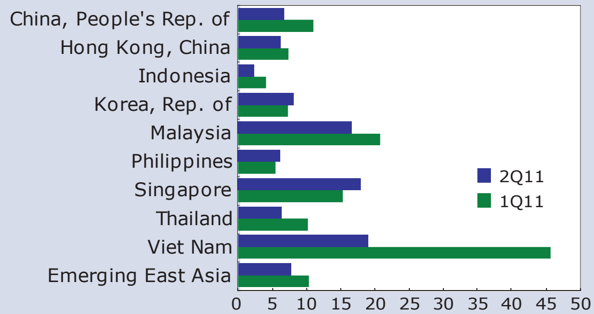
Bond Market Developments in the Second Quarter of 2011

Size and Composition

Total bonds outstanding in emerging East Asia's LCY market in 2Q11 rose 7.7% on a y-o-y basis—and 2.4% on a q-o-q basis—to US$5.5 trillion, driven by stronger growth in corporate bonds than in government bonds.[4]

The year-on-year (y-o-y) growth rate of 7.7% for the emerging East Asian local currency (LCY) bond market in 2Q11 of 7.7% was well below 10.4% growth recorded in 1Q11 **(Figure 1)**, while the 2.4% quarter-on-quarter (q-o-q) was well above the 0.9% growth rate reported for 1Q11. This reflected a modest recovery in government bond issuance, especially issuance of treasuries and securities of government-owned corporations, in most markets across the region **(Table 1)**. The q-o-q growth rate for corporate bonds in 2Q11 (4.4%) was nearly identical to the 4.5% figure for 1Q11.

Figure 1: Growth of LCY Bond Markets in 1Q11 and 2Q11 (y-o-y, %)



LCY = local currency, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. Emerging East Asia growth figure is based on end-June 2011 currency exchange rates and does not include currency effects.
4. For Singapore, corporate bonds outstanding quarterly figures are based on *AsianBondsOnline* estimates.
Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia and Indonesia Stock Exchange); Republic of Korea (The Bank of Korea and EDAILY *Bondweb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

The region's most rapidly growing LCY bond markets in 2Q11 were Viet Nam, Singapore, and Malaysia, which saw q-o-q growth of 5.0%, 4.3%, and 3.7%, respectively. Viet Nam's high growth rate was driven primarily by a need to finance a budget deficit that remained large. The growth rates for Singapore and Malaysia reflected rapid growth in their respective government and corporate bond sectors. In the People's Republic of China (PRC), the LCY bond market's q-o-q growth rate was 2.7% in 2Q11, reflecting only modest 1.6% growth in the government bond sector. At least for the time being, the PRC has ceased to be the growth leader for the emerging East Asian bond market.

The decline in the regional bond market's y-o-y growth between 1Q11 and 2Q11 was primarily due to a significant reduction in the growth of government bonds to 2.7% from 6.3%. The most rapidly growing bond markets on a y-o-y basis were the same trio with the highest growth rates on a q-o-q basis: Viet Nam, Singapore, and Malaysia. The y-o-y growth rate for emerging East Asia less the PRC was 9.1%, once again reflecting the fact that the PRC bond market is growing more slowly than many others in the region.

One interesting structural change in the emerging East Asian bond market at the end of 2Q11 is that the Singapore market appears to have surpassed the Hong Kong, China market in size, reflecting the more rapid growth of Singapore's government and

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

Table 1: Size and Composition of LCY Bond Markets

	2Q10		1Q11		2Q11		Growth Rate (LCY-base %)				Growth Rate (US$-base %)			
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	2Q10		2Q11		2Q10		2Q11	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)														
Total	2,848	100.0	3,066	100.0	3,190	100.0	6.9	22.5	2.7	6.7	7.5	23.4	4.0	12.0
Government	2,302	80.8	2,370	77.3	2,440	76.5	6.0	17.0	1.6	1.0	6.7	17.8	3.0	6.0
Corporate	546	19.2	696	22.7	750	23.5	10.4	52.7	6.3	30.8	11.1	53.8	7.7	37.2
Hong Kong, China														
Total	159	100.0	166	100.0	167	100.0	2.7	43.3	0.5	5.1	2.4	42.6	0.4	5.2
Government	86	54.0	88	52.7	88	52.7	6.9	131.4	0.5	2.6	6.6	130.3	0.4	2.6
Corporate	73	46.0	79	47.3	79	47.3	(1.9)	(0.9)	0.5	8.1	(2.2)	(1.4)	0.5	8.2
Indonesia														
Total	109	100.0	118	100.0	118	100.0	(0.03)	13.8	(1.7)	2.4	0.3	28.0	(0.2)	8.3
Government	98	90.6	104	88.2	102	86.9	(0.1)	13.5	(3.1)	(1.7)	0.2	27.7	(1.6)	4.0
Corporate	10	9.4	14	11.8	15	13.1	0.9	16.5	8.9	41.9	1.2	31.0	10.6	50.1
Korea, Rep. of														
Total	1,028	100.0	1,211	100.0	1,273	100.0	1.5	9.6	2.3	8.1	(6.0)	14.3	5.1	23.8
Government	457	44.5	524	43.3	546	42.9	0.8	5.9	1.3	4.2	(6.7)	10.4	4.1	19.3
Corporate	571	55.5	687	56.7	727	57.1	2.0	12.7	3.0	11.3	(5.6)	17.5	5.8	27.4
Malaysia														
Total	215	100.0	259	100.0	269	100.0	7.4	14.0	3.7	16.7	8.3	24.0	3.9	25.1
Government	124	57.7	156	60.2	161	59.7	10.8	18.3	2.9	20.9	11.7	28.7	3.1	29.5
Corporate	91	42.3	103	39.8	108	40.3	3.1	8.6	4.9	11.1	4.0	18.1	5.1	19.1
Philippines														
Total	66	100.0	73	100.0	75	100.0	2.5	11.6	3.1	6.0	(0.1)	15.9	3.0	13.3
Government	58	87.8	64	87.3	65	87.2	2.1	9.8	3.0	5.4	(0.5)	14.0	2.9	12.6
Corporate	8	12.2	9	12.7	10	12.8	5.5	26.8	3.6	10.9	2.8	31.7	3.6	18.5
Singapore														
Total	152	100.0	191	100.0	204	100.0	2.0	11.2	4.3	18.0	2.0	15.0	7.0	34.4
Government	92	60.3	106	55.5	113	55.3	1.2	10.7	3.9	8.1	1.2	14.5	6.6	23.2
Corporate	60	39.7	85	44.5	91	44.7	3.2	12.0	4.7	33.0	3.2	15.8	7.4	51.5
Thailand														
Total	198	100.0	225	100.0	222	100.0	3.9	18.4	0.1	6.2	3.5	24.3	(1.4)	12.2
Government	160	80.7	181	80.4	178	80.2	4.3	21.0	(0.2)	5.6	3.9	27.0	(1.7)	11.5
Corporate	38	19.3	44	19.6	44	19.8	2.3	9.0	1.2	9.0	2.0	14.4	(0.3)	15.1
Viet Nam														
Total	15	100.0	16	100.0	17	100.0	28.9	36.1	5.0	18.8	28.9	27.0	6.5	10.1
Government	14	90.6	14	89.5	15	90.6	29.1	28.8	6.2	18.8	29.1	20.2	7.8	10.1
Corporate	1	9.4	2	10.5	2	9.4	26.9	195.7	(5.9)	18.9	26.9	175.9	(4.5)	10.1
Emerging East Asia (EEA)														
Total	4,790	100.0	5,325	100.0	5,534	100.0	5.0	18.5	2.4	7.7	3.6	21.6	3.9	15.5
Government	3,390	70.8	3,606	67.7	3,708	67.0	5.0	16.4	1.5	2.7	4.3	19.1	2.8	9.4
Corporate	1,400	29.2	1,719	32.3	1,826	33.0	5.0	23.8	4.4	19.6	1.9	28.2	6.2	30.5
EEA Less PRC														
Total	1,942	100.0	2,259	100.0	2,344	100.0	2.5	13.4	2.1	9.1	(1.7)	19.1	3.8	20.7
Government	1,089	56.1	1,236	54.7	1,268	54.1	3.0	15.3	1.2	6.1	(0.4)	21.9	2.5	16.4
Corporate	853	43.9	1,023	45.3	1,077	45.9	2.0	11.2	3.1	12.8	(3.2)	15.8	5.2	26.1
Japan														
Total	10,480	100.0	11,504	100.0	11,991	100.0	1.7	6.5	1.0	4.2	7.5	16.0	4.2	14.4
Government	9,466	90.3	10,418	90.6	10,887	90.8	1.8	7.1	1.3	4.8	7.6	16.7	4.5	15.0
Corporate	1,014	9.7	1,086	9.4	1,104	9.2	0.4	1.0	(1.5)	(0.8)	6.1	10.1	1.7	8.8

LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. For Singapore, corporate bonds outstanding quarterly figures are based on *AsianBondsOnline* estimates.
2. Corporate bonds include issues by financial institutions.
3. Bloomberg LP end-of-period LCY–US$ rates are used.
4. For LCY-base, total emerging East Asia growth figures are based on end-June 2011 currency exchange rates and do not include currency effects.
5. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Viet Nam.
Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (The Bank of Korea and EDAILY *BondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

corporate bond sectors in recent quarters on both a q-o-q and y-o-y basis. The size of the Singapore market rose to US$191 billion at the end of 1Q11, compared with US$166 billion for Hong Kong, China. But what appeared to have been only a temporary development during 1Q11 was observed again at the end of 2Q11 when the Singapore bond market grew to reach US$204 billion, compared with US$167 billion for Hong Kong, China.

Total government bonds outstanding grew 1.5% q-o-q in 2Q11, reflecting relatively low growth rates for all government bond markets except Viet Nam, Singapore, the Philippines, and Malaysia.

The government bond markets of Viet Nam, Singapore, the Philippines, and Malaysia reported q-o-q growth rates in 2Q11 of 6.2%, 3.9%, 3.0%, and 2.9%, respectively. All other government sector bond markets either shrank in size during 2Q11 (Indonesia and Thailand) or grew at rates of less than 2.0% (the PRC; Hong Kong, China; and the Republic of Korea). The primary reason for slower q-o-q government sector bond market growth rates was a reduction of central bank bill issuance in 2Q11. Central bank bills outstanding in 2Q11 shrank 26.7% in the PRC, 19.2% in Indonesia, 16.5% in the Republic of Korea, and 5.0% in Thailand. In Hong Kong, China, Exchange Fund Bills (EFBs) grew only 0.2% q-o-q in 2Q11.

While the shrinkage of the stock of central bank bills outstanding in many markets may have mostly been a result of reduced sterilization activities, the flattening of yield curves in the region might also be a factor. Some governments and central banks have increased issuance in the long-end of the curve because of the reduced difference in yields between the long- and short-ends in many of the region’s yield curves. Efforts at consolidating treasury bond issues at the long-end of the curve, for the purpose of creating a more liquid market with longer duration, may also be creating a bias against treasury bill issuance.

In the Philippines, financial institutions are placing their surplus funds in a Special Deposit Account (SDA) that pays an annualized yield of 4.5%, based on the central bank’s overnight rate, instead of buying 3-month treasuries that yield 1.875% as of 12 August with little expectation of moving higher in the very near-term. The decline in the stock of treasury bills is creating a shortage of securities available for use by Bangko Sentral ng Pilipinas (BSP) in its repurchase (repo) operations, while the SDA accounts give the BSP an alternative tool for its sterilization activities.

Treasury bills in Indonesia are still a relatively new and underdeveloped type of security. Treasury bills were first introduced in 2007 when they were issued only in 12-month maturities. The Ministry of Finance (MOF) began issuing 3-month maturities in March of this year to provide the market with a short-term security after Bank Indonesia (BI) began issuing its *Sertifikat* Bank Indonesia (SBI) in only 9-month maturities in February. MOF recently took steps to broaden the treasury bill market on 2 August with its first ever auction of *sukuk* (Islamic bond) treasuries. MOF raised IDR570 billion (US$67.2 million) in 6-month *sukuk*.

Government bond market growth rates in two of the three more rapidly growing markets—Viet Nam and Malaysia—were driven mostly by financing requirements for persistently large budget deficits. Singapore Government Securities (SGS) are not issued for the purpose of financing budgetary expenditure but rather to build a liquid SGS market, foster the growth of an active secondary market, and encourage issuers and investors to participate in the overall Singapore bond market.

On 8 July, the Singapore Exchange (SGX) commenced trading SGS in an effort to improve price transparency and liquidity. SGS also provide retail investors with a safe but higher yielding alternative to bank deposits. Prior to this development, investors could only trade SGS bonds through dealer banks. A total of 19 SGS bonds amounting to SGD74 billion are currently traded on the SGX, with maturities of 5, 7, 10, 15, and 20 years. SGX's Central Depository acts as the custodian for SGS bonds.

