based on *AsianBondOnline* estimates.
2. Bloomberg end-of-period LCY–USD rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Source: Monetary Authirty of Singapore and Bloomberg LP.

Size and Composition

The amount of local currency (LCY) bonds outstanding in Singapore at the end of June totaled SGD226 billion, up 12.6% y-o-y **(Table 1)**. Government bonds outstanding rose 10.7% y-o-y to SGD128 billion, while corporate bonds outstanding grew 15.2%. As of end-June, the top 30 corporate issuers accounted for 40.8% of total corporate bonds outstanding **(Table 2)**. Notable issuance in 2Q10 included those by the Land Transport Authority (SGD575 million), SP Power Assets (SGD500 million), and HK Land Treasury (SGD150 million).

Rating Changes

On 27 August, Standard & Poor's (S&P) affirmed Singapore's long-term and short-term sovereign credit ratings at AAA and A-1+, respectively, with a stable outlook. S&P said that the ratings were supported by Singapore's "extensive fiscal and external strengths" and "solid record of prudent macroeconomic management." In particular, S&P cited Singapore's significant foreign exchange reserves and sound fiscal position that allowed the government to introduce a SGD20.5 billion stimulus package in 2009 in response to the global financial crisis. According to S&P, the package helped the economy weather the crisis as the economy contracted at a slower rate.

Table3: Selected Sovereign Ratings and Outlook for Singapore

	Moody's	Standard & Poor's	Fitch
Sovereign FCY LT Ratings	Aaa	AAA	AAA
Outlook	stable	stable	stable

FCY = foreign currency, LT = long-term.
Source: Ratings agencies.

Policy, Institutional, and Regulatory Developments

PBOC and MAS Agree to a Bilateral Currency Swap

On 23 July, the People's Bank of China (PBOC) and the MAS agreed to a bilateral currency swap arrangement to promote bilateral trade and direct investment. The swap arrangement will provide PRC yuan liquidity of up to CNY150 billion and Singapore dollar liquidity of up to SGD30 billion. The initial term of the arrangement is 3 years with the possibility for extension.

SGX Launches Initiatives to Boost Bond Listing and Trading

In August, the Singapore Exchange (SGX) launched initiatives to promote the listing, trading, and distribution of fixed-income instruments in Singapore. Among the initiatives are measures to attract companies listed in Singapore to issue bonds that can be listed and traded on the SGX. The SGX plans to streamline the approval process

Table 2: Bonds Outstanding of Top 30 Corporate Issuers, June 2010

Issuer	Outstanding Amount LCY Bonds (SGD billion)
Housing and Development Board (Public Housing Authority)	5.55
Capitaland (Real Estate)	4.87
United Overseas Bank (Banking)	3.62
SP Power Assets (Electricity Transmission and Distribution)	2.91
Temasek Financial I (Investment Company)	2.60
Oversea-Chinese Banking (Banking)	2.20
Public Utilities Board (National Water Authority)	2.10
Land Transport Authority (Building and Construction)	1.88
DBS Bank Singapore (Banking)	1.61
PSA Corp. (Container Transhipment Hub)	1.60
F&N Treasury (Food Service, Property, Pub & Printing)	1.32
Singapore Airlines (Airlines)	0.90
Capitaland Treasury (Real Estate)	0.70
HK Land Treasury Service (Property Investment Management)	0.70
Capitamall Trust (REITS-Shopping Centers)	0.65
City Developments (Hotels and Motels)	0.60
Singapore Press Holdings (Publishing-Newspapers)	0.60
Singtel Group Treasury (Telecoms)	0.60
Keppel Land (Real Estate)	0.59
Mapletree Treasury Services (Special Purpose Entity)	0.53
Ascott Capital (Real Estate)	0.50
Sembcorp Financial Services (Engineering/R&D Services)	0.50
Singapore Post (Postal Services)	0.50
ST Treasury Services (Finance)	0.48
Yanlord Land Group (Real Estate, PRC-based)	0.42
Capitacommercial Trust (REITS-Diversified)	0.41
Hotel Properties (Hotels and Motels)	0.40
Guocoland (Property Development and Investment)	0.39
Asia Pacific Breweries (Breweries)	0.36
Fraser & Neave (Food Service, Property, Pub & Printing)	0.35
Total Top 30 Corporate Issuers	**40.4**
Total Corporate Bonds Outstanding	**99.1**
Top 30 as % of Total Corporate	**40.79%**

Note: Total corporate bonds outstanding based on *AsianBondsOnline* estimates.
Source: Bloomberg LP.

for bond listings and cut the time required for approval in half.

