

# Bond Market Developments in the Second Quarter of 2012

## Size and Composition

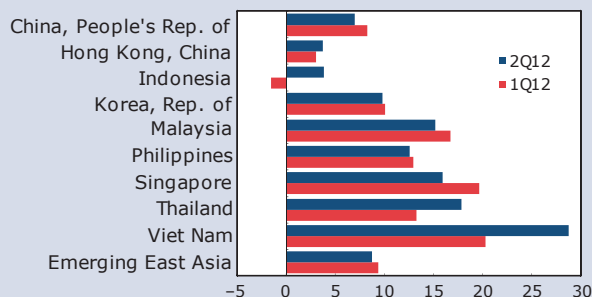
**Total bonds outstanding in emerging East Asia's LCY bond market grew 1.9% q-o-q and 8.6% y-o-y to reach US\$5.9 trillion at the end of 2Q12, driven mainly by continued strong growth in corporate bonds.<sup>5</sup>**

The quarter-on-quarter (q-o-q) growth rate for emerging East Asia's local currency (LCY) bond market was 1.9% in 2Q12 after posting 3.0% in 1Q12. On a q-o-q basis, the five most rapidly growing markets were Viet Nam, Thailand, Indonesia, Singapore, and the Philippines, which grew 10.5%, 4.1%, 3.6%, 3.2%, and 2.9%, respectively.

The year-on-year (y-o-y) growth rate for emerging East Asia's LCY bond market moderated to 8.6% in 2Q12 from 9.3% in 1Q12 (**Figure 1**), as growth rates for both government bonds and corporate bonds leveled off. The y-o-y growth rate for government bonds moderated to 5.5% in 2Q12 from 5.8% in 1Q12, while the growth rate for corporate bonds was 15.2% in 2Q12 after posting 16.7% in 1Q12 (**Table 1**).

The region's most rapidly growing bond markets on a y-o-y basis in 2Q12 were those of Viet Nam, Thailand, Singapore, Malaysia, and the Philippines, which grew 28.5%, 17.7%, 15.8%, 15.0%, and 12.4%, respectively. The growth of Viet Nam's bond market was driven entirely by the government bond sector; the size of the corporate bond sector in Viet Nam actually shrank slightly in 2Q12. In the other four markets listed above, the government and corporate bond sectors both grew at double-digit rates on a y-o-y basis, although the corporate bond sector outpaced the government sector by a significant amount in the Philippines and Singapore. Meanwhile, whether on a q-o-q or y-o-y

**Figure 1: Growth of LCY Bond Markets in 1Q12 and 2Q12 (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 LCY base and do not include currency effects.

3. Emerging East Asia growth figure is based on end-June 2012 currency exchange rates and does not include currency effects.

4. For Singapore, corporate bonds outstanding quarterly figures 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 (EDAILY *BondWeb* and The Bank of Korea); 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).

basis, Viet Nam was the most rapidly growing and the Philippines was the least rapidly growing of the top five markets in 2Q12.

**Emerging East Asia's government bond market grew moderately in 2Q12 on both a q-o-q (1.3%) and y-o-y (5.5%) basis.**

The 1.3% q-o-q growth rate for the region's government bond market in 2Q12 represented a slight decline from the 2.4% q-o-q growth rate realized in 1Q12. The government bond markets reporting the most significant growth on a q-o-q basis were Viet Nam (12.6%); Thailand (4.8%); Indonesia (3.0%); Hong Kong, China (2.1%); and the Philippines (1.7%). The q-o-q growth rate for the Republic of Korea was almost negligible, while the government bond market of the People's Republic of China (PRC) only grew 1.1% q-o-q. The government bond markets of Malaysia and Singapore grew at almost identical q-o-q rates of 1.6% and 1.5%, respectively.