Hong Kong, China and Thailand issued inflation-linked bonds for the first time ever in 2Q11, while the Republic of Korea issued these bonds for the first time since 2007.

Sovereign governments in three emerging East Asian economies—Hong Kong, China; the Republic of Korea; and Thailand—issued inflation-linked bonds in mid-2011. Hong Kong, China raised HKD10 billion (US$1.3 billion) from its sale of a 3-year inflation-linked bond in July, marking the first inflation-linked bond issued in the Special Administrative Region. The bond pays a semi-annual coupon at the higher of either a fixed rate of 1.0% or a floating rate that is based on the average of the y-o-y rate of change in the economy's composite consumer price index for the preceding 6-month period. The coupon rate was set initially at 4.02%. Retail investors were the bond's main buyers.

Thailand issued THB40 billion (US$1.3 billion) worth of 10-year inflation-linked bonds at a coupon rate of 1.2% in July, the first time the country has sold an inflation-linked bond. About 62% were sold to domestic investors and 38% were purchased by foreign investors. Institutional investors bought a large chunk of the bond, which has a fixed coupon and a principal that is indexed to the country's consumer price inflation rate. However, there was weak demand for the bond from retail investors, who ordered only THB6 billion out of the THB13 billion of bonds set aside for retail investors.

The Republic of Korea issued 10-year inflation-linked bonds in June for face value amounts of KRW96 billion and KRW148 billion (US$89.9 million and US$138.6 million), both with a coupon rate of 1.50%. The Republic of Korea previously issued inflation-linked bonds in 2007 for an amount equivalent to US$2.8 billion, and again in June 2010 for the equivalent of US$1.4 billion. Combined with the two latest issues from the Republic of Korea, outstanding inflation-linked bonds issued by governments in emerging East Asia stood at the equivalent of US$7.1 billion at the end of July **(Table 2a)**.

The outstanding amount (US$ equivalent) of inflation-linked bonds issued by the Japanese government of US$57.6 billion is much larger than all such bonds issued by emerging East Asian governments. However, Japan's outstanding inflation-linked bonds are still far less in volume than that of Brazil (US$139.1 billion), the United Kingdom (US$276.9 billion), and the United States (US) (US$468.2 billion) **(Table 2b)**.

The corporate bond market in emerging East Asia expanded 4.4% q-o-q in 2Q11, led by Indonesia, the PRC, Malaysia, and Singapore.

The Indonesian corporate bond market grew 8.9% q-o-q in 2Q11. Over the past year, this market has expanded from a very small base and maintained quarterly growth rates of around 10% and annual growth rates of 30%–40%, reflecting the rapid changes taking place in the Indonesian economy.

The fast-growing PRC corporate bond market expanded 6.3% q-o-q and 30.8% y-o-y in 2Q11 on the back of continued high quarterly growth rates for commercial bank bonds (21.4%), local corporate bonds (9.3%), and medium-term notes (MTNs) (5.8%). The q-o-q growth rates for state-owned corporate enterprise bonds and commercial paper, however, were essentially flat in 2Q11. Commercial bank bond issuance in 2Q11 was mostly in the form of subordinated notes, which can be counted as Tier II capital under the current rules of the Bank for International Settlements (BIS). PRC banks issued large amounts of subordinated debt in 2008 and 2009 before reducing this kind of issuance in 2010. However, subdebt issuance has picked up this

Table 2a: Sovereign Inflation-Linked Bond Issuance in Emerging East Asia

Economy	LCY (billion)	US$ (billion)	Coupon (%)	Issue Date	Maturity Date
Hong Kong, China	10.0	1.3	4.02	Jul-11	Jul-14
Republic of Korea	244.0	0.2	1.5	Jun-11	Jun-21
Republic of Korea	1,765.0	1.4	2.75	Jun-10	Jun-20
Republic of Korea	2,674.0	2.8	2.75	Mar-07	Mar-17
Thailand	40.0	1.3	1.2	Jul-11	Jul-21
Memo Items: Recent Issues in Japan					
Japan	1,049.3	9.9	1.4	Jun-08	Jun-18
Japan	539.5	5.2	1.4	Apr-08	Mar-18
Japan	1,013.3	9.1	1.2	Dec-07	Dec-17

LCY = local currency.
Note: The memo items present the most recent sovereign inflation-linked bonds issued in Japan.
Source: Bloomberg LP.

Table 2b: Inflation-Linked Sovereign Bonds Outstanding in Major Markets (as of end-July 2011)

Economy	LCY (billion)	US$ (billion)
Hong Kong, China	10.0	1.3
Japan	4,417.8	57.6
Republic of Korea	3,699.0	3.5
Thailand	40.0	1.3
Memo Items:		
Argentina	64.3	15.5
Brazil	215.5	139.1
South Africa	115.7	17.3
Turkey	61.7	36.5
UK	168.6	276.9
US	468.2	468.2

LCY = local currency, UK = United Kingdom, US = United States.
Source: Bloomberg LP.

year in anticipation of the PRC's adoption of the new Basel III rules on bank capital adequacy, which are expected to discourage issuance of quasi-equity securities such as subordinated debt bonds.

Additionally, the PRC's corporate bond sector expanded to US$750 billion at the end of 2Q11, surpassing the corporate bond sector of the Republic of Korea (US$727 billion) in size to comprise 41% of emerging East Asia's total corporate bond market.

Malaysian corporate bonds grew 4.9% q-o-q and 11.1% y-o-y in 2Q11, compared with 0.7% and 9.2% in 1Q11. The main reason for rising growth rates in 2Q11 was the increased issuance of Islamic corporate bonds. Conventional corporate bonds outstanding grew 6.5% y-o-y in 2Q11, while Islamic corporate bonds expanded 14.5%. Furthermore, among the different types of Islamic securities, Islamic MTNs grew 32.2% y-o-y, while ordinary Islamic bonds outstanding fell slightly by about 4.0%. In issuance terms, these trends were far more dramatic. In the first half of 2011 issuance of conventional bonds fell 18.6% y-o-y. Issuance of Islamic bonds, however, rose 75.3% y-o-y, driven by issuance of Islamic MTNs—the largest component of the Islamic bond sector—which rose 187.8%.

Singapore's corporate bond sector grew 4.7% q-o-q and 33.0% y-o-y in 2Q11. The growth pattern of the Singapore corporate bond market resembles that of Indonesia in many respects. Both of these markets benefit from a relatively open investment environment, and the Singapore corporate bond market also seems to be benefiting from Singapore's status as an increasingly attractive location for international investment funds to base their operations. Indonesian and Singaporean corporate bonds still tend to be illiquid compared with government bonds in both countries, but liquidity is gradually improving as these markets attract interest from foreign and domestic investors alike.

The 3.0% q-o-q growth rate for the Republic of Korea's corporate bond market in 2Q11 reflects a range of growth rates across the major sectors of the country's large and diverse corporate bond market. For example, the commercial bank debenture sector, which accounts for 26.5% of total corporate bonds, actually declined in size by 0.1% q-o-q and 2.2% y-o-y in 2Q11. However, the larger special public bond sector, which comprises 32.6% of the total corporate bond market, grew 2.8% q-o-q and 7.7% y-o-y; the private corporate bond sector, which comprises 40.9% of the total corporate bond market, grew 5.2% q-o-q and 25.9% y-o-y. The largest issuers in the private sector corporate bond market in the Republic of Korea are generally securities companies rather than manufacturing companies.

Ratio of Bonds Outstanding to GDP

The ratio of LCY bonds outstanding to GDP in emerging East Asia was largely unchanged in 2Q11.

The ratio of LCY bonds outstanding to gross domestic product (GDP) in 2Q11 stood at 55.7%, which was almost identical to 1Q11 **(Table 3)**. This reflected a slight decline in the ratio of government bonds to GDP from 37.8% in 1Q11 to 37.3% in 2Q11, and a modest increase in the ratio of corporate bonds to GDP from 18.0% in 1Q11 to 18.4% in 2Q11. A slim majority of emerging East Asian markets saw their ratios of bonds outstanding to GDP fall in 2Q11, with the exceptions being the Republic of Korea, Malaysia, the Philippines, and Singapore.

Table 3: Size and Composition of LCY Bond Markets
(% of GDP)

	2Q10	1Q11	2Q11
China, People's Rep. of			
Total	52.7	48.7	48.1
Government	42.6	37.6	36.8
Corporate	10.1	11.1	11.3
Hong Kong, China			
Total	73.9	72.7	71.4
Government	39.9	38.3	37.6
Corporate	34.0	34.4	33.8
Indonesia			
Total	16.5	15.4	14.6
Government	14.9	13.6	12.7
Corporate	1.6	1.8	1.9
Korea, Rep. of			
Total	111.8	111.4	117.0
Government	49.7	48.2	50.2
Corporate	62.1	63.2	66.9
Malaysia			
Total	95.3	99.6	103.5
Government	55.0	60.0	59.9
Corporate	40.4	39.7	40.4
Philippines			
Total	35.9	34.4	35.2
Government	31.5	30.0	30.9
Corporate	4.4	4.4	4.5
Singapore			
Total	73.4	76.9	79.3
Government	44.3	42.6	43.9
Corporate	29.1	34.2	35.5
Thailand			
Total	66.3	66.2	65.3
Government	53.5	53.2	52.4
Corporate	12.8	13.0	13.0
Viet Nam			
Total	16.4	16.1	15.8
Government	14.9	14.4	14.3
Corporate	1.5	1.7	1.5
Emerging East Asia			
Total	58.4	55.8	55.7
Government	41.3	37.8	37.3
Corporate	17.1	18.0	18.4
Japan			
Total	195.0	201.2	202.8
Government	176.1	182.2	185.8
Corporate	18.9	19.0	18.8

GDP = gross domestic product, LCY = local currency.
Notes:
1. Data for GDP is from CEIC. 2Q11 GDP figures were carried over from 1Q11 for the Republic of Korea, Philippines, and Thailand.
2. For Singapore, corporate bonds outstanding quarterly figures are based on *AsianBondsOnline* estimates.
Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (The Bank of Korea and EDAILY *Bondweb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Issuance

LCY bond issuance in emerging East Asia in 2Q11 totaled US$789 billion, a roughly 20% decline on both a q-o-q and y-o-y basis.

Total issuance of US$789 billion in 2Q11 represented a 19.2% q-o-q and a 20.7% y-o-y decline **(Table 4)**. The principal cause was a reduction in issuance by central banks and monetary authorities, which dropped by 39.2% q-o-q and 41.8% y-o-y. Most of this reduction consisted of sharp drops in issuance of short-term bills rather than longer-term securities issued by central banks and monetary authorities. Issuance by governments—and state agencies other than central banks—rose 7.4% q-o-q and 11.6% y-o-y in 2Q11—while issuance by corporates increased 11.8% q-o-q and 10.7% y-o-y.

The difference between the 2Q11 q-o-q and y-o-y growth rates for the region's central bank issuance was mainly driven by issuance from the People's Bank of China (PBOC), which increased 73.3% q-o-q but declined 62.5% y-o-y. This reflected a sharp reduction in the PBOC's short-dated bills outstanding from the equivalent of US$604 billion in 2Q10 to US$299 billion in 1Q11, and further to US$222 billion in 2Q11. During the same period, the PBOC increased its stock of bonds from US$95 billion (equivalent) in 2Q10 to US$185 billion in 1Q11, and to US$208 billion in 2Q11. This would seem to reflect the flattening of the overall government yield curve, and a consequent reduction in the cost of issuing in longer-dated maturities versus shorter-dated maturities.

Issuance trends from the Bank of Korea in 2Q11 resembled those of the PBOC: a 26.9% q-o-q increase and an 18.2% y-o-y decline. In Indonesia, SBI issuance declined 40.1% q-o-q and 81.6% y-o-y in 2Q11, while issuance of Indonesian treasuries fell 29.5% q-o-q and 7.4% y-o-y. Much of the decline resulted from BI's decision to reduce the frequency of SBI auctions in 2H10 and begin requiring a 1-month minimum holding period for these securities, followed by another decision in November 2010 to stop issuing 3-month SBI and instead offer term-deposit instruments to absorb excess bank liquidity and limit foreign holdings. In February, BI announced that it would no longer issue SBI with maturities of less than 9 months. Effective 13 May, the minimum holding period for SBI was extended to 6 months.

Issuance of central bank bills and bonds in the two remaining markets—Malaysia and Thailand—went against the trend for the region as a whole. In Malaysia, issuance fell 4.2% q-o-q and rose 16.7% y-o-y. In Thailand, central bank issuance fell 11.0% q-o-q and rose 42.0% y-o-y.