In addition to attracting bond listings, the SGX plans to encourage the listing and trading of preference shares and convertible bonds. By 1Q11, the SGX expects to put in place an on-exchange secondary market allowing for the trading of Singapore Government Securities by both individual and institutional investors.

Thailand—Update

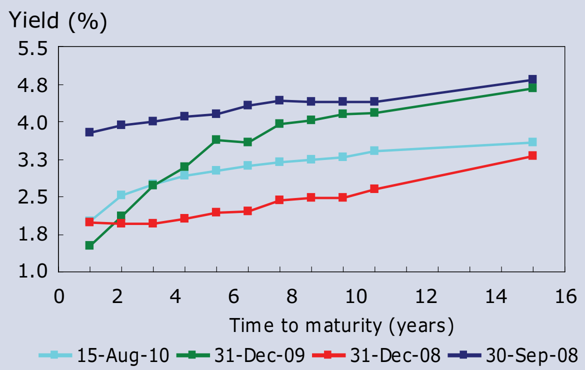
Yield Movements

The Thai government bond yield curve flattened from the belly to the long-end of the curve between end-December 2009 and mid-August 2010 **(Figure 1)**. Yields rose by as much as 48 basis points at the short-end of the curve, while yields declined by as much as 108 basis points from the belly to the long-end. The yield spread between 2- and 10-year bonds narrowed to 88 basis points in mid-August from 207 basis points at end-December.

The flattening of the yield curve reflected recent policy rate hikes from the Bank of Thailand (BOT), as investors demanded safer assets due to concerns over the slowing global economic recovery. The BOT raised its 1-day repurchase rate by 25 basis points to 1.75% on 25 August. The August increase followed the first rate hike in 2 years on 14 July.

Inflation remains modest at present, although an increase is expected next year in line with economic expansion and increasing production costs. Consumer price inflation stood at 3.4% year-on-year (y-o-y) in July, compared with 3.3% in June, as food and energy prices continued to climb. Inflation is expected to slow in the coming months as the supply of agricultural products increases, oil prices stabilize, and interest rates rise.

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



LCY = local currency.
Source: Bloomberg LP.

Thailand's economy expanded 9.1% y-o-y in 2Q10, compared with 12.0% in 1Q10. The dramatic turnaround from the first half of 2009 was driven by strong export growth despite political uncertainties in April and May. Thailand's gross domestic product (GDP) is expected to grow 6.5%–7.5% in 2010 and 3.0%–5.0% in 2011.

Size and Composition

At the end of June, the size of Thailand's total local currency (LCY) bond market had expanded 18.4% y-o-y, with the volume of bonds outstanding amounting to THB6.4 trillion (USD198 billion) **(Table 1)**. Total bonds outstanding grew 3.9% quarter-on-quarter (q-o-q) in 2Q10.

Thai government bonds were up 21.0% y-o-y at the end of June for a total outstanding amount of THB5.2 trillion (USD160 billion). BOT bonds recorded the highest growth rate of 37.8% y-o-y as of end-June, with total bonds outstanding of THB2.1 trillion, followed by treasury bonds, which posted a 14.5% y-o-y growth rate with total bonds outstanding of THB2.6 trillion. State-owned enterprise and other bonds, however, declined 0.4% over the same period to THB514 billion.

The Public Debt Management Office (PDMO) announced in June that a planned THB104 billion bond issuance, which is aimed at deepening the bond market, would push through in the fourth quarter of fiscal year 2009/10. The planned issue will bring the full year issuance of government bonds to THB434 billion from an initial target of THB386 billion.