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

Table 1: Size and Composition of LCY Bond Markets

	2Q11		1Q12		2Q12		Growth Rate (LCY-base %)				Growth Rate (US\$-base %)			
	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	2Q11		2Q12		2Q11		2Q12	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
<b>China, People's Rep. of (PRC)</b>														
<b>Total</b>	3,190	100.0	3,448	100.0	3,469	100.0	2.7	6.7	1.5	6.9	4.0	12.0	0.6	8.7
Government	2,440	76.5	2,575	74.7	2,580	74.4	1.6	1.0	1.1	3.9	3.0	6.0	0.2	5.7
Corporate	750	23.5	874	25.3	889	25.6	6.3	30.8	2.6	16.5	7.7	37.2	1.7	18.5
<b>Hong Kong, China</b>														
<b>Total</b>	167	100.0	171	100.0	174	100.0	0.5	5.4	1.2	3.7	0.5	5.5	1.3	4.0
Government	88	52.7	91	53.0	93	53.5	0.5	2.6	2.1	5.3	0.4	2.6	2.2	5.6
Corporate	79	47.3	81	47.0	81	46.5	0.5	8.7	0.1	1.9	0.5	8.8	0.2	2.2
<b>Indonesia</b>														
<b>Total</b>	118	100.0	111	100.0	111	100.0	(1.7)	2.7	3.6	3.8	(0.2)	8.6	0.5	(5.6)
Government	103	87.0	94	84.7	94	84.2	(3.1)	(1.4)	3.0	0.5	(1.7)	4.3	(0.2)	(8.6)
Corporate	15	13.0	17	15.3	18	15.8	8.9	41.9	7.4	25.9	10.6	50.1	4.1	14.5
<b>Korea, Rep. of</b>														
<b>Total</b>	1,274	100.0	1,290	100.0	1,302	100.0	2.3	8.2	2.1	9.7	5.1	23.8	1.0	2.2
Government	547	42.9	531	41.2	525	40.3	1.5	4.4	(0.05)	3.0	4.2	19.5	(1.1)	(4.0)
Corporate	727	57.1	759	58.8	777	59.7	3.0	11.3	3.6	14.7	5.8	27.4	2.4	6.9
<b>Malaysia</b>														
<b>Total</b>	269	100.0	298	100.0	294	100.0	3.7	16.7	2.3	15.0	3.9	25.1	(1.3)	9.3
Government	161	59.7	179	60.2	176	59.8	2.9	20.9	1.6	15.3	3.1	29.5	(2.0)	9.6
Corporate	108	40.3	119	39.8	118	40.2	4.9	11.1	3.2	14.6	5.1	19.1	(0.4)	9.0
<b>Philippines</b>														
<b>Total</b>	75	100.0	83	100.0	87	100.0	3.3	6.2	2.9	12.4	3.2	13.4	4.8	15.7
Government	66	87.2	73	87.5	75	86.5	3.2	5.5	1.7	11.5	3.2	12.7	3.6	14.8
Corporate	10	12.8	10	12.5	12	13.5	3.6	10.9	11.5	18.7	3.6	18.5	13.5	22.2
<b>Singapore</b>														
<b>Total</b>	193	100.0	211	100.0	217	100.0	6.5	11.6	3.2	15.8	9.3	27.1	2.6	12.4
Government	117	60.8	129	60.9	130	59.9	8.0	12.3	1.5	14.1	10.8	28.0	0.9	10.8
Corporate	76	39.2	83	39.1	87	40.1	4.3	10.4	5.8	18.3	7.1	25.7	5.2	14.9
<b>Thailand</b>														
<b>Total</b>	222	100.0	250	100.0	254	100.0	0.1	6.2	4.1	17.7	(1.4)	12.2	1.7	14.6
Government	178	80.2	200	79.8	204	80.3	(0.2)	5.6	4.8	17.9	(1.7)	11.5	2.3	14.8
Corporate	44	19.8	51	20.2	50	19.7	1.2	9.0	1.6	16.9	(0.3)	15.1	(0.8)	13.9
<b>Viet Nam</b>														
<b>Total</b>	17	100.0	20	100.0	22	100.0	3.3	16.7	10.5	28.5	4.9	8.2	10.2	26.6
Government	15	88.2	18	89.9	20	91.6	4.3	15.8	12.6	33.5	5.8	7.2	12.3	31.5
Corporate	2	11.8	2	10.1	2	8.4	(3.3)	24.6	(7.9)	(8.7)	(1.9)	15.4	(8.2)	(10.1)
<b>Emerging East Asia (EEA)</b>														
<b>Total</b>	5,525	100.0	5,882	100.0	5,930	100.0	2.5	7.5	1.9	8.6	4.0	15.3	0.8	7.3
Government	3,714	67.2	3,888	66.1	3,897	65.7	1.6	2.8	1.3	5.5	3.0	9.5	0.2	4.9
Corporate	1,811	32.8	1,994	33.9	2,033	34.3	4.4	18.9	3.1	15.2	6.2	29.4	2.0	12.2
<b>EEA Less PRC</b>														
<b>Total</b>	2,335	100.0	2,434	100.0	2,461	100.0	2.3	8.7	2.5	11.1	4.0	20.2	1.1	5.4
Government	1,273	54.5	1,314	54.0	1,317	53.5	1.7	6.7	1.7	8.5	3.0	16.9	0.2	3.4
Corporate	1,061	45.5	1,120	46.0	1,144	46.5	3.1	11.2	3.5	14.2	5.2	24.4	2.1	7.8
<b>Japan</b>														
<b>Total</b>	11,986	100.0	11,897	100.0	12,465	100.0	1.0	4.2	0.9	3.0	4.2	14.4	4.8	4.0
Government	10,883	90.8	10,826	91.0	11,373	91.2	1.2	4.7	1.2	3.5	4.5	15.0	5.1	4.5
Corporate	1,103	9.2	1,072	9.0	1,092	8.8	(1.6)	(1.0)	(1.9)	(1.9)	1.6	8.7	1.9	(1.0)
<b>Memo Item: CNH</b>														
<b>Total</b>	28	100.0	52	100.0	49	100.0	109.4	512.7	(4.8)	69.8	112.2	542.9	(5.6)	72.7
Government	7	24.6	11	20.5	13	25.7	30.9	247.6	19.3	77.7	32.6	264.7	18.3	80.7
Corporate	21	75.4	41	79.5	36	74.3	160.4	715.5	(11.0)	67.2	163.8	755.6	(11.8)	70.1

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

Notes:

1. For Singapore, corporate bonds outstanding quarterly figures based on *AsianBondsOnline* estimates.
2. Corporate bonds include issues by financial institutions.
3. CNH bonds are renminbi-denominated bonds issued in Hong Kong, China. Data include certificates of deposit and bonds issued by foreign companies.
4. Bloomberg LP end-of-period LCY-US\$ rates are used.
5. For LCY base, emerging East Asia growth figures are based on end-June 2012 currency exchange rates and do not include currency effects.
6. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam. Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); 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).

Viet Nam's government bond market grew at robust q-o-q rates of 12.6% in 2Q12 and 14.8% in 1Q12, following a sharp reduction in government bond market issuance and growth in the last quarter of 2011 when the government reduced investment expenditure, raised interest rates, and took other measures to cope with an accelerating rate of inflation. In 4Q11, the q-o-q growth of the government bond market was only 0.03%. Viet Nam's annual consumer price inflation rate had risen to levels above 20% in the middle of 2011, but has since fallen back to single-digit levels in the first half of 2012, most recently falling to 5.04% y-o-y in August. As a result, the government has begun to resume a more normal pattern of bond issuance.

The rapid growth of Thailand's government bond market reflects ongoing public works projects designed to restore and improve drainage and water control facilities in the aftermath of last year's disastrous floods. The increase for Singapore's government bonds primarily reflects the aggressive issuance of Monetary Authority of Singapore (MAS) bills since their introduction in April 2011. Outstanding MAS bills stood at SGD20.4 billion (US\$16.1 billion) at end-June, almost four times the SGD5.4 billion outstanding at end-June 2011. MAS bills grew 13.3% q-o-q in 2Q12. The outstanding amount of Singapore Government Securities (SGS) bills and bonds rose 3.8% y-o-y to SGD143.8 billion at the end of 2Q12, but their growth was flat on a q-o-q basis.