Trends for issuance of treasuries and government agency bonds in 2Q11 were more straight forward, as such issuance rose 7.4% q-o-q and 11.6% y-o-y. The principal driver of the increase was the PRC, where these types of government bonds (excluding central banks) rose 14.1% q-o-q and 21.9% y-o-y. The principal source of issuance growth in the PRC was policy banks, whose bonds outstanding rose 6.6% q-o-q and 25.9% y-o-y. The only other market to report significant growth in issuance of treasuries and other government agency bonds on both a q-o-q and y-o-y basis in 2Q11 was Singapore. Malaysia reported a 0.7% q-o-q decline and a 79.9% y-o-y increase, driven presumably by re-financing needs and a substantial budget deficit. Thailand, on the other hand, reported 34.6% growth on a q-o-q basis and a 63.8% decline on a y-o-y basis.

Issuance trends for corporate bonds were positive in most markets in 2Q11. Indonesia saw rapid growth in issuance on both a q-o-q and y-o-y basis, rising 91.1% q-o-q and 104.9% y-o-y. Corporate issuance in the Philippines rose a stunning 1,251.3% q-o-q and 77.2% y-o-y. However, this huge increase in Philippine issuance on a q-o-q basis came from a very small base. Nevertheless, smaller markets appear to be making up for lost time in a drive to more fully participate in the rapid development of the region's corporate bond market.

Table 4: LCY-Denominated Bond Issuance (gross)

	LCY (billion)		US$ (billion)		Growth Rate (LCY-base %)		Growth Rate (US$-base %)	
	2Q11	% share	2Q11	% share	2Q11		2Q11	
					q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)								
Total	2,106	100.0	326	100.0	24.5	(25.3)	26.1	(21.6)
Government	1,583	75.2	245	75.2	30.5	(33.4)	32.2	(30.1)
Central Bank	584	27.7	90	27.7	73.3	(62.5)	75.6	(60.7)
Treasury and Other Govt	999	47.4	155	47.4	14.1	21.9	15.6	27.9
Corporate	523	24.8	81	24.8	9.2	18.4	10.7	24.2
Hong Kong, China								
Total	670	100.0	86	100.0	(74.9)	(50.5)	(74.9)	(50.4)
Government	609	90.9	78	90.9	(76.8)	(53.7)	(76.8)	(53.6)
Central Bank	606	90.5	78	90.5	(76.8)	(53.7)	(76.8)	(53.7)
Treasury and Other Govt	3	0.4	0	0.4	(28.6)	(44.4)	(28.6)	(44.4)
Corporate	61	9.1	8	9.1	17.5	60.6	17.5	60.8
Indonesia								
Total	106,303	100.0	12	100.0	(29.3)	(67.9)	(28.3)	(66.0)
Government	91,340	85.9	11	85.9	(35.9)	(71.8)	(35.0)	(70.2)
Central Bank	51,790	48.7	6	48.7	(40.1)	(81.6)	(39.2)	(80.5)
Treasury and Other Govt	39,550	37.2	5	37.2	(29.5)	(7.4)	(28.4)	(2.0)
Corporate	14,963	14.1	2	14.1	91.1	104.9	93.9	116.7
Korea, Rep. of								
Total	172,225	100.0	161	100.0	15.6	(7.2)	18.8	6.2
Government	88,136	51.2	83	51.2	16.3	(13.0)	19.5	(0.4)
Central Bank	60,790	35.3	57	35.3	26.9	(18.2)	30.4	(6.4)
Treasury and Other Govt	27,346	15.9	26	15.9	(1.9)	1.5	0.8	16.2
Corporate	84,089	48.8	79	48.8	14.8	(0.3)	18.0	14.1
Malaysia								
Total	134	100.0	45	100.0	4.6	26.1	4.8	35.2
Government	108	79.9	36	79.9	(3.3)	28.4	(3.2)	37.6
Central Bank	80	59.2	26	59.2	(4.2)	16.7	(4.0)	25.1
Treasury and Other Govt	28	20.8	9	20.8	(0.7)	79.9	(0.6)	92.9
Corporate	27	20.1	9	20.1	55.7	(17.7)	56.0	26.1
Philippines								
Total	99	100.0	2	100.0	(43.4)	(32.2)	(43.4)	(27.5)
Government	67	67.8	2	67.8	(61.1)	(47.6)	(61.1)	(44.0)
Central Bank	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt	67	67.8	2	67.8	(61.1)	(47.6)	(61.1)	(44.0)
Corporate	32	32.2	0.7	32.2	1,251.3	77.2	1,250.4	89.3

continued on next page

Table 4 *continued*

	LCY (billion)		US$ (billion)		Growth Rate (LCY-base %)		Growth Rate (US$-base %)	
	2Q11	% share	2Q11	% share	2Q11		2Q11	
					q-o-q	y-o-y	q-o-q	y-o-y
Singapore								
Total	63	100.0	51	100.0	6.4	10.1	9.2	25.4
Government	60	94.3	48	94.3	7.0	10.6	9.8	26.0
Central Bank	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt	60	94.3	48	94.3	7.0	10.6	9.8	26.0
Corporate	4	5.7	3	5.7	(2.7)	2.9	(0.1)	17.2
Thailand								
Total	3,198	100.0	104	100.0	(10.9)	24.5	(12.2)	31.5
Government	2,896	90.5	94	90.5	(9.7)	26.3	(11.1)	33.4
Central Bank	2,773	86.7	90	86.7	(11.0)	42.0	(12.3)	49.9
Treasury and Other Govt	123	3.8	4	3.8	34.6	(63.8)	32.7	(61.7)
Corporate	302	9.5	10	9.5	(21.0)	9.8	(22.2)	16.0
Viet Nam								
Total	23,314	100.0	1.1	100.0	(48.5)	(66.3)	(47.7)	(68.8)
Government	23,314	100.0	1.1	100.0	(48.2)	(63.2)	(47.4)	(65.9)
Central Bank	0	0.0	0.0	0.0	–	–	–	–
Treasury and Other Govt	23,314	100.0	1.1	100.0	(48.2)	(63.2)	(47.4)	(65.9)
Corporate	0	0.0	0.0	0.0	–	–	–	–
Emerging East Asia (EEA)								
Total	–	–	789	100.0	(19.2)	(20.7)	(18.6)	(15.9)
Government	–	–	597	75.7	(25.8)	(27.3)	(25.4)	(23.3)
Central Bank	–	–	348	44.1	(39.2)	(41.8)	(39.2)	(39.1)
Treasury and Other Govt	–	–	249	31.6	7.4	11.6	9.1	19.9
Corporate	–	–	192	24.3	11.8	10.7	13.6	20.9
EEA Less PRC								
Total	–	–	463	100.0	(35.2)	(17.1)	(34.8)	(11.2)
Government	–	–	352	76.1	(42.9)	(22.3)	(42.7)	(17.7)
Central Bank	–	–	257	56.6	(50.5)	(27.9)	(50.5)	(24.6)
Treasury and Other Govt	–	–	95	20.5	(2.0)	(1.9)	0.1	8.9
Corporate	–	–	111	23.9	13.7	5.7	15.8	18.5
Japan								
Total	48,900	100.0	607	100.0	6.9	2.9	10.3	12.9
Government	45,674	93.4	567	93.4	8.0	4.8	11.5	15.1
Central Bank	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt	45,674	93.4	567	93.4	8.0	4.8	11.5	15.1
Corporate	3,226	6.6	40	6.6	(6.8)	(18.6)	(3.8)	(10.6)

– = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Corporate bonds include issues by financial institutions.
2. Bloomberg LP end-of-period LCY–US$ rates are used.
3. For LCY-base, total emerging East Asia growth figures are based on end-June 2011 currency exchange rates and do not include currency effects.
Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Indonesia Debt Management Office and Indonesia Stock Exchange); Republic of Korea (The Bank of Korea and EDAILY *Bondweb*); Malaysia (Bank Negara Malaysia); Philippines (Bloomberg LP); Singapore (Singapore Government Securities and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

The issuance trends described above are summarized in **Figures 2a**, **2b**, and **2c**. Figure 2a illustrates the fall-off in central bank issuance, which has been an ongoing trend since 1Q10. Central bank issuance recovered in 1Q11 from a large decline in 4Q10, but the previous trend re-asserted itself in 2Q11. Figure 2b shows that issuance by government entities (excluding central banks) and corporates has been steadily rising since 4Q10. Finally, Figure 2c combines the effects of Figures 2a and 2b to show that total issuance, excluding issuance by the PRC, has regularly alternated between increases and decreases in recent quarters. Meanwhile, issuance by the PRC sharply fell in 4Q10 and 1Q11 but has since managed to achieve a modest increase in 2Q11, mostly due to issuance by PRC corporates and policy banks.

Money Market Trends and Bills-to-Bonds Ratios

Bills-to-bonds ratios fell for most emerging East Asian markets in 2Q11.

Total bills-to-bonds ratios fell in 2Q11 in six out of the eight emerging East Asian markets presented in **Figure 3**. The bills-to-bonds ratio for Hong Kong, China also fell in 2Q11 to 5.87 from 5.99 in 1Q11; however, Hong Kong, China is not presented in Figure 3 because its ratio of bills to bonds is much higher than that of any other market.

The most important reason for the drop in the region's total bills-to-bonds ratio was the sharp drop in the ratio of central bank bills to bonds to 1.16 in 2Q11 from 1.54 in 1Q11 **(Table 5)**. This, in turn, reflected a drop in the PRC's ratio of central bank bills to bonds from 6.37 in 2Q10 to 1.61 in 1Q11 and 1.07 in 2Q11. This substantial decline in the ratio of central bank bills to bonds represents a continuing reduction in issuance and outstanding stocks of central bank bills. The only other central banks in the region to substantially reduce their stock of central bank bills between the end of 2Q10 and 2Q11 were Bank Indonesia (BI), which reduced its stock of SBI outstanding

Figure 2a: Government (including SOE) **and Central Bank Bond Issuance, 1Q08–2Q11**

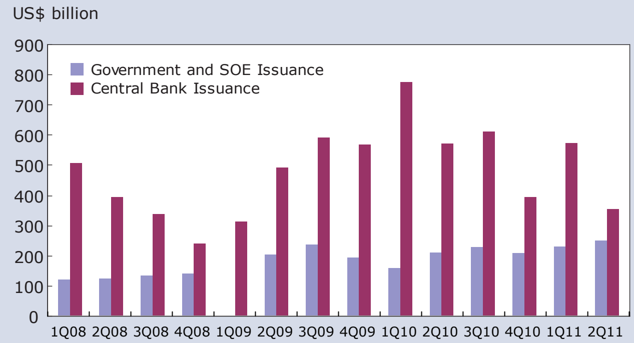


Figure 2b: Government (including SOE) **and Corporate Bond Issuance, 1Q08–2Q11**

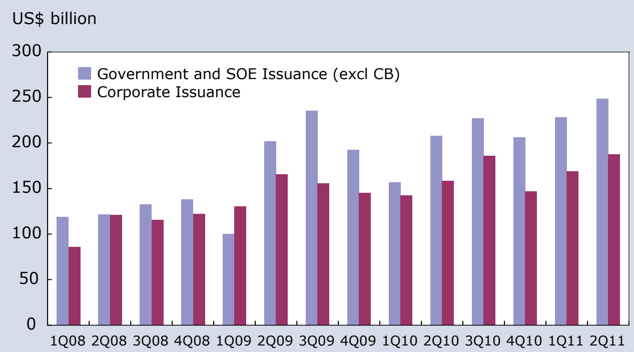
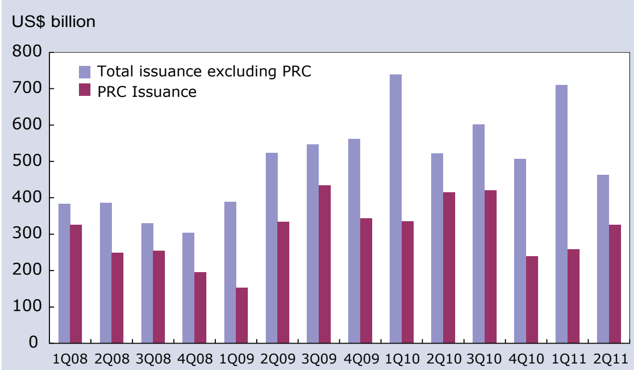
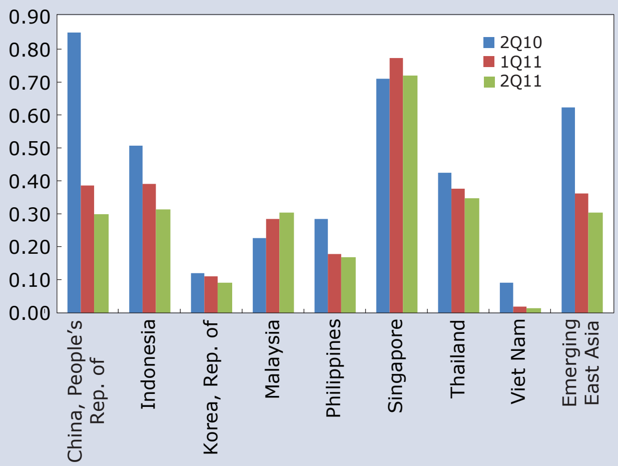


Figure 2c: Total LCY Bond Issuance, 1Q08–2Q11



CB = central bank, LCY = local currency, PRC = People's Republic of China, SOE = state-owned enterprise.
Note: In the PRC, government issuance (including SOE issuance) includes policy bank bonds, local government bonds, and savings bonds.
Source: *AsianBondsOnline*.