The Thai government plans to issue more types of bonds in 2010, including public savings bonds and Islamic bonds (*sukuk*). Following several

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

	Amount (billion)								Growth Rate (%)						
	Mar-10		Apr-10		May-10		Jun-10		Mar-10		Apr-10	May-10	Jun-10		
	THB	USD	THB	USD	THB	USD	THB	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	6,178.1	191.0	6,191.7	191.5	6,185.9	190.3	6,419.0	198.0	18.1	4.7	0.2	(0.1)	18.4	3.9	3.8
Government	4,964.7	153.5	4,950.4	153.1	4,934.5	151.8	5,177.5	159.7	17.9	5.4	(0.3)	(0.3)	21.0	4.3	4.9
Treasury Bonds	2,471.0	76.4	2,456.0	75.9	2,462.6	75.7	2,566.7	79.2	13.0	4.6	(0.6)	0.3	14.5	3.9	4.2
Central Bank Bonds	1,972.8	61.0	1,975.8	61.1	1,954.9	60.1	2,096.8	64.7	29.6	8.4	0.2	(1.1)	37.8	6.3	7.3
State-owned Enterprise & Other Bonds	520.9	16.1	518.5	16.0	517.0	15.9	514.0	15.9	3.8	(1.7)	(0.5)	(0.3)	(0.4)	(1.3)	(0.6)
Corporate	1,213.4	37.5	1,241.3	38.4	1,251.4	38.5	1,241.4	38.3	19.0	2.0	2.3	0.8	9.0	2.3	(0.8)

LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Source: Bank of Thailand (BOT) and Bloomberg LP.

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 6-year bonds pay an average annual yield of 4.17%. Proceeds from the issue will be used to finance infrastructure projects under the Thai Khem Khaeng economic stimulus program. Also, the Islamic Bank of Thailand is planning to issue THB5 billion worth of *sukuk* in 4Q10. Target buyers are domestic and international institutional investors, including Malaysian firms doing business in Thailand. Proceeds from the bond issue will finance lending expansion and capital base restructuring.

Thai corporate bonds outstanding at the end of June stood at THB1.2 trillion (USD38.3 billion), up 9.0% y-o-y and 2.3% q-o-q. New issuance in 2Q10 declined 5.2% y-o-y to THB275 billion, but increased 37.1% on a q-o-q basis. Notable THB-denominated corporate bond issues in 2Q10 included Bank of Ayudhya's THB20 billion of 10-year subordinated bonds, Siam Cement's THB10 billion of 4-year bonds, and Thai Military Bank's THB8 billion worth of 10-year bonds. Thanachart Bank also issued 10-year subordinated bonds worth THB6 billion to the general public and institutional investors.

In April, the Thai Ministry of Finance granted approval to five international financial institutions (IFIs) to issue THB-denominated bonds worth up to THB4 billion each and with tenors of more than 3 years. The IFIs include Australia and New Zealand Banking Group Limited, Deutsche Bank, International Finance Corporation, Export–Import Bank of Korea, and the Bank of Nova Scotia.

In August, the Thai Finance Ministry granted approval to three Korean firms to issue a total of THB14 billion in bonds in the Thai bond market before the end of 2010. Industrial Bank of Korea and Korea Development Bank have each been granted permission to issue THB5 billion in bonds, while Korea Water Resources Corp. has been permitted to issue THB4 billion in bonds.

The following corporations have bond issues in the pipeline for the second half of 2010:

(i) True Corporation plans to sell THB30 billion of bonds with tenors of up to 20 years.

(ii) Thailand's largest energy firm PTT will sell THB20 billion worth of bonds.

(iii) Leading coal miner Banpu PCL plans to raise up to THB20 billion to be able to compete with Australia's Centennial Coal.

(iv) Siam Cement plans to sell THB5 billion of 4-year bonds.

(v) The second-largest Thai property developer Pruksa Real Estate plans to sell THB5 billion of 3- to 5-year bonds in November.

(vi) PTT Chemical plans to raise THB3 billion to repay project investments.

At the end of June, the top 30 corporate issuers in Thailand were mainly from the industrial and financial sectors, and together represented 76% of total LCY corporate bonds outstanding **(Table 2)**. PTT ranked first as the top LCY and foreign currency (FCY) corporate issuer, with total bonds outstanding of THB181.2 billion and USD1.2 billion, respectively.