At the end of 2Q12, the PRC government bond market was still the largest in the region at an equivalent size of US\$2.6 trillion, but this represented only a 1.1% q-o-q increase from 1Q12. The PRC government bond market comprises three major components: (i) treasury bonds, (ii) central bank bonds, and (iii) policy bank bonds. These three components had values of US\$1.2 trillion, US\$259 billion, and US\$1.1 trillion, respectively, at end-June. The most dramatic change in the PRC's government bond sector has been the continued shrinkage of

central bank bonds outstanding, which declined 14.7% q-o-q and 41.0% y-o-y in 2Q12. In contrast, treasury bonds grew 1.1% q-o-q and 8.0% y-o-y in 2Q12, and policy bank bonds grew 5.6% q-o-q and 20.0% y-o-y.

**The LCY corporate bond market in emerging East Asia grew 3.1% q-o-q and 15.2% y-o-y in 2Q12, reflecting the continued expansion of corporate bond issuance in most individual bond markets.**

The LCY corporate bond market in emerging East Asia expanded 3.1% q-o-q in 2Q12, led by the Philippines (11.5%), Indonesia (7.4%), Singapore (5.8%), the Republic of Korea (3.6%), and Malaysia (3.2%). Meanwhile, corporate bonds in Thailand only grew 1.6% q-o-q in 2Q12 due to a sharp downturn in issuance. On a y-o-y basis, the region's LCY corporate bond market expanded 15.2% in 2Q12, led by Indonesia (25.9%), the Philippines (18.7%), Singapore (18.3%), Thailand (16.9%), and the PRC (16.5%). This reflects a very positive development—the emergence of a much broader issuer base as companies in the energy, transportation, and real estate sectors have begun to issue bonds in large amounts.

In Indonesia, about 83% of total corporate bonds outstanding at the end of 2Q12 were conventional bonds; subordinated bonds accounted for 13.6% of total outstanding corporate bonds. *Sukuk* (Islamic bonds) issued by corporate entities represented a small percentage of total corporate bonds, with a share of only 3.4% at end-June. Motorcycle financing company Federal International Finance raised a total of IDR4 trillion (US\$424 million) of bonds through a triple-tranche bond sale in April. Bank Tabungan Negara issued a total of IDR2 trillion of 10-year conventional bonds in June. Indonesian noodle manufacturer Indofood Sukses Makmur issued a IDR2 trillion 5-year bond in May. Automotive financing firm Adira Dinamika Multifinance issued a total of IDR1.85 trillion of bonds through a triple-tranche sale in May. Another automotive financing company, BCA Finance, raised a total of IDR1.7 trillion worth of bonds in May.

In the Philippines, new issuance of LCY corporate bonds in 2Q12 came from a wide variety of entities including banks, real estate companies, telecommunication companies, tollway operators, and a brewery. San Miguel Brewery sold a total of PHP20 billion (US\$468 million) of notes with maturities of 5, 7, and 10 years. Ayala Land sold a total of PHP15 billion in retail bonds carrying 7- and 10-year maturities. Ayala Corporation and its telecom subsidiary, Globe Telecom Inc., floated PHP10 billion of notes each. Other issuers in 2Q12 included (i) Filinvest Land, (ii) Philippine National Bank (PNB), and (iii) Rizal Commercial Banking Corporation (RCBC).

The growth of the Singapore corporate bond market in 2012 has been supported by the issuance of perpetual bonds, which accounted for around one-third of total new issuance in the first half of 2012. The first quarter saw four new issues of perpetual bonds: (i) Genting Singapore (SGD1.8 billion), (ii) Mapletree Logistics (SGD350 million), (iii) Singapore Post (SGD350 million), and (iv) Olam International (SGD275 million). In 2Q12, Genting Singapore issued another SGD500 million worth of perpetual bonds, and Ascendas and Hotel Properties sold SGD300 million and SGD150 million of perpetual bonds, respectively (**Table 2**).

**Table 2: Perpetual Bonds Outstanding in Emerging East Asia**

Issuer Name	Face Value of Bond	Issue Date	Coupon Rate (%)	Step-Up Interest Rate (%)
<b>Hong Kong, China</b> (HKD billion)				
Cheung Kong Holdings	1.0	07-09-2012	5.250	6.25
<b>Malaysia</b> (MYR billion)				
Malaysia Airlines	1.0	06-12-2012	6.900	
<i>Hybrid Bonds:</i>				
Malayan Banking	3.5	06-27-2008		6.85
CIMB Bank	1.0	12-26-2008	7.200	
<b>Singapore</b> (SGD billion)				
Hyflux	0.4	04-25-2011	6.000	8.00
Global Logistics	0.8	12-07-2011	5.500	
Olam International	0.3	03-01-2012	7.000	
Singapore Post	0.4	03-02-2012	4.250	
Genting Singapore	1.8	03-12-2012	5.125	6.125
Mapletree Logistics	0.4	03-19-2012	5.375	
Genting Singapore	0.5	04-18-2012	5.125	6.125
Ascendas	0.3	04-18-2012	4.750	
Hotel Properties	0.2	05-04-2012	6.125	
<i>Hybrid Bonds:</i>				
DBS Capital Funding	1.5	05-27-2008	5.780	
OCBC Capital	1.5	08-26-2008	5.100	
Oversea-Chinese Banking Corp.	1.0	07-28-2008	5.100	
United Overseas Bank	1.3	09-15-2008	5.050	
DBS Bank	1.7	10-22-2010	4.700	
DBS Bank	0.8	11-22-2010	4.700	
<b>Thailand</b> (THB billion)				
PTT Exploration and Production	5.0	06-15-2012	5.850	5.85% (06-15-2022), 6.10% (06-15-2042), 6.85% (06-15-2072), and 7.85% (06-15-2073)
<i>Hybrid Bonds:</i>				
TMB Bank	4.0	04-30-2009	7.000	
<b>Memo Items: (US\$-denominated)</b>				
<b>Hong Kong, China</b> (US\$ billion)				
Cheung Kong Infrastructure Holdings	0.30	02-27-2012	7.000	
Hutchison Whampoa International	1.00	05-07-2012	6.000	5Y UST + 517.6 bps every 5 years
<b>Philippines</b> (US\$ billion)				
Royal Capital BV	0.35	05-05-2011		5Y UST + 637.8 bps + 250 bps for every 5Y non-call

bps = basis points, UST = US Treasury, Y = year.  
Source: Bloomberg LP.