Figure 3: Total Bills-to-Bonds Ratios



Note: Total bills comprise central bank bills plus treasury bills. Bonds comprise long-term bonds (more than 1 year in maturity) issued by central governments and central banks.
Source: *AsianBondsOnline*.

from US$30 billion to US$22 billion, and the Bank of Korea, which reduced stock of bills from US$42 billion to US$37 billion between the end of 2Q10 and 2Q11.

The PBOC has actively increased its issuance of longer-term bonds over the last year, resulting in a doubling of its stock of bonds from US$95 billion in 2Q10 to US$208 billion in 2Q11. The only other central banks in the region besides the PBOC that increased issuance of longer-term securities over the past year are the Bank of Korea and the Bank of Thailand. Nevertheless, growth in HKMA's longer-term Exchange Fund Notes (EFNs) was essentially flat in 2Q11 on both a y-o-y and q-o-q basis. On the other hand, issuance of longer-term bonds issued by the Bank of Korea increased 6.2% q-o-q and 6.5% y-o-y basis in 2Q11, while the Bank of Thailand's longer-term note issuance rose 4.2% q-o-q and 28.3% y-o-y.

The treasury bills-to-bonds ratio for the region as a whole was virtually unchanged in 2Q11 at a level of 0.10. The treasury bills-to-bonds ratio did change slightly for a few markets such as the PRC, the Philippines, and Singapore, but by amounts that were too small to affect the ratio for the region as a whole. The stabilization of the ratio of treasury bills to bonds has been a consequence of the reduction in growth rates for both treasury bonds and bills in recent quarters, as governments appear to be easing up on their economic stimulus programs. The continuing fall in the region's central bank bills-to-bonds ratio in 2Q11, which has now been in place since the middle of last year, indicates that central banks and monetary authorities have moderated their use of sterilization as a tool for dealing with large capital inflows and are instead focusing on other administrative approaches, such as raising bank reserve requirement ratios, to mop up excessive liquidity.

Foreign Holdings

Foreign holdings of the region's LCY domestic bonds continued to rise in the first half of 2011.

In the first half of 2011, foreigners held 34.0% of Indonesian government debt **(Figure 4)**. High yields and bright economic prospects continued to attract foreign investors to Indonesian government bonds. Meanwhile, the share of foreign holdings in 1Q11 was 22.0% in Malaysia and 10.1% in the Republic of Korea. Malaysian government securities have attracted greater attention from foreign investors since the middle of 2009 due to higher yields and a stronger ringgit. The share of foreign investment in the Thai market has doubled over the last year to 8.9% as the Thai baht strengthened along with rising shorter-term yields.

In Indonesia, around two-thirds of foreign-held government bonds are in maturities of 5 years or more, with a much smaller amount invested in shorter-term maturities. Furthermore, foreign holdings of SBI have grown rapidly in recent months, reaching a high of 34% of total SBI outstanding in March before falling back in June as a result of restrictive measures taken by BI (see the **Indonesia Market Summary** for more details).

Table 5: Government Bills-to-Bonds Ratios of LCY Bond Markets

	2Q10		1Q11		2Q11		Government Bills-to-Bonds Ratio			Growth Rate (LCY-base %)		Growth Rate (US$-base %)	
										2Q11		2Q11	
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	2Q10	1Q11	2Q11	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)													
Total	1,516	100.0	1,396	100.0	1,394	100.0				(1.4)	(12.4)	(0.1)	(8.1)
Total Bills	696	45.9	388	27.8	322	23.1	0.85	0.38	0.30	(18.0)	(55.9)	(16.9)	(53.7)
Treasury Bills	92	6.1	88	6.3	100	7.2	0.13	0.11	0.12	11.3	3.2	12.8	8.3
Central Bank Bills	604	39.8	299	21.4	222	15.9	6.37	1.61	1.07	(26.7)	(64.9)	(25.7)	(63.2)
Total Bonds	821	54.1	1,008	72.2	1,072	76.9				4.9	24.5	6.3	30.6
Treasury Bonds	726	47.9	823	59.0	864	62.0				3.7	13.5	5.0	19.1
Central Bank Bonds	95	6.3	185	13.3	208	14.9				10.5	108.7	12.0	119.0
Hong Kong, China													
Total	86	100.0	88	100.0	88	100.0				0.5	2.6	0.4	2.6
Total Bills	75	87.1	75	85.7	75	85.4	6.74	5.99	5.87	0.2	0.6	0.1	0.7
Treasury Bills	0	0.0	0	0.0	0	0.0	–	–	–	–	–	–	–
Central Bank Bills	75	87.1	75	85.7	75	85.4	8.28	8.35	8.40	0.2	0.6	0.1	0.7
Total Bonds	11	12.9	13	14.3	13	14.6				2.3	15.5	2.2	15.6
Treasury Bonds	2	2.4	4	4.0	4	4.4				9.1	–	9.0	–
Central Bank Bonds	9	10.5	9	10.3	9	10.2				(0.4)	(0.9)	(0.5)	(0.8)
Indonesia													
Total	98	100.0	104	100.0	102	100.0				(3.1)	(1.7)	(1.6)	4.0
Total Bills	33	33.6	29	28.1	24	23.9	0.51	0.39	0.31	(17.5)	(30.1)	(16.3)	(26.0)
Treasury Bills	3	3.2	3	2.6	3	2.7	0.05	0.04	0.04	(1.1)	(17.5)	0.4	(12.7)
Central Bank Bills	30	30.4	26	25.4	22	21.2	–	–	–	(19.2)	(31.4)	(18.0)	(27.5)
Total Bonds	65	66.4	75	71.9	78	76.1				2.5	12.6	4.1	19.1
Treasury Bonds	65	66.4	75	71.9	78	76.1				2.5	12.6	4.1	19.1
Central Bank Bonds	0	0.0	0	0.0	0	0.0				–	–	–	–
Korea, Rep. of													
Total	393	100.0	459	100.0	479	100.0				1.7	6.6	4.5	22.0
Total Bills	42	10.6	45	9.9	40	8.4	0.12	0.11	0.09	(13.8)	(15.5)	(11.5)	(3.3)
Treasury Bills	0	0.0	2	0.4	3	0.6	–	–	–	50.0	–	–	–
Central Bank Bills	42	10.6	44	9.5	37	7.8	0.43	0.40	0.31	(16.5)	(21.4)	(14.2)	(10.1)
Total Bonds	351	89.4	413	90.1	439	91.6				3.4	9.2	6.2	25.0
Treasury Bonds	254	64.6	304	66.3	320	66.8				2.3	10.2	5.2	26.1
Central Bank Bonds	98	24.8	109	23.8	119	24.8				6.2	6.5	9.2	21.9
Malaysia													
Total	124	100.0	156	100.0	160	100.0				2.9	21.0	3.1	29.7
Total Bills	23	18.3	34	22.1	37	23.3	0.22	0.28	0.30	8.5	53.6	8.7	64.7
Treasury Bills	1	1.1	1	0.9	1	0.9	0.01	0.01	0.01	0.0	0.0	0.2	7.2
Central Bank Bills	21	17.3	33	21.2	36	22.4	–	–	–	8.8	57.0	9.0	68.3
Total Bonds	101	81.7	121	77.9	123	76.7				1.3	13.7	1.5	21.9
Treasury Bonds	101	81.7	121	77.9	123	76.7				1.3	13.7	1.5	21.9
Central Bank Bonds	0	0.0	0	0.0	0	0.0				–	–	–	–
Philippines													
Total	55	100.0	61	100.0	63	100.0				3.2	6.1	3.2	13.4
Total Bills	12	22.1	9	15.2	9	14.0	0.28	0.18	0.16	(4.6)	(32.8)	(4.6)	(28.2)
Treasury Bills	12	22.1	9	15.2	9	14.0	0.28	0.18	0.16	(4.6)	(32.8)	(4.6)	(28.2)
Central Bank Bills	0	0.0	0	0.0	0	0.0	–	–	–	–	–	–	–
Total Bonds	43	77.9	52	84.8	54	86.0				4.6	17.2	4.6	25.2
Treasury Bonds	43	77.9	52	84.8	54	86.0				4.6	17.2	4.6	25.2
Central Bank Bonds	0	0.0	0	0.0	0	0.0				–	–	–	–

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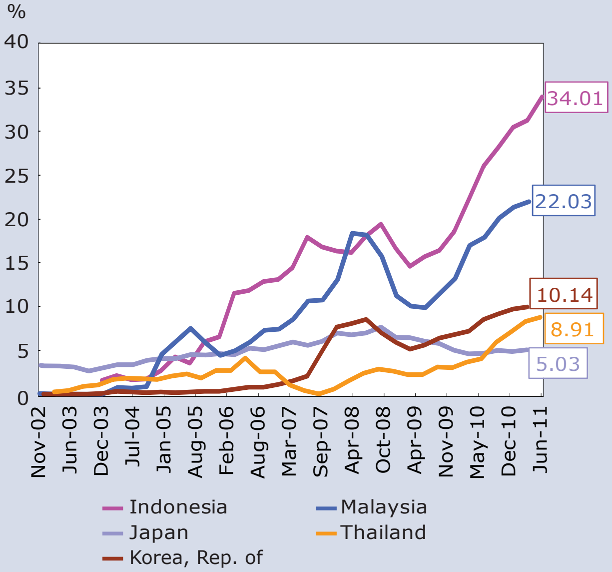
Table 5 *continued*

	2Q10		1Q11		2Q11		Government Bills-to-Bonds Ratio			Growth Rate (LCY-base %)		Growth Rate (US$-base %)	
										2Q11		2Q11	
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	2Q10	1Q11	2Q11	q-o-q	y-o-y	q-o-q	y-o-y
Singapore													
Total	92	100.0	106	100.0	113	100.0				3.9	8.1	6.6	23.2
Total Bills	38	41.5	46	43.4	47	41.8	0.71	0.77	0.72	0.0	9.0	2.6	24.2
Treasury Bills	38	41.5	46	43.4	47	41.8	0.71	0.77	0.72	0.0	9.0	2.6	24.2
Central Bank Bills	0	0.0	0	0.0	0	0.0	–	–	–	–	–	–	–
Total Bonds	54	58.5	60	56.6	66	58.2				6.9	7.5	9.7	22.4
Treasury Bonds	54	58.5	60	56.6	66	58.2				6.9	7.5	9.7	22.4
Central Bank Bonds	0	0.0	0	0.0	0	0.0				–	–	–	–
Thailand													
Total	144	100.0	165	100.0	162	100.0				(0.2)	6.9	(1.7)	12.8
Total Bills	43	29.8	45	27.3	42	25.7	0.43	0.37	0.35	(5.9)	(7.9)	(7.3)	(2.7)
Treasury Bills	6	4.0	0	0.3	0	0.0	0.08	0.01	–	–	–	–	–
Central Bank Bills	37	25.8	45	27.0	42	25.7	1.35	1.23	1.12	(5.0)	6.4	(6.4)	12.4
Total Bonds	101	70.2	120	72.7	120	74.3				1.9	13.1	0.4	19.5
Treasury Bonds	73	51.0	84	50.7	83	51.3				0.9	7.5	(0.5)	13.5
Central Bank Bonds	28	19.1	36	22.0	37	23.0				4.2	28.3	2.7	35.5
Viet Nam													
Total	6	100.0	6	100.0	6	100.0				12.0	8.1	13.7	0.2
Total Bills	1	8.3	0	1.8	0	1.6	0.09	0.02	0.02	0.0	(79.1)	1.5	(80.6)
Treasury Bills	1	8.2	0	1.8	0	1.6	0.09	0.02	0.02	0.0	(78.7)	1.5	(80.3)
Central Bank Bills	0	0.2	0	0.0	0	0.0	–	–	–	–	–	–	–
Total Bonds	6	91.7	5	98.2	6	98.4				12.2	16.1	13.9	7.5
Treasury Bonds	6	91.7	5	98.2	6	98.4				12.2	16.1	13.9	7.5
Central Bank Bonds	0	0.0	0	0.0	0	0.0				–	–	–	–
Emerging East Asia (EEA)													
Total	2,514	100.0	2,539	100.0	2,568	100.0				(0.2)	(4.3)	1.1	2.1
Total Bills	961	38.2	672	26.5	597	23.2	0.62	0.36	0.30	(12.1)	(41.1)	(11.2)	(37.9)
Treasury Bills	153	6.1	150	5.9	163	6.3	0.12	0.10	0.10	6.7	(0.9)	8.4	6.4
Central Bank Bills	808	32.1	522	20.5	434	16.9	3.53	1.54	1.16	(17.6)	(48.9)	(16.8)	(46.3)
Total Bonds	1,553	61.8	1,867	73.5	1,971	76.8				4.1	18.0	5.5	26.9
Treasury Bonds	1,324	52.7	1,527	60.2	1,598	62.2				3.2	12.4	4.6	20.7
Central Bank Bonds	229	9.1	340	13.4	373	14.5				8.2	49.6	9.8	62.9
EEA Less PRC													
Total	997	100.0	1,143	100.0	1,174	100.0				1.4	7.4	2.7	17.7
Total Bills	266	26.6	284	24.9	275	23.4	0.36	0.33	0.31	(4.1)	(3.1)	(3.3)	3.5
Treasury Bills	61	6.1	62	5.4	63	5.4	0.10	0.09	0.09	0.1	(6.8)	2.2	3.4
Central Bank Bills	205	20.5	223	19.5	212	18.0	1.52	1.44	1.28	(5.2)	(1.9)	(4.8)	3.6
Total Bonds	732	73.4	859	75.1	899	76.6				3.2	11.1	4.7	22.8
Treasury Bonds	598	59.9	704	61.6	734	62.5				2.7	11.2	4.2	22.7
Central Bank Bonds	134	13.4	154	13.5	165	14.1				5.4	10.3	7.1	23.2
Japan													
Total	8,251	100.0	9,077	100.0	9,482	100.0				1.2	4.7	4.5	14.9
Total Bills	387	4.7	361	4.0	372	3.9	0.05	0.04	0.04	0.0	(12.4)	3.2	(3.9)
Treasury Bills	387	4.7	361	4.0	372	3.9	0.05	0.04	0.04	0.0	(12.4)	3.2	(3.9)
Central Bank Bills	0	0.0	0	0.0	0	0.0	–	–	–	–	–	–	–
Total Bonds	7,863	95.3	8,716	96.0	9,109	96.1				1.3	5.5	4.5	15.8
Treasury Bonds	7,863	95.3	8,716	96.0	9,109	96.1				1.3	5.5	4.5	15.8
Central Bank Bonds	0	0.0	0	0.0	0	0.0				–	–	–	–