In July, PTT Exploration and Production became the first Thai issuer to sell bonds in the international market in 3 years. The firm issued USD500 million worth of 5-year bonds with a coupon of 4.152%. Asian investors bought 69% of the bonds, Europeans took 11%, and offshore investors from the United States purchased 20%. The last Thai corporate bond issuance in the international market—USD350 million of 7-year bonds—was conducted by True Move in July 2007.

Table 2: Top 30 Corporate Issuer, June 2010

Top 30 Corporate Issuers	Outstanding Amount		
	LCY Bonds (THB billion)	LCY Bonds (USD billion)	FCY Bonds (USD billion)
PTT PCL	181.2	5.6	1.16
Siam Cement PCL	110.0	3.4	—
Krung Thai Bank PCL	73.7	2.3	0.22
Bank Ayudhya Public Ltd	63.2	1.9	—
PTT Exporation and Product PCL	49.0	1.5	—
Kasikorn Bank PCL	37.1	1.1	0.18
Thai Airways International PCL	36.8	1.1	—
Toyota Leasing Thailand	28.7	0.9	—
Charoen Pokphand Foods	26.2	0.8	—
TMB Bank PCL	25.3	0.8	0.02
Dad SPV Company Ltd	24.0	0.7	—
Thai Oil PCL	20.8	0.6	0.35
PTT Chemical PCL	20.6	0.6	0.30
Siam Commercial Bank Co	20.0	0.6	—
Krung Thai Card PCL	19.5	0.6	—
Advanced Info Service	19.5	0.6	—
Bangkok Expressway PCL	19.0	0.6	—
Thanachart Bank PCL	18.0	0.6	—
Ayudhya Capital Auto Lease	15.5	0.5	—
Glow Energy PCL	15.0	0.5	—
PTT Aromatics and Refining	15.0	0.5	—
True Corporation PCL	14.0	0.4	—
Thanachart Capital PCL	13.5	0.4	—
Quality Houses Public Co	13.0	0.4	—
Bangkok Mass Transit System	12.0	0.4	—
Central Pattana Public	11.7	0.4	—
CH. Karnchang Public Co	10.9	0.3	—
Minor International PCL	10.4	0.3	—
Land & Houses Public Co	10.0	0.3	—
Siam City Bank PCL	10.0	0.3	—
Total Top 30 Corporate Issuers	**944**	**29**	
Total Corporate Bonds Outstanding	**1,241**	**38**	
Top 30 as % of Total Corporate	**76%**	**76%**	

— = not applicable, FCY = foreign currency, LCY = local currency.
Source: Bloomberg LP.

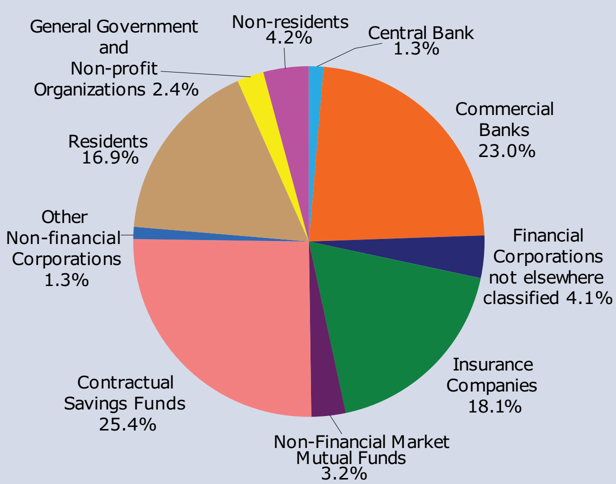
Investor Profile

At the end of June, contractual savings funds were the largest holder of Thai government bonds (25.4%), with a total amount of THB651.2 billion **(Figure 2)**. Commercial banks were the second-largest holder of government bonds with a 23.0% share, followed by insurance companies (18.1%), residents (16.9%), and nonresidents (4.2%). Financial corporations "not elsewhere classified" held 4.1% of all Thai government bonds, non-financial market mutual funds had a 3.2% share, and general government and non-profit organizations had a 2.4% share. Meanwhile, other non-financial corporations and the BOT both held shares of 1.3%.

Rating Changes

Moody's and Standard & Poor's (S&P) affirmed Thailand's sovereign ratings in spite of the political turmoil in 2Q10 **(Table 3)**. Moody's kept Thailand's long-term FCY rating at Baa1 and maintained its negative outlook, while S&P affirmed Thailand's long-term FCY rating of BBB+ and also retained its negative outlook.