Perpetual bonds are being issued in Malaysia; Thailand; and Hong Kong, China as well. Malaysia Airlines issued MYR1 billion (US\$315 million) of perpetual bonds in June, for example. Perpetual bonds also have been issued in foreign currencies in Hong Kong, China and the Philippines. The perpetual bonds are often callable, with multiple call dates, and step-up interest rates in the event they are not called.

Malaysian corporate issuance in the first half of 2012, however, was mainly in the form of *sukuk*. Among the notable issues was the world's largest *sukuk* issuance to date: toll expressway operator Projek Lebuhraya Utara Selatan Bhd.'s (PLUS) MYR30.6 billion worth of Islamic medium-term notes (IMTNs). In addition, Sarawak Energy raised a total of MYR2.5 billion from the sale of 10- and 15-year *sukuk* in recent months, telecommunications company Maxis Bhd. sold MYR2.5 billion worth of 10-year *sukuk* in February, and electricity producer Tanjung Bin Energy Bhd. raised MYR3.3 billion from a multi-tranche sale of *sukuk* in March. Finally, Encorp Systembilt raised MYR1.6 billion from the sale of multi-tranche *sukuk* in May.

In Thailand, the three largest LCY corporate bond issues in the first half of the year were (i) Siam Cement's 4-year senior unsecured bond issued in April worth THB25 billion (US\$793.2 million) and offering a coupon rate of 4.15%, (ii) Kasikorn Bank's 10-year subordinated bond of THB22 billion with a 4.5% coupon issued in February, and (iii) Siam Commercial Bank's 10-year subordinated bond of THB20 billion with a 4.5% coupon issued in February. PTT Exploration and Production issued a perpetual bond in May worth THB5 billion with an initial coupon of 5.85%. The bond has a series of call dates after which the coupon can rise to much higher levels if the bond is not called.

In the Republic of Korea, total LCY corporate bonds outstanding at end-June stood at the equivalent of US\$777 billion, making it the second largest corporate bond market in the region after the PRC. Private corporate bonds, which accounted for 43.8% of the total, expanded 5.1% q-o-q in

2Q12 to reach US\$340 billion. Meanwhile, special public bonds climbed 4.3% q-o-q in 2Q12 to reach US\$258 billion, or about one-third of total LCY corporate bonds outstanding. On the other hand, the outstanding stock of financial debentures (excluding Korea Development Bank bonds) shrank 0.3% q-o-q to level off at US\$179 billion.

The much-reduced growth rate of the PRC corporate bond market in 2Q12 reflected sharp changes in the market's structure over the last year. Commercial paper outstanding fell a dramatic 58.0% q-o-q in 2Q12, while asset-backed securities continued to decline as well, falling 4.3% due to a continued lack of issuance. Bonds issued by state-owned enterprises (SOEs) grew a modest 4.1% q-o-q, while medium-term notes grew 4.9% q-o-q. Commercial bank bonds grew 7.0% q-o-q in 2Q12, due largely to issuance of subordinated notes as banks sought to bolster their capital bases in advance of the PRC's implementation of Basel III. Finally, local corporate bonds grew 12.6% q-o-q.

## The CNH Bond Market in Hong Kong, China<sup>6</sup>

Issuance in the Hong Kong, China-based CNH bond market saw an uptick in July and early August after a sluggish first half of the year. Several examples of newer CNH issues included (i) a CNH1.5 billion 3-year bond with a coupon of 4.80% from AVIC International, (ii) a CNH1.2 billion 3-year bond with a coupon of 9.15% from Gemdale International, and (iii) a CNH1.8 billion 2-year bond with a coupon of 4.5% from Sinotruk. The German financial institution KfW also tapped its existing CNH bond, raising an additional CNH500 million.

In late 2011, concerns that the PRC's economy was weakening and the renminbi was no longer appreciating dampened investor interest in the renminbi and in CNH bonds, resulting in a weakening of CNH bond issuance in 1Q12.

Out of total issuance of CNH64.3 billion in 1Q12, only CNH16.9 billion was issued as bonds, with

<sup>6</sup> CNH bonds are renminbi-denominated bonds issued in Hong Kong, China.

certificates of deposit issued by banks comprising the remainder. However, CNH bond issuance picked up in 2Q12, rising to CNH37.3 billion to bring total issuance of CNH bonds in the first half of the year to CNH54.2 billion. (Certificates of deposits still accounted for the bulk of issuance of CNH securities in the first half of 2012 at CNH141.5 billion).

Total CNH bonds outstanding, however, slid 4.8% on a q-o-q basis in 2Q12, but rose by a substantial 69.8% on a y-o-y basis. The CNH bond market is dominated by the corporate sector, which accounted for 74.3% of total CNH bonds outstanding at end-June. Corporate sector bonds outstanding fell 11.0% q-o-q in 2Q12, reflecting the concerns mentioned above over the direction of the renminbi. Newer CNH bonds have been issued in recent months with coupons set at levels higher than were typical in the market last year. As a result, newer CNH bonds are being viewed as more attractive investments given the decline in yields for HKD-denominated bonds in recent months.