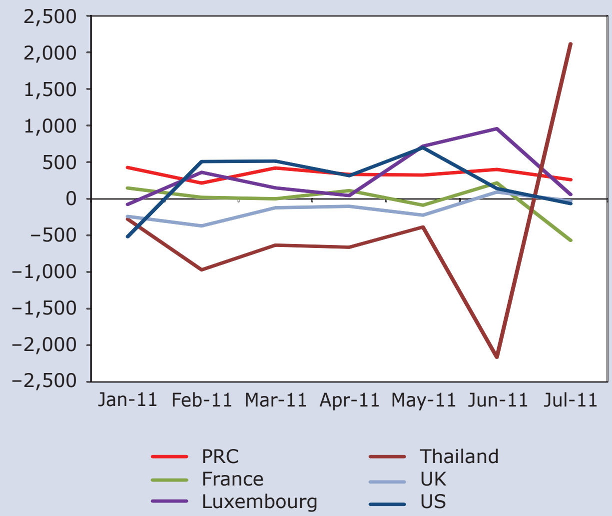
– = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Bloomberg LP end-of-period LCY–US$ rates are used.
2. For LCY-base, total emerging East Asia growth figures are based on end-June 2011 currency exchange rates and do not include currency effects.
3. Total figures per market refer to bills and bonds issued by the central government and the central bank. It excludes bonds issued by policy banks and state-owned enterprises. Bills are defined as securities with original maturities of less than 1 year.
Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia and Indonesia Stock Exchange); Republic of Korea (Bloomberg LP); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); Singapore (Monetary Authority of Singapore); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Figure 4: Foreign Holdings of LCY Government Bonds in Select Asian Economies, November 2002–June 2011 (% of total)



LCY = local currency.
Notes: Data for Japan, the Republic of Korea, and Malaysia as of March 2011; Indonesia and Thailand as of June 2011.
Source: *AsianBondsOnline*.

Figure 5: Net Foreign Investment in LCY Bonds in the Republic of Korea by Country, January–July 2011 (KRW billion)



LCY = local currency, PRC = People's Republic of China, UK = United Kingdom, US = United States.
Source: Financial Supervisory Service (FSS).

The Republic of Korea had seen a substantial rise in foreign holdings in its bond market since 2010, reflecting the (i) removal of the withholding tax on foreign investment in Korean debt in May 2009; (ii) potential for continued appreciation of the Korean won; and (iii) improving performance of the Korean Treasury Bond (KTB) futures market, which has made it easier for market participants to hedge their investment positions. Parliament's approval of the re-imposition of withholding and capital gains taxes in late 2010 slowed investment inflows briefly before they recovered earlier this year as investors have seemed to largely ignore the return of the withholding tax.

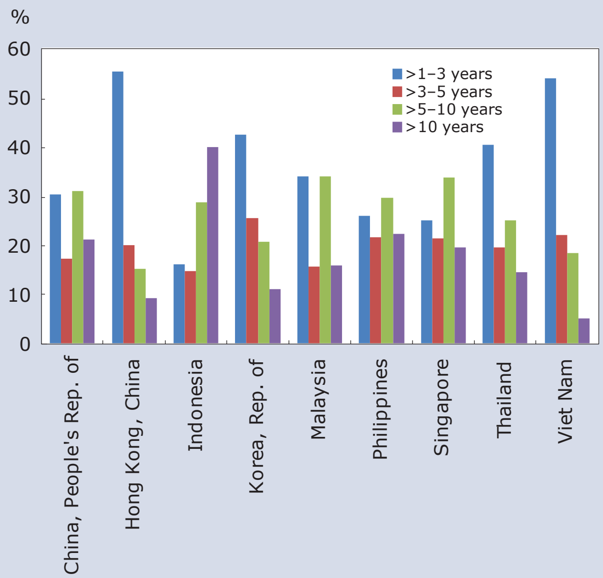
Figure 5 illustrates capital inflows by country into the Republic of Korea's bond market since the beginning of 2011. While total foreign inflows into government bonds fell in the last months of 2010 and January 2011, inflows have risen since then and are expected to continue rising through the end of 2011. The most volatile inflows into the Republic of Korea's bond market are those from Thailand, which rose sharply in July. Meanwhile, inflows from the US rose in 1H11 before declining slightly in July.

Maturity Profiles

In many emerging East Asian markets the maturity profiles for government and corporate bonds stand in stark contrast to one other.

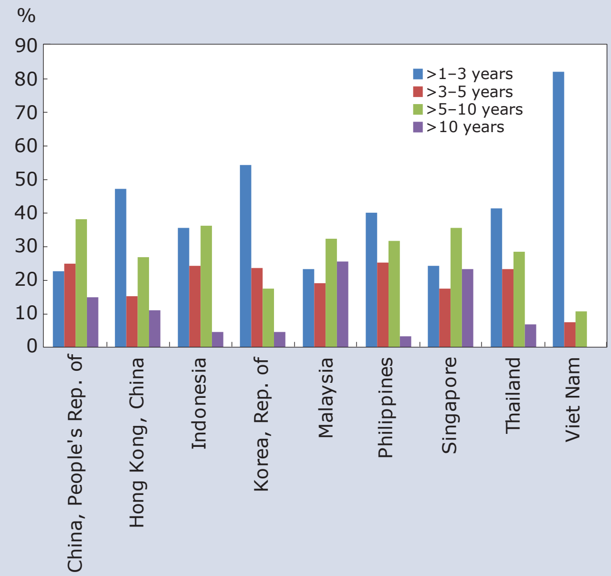
The maturity profile for most emerging East Asian government bond markets has changed little since the end of 2010 **(Figure 6).** Maturities are concentrated at the shorter-end of the yield curve in Hong Kong, China; the Republic of Korea; and Viet Nam. These three markets have 11% or less of their bonds outstanding in maturities of more than 10 years. Malaysia and Thailand have around 15% of their government bonds issued in maturities of more than 10 years and around one-third of bonds issued in

Figure 6: Government Bonds Maturity Profiles
(individual maturities as % of total)



Source: *AsianBondsOnline*.

Figure 7: Corporate Bonds Maturity Profiles
(individual maturities as % of total)



Source: *AsianBondsOnline*.

maturities of 1–3 years. The PRC, Philippines, and Singapore have around 20% of their bonds issued in maturities of more than 10 years and between 25% and 30% issued in maturities of 1–3 years.

The Philippines restructured PHP173 billion of government debt in a highly successful bond exchange program last December. The eligible bonds for the exchange had an average maturity of 6.7 years. They were exchanged for new bonds with an average maturity of 22.5 years. In July the Philippine government conducted another bond exchange, which restructured nearly PHP300 billion of government debt and increased the average tenor of these bonds by 2 years.

Meanwhile, Indonesia has the most long-dated maturity structure of any government bond market in emerging East Asia, with around 40% of its government bonds issued in tenors of more than 10 years.

The maturity profiles of emerging East Asian corporate bond sectors generally stand in sharp contrast to their respective government bond sectors **(Figure 7).** While the Hong Kong, China; Republic of Korea; and Viet Nam corporate bond markets have all issued a disproportionately large amount of short-term debt (tenors of less than 3 years), the Vietnamese corporate bond market is the most skewed with more than 80% of all corporate debt short-term in nature. In comparison, Hong Kong, China's corporate bond sector's short-term debt is about 47% of the total, which is roughly comparable with 55% for Hong Kong, China's government sector.

The corporate bond market of the PRC has issued a proportionately smaller amount of short-term debt than its government bond sector, while the proportion of short-term debt issued by the corporate bond markets of Singapore and Thailand is in both cases approximately the same as that issued by their respective governments. For all three of these countries, a larger proportion of corporate debt resides in the medium- to long-term bucket than is the case for either Hong Kong, China; the Republic of Korea; or Viet Nam. This modest bias toward issuing medium- and long-term maturities may reflect the fact that a larger share of the corporate issuers in the PRC, Singapore, and Thailand are in the real estate, infrastructure, or energy sectors. Therefore, they are more likely to require longer-term financing.

However, the maturity profiles of most of the region's corporate bond markets tend to be bunched either in the 3–5 or 5–10 year ranges, with little exposure to tenors beyond 10 years. Extending the tenor of corporate financing is an objective for the emerging East Asian corporate sector in the coming years. For example, in Singapore the 40-year bond issued by Temasek in August 2010 may provide a useful benchmark for extending corporate bond tenors.

Bond Turnover Ratios

Turnover ratios rose in most emerging East Asian government bond markets in 2Q11.

In keeping with observed trends in most quarters over the last several years, turnover ratios for government bonds in 2Q11 were much higher than for corporate bonds in all of the region's markets with the exception of the PRC. Nevertheless, turnover among government bond markets varied greatly. Quarterly government bond turnover ratios in 2Q11 rose in five of the markets surveyed—the PRC; Hong Kong, China; Indonesia; the Republic of Korea; and Malaysia—but fell in the Philippines, Singapore, and Thailand **(Figure 8a)**. As has been the case in the past, the turnover ratio for government bonds in Hong Kong, China was higher than in other markets by a factor of 100 or more. Most of Hong Kong, China's government sector debt consists of Exchange Fund Bills and Notes (EFBNs) issued by the HKMA for monetary policy purposes.

One reason that the turnover ratio of EFBNs is consistently so high is that these instruments are used for bank liquidity management since they function as collateral when borrowing from the HKMA through repurchase agreements. Another factor contributing to the high liquidity of EFBNs is that they can be used as margin collateral for stock options and futures trading.

Past patterns also reasserted themselves once again in turnover ratios for corporate bonds in 2Q11. The quarterly turnover ratio for the PRC's corporate bonds was larger than most other markets by a factor of four or more **(Figure 8b)**. Furthermore, the corporate bond turnover ratios for Thailand actually declined while the corporate bond turnover ratio for the Republic of Korea remained unchanged.