Figure 2: LCY Government Bonds Investor Profile, June 2010



LCY = local currency.
Source: Bank of Thailand.

Table 3: Selected Sovereign Ratings and Outlook for Thailand

	Moody's	Standard & Poor's	Fitch
Sovereign FCY LT Ratings	Baa1	BBB+	BBB
Outlook	negative	negative	stable

FCY = foreign currency, LT = long term.
Source: Rating Agencies.

Policy, Institutional, and Regulatory Developments

SEC Allows Thai Firms to Issue USD-Denominated Bonds

In April, the Securities and Exchange Commission (SEC) of Thailand approved, in principle, the issuance of FCY-denominated bonds to domestic investors by both Thai and foreign issuers. Previously, only foreign firms were allowed to issue FCY-denominated bonds to Thai commercial banks. Thai issuers—including PTT Exploration and Production, Bangkok Bank, and Siam Commercial Bank—are keen on issuing USD-denominated bonds domestically to help lower their cost of funding.

Thai Cabinet Approves Draft Securities Bill

In May, the Thai Council of Ministers approved a draft securities bill that allows the demutualization of the Stock Exchange of Thailand (SET). The bill will pass through the National Economic and Social Development Board and the Commerce Ministry for scrutiny. The SET will be the trading center and the SEC will be in charge of capital market development and rule formulation. The Finance Ministry proposed the amendment to better connect Thailand's financial markets with the global economy and improve the management of investment flows.

SEC Approval and Credit Rating Required for State-Owned Enterprises and Government Agencies to Issue Bonds

The SEC announced a regulation that requires state-owned enterprises and government agencies to obtain SEC approval and a credit rating before issuing bonds. This rule has previously only applied to private companies issuing debt instruments. The Thai Finance Ministry has been reducing the financial dependency of state-owned enterprises and state agencies on the central government by decreasing the amount of guaranteed debt, and signaling that such enterprises and agencies need to rely less on the government for financing.

Viet Nam—Update

Yield Movements

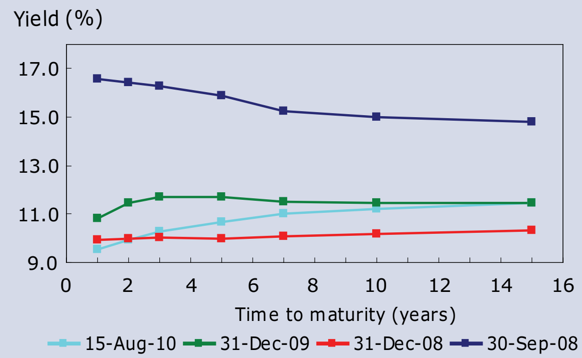
The Vietnamese government bond yield curve steepened between end-December 2009 and mid-August 2010 as yields fell from the short-end to the belly of the curve **(Figure 1)**. Yields on 1-, 2-, 3- and 5-year maturities fell up to 150 basis points through mid-August, while the yield spread between 2- and 10-year maturities widened to 126 basis points, compared with a spread of –2 basis points at the end-December.

The State Bank of Viet Nam (SBV) has kept its policy rate unchanged for 9 consecutive months as the government is seeking to boost lending. The base rate is being maintained at 8.0%, while the refinancing and discount rates are being kept unchanged at 8.0% and 6.0%, respectively.

Viet Nam's economic growth accelerated to 6.4% year-on-year (y-o-y) in 2Q10 as revived bank lending helped boost manufacturing and consumer spending. Gross domestic product (GDP) in 1Q10 expanded 5.83% y-o-y. Viet Nam's GDP is expected to expand 6.5% in 2010, higher than the 5.32% growth recorded in 2009. Consumer price inflation eased to 8.19% y-o-y in July, compared with 8.69% in June, as banks lowered interest rates and input costs stabilized.