## Ratio of Bonds Outstanding to Gross Domestic Product

**The ratio of LCY bonds outstanding to gross domestic product in emerging East Asia remained unchanged in 2Q12 from the previous quarter at 53.0%.**

The ratio of LCY bonds outstanding to gross domestic product (GDP) in emerging East Asia remained unchanged in 2Q12 from the previous quarter at 53.0% (**Table 3**). The ratio of government bonds to GDP in 2Q12 fell to 34.8% from 35.0%, while the ratio of corporate bonds to GDP rose to 18.2% from 18.0%. The largest increases in the ratio of government bonds to GDP between 1Q12 and 2Q12 were in Thailand (from 58.1% to 60.0%) and Viet Nam (from 14.1% to 15.4%). The largest increase in the ratio of corporate bonds to GDP was in the Republic of Korea, where corporate bonds as a share of GDP rose from 68.8% to 70.7%. Indonesia, the Philippines, and Viet Nam

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

	2Q11	1Q12	2Q12
<b>China, People's Rep. of</b>			
<b>Total</b>	47.7	45.0	44.7
Government	36.5	33.6	33.3
Corporate	11.2	11.4	11.5
<b>Hong Kong, China</b>			
<b>Total</b>	71.3	69.5	70.3
Government	37.6	36.8	37.6
Corporate	33.8	32.7	32.7
<b>Indonesia</b>			
<b>Total</b>	14.6	13.2	13.3
Government	12.7	11.2	11.2
Corporate	1.9	2.0	2.1
<b>Korea, Rep. of</b>			
<b>Total</b>	112.7	117.0	118.4
Government	48.4	48.1	47.7
Corporate	64.4	68.8	70.7
<b>Malaysia</b>			
<b>Total</b>	96.7	102.0	102.6
Government	57.8	61.4	61.4
Corporate	39.0	40.6	41.2
<b>Philippines</b>			
<b>Total</b>	34.7	35.9	36.3
Government	30.3	31.5	31.4
Corporate	4.4	4.5	4.9
<b>Singapore</b>			
<b>Total</b>	74.0	80.7	82.5
Government	44.9	49.2	49.4
Corporate	29.0	31.6	33.1
<b>Thailand</b>			
<b>Total</b>	65.1	72.8	74.7
Government	52.2	58.1	60.0
Corporate	12.9	14.7	14.7
<b>Viet Nam</b>			
<b>Total</b>	16.2	15.6	16.8
Government	14.2	14.1	15.4
Corporate	1.9	1.6	1.4
<b>Emerging East Asia</b>			
<b>Total</b>	54.9	53.0	53.0
Government	36.9	35.0	34.8
Corporate	18.0	18.0	18.2
<b>Japan</b>			
<b>Total</b>	209.7	199.8	207.1
Government	190.4	181.8	189.0
Corporate	19.3	18.0	18.1

GDP = gross domestic product, LCY = local currency.

Notes:

1. Data for GDP is from CEIC.
2. For Singapore, corporate bonds outstanding quarterly figures 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 (EDAILY *BondWeb* and The Bank of Korea); 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).

had the lowest corporate bonds-to-GDP ratios in 2Q12, ranging from 1.4% for Viet Nam to 4.9% for the Philippines.

## Issuance

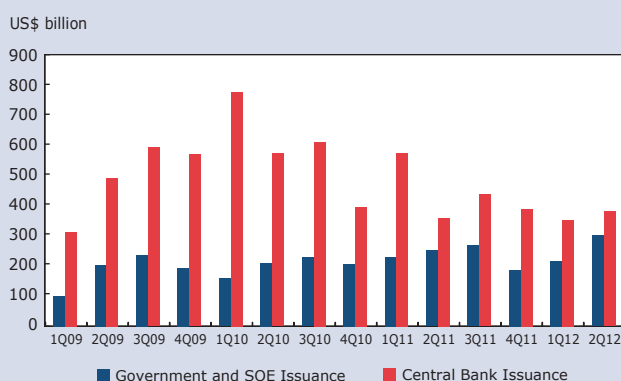
**Issuance in emerging East Asia in 2Q12 totaled US\$875 billion, a significant increase of 12.0% on a q-o-q basis and a modest decline of 7.0% on a y-o-y basis.**

The substantial q-o-q increase of total issuance in 2Q12 was driven primarily by a revival of issuance by treasuries and other government entities as they resurrected economic stimulus measures. Central bank issuance also rose in 2Q12, but to a lesser degree than issuance by treasuries and other government entities, while quarterly corporate issuance fell by a modest amount (**Figures 2a, 2b, 2c**).

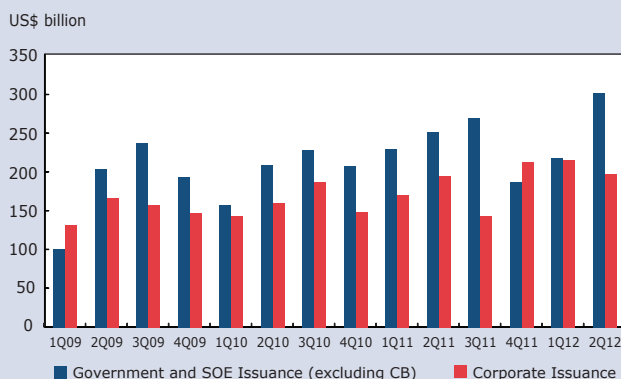
The increased pace of issuance of treasuries and some other types of central government bonds in 2Q12 was significant on both a q-o-q (39.7%) and y-o-y basis (20.8%) (**Table 4**). The largest contribution to this upturn, in terms of both growth rates and issuance volume, came from the PRC. Treasury bond issuance in the PRC in 2Q12 accounted for US\$200 billion out of a region-wide total of US\$300 billion, growing by 70.3% q-o-q and 27.0% y-o-y. The next largest issuers of treasury and other government bonds were Singapore (US\$50 billion), the Republic of Korea (US\$21 billion), Malaysia (US\$9 billion), and Thailand (US\$8 billion). Although the total amount was relatively modest, growth rates for Thailand's treasury bond issuance in 2Q12 were substantial at 25.5% q-o-q and 110.9% y-o-y.