Figure 8a: Government Bond Turnover Ratios

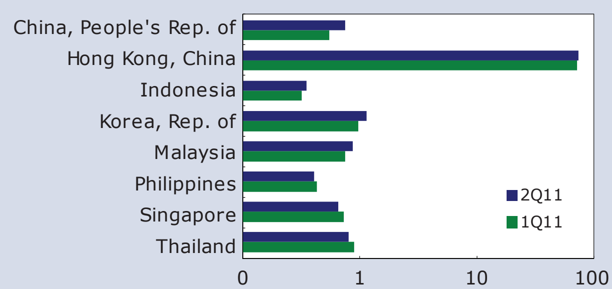
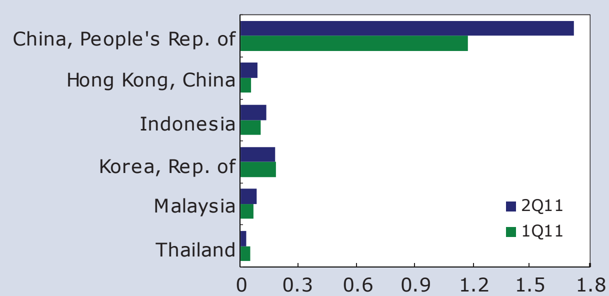


Figure 8b: Corporate Bond Turnover Ratios



Notes:
1. Government and corporate bond turnover ratios are calculated as local currency (LCY) trading volume (sales amount only) divided by average LCY value of outstanding bonds during each 3-month period.
2. Figure 8a is based on a logarithmic scale.
Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange); Republic of Korea (The Bank of Korea and EDAILY *Bondweb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); Singapore (Monetary Authority of Singapore and Singapore Government Securities); and Thailand (Bank of Thailand and Thai Bond Market Association).

Government Bond Yield Curves

Yield curves for LCY government bonds in emerging East Asia have continued to flatten since the end of 2010; in some cases they have shifted downward.

Strengthened demand for emerging East Asian government bonds emerged in the middle of 2010 and remained in place through 2Q11. Standard and Poor's (S&P) recent downgrade of its sovereign credit rating for the US to AA+ from AAA and the resulting turmoil in global financial markets has further fueled demand. Even before the S&P downgrade of its sovereign US rating, demand for the region's government bonds had been strengthening due to a combination of factors including:

(i) attractive yields and a strong regional growth trajectory in the face of uncertainty in the global economic outlook,

(ii) reserve diversification demand from central banks,

(iii) anticipation of potential appreciation of regional currencies, and

(iv) availability of improved hedging and risk management products.

These factors have led to a bullish flattening of yield curves in most markets **(Figure 9)**. However, the exact path of overall yield compression between end-December 2010 and mid-August differs from market to market:

(i) Government bond yield curves for the PRC, Indonesia, the Republic of Korea, Malaysia, the Philippines, Thailand, and Viet Nam flattened from the short-end to the long-end of the curve.

(ii) The yield curve for Hong Kong, China also flattened and, more importantly, shifted downward since the end of 2010, particularly in the belly of the curve.

(iii) In the Philippines, yields rose—except at the very short- and very long-end of the curve—between end-December 2010 and end-March. Between end-March and 12 August, yields for maturities greater than 2 years fell back toward their end-December 2010 levels while maturities of less than 2 years continued to rise as Bangko Sentral ng Pilipinas raised its policy rates in March and May.

(iv) The Indonesian yield curve had also risen above its end-December 2010 levels from the short-end to the belly of the curve by end-March, before the entire curve shifted downward to levels on 12 August well below those for end-December.

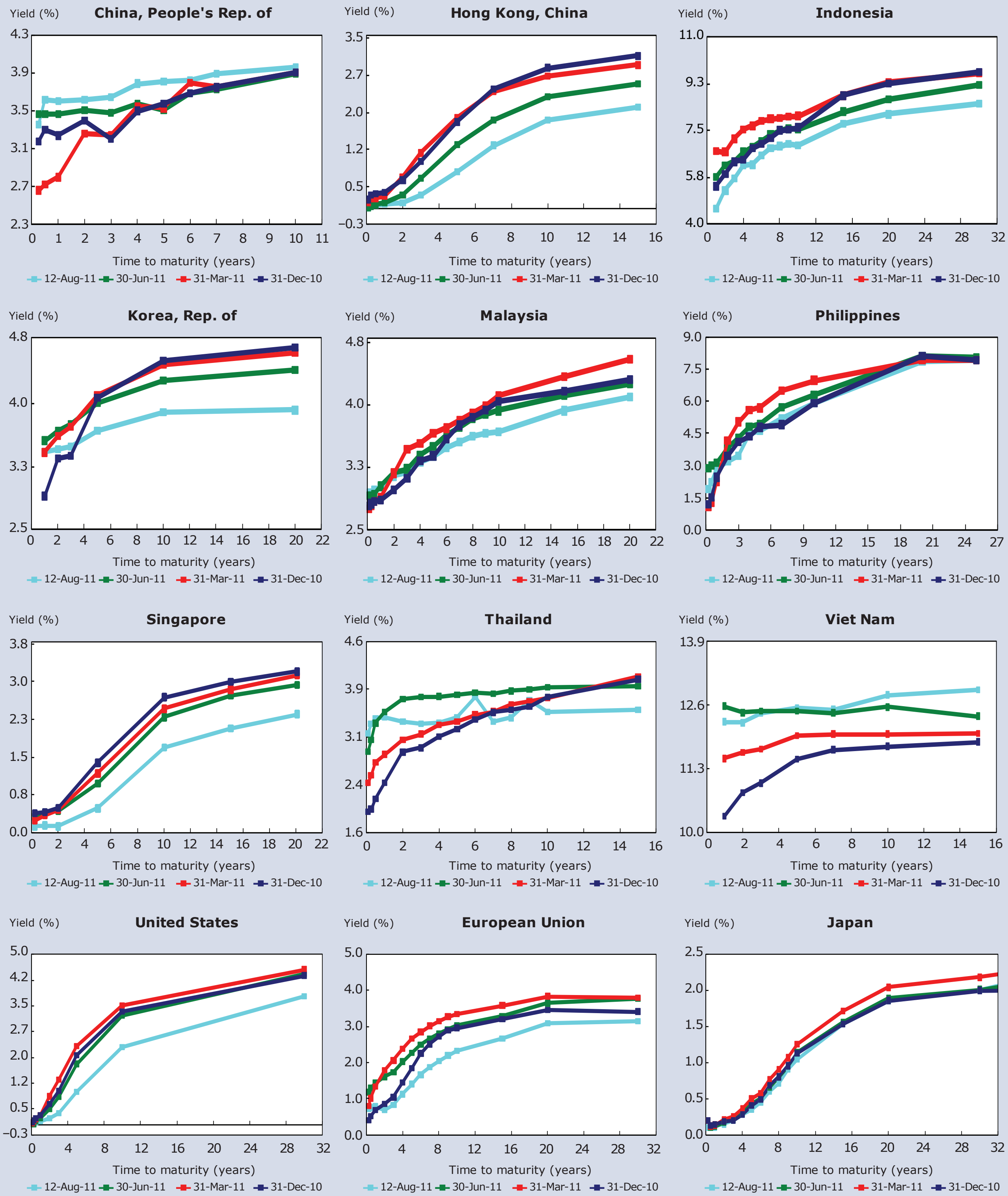
(v) The yield curve for Singapore has shifted downward across the entire curve since end-December 2010.

(vi) The Vietnamese yield curve steepened between end-June and 12 August along most of its curve, with the result that its shortest maturity (1 year) bore a 12.25% yield on 12 August, which was only slightly lower than the yield for its longest maturity (15 years).

Between end-June and 12 August, spreads between 2- and 10-year maturities tightened in all markets except for the Philippines, Indonesia, and Viet Nam where spreads rose 25 basis points (bps), 35 bps, and 46 bps, respectively **(Figure 10)**.

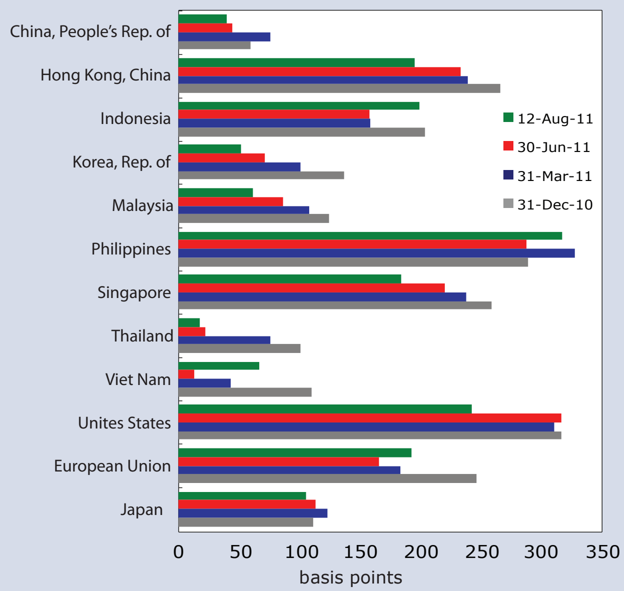
Recent inflation trends have been on an upward path in most markets in the region with the exception of Indonesia **(Figure 11)**. Most countries in the region are allowing their currencies to appreciate—albeit in a managed way—and a number of countries have begun to raise their policy interest rates while also using additional policy tools such as raising bank reserve requirement ratios **(Figure 12)**.

Figure 9: Benchmark Yield Curves—LCY Government Bonds



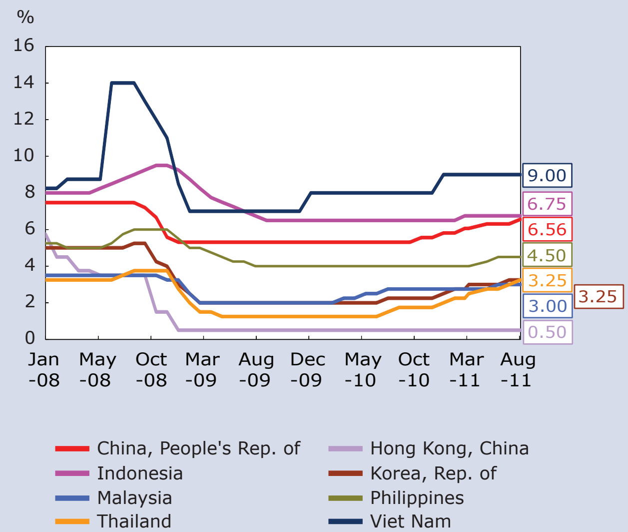
LCY = local currency.
Source: Based on data from Bloomberg LP.

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



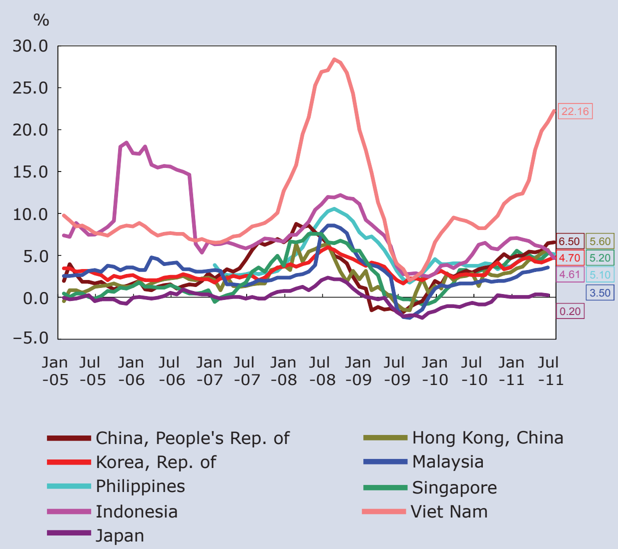
Source: Based on data from Bloomberg LP.

Figure 12: Policy Rates, January 2008–15 August 2011



Note: Data as of 15 August 2011.
Source: Bloomberg LP except for Viet Nam (State Bank of Viet Nam).

Figure 11: Headline Inflation Rates, January 2005–July 2011



Note: Inflation rates for Hong Kong, China; Japan; Malaysia; and Singapore are June figures.
Source: Bloomberg LP.

Recent policy rate decisions include:

(i) The Bank of Korea raised its base rate—the 7-day repurchase rate—25 bps in January, March, and June for a total increase of 75 bps in the first half of the year. On 14 July and 11 August, The Bank of Korea decided to hold its base rate steady at 3.25%.

(ii) The PBOC has raised its benchmark interest rates 25 bps on three separate occasion this year. In its most recent move, effective 7 July, the PBOC set its 1-year lending rate at 6.56% and its 1-year deposit rate at 3.5%. The PBOC also raised its reserve requirement 50 bps in every month from January through June. As of 14 June, the reserve requirement for large financial institutions stood at 21.5% and for small and medium-sized institutions at 19.5%.

(iii) The Bank of Thailand raised its 1-day repurchase rate 25 bps to 3.25% at its Monetary Policy

Committee (MPC) meeting on 13 July, reflecting concerns over increasing prices for food and fuel.

(iv) In the Philippines, the BSP raised its policy rate 25 bps following Monetary Board meetings in March and May. As a result of these actions, BSP's overnight borrowing facility stands at 4.5% and the overnight lending facility at 6.5%. In its June meeting, the BSP's Monetary Board kept these rates steady, but hiked its bank reserve requirements by 1 percentage point. The new reserve requirement for commercial banks is 21%, but can differ for other types of financial institutions.