The SBV devalued the Vietnamese dong by 2.1%, effective 18 August, in an effort to control Viet Nam's widening trade deficit. The trade deficit for the first 6 months of the year stood at USD6.7 billion, compared with USD2.1 billion in the same period last year. This was the third devaluation of the dong since November; the dong was devalued by 5.4% in November 2009 and by 3.4% in February 2010. The new reference rate was set at VND18,932 per USD1, from the previous average interbank rate of VND18,544 per USD1. The daily trading band was maintained at 3.0%.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

As of June 2010, total local currency (LCY) bonds outstanding in Viet Nam stood at VND293.6 trillion (USD15.4 billion), representing a 35.8% y-o-y increase from VND227.6 trillion (USD12.0 billion) in March 2010 **(Table 1)**. Compared with 1Q10, total bonds outstanding increased 29.0% in 2Q10.

Viet Nam's total government bonds outstanding rose 28.8% y-o-y, and 29.4% on a quarter-on-quarter (q-o-q) basis, to VND264.6 trillion (USD14.0 billion). The quarterly increase in government bonds was driven by 30.2% growth in treasury bonds to VND120.4 trillion as well as 28.8% growth in Viet Nam Development Bank and state-owned enterprise bonds. Meanwhile, the amount of central bank bonds remained unchanged in 2Q10 at VND200 billion.

Government bonds represented 90% of total bonds outstanding in the Vietnamese bond market in 2Q10. Major issuers—measured by the amount of bonds outstanding as of end-June—included the national government (VND30.0 trillion), Viet Nam Bank for Social Policies (VND8.4 trillion),

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

	Amount (billion)								Growth Rate (%)						
	Mar-10		Apr-10		May-10		Jun-10		Mar-10		Apr-10	May-10	Jun-10		
	VND	USD	VND	USD	VND	USD	VND	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	227,596.9	11.9	256,867.2	13.5	277,029.2	14.6	293,569.2	15.4	8.5	2.3	12.9	7.8	35.8	29.0	6.0
Government	204,507.0	10.7	232,077.3	12.2	251,189.3	13.2	264,629.3	13.9	2.7	1.5	13.5	8.2	28.8	29.4	5.4
Treasury Bonds	92,490.2	4.8	98,095.2	5.2	108,950.2	5.7	120,390.2	6.3	(11.3)	2.4	6.1	11.1	15.9	30.2	10.5
Central Bank Bonds	200.0	0.0	200.0	0.0	200.0	0.0	200.0	0.0	—	88.5)	—	—	—	—	—
Viet Nam Development Bank Bonds, State-Owned Enterprise Bonds and Other Bonds	111,816.8	5.9	133,782.1	7.0	142,039.1	7.5	144,039.1	7.6	17.9	2.2	19.6	6.2	41.8	28.8	1.4
Corporate	23,089.9	1.2	24,789.9	1.3	25,839.9	1.4	28,939.9	1.5	116.2	10.0	7.4	4.2	170.9	25.3	12.0

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

Notes:

1. Bloomberg end-of-period LCY—USD rates are used.
2. Growth rates are calculated from LCY base and do not include currency effects.

Source: Bloomberg LP.

Viet Nam Development Bank (VND21.8 trillion), and Viet Nam Electricity (VND3.0 trillion). The Vietnamese government has issued bonds to repay maturing bonds and to cover the budget deficit, which is expected to reach 6% of GDP this year. The government plans to issue VND100 billion for the whole of 2010, but only VND40 billion had been raised as of July.

Vietnamese state-owned conglomerates Petrovietnam, the Viet Nam Coal and Mineral Industries Group (Vinacomin), and Viet Nam Electricity each plan to issue foreign currency (FCY) bonds worth USD1.0 billion in 4Q10, with the goal of using the raised funds for their respective capital mobilization efforts.

VND-denominated corporate bonds increased 170.9% y-o-y, and 25.3% q-o-q, to VND29.0 trillion (USD1.5 billion) in 2Q10. The top issues for the quarter included VND3.0 trillion in bonds from Vietnam JSC Commercial Bank and VND1.5 trillion in bonds from Song Da Holdings. In May, property developer Vincom Joint Stock Company (Vincom JSC) issued VND1.0 trillion worth of 5-year bonds with a 16.0% coupon. Proceeds from the Vincom JSC bond issue will fund construction projects.