Issuance of Hong Kong Special Administrative Region (HKSAR) bonds by the government of Hong Kong, China rose dramatically by 200% q-o-q and 500% y-o-y in 2Q12, amounting to HKD15 billion (US\$2 billion). In May, HKD3.0 billion of 3-year HKSAR bonds were issued under the government's Institutional Bond Issuance Programme. An additional HKD1.5 billion in 5-year bonds were sold in June. Finally, HKD10 billion

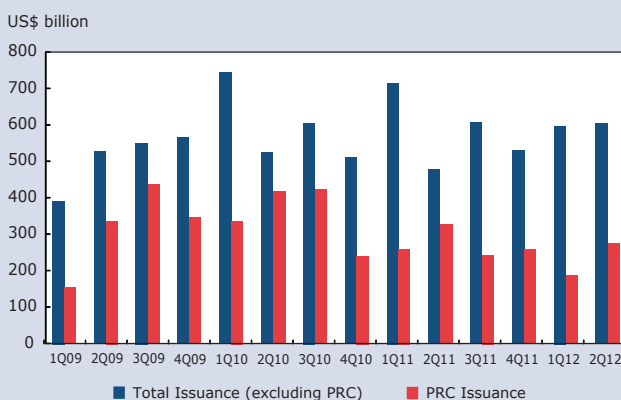
**Figure 2a: Government (including SOE) and Central Bank Bond Issuance, 1Q09–2Q12**



**Figure 2b: Government (including SOE) and Corporate Bond Issuance, 1Q09–2Q12**



**Figure 2c: Total LCY Bond Issuance, 1Q09–2Q12**



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*.

**Table 4: LCY-Denominated Bond Issuance (gross)**

	LCY (billion)		US\$ (billion)		Growth Rate (LCY-base %)		Growth Rate (US\$-base %)	
	2Q12	% share	2Q12	% share	2Q12		2Q12	
					q-o-q	y-o-y	q-o-q	y-o-y
<b>China, People's Rep. of (PRC)</b>								
<b>Total</b>	1,742	100.0	274	100.0	48.6	(17.3)	47.3	(15.9)
Government	1,269	72.9	200	72.9	70.3	(19.8)	68.8	(18.5)
Central Bank	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	1,269	72.9	200	72.9	70.3	27.0	68.8	29.2
Corporate	473	27.1	74	27.1	10.7	(9.7)	9.7	(8.1)
<b>Hong Kong, China</b>								
<b>Total</b>	1,771	100.0	228	100.0	20.2	(5.1)	20.3	(4.8)
Government	1,700	96.0	219	96.0	23.0	(5.8)	23.1	(5.5)
Central Bank	1,685	95.2	217	95.2	22.3	(6.5)	22.5	(6.2)
Treasury and Other Govt.	15	0.8	2	0.8	200.0	500.0	200.3	501.9
Corporate	71	4.0	9	4.0	(22.1)	15.7	(22.0)	16.1
<b>Indonesia</b>								
<b>Total</b>	80,126	100.0	8	100.0	(18.0)	(24.6)	(20.5)	(31.4)
Government	55,102	68.8	6	68.8	(36.6)	(39.7)	(38.6)	(45.1)
Central Bank	14,612	18.2	2	18.2	(45.1)	(71.8)	(46.7)	(74.3)
Treasury and Other Govt.	40,490	50.5	4	50.5	(32.9)	2.4	(35.0)	(6.9)
Corporate	25,024	31.2	3	31.2	131.7	67.2	124.7	52.1
<b>Korea, Rep. of</b>								
<b>Total</b>	164,979	100.0	144	100.0	(8.2)	(4.2)	(9.2)	(10.7)
Government	66,757	40.5	58	40.5	(1.5)	(24.3)	(2.6)	(29.4)
Central Bank	42,490	25.8	37	25.8	0.5	(30.1)	(0.6)	(34.8)
Treasury and Other Govt.	24,267	14.7	21	14.7	(4.9)	(11.3)	(5.9)	(17.3)
Corporate	98,222	59.5	86	59.5	(12.2)	16.8	(13.2)	8.9
<b>Malaysia</b>								
<b>Total</b>	130	100.0	41	100.0	(29.2)	(3.0)	(31.7)	(7.8)
Government	101	77.7	32	77.7	(24.2)	(5.8)	(26.9)	(10.4)
Central Bank	73	55.8	23	55.8	(32.1)	(8.5)	(34.5)	(13.1)
Treasury and Other Govt.	29	21.9	9	21.9	7.9	2.2	4.0	(2.9)
Corporate	29	22.3	9	22.3	(42.3)	7.9	(44.4)	2.5
<b>Philippines</b>								
<b>Total</b>	207	100.0	5	100.0	(16.4)	109.1	(14.9)	115.3
Government	133	64.2	3	64.2	(41.7)	98.3	(40.6)	104.1
Central Bank	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	133	64.2	3	64.2	(41.7)	98.3	(40.6)	104.1
Corporate	74	35.8	2	35.8	279.3	131.9	286.2	138.8
<b>Singapore</b>								
<b>Total</b>	110	100.0	87	100.0	10.6	46.4	9.9	42.1
Government	104	94.9	82	94.9	11.1	45.9	10.5	41.6
Central Bank	40	36.8	32	36.8	11.0	242.4	10.3	232.5
Treasury and Other Govt.	64	58.0	50	58.0	11.2	6.9	10.5	3.8
Corporate	6	5.1	4	5.1	1.8	56.5	1.2	52.0
<b>Thailand</b>								
<b>Total</b>	2,633	100.0	83	100.0	(10.8)	(18.7)	(12.9)	(20.9)
Government	2,351	89.3	74	89.3	(7.2)	(18.8)	(9.4)	(21.0)
Central Bank	2,091	79.4	66	79.4	(10.1)	(24.6)	(12.2)	(26.6)
Treasury and Other Govt.	260	9.9	8	9.9	25.5	110.9	22.6	105.4
Corporate	282	10.7	9	10.7	(32.6)	(17.8)	(34.1)	(20.0)