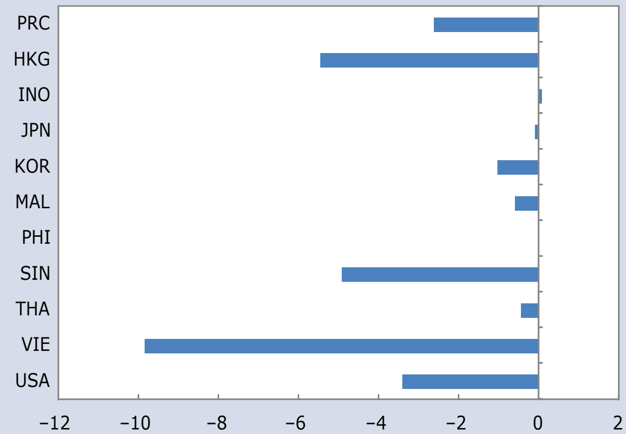
(v) The State Bank of Viet Nam (SBV) has raised its refinancing rate by a total of 500 bps since the beginning of the year, hiking its refinancing rate from 9.0% in January to 14.0% in May. The SBV also raised its discount rate from 7.0% to 12.0% in March, and then again to 13.0% in May. Furthermore, the SBV raised its reverse repurchase rate by a total of 500 bps from 10.0% at the beginning of the year to 15.0% in May. In early June, however, the SBV cut its repurchase rate from 15.0% to 14.0%.

(vi) BI's Board of Governors decided to keep its reference rate steady at 6.75%, where it has remained since February, at its meeting on 9 August.

(vii) Finally, the Monetary Authority of Singapore (MAS) announced an upward re-centering of its exchange rate policy band to a level below that of the prevailing Singapore dollar nominal effective exchange rate (S$NEER). The slope and width of the band remained unchanged.

One important consequence of renewed concern about inflation in the financial markets is that investors are beginning to pay more attention to the inflation-adjusted returns on Asian bonds. **Figure 13** compares yields on 1-year bonds for emerging East Asian government bonds and 1-year

Figure 13: Inflation-Adjusted Yields of 1-Year Maturities (as of end-July 2011)



PRC = People's Republic of China; HKG = Hong Kong, China; INO = Indonesia; JPN = Japan; KOR = Republic of Korea; MAL = Malaysia; PHI = Philippines; SIN = Singapore; THA = Thailand; VIE = Viet Nam; USA = United States.
Source: Bloomberg LP and *AsianBondsOnline*.

US Treasuries on an inflation-adjusted basis. As of end-July, the inflation-adjusted return was −3.40% for US treasuries.

The only emerging East Asian market with positive inflation-adjusted returns as of end-July was Indonesia, which offered a positive return of 0.08%. Inflation-adjusted returns on Philippine sovereign bonds were nearly zero at −0.01%. In comparison, such returns on Japanese bonds were −0.09%. Inflation-adjusted returns between zero and −1.0% were offered by Thai (−0.44%) and Malaysian (−0.59%) bonds. Meanwhile, the Republic of Korea's inflation-adjusted bond returns were −1.02%. End-July inflation-adjusted returns for Viet Nam; Singapore; and Hong Kong, China were −9.84%, −4.91%, and −5.45%, respectively.

The appreciation of the region's currencies in 2011 has helped to push up returns on both equities and LCY bonds **(Table 6)**. All currency markets have appreciated against the US dollar this year except for those of Hong Kong, China and Viet Nam. The most rapidly appreciating currencies on a y-o-y basis have been the

Table 6: Appreciation (Depreciation) of Emerging East Asian Currencies (%)

Currency	2009	2010	As of 31 July 2011	
	y-o-y	y-o-y	y-o-y	q-o-q
CNY	0.01	3.3	5.1	0.4
HKD	(0.1)	(0.2)	(0.4)	(0.2)
IDR	16.8	4.4	5.1	0.9
KRW	7.9	3.3	11.5	1.3
MYR	1.2	11.2	6.9	1.7
PHP	2.9	5.2	7.8	2.9
SGD	1.8	9.0	12.2	2.0
THB	4.0	10.4	8.0	3.2
VND	(5.5)	(5.4)	(7.6)	(0.05)
JPY	(2.6)	13.7	11.9	4.8

q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Appreciation (depreciation) is equal to -LN(end-of-period rate/start-of-period rate).
2. For 31 July 2011 q-o-q figures, appreciation (depreciation) is equal to -LN(31 July 2011 rate/end-2Q11 rate).
Source: Bloomberg LP.

Singaporean dollar (12.2%), Japanese yen (11.9%), Korean won (11.5%), and Thai baht (8.0%). The yen and the baht have been the two most rapidly appreciating currencies on a q-o-q basis as well. The third most rapidly appreciating currency on a q-o-q basis has been the Philippine peso (2.9%). The peso's appreciation is a relatively new phenomenon, thus it ranks only fifth in the region on a y-o-y basis (7.8%). The most dramatic example of the effect of currency appreciation on bond market returns this year has been in the Republic of Korea. Returns on Korean bonds in the iBoxx Asian Bond Index are 10.3% on a US$-unhedged total return basis. Stripping out the effect of the won's rapid appreciation, the return is a much more modest 2.9% on an LCY total return basis.

The outlook for a continuation of robust economic growth in the region suggests that price pressures may persist. The current bullish flattening of the region's government bond yield curves is likely to remain in place for some time to come. However, policy makers in emerging East Asia may adopt a more neutral monetary policy stance in coming months to gauge the impact of problems in the US and Europe on the region's economic prospects.

Corporate Credit Spreads

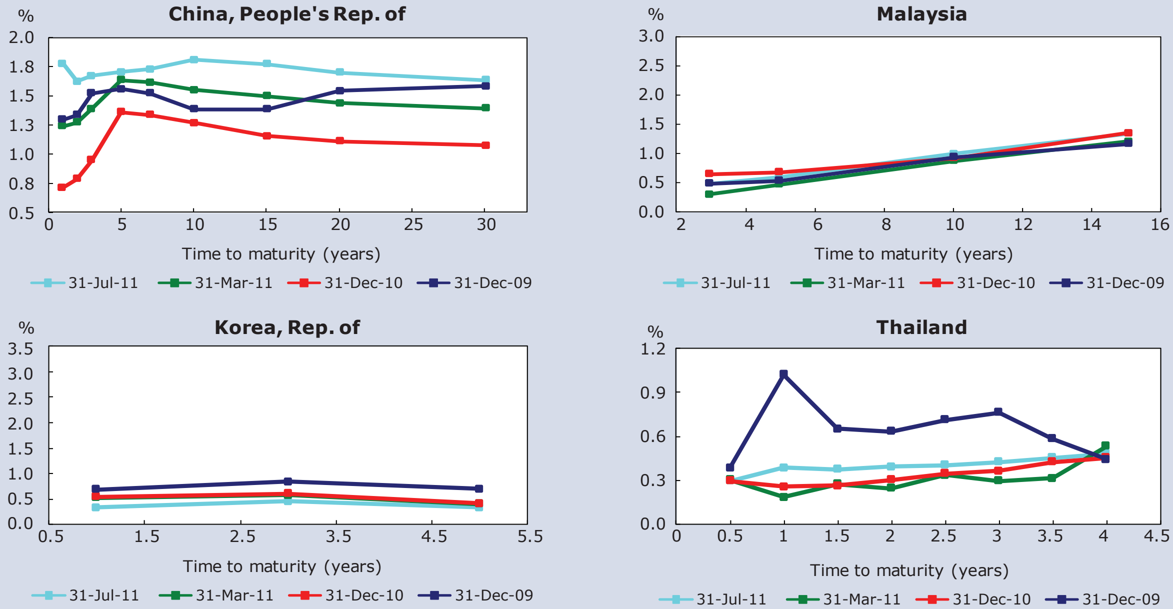
The movement of both high grade and high yield credit spreads varied across the region's markets at the end of 2Q11.

High grade corporate credit spreads widened at end-July in Malaysia and the PRC **(Figure 14a)**. In Malaysia, credit spreads widened modestly for the 3-, 5-, 10-, and 15-year maturities. The largest increase in spreads was the rise for the 3-year maturity at 19 bps, while the increase in spreads for longer-dated maturities ranged between 13 bps and 14 bps. In the PRC, the largest increase in credit spreads took place for the 1-year maturity, which rose 54 bps. Credit spreads rose by roughly one-half that amount between the 10- and 30-year maturities.

High grade credit spreads tightened for the Republic of Korea but widened for Thailand. Credit spreads for high grade corporate bonds in the Republic of Korea tightened from around 19 bps at the short-end of the curve to around 7 bps at the long-end. Credit spreads widened 10 bps–20 bps along most of the Thai credit spread curve.

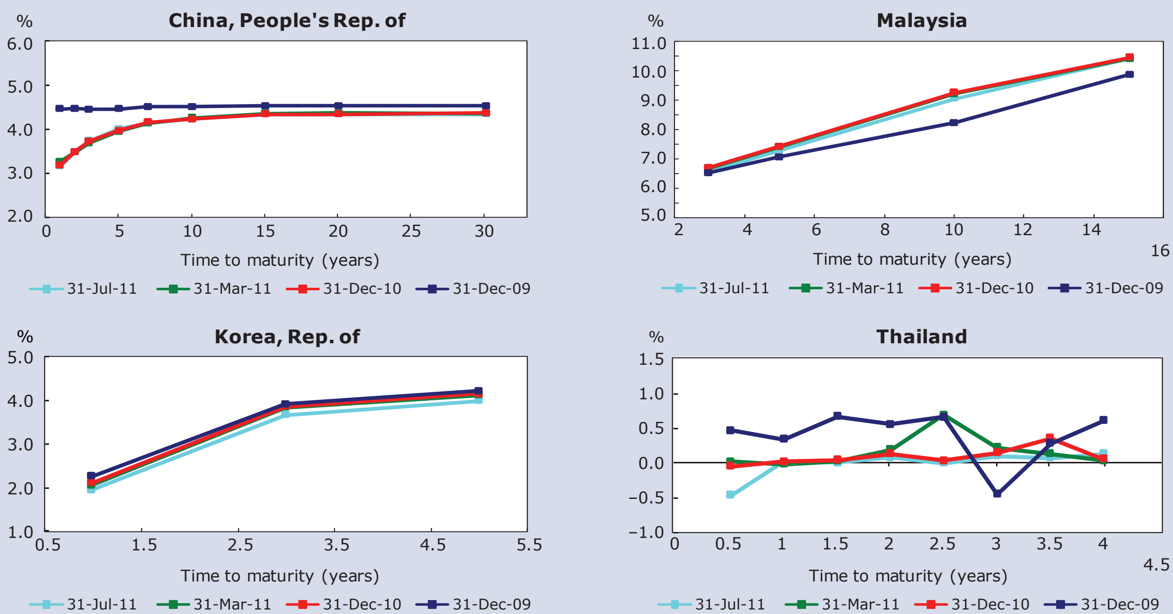
Credit spreads for Korean and Malaysian high yield bonds tightened modestly between end-March and end-July **(Figure 14b)**. Spreads on the Republic of Korea's high yield bonds tightened along the entire curve, while spreads on Malaysian high yield bonds tightened more in the belly than at the long- or short-end of the curve. Credit spreads for the PRC's high yield bonds were largely unchanged between end-March and end-July, while credit spreads for Thailand's high yield corporate bonds tightened at the long-end and very short-end of the curve between end-March and end-July.

Figure 14a: Credit Spreads—LCY Corporates Rated AAA vs. Government Bonds



LCY = local currency.
Note: Credit spreads are obtained by subtracting government yields from corporate indicative yields.
Source: People's Republic of China (*ChinaBond*); Republic of Korea (EDAILY *BondWeb*); Malaysia (Bank Negara Malaysia); and Thailand (ThaiBMA).

Figure 14b: Credit Spreads—Lower Rated LCY Corporates vs. LCY Corporates Rated AAA



LCY = local currency.
Notes:
1. For the People's Republic of China, credit spreads are obtained by subtracting corporate indicative yields rated as AAA from corporate indicative yields rated as BBB.
2. For Malaysia, credit spreads are obtained by subtracting corporate indicative yields rated as AAA from corporate indicative yields rated as BBB.
3. For the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated as AAA from corporate indicative yields rated as BBB+.
4. For Thailand, credit spreads are obtained by subtracting corporate indicative yields rated as AAA from corporate indicative yields rated as A.
Source: People's Republic of China (*ChinaBond*); Republic of Korea (EDAILY *BondWeb*); Malaysia (Bank Negara Malaysia); and Thailand (ThaiBMA).

G3 Currency Issuance

G3 currency issuance in emerging East Asia in 2011 reached US$55.4 billion through end-July and remains on track to surpass the record of US$87 billion of issuance in 2010.