As of end-June, LCY corporate issuers' total bonds outstanding stood at VND28.9 trillion (USD1.5 billion) **(Table 2)**. Most of the LCY corporate issuers were from the financial and industrial sectors. Vincom JSC ranked first with outstanding bonds totaling VND5.0 trillion, followed by the FPT Corporation and Asia Commercial Bank, which each had VND3.6 trillion in total bonds outstanding. Vincom JSC is the only major Vietnamese corporation that has issued an FCY bond to date (USD100 million).

Rating Changes

In June 2010, Standard and Poor's affirmed Viet Nam's long-term FCY rating of BB with a negative outlook, reflecting the increased vulnerability of the economy to severe shocks as well as risks to financial stability **(Table 3)**. Standard & Poor's also affirmed Viet Nam's long-term LCY rating of BB+.

Table 2: Corporate Issuers, June 2010

Corporate Issuers	Outstanding Amount		
	LCY Bonds (VND billion)	LCY Bonds (USD billion)	FCY Bonds (USD billion)
Vincom JSC	5,000	0.26	0.1
FPT Corporation	3,600	0.19	—
Asia Commercial Joint Stock Bank	3,600	0.19	—
Vietnam JSC Commercial Bank	3,000	0.16	—
Techcombank	3,850	0.2	—
Saigon Securities Inc	2,000	0.1	—
Saigon Thuong Tin Commercial	2,000	0.1	—
Song Da Holdings	1,500	0.08	—
Military Commercial Bank	1,000	0.05	—
Vinpearl Land Tourism JSC	1,000	0.05	—
Kinh Bac City Development	500	0.03	—
Songda Urban & Industrial	500	0.03	—
HCMC General Import Export	450	0.02	—
Binh Chanh Construction	300	0.02	—
Long Hau Corp	200	0.01	—
Minh Phu Seafood JSC	200	0.01	—
Transforwarding Warehouse	100	0.01	—
Khang Dien House Trading	90	0	—
Son Ha International	50	0	—
TOTAL	**28,940**	**1.52**	**0.1**

— = not applicable, FCY = foreign currency, LCY = local currency.
Source: Bloomberg LP.

In July, Fitch Ratings announced that it had downgraded both its long-term FCY and LCY issuer default ratings for Viet Nam to B+ from BB-. Fitch placed Viet Nam on a stable outlook, replacing the negative outlook announced in March 2010. Fitch also downgraded Viet Nam's country ceiling from BB- to B+, and affirmed its short-term FCY issuer default rating of B.

Policy, Institutional, and Regulatory Developments

Tax on Foreign Investors Hiked in June 2010

In May, the Finance Ministry amended Circular No. 134/2008/TT-BTC, which had been issued on 31 December 2008. The circular guides the implementation of taxes on foreign institutions and individuals doing business or earning income in Viet Nam. Effective 7 June 2010, foreign investors were made subject to a 10% income tax on interest derived from certificates of deposit and bonds, with the exception of government bonds.

Table 3: Selected Sovereign Ratings and Outlook for Viet Nam

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Ba3	BB	B+
Outlook	negative	negative	stable

FCY = foreign currency, LT = long-term.
Source: Rating agencies.

SBV to Base Policy Rate on Market Rates

In June, the Vietnamese National Assembly passed legislative amendments requesting the SBV to use market interest rates as a basis of monetary policy. The SBV usually publishes a base rate every month, but with the amendment, the SBV will publish monthly market rates as reported by credit institutions. The changes will take effect on 1 January 2011.

Limited Liability Companies to Issue Bonds

In July, the Ministry of Finance issued a draft decree that allows limited liability companies to issue corporate bonds in the domestic and international capital markets. The draft decree identifies which limited liability companies are allowed to issue bonds and provides a legal framework to enterprises on international bond issuance.

Fees on Corporate Bonds to be Cut by 50%

In August, the prime minister's working group proposed that the Finance Ministry reduce corporate bond issuance acceptance fees by 50% in an effort to harmonize such fees with those on other licenses such as investment registration and construction licenses. The proposed changes would adjust fees to the following levels: (i) VND 5million for bond issues of less than VND50 billion, (ii) VND10 million for issues of less than VND150 billion, (iii) VND17.5 million for issues of less than VND250 billion, and (iv) VND25 million for issues larger than VND250 billion.