continued on next page



Table 4 continued

	LCY (billion)		US\$ (billion)		Growth Rate (LCY-base %)		Growth Rate (US\$-base %)	
	2Q12	% share	2Q12	% share	2Q12		2Q12	
					q-o-q	y-o-y	q-o-q	y-o-y
<b>Viet Nam</b>								
<b>Total</b>	90,981	100.0	4	100.0	11.5	289.4	11.2	283.4
Government	90,981	100.0	4	100.0	11.5	290.2	11.2	284.3
Central Bank	49,361	54.3	2	54.3	62.0	-	61.5	-
Treasury and Other Govt.	41,620	45.7	2	45.7	(18.6)	78.5	(18.8)	75.8
Corporate	0	0.0	0	0.0	-	-	-	-
<b>Emerging East Asia (EEA)</b>								
<b>Total</b>	-	-	875	100.0	12.0	(7.0)	10.9	(8.2)
Government	-	-	679	77.6	19.2	(9.8)	18.1	(10.7)
Central Bank	-	-	379	43.3	6.9	(24.9)	5.8	(25.8)
Treasury and Other Govt.	-	-	300	34.2	39.7	20.8	38.4	20.2
Corporate	-	-	196	22.4	(7.3)	4.3	(8.4)	1.6
<b>EEA Less PRC</b>								
<b>Total</b>	-	-	601	100.0	0.7	(1.4)	(0.3)	(4.2)
Government	-	-	479	79.7	6.0	(4.9)	5.0	(7.0)
Central Bank	-	-	379	63.1	6.9	(8.2)	5.8	(9.8)
Treasury and Other Govt.	-	-	100	16.6	2.9	10.2	1.7	5.4
Corporate	-	-	122	20.3	(15.7)	15.1	(16.9)	8.7
<b>Japan</b>								
<b>Total</b>	50,651	100.0	635	100.0	2.7	3.6	6.7	4.6
Government	47,490	93.8	595	93.8	3.7	4.0	7.7	5.0
Central Bank	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	47,490	93.8	595	93.8	3.7	4.0	7.7	5.0
Corporate	3,162	6.2	40	6.2	(10.4)	(2.0)	(7.0)	(1.0)

- = 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, emerging East Asia growth figures based on end-June 2012 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 (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bloomberg LP); Singapore (Singapore Government Securities and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

in 3-year bonds were sold in June as part of the government's Retail Bond Issuance Programme.

Central bank issuance across emerging East Asia grew a modest 6.9% q-o-q and shrank 24.9% y-o-y in 2Q12. The most dramatic feature of central bank issuance in 2Q12 was the simple fact that the People's Bank of China (PBOC) ceased issuance of new bills and notes.

The largest issuance of central bank or monetary authority paper in 2Q12 came from the Hong Kong Monetary Authority (HKMA), whose issuance of Exchange Fund Bills and Notes (EFBNs) amounted to US\$217 billion out of a region-wide total of US\$379 billion. HKMA's issuance in 2Q12

represented a 22.3% increase q-o-q, but a 6.5% decline y-o-y.

The next largest issuances from central banks and monetary authorities in 2Q12 were (i) US\$66 billion of bills and bonds from the Bank of Thailand (BOT), (ii) US\$37 billion of bills and bonds from The Bank of Korea, and (iii) US\$32 billion of bills from MAS. BOT's total issuance in 2Q12 represented a 10.1% decline on a q-o-q basis and a 24.6% decline on a y-o-y basis. The Bank of Korea's issuance level in 2Q12 was essentially flat on a q-o-q basis, but fell sharply by 30.1% on a y-o-y basis. MAS only started issuing bills in 2011, resulting in growth of MAS issuance in 2Q12 of 11.0% q-o-q and 242.4% y-o-y. Bank Indonesia's issuance

of *Sertifikat Bank Indonesia* (SBI) was only US\$2 billion in 2Q12, representing sharp declines of 45.1% q-o-q and 71.8% y-o-y.

Corporate bond issuance was relatively subdued in 2Q12, reflecting a distinct moderation in issuance in emerging East Asia's two largest corporate bond markets, the PRC and the Republic of Korea. The PRC's corporate bond issuance rose 10.7% q-o-q, but fell 9.7% y-o-y. As discussed earlier, this reflects a dramatic decline of commercial paper issuance in the PRC in 2Q12, while issuance of bonds by state-owned enterprises (SOEs) moderated. Corporate bond issuance in the Republic of Korea fell 12.2% q-o-q, largely due to a sharp reduction in issuance by banks, but still rose 16.8% y-o-y.

The growth leaders in corporate bond issuance in 2Q12 were the smaller markets of Indonesia and the Philippines. Corporate bond issuance rose 131.7% q-o-q and 67.2% y-o-y in Indonesia, and 279.3% q-o-q and 131.9% y-o-y in the Philippines. Philippine issuance comprised a mixture of issues from real estate infrastructure companies and banks. Indonesian corporate issuance came primarily from banks and finance companies. Meanwhile, corporate issuance out of Thailand fell sharply in 2Q12, declining 32.6% q-o-q and 17.8% y-o-y.

## Money Market Trends and Bills-to-Bonds Ratios

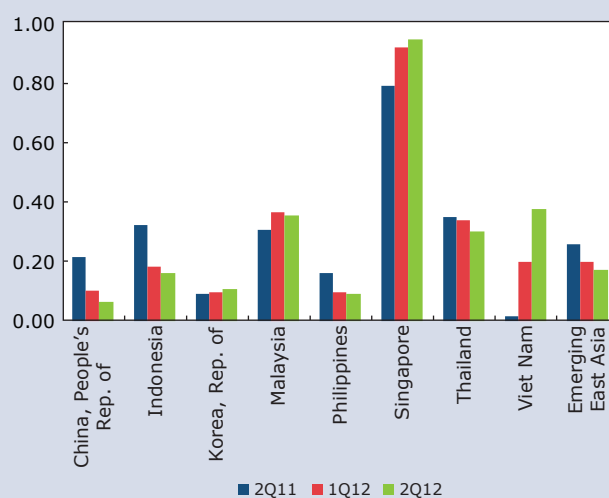
### Bills-to-bonds ratios fell in most emerging East Asian markets in 2Q12.