New issuance in G3 currencies in 2011 reached US$55.4 billion through end-July **(Table 7)**. The upsurge in issuance reflected the return of investor appetite for bonds of Asian governments and major corporations and financial institutions, a renewed search for yield, and low US interest rates.

The Republic of Korea accounted for the largest amount of new G3 currency issuance through end-July at US$20.6 billion. The largest group of issuers in the Republic of Korea comprised banks and other financial institutions. The Korea Eximbank issued a US$700 million bond in April and a *samurai* bond for the equivalent of US$741 million in July. The Korea Development Bank (KDB) issued a US$750 million bond in March and Hyundai Capital issued a US$700 million bond in January. Industrial companies have also been large issuers this year. POSCO issued a US$700 million bond in April, and Korea Hydro and Nuclear Power issued a US$500 million bond in July.

The next largest issuer of G3 currency bonds through end-July was the PRC, followed by Hong Kong, China. The PRC's total G3 currency issuance amounted to US$16.3 billion through end-July and included a number of prominent real estate developers and energy companies. Issuance out of Hong Kong, China amounted to US$4.7 billion and consisted mostly of issuance from real estate companies and financial institutions.

Indonesia's largest issuer through end-July was the government, which issued a US$2.5 billion bond in May, followed by the state-owned oil company, Pertamina, which issued its first-ever foreign currency bond in May. The bond comprised two tranches: a US$1 billion bond with a 10-year maturity and a 30-year bond worth US$500 million. Other sovereign issues this year have included a US$1.5 billion bond from the Philippines and a US$1.2 billion *sukuk* issued by Wakala Global, which is the corporate entity of the Malaysian government holding the underlying assets necessary to create the *sukuk* structure.

Market Returns

Returns on LCY bonds have remained buoyant in most of the region's markets in 2011, with Indonesia, Singapore, the Republic of Korea, the Philippines, and Malaysia posting the largest gains.

The Asian Bond Fund (ABF) Pan-Asian Bond Index gained 6.4% on a US$-unhedged total return basis through end-July, compared with a 10.2% gain for the full-year 2010 **(Table 8)**. Indonesian bonds were the best performers, gaining 15.2%, followed by Singapore (10.9%), the Republic of Korea (10.3%), the Philippines (7.2%), and Malaysia (6.3%). The worst performing bond market in the ABF index was Thailand (1.6%), followed by Hong Kong, China (3.0%) and the PRC (3.0%). Much of these gains in the bond index were due to the rapid appreciation of the region's currencies this year. For example, there is almost a 6% difference between the returns for Indonesia on an US$-unhedged basis versus an LCY total return basis, and an even larger difference of more than 7% between returns for the Republic of Korea's bond index on an US$-unhedged total return basis versus an LCY total return basis.

These high bond market returns have proven superior to the much lower returns being offered in the region's equity markets this year. The MSCI Far East Ex-Japan Index has generated a return to date of 2.3% in US$ terms and a negative return of –0.42% in LCY terms **(Table 9)**.

- The largest returns in the MSCI index in US$ terms have come from Indonesia (19.0%), Thailand (11.9%), the Republic of Korea (9.2%), and Malaysia (6.2%). Returns for the Philippines and Singapore were 4.7% and 4.4%, respectively.

Table 7: G3 Currency Bond Issuance (2010 and 1 January–31 July 2011)

2010			1 January–31 July 2011		
Issuer	US$ (million)	Issue Date	Issuer	US$ (million)	Issue Date
China, People's Rep. of	**15,950**		**China, People's Rep. of**	**16,292**	
Evergrande 13% 2015	1,350	27-Jan-10	CNOOC Finance 4.25% 2021	1,500	26-Jan-11
China Overseas Finance 5.5% 2020	1,000	10-Nov-10	Country Garden 11.125% 2018	900	23-Feb-11
Sino-Ocean Land Capital 8.0% Perpetual	900	27-Jul-10	China Resources Power 7.25% Perpetual	750	9-May-11
Agile Property 8.875% 2017	650	28-Apr-10	Citic Pacific 7.875% Perpetual	750	15-Apr-11
Franshion Capital 6.8% Perpetual	600	12-Oct-10	ENN Energy 6.0% 2021	750	13-May-11
MCE Finance 10.25% 2017	600	17-May-10	Longfor Properties 9.5% 2016	750	7-Apr-11
Others	10,850		Others	10,892	
Hong Kong, China	**18,634**		**Hong Kong, China**	**4,650**	
Hutch Whampoa 6.0% Perpetual	2,000	28-Oct-10	China Resources Land 4.625% 2016	750	19-May-11
Bank of China (Hong Kong) 5.55% 2020	1,600	11-Feb-10	HSBC 1.0599% 2014	500	31-May-11
Sinochem 4.5% 2020	1,500	12-Nov-10	Newford Capital 0.0% 2016	500	12-May-11
PHBS 6.625% Perpetual	1,000	29-Sep-10	The Hong Kong Mortgage Corp. 0.5293% 2013	450	15-Apr-11
Bank of China (Hong Kong) 5.55% 2020	900	19-Apr-10	KWG Power Holdings 12.75% 2016	350	30-Mar-11
Hongkong Electric Finance 4.25% 2020	750	14-Dec-10	Fufeng Group 7.625% 2016	300	13-Apr-11
Others	10,884		Others	1,800	
Indonesia	**6,784**		**Indonesia**	**4,488**	
Indonesia Sovereign 5.875% 2020	2,000	19-Jan-10	Indonesia (sovereign) 4.875% 2021	2,500	5-May-11
Indonesia Sovereign (*samurai*) 1.6% 2020	717	12-Nov-10	Pertamina 5.25% 2021	1,000	23-May-11
Indosat 7.375% 2020	650	29-Jul-10	Pertamina 6.5% 2041	500	27-May-11
Others	3,417		Others	488	
Korea, Rep. of	**28,353**		**Korea, Rep. of**	**20,594**	
Korea Eximbank 5.125% 2020	1,250	29-Jun-10	Korea Development Bank 4.0% 2016	750	9-Mar-11
Korea Eximbank 4.125% 2015	1,000	9-Mar-10	Korea Eximbank (*samurai*) 0.93% 2013	741	8-Jul-11
Korea Eximbank 4.0% 2021	1,000	20-Oct-10	Hyundai Capital 4.375% 2016	700	27-Jan-11
Polyvision 0.0% 2013	990	1-Oct-10	Korea Eximbank 3.75% 2016	700	20-Apr-11
Korea Development Bank 3.25% 2016	900	9-Sep-10	Posco 5.25% 2021	700	14-Apr-11
Korea Finance Corp. 3.25% 2016	750	20-Sep-10	Korea Hydro and Nuclear Power 4.75% 2021	500	13-Jul-11
Korea National Oil Corp. 2.875% 2015	700	9-Nov-10	Lotte Shopping 0.0% 2016	500	5-Jul-11
Others	21,763		Others	16,003	
Malaysia	**1,950**		**Malaysia**	**3,100**	
1Malaysia (*sukuk*) 3.928% 2015	1,250	4-Jun-10	Wakala Global (*sukuk*) 2.991% 2016	1,200	6-Jul-11
Others	700		Others	1,900	
Philippines	**8,084**		**Philippines**	**3,400**	
Philippines Sovereign 4.0% 2021	2,242	6-Oct-10	Philippines (sovereign) 5.5% 2026	1,500	30-Mar-11
Philippines Sovereign (*samurai*) 2.32% 2020	1,070	2-Mar-10	San Miguel Corp. 2.0% 2014	600	5-May-11
Philippines Sovereign 6.375% 2034	950	6-Oct-10	Energy Development Corp. 6.5% 2021	300	20-Jan-11
Others	3,822		Others	1,000	
Singapore	**4,111**		**Singapore**	**1,551**	
DBS Bank 2.375% 2015	1,000	14-Sep-10	Singtel 4.5% 2021	600	8-Mar-11
Others	3,111		Others	951	
Thailand	**2,350**		**Thailand**	**1,220**	
Bangkok Bank 4.8% 2020	800	18-Oct-10	PTTEP 5.692% 2021	700	5-Apr-11
Others	1,550		Others	520	
Viet Nam	**1,000**		**Viet Nam**	**90**	
Viet Nam (sovereign) 6.75% 2020	1,000	29-Jan-10	HAGL 9.875% 2016	90	20-May-11
Emerging East Asia Total	**87,217**		**Emerging East Asia Total**	**55,385**	
Memo Items:			**Memo Items:**		
India	**13,023**		**India**	**10,825**	
Novelis 8.75% 2020	1,400	17-Dec-10	Novelis 8.75% 2020	1,400	13-Apr-11
ICICI Bank 5.75% 2020	1,000	16-Nov-10	Novelis 8.375% 2017	1,100	13-Apr-11
State Bank of India (London) 4.5% 2015	1,000	27-Jul-10	ICICI Bank 4.75% 2016	1,000	25-May-11
Others	9,623		Others	7,325	
Sri Lanka	**1,573**		**Sri Lanka**	**1,346**	

Note: The Philippines' US$2.2 billion 2021 bond and US$950 million 2034 bond were both sold in October 2010 as part of a dollar bond exchange program. Not included in this table are the Philippines' two sovereign global peso bond issuances—a PHP54.8 billion (US$1.2 billion) 25-year bond in January and a PHP44.1 billion (US$1 billion) 10-year bond in September 2010—and Petron's 7-year global peso bond of PHP20 billion (US$454 million) issued in November 2010.
Source: Bloomberg LP, newspaper, and wire reports.

- The region's low overall return of 2.3% is largely a function of the large PRC and Hong Kong, China markets having negative returns of –1.64% and –0.84%, respectively.
- In LCY terms the return for the overall market was even lower at –0.42% once the effects of rapidly appreciating currencies are removed.

Table 8: iBoxx Asia Bond Fund Index Family Returns

Market	Modified Duration (years)	2009 Returns (%)		2010 Returns (%)		2011 YTD Returns (%)	
		LCY Total Return Index	US$-Unhedged Total Return Index	LCY Total Return Index	US$-Unhedged Total Return Index	LCY Total Return Index	US$-Unhedged Total Return Index
China, People's Rep. of	5.75	(0.64)	(0.69)	1.55	5.06	0.75	3.03
Hong Kong, China	3.94	(0.76)	(0.82)	2.04	1.79	3.21	2.95
Indonesia	6.02	20.22	35.61	19.30	23.70	9.57	15.23
Korea, Rep. of	4.04	1.94	9.73	8.00	10.64	2.94	10.31
Malaysia	4.53	0.48	1.64	5.16	15.64	2.37	6.30
Philippines	5.04	9.00	11.88	14.30	19.67	3.50	7.24
Singapore	5.59	0.48	3.06	2.51	11.34	4.76	10.89
Thailand	4.96	(3.47)	0.73	5.38	15.41	0.26	1.61
Pan-Asian Index	4.90	–	5.00	–	10.21	–	6.42
HSBC ALBI	7.57	–	6.13	–	11.49	–	7.10
US Govt. 1–10 years	3.95	–	(1.38)	–	5.26	–	3.87

– = not applicable, ALBI = Asian Local Bond Index, LCY = local currency, US = United States, YTD = year-to-date.
Notes:
1. The Asian Bond Fund (ABF) indices contain only government debt and government-guaranteed debt obligations.
2. Market bond indices are from iBoxx Index Family. Returns for 2011 are year-to-date as of 31 July 2011.
3. Annual returns are computed for each year using a natural logarithm of end-of-year index value/beginning year index value.
4. Duration as of 31 July 2011.
Source: *AsianBondsOnline* and Bloomberg LP.

Table 9: MSCI Index Returns

Market	2009 Returns (%)		2010 Returns (%)		2011 YTD Returns (%)	
	LCY terms	US$ terms	LCY terms	US$ terms	LCY terms	US$ terms
China, People's Rep. of	58.89	58.80	2.58	2.32	(1.38)	(1.64)
Hong Kong, China	55.28	55.20	19.98	19.67	(0.58)	(0.84)
Indonesia	90.27	120.75	25.82	31.19	12.32	19.02
Korea, Republic of	56.63	69.42	22.11	25.29	1.42	9.18
Malaysia	46.25	47.78	19.33	32.51	2.20	6.17
Philippines	55.79	60.24	23.47	30.29	0.70	4.69
Singapore	63.02	67.29	8.08	18.45	(1.82)	4.38
Thailand	63.00	70.04	36.36	50.81	10.70	11.89
Far East ex-Japan Index	60.32	65.01	12.50	16.69	(0.42)	2.30
MSCI USA	–	24.20	–	13.18	–	3.01

– = not applicable, LCY = local currency, MSCI = Morgan Stanley Capital International, YTD = year-to-date.
Notes:
1. Market indices are from MSCI country indexes. 2011 returns are year-to-date as of 31 July 2011.
2. Far East ex-Japan includes People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Taipei,China; and Thailand.
Source: *AsianBondsOnline* and Bloomberg LP.