Total bills-to-bonds ratios fell in 2Q12 in five out of the eight emerging East Asian markets presented in **Figure 3a**, which excludes Hong Kong, China due to its unusually high ratio of bills to bonds. However, Hong Kong, China's total ratio of bills to bonds also fell—from 4.94 in 1Q12 to 4.41 in 2Q12—mainly due to the large issuance of HKSAR Bonds in 2Q12. Meanwhile, Hong Kong, China's ratio of Exchange Fund Bills to Exchange Fund Notes rose slightly to 8.51 in 2Q12 from 8.46 in 1Q12.

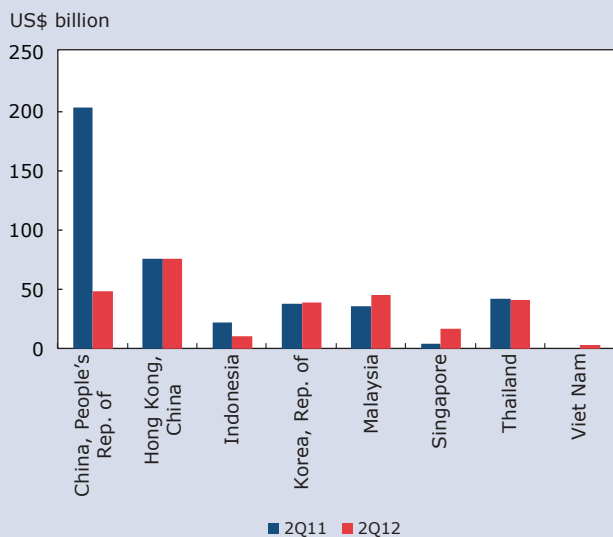
The principal reason for the fall in the ratio of total bills to bonds in most markets was a slower pace

of bill issuance compared with bond issuance. Governments in the region significantly increased their issuance of treasuries and other types of longer-term government bonds in 2Q12 to finance revived economic stimulus programs that had been scaled back in the latter half of 2011. Furthermore, a number of central banks in the region reduced or stabilized their bill issuance as they cut back or sharply reduced the sterilization programs they had pursued in 2011 (**Figure 3b**). As mentioned previously, the PBOC has issued no new bills or bonds thus far in 2012. The PRC's ratio of central bank bills to central bank bonds fell sharply in 2Q12 to 0.23 from 0.44 in 1Q12 and 0.89 in 2Q11. Thus, the ratio of central bank bills to central bank bonds for the region as a whole fell to 0.74 at the end of 2Q12 from 0.85 at the end of 1Q12, given that the PBOC had previously accounted for a very large portion of total central bank bills in the region (**Table 5**). Thailand reduced its issuance of central bank bills in 2Q12 as well, resulting in a fall of its ratio of central bank bills to central bank bonds from 0.93 in 1Q12 to 0.76 in 2Q12. Malaysia and Indonesia also reduced their issuance of central banks bills slightly in 2Q12, but since neither issues central bank bonds, there is no ratio to report for either of these two markets.

**Figure 3a: 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*.

**Figure 3b: Central Bank Bills Outstanding**

Source: AsianBondsOnline.

The PRC, however, sharply increased its stock of treasury bills and bonds in 2Q12 by 6.1% and 3.5% q-o-q, respectively. On a y-o-y basis, however, the PRC's stock of treasury bills fell 29.0%, while its stock of treasury bonds rose 8.8%. This balanced out to no change in the PRC's ratio of treasury bills to treasury bonds, which remained at 0.03 in 2Q12.

The region's total stock of treasury bills was only US\$100 billion at the end of 2Q12, a relatively small figure compared with the region's total bills outstanding of US\$377 billion, comprising both treasury and central bank bills, and total treasury bonds outstanding of US\$1.8 trillion. The largest stock of treasury bills in emerging East Asia in 2Q12 was in Singapore at US\$47 billion. (Singapore's ratio of treasury bills to treasury bonds was unchanged in 2012 at 0.7.) Singapore's stock of treasury bills has surpassed that of the PRC. The PRC's stock of treasury bills stood at a level of US\$32 billion at the end of 2Q12.

The other four markets that issue both treasury bills and bonds—Indonesia, the Republic of Korea, Malaysia, and Thailand—issue relatively small

amounts of treasury bills, resulting in much lower ratios of treasury bills to treasury bonds, ranging from 0.01 in Malaysia to 0.04 in Indonesia.

## Foreign Holdings

### Foreign holdings of government bonds leveled off in several markets in the first half of 2012.

The rapid growth of foreign holdings among the region's LCY bond markets tapered off in the first half of 2012, except in Malaysia and Thailand (**Figure 4**). Foreign holdings of Malaysian government bonds rose to 27.3% of the total at end-March and foreign holdings of Thai government bonds rose to 13.2% of the total at end-June.

In the case of Indonesia, the share of foreign holdings of government bonds fell from 30.8% at the end of 2011 to 29.6% at end-March and 28.4% at end-June. Also at the end of June, foreign holdings of Indonesian government bonds with maturities of 5 years or more stood at IDR150.9 trillion, or 67.3% of total foreign holdings, compared with 63.2% at the end of 2011 (**Figure 5**). Foreign holdings of shorter-dated tenors (maturities of less than 1 year) fell to 10.6% of the total at the end of June, compared with 11.9% at the end of 2011.

Foreign holdings of government bonds in the Republic of Korea have remained at a level of around 11.2% of the total since September of 2011. Net foreign investment flows into the bond market of the Republic of Korea—defined to include corporate as well as government bonds—have remained volatile in recent months (**Figure 6**).

## Government Bond Yield Curves

### Government bond yield curves in emerging East Asia shifted downward in most markets during the first half of 2012 on the back of moderating inflation.

Yields for government bonds have risen for most emerging East Asian government bond markets

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

	2Q11		1Q12		2Q12		Government Bills-to-Bonds Ratio			Growth Rate (LCY-base %)		Growth Rate (US\$-base %)	
	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share				2Q12		2Q12	
							2Q11	1Q12	2Q12	q-o-q	y-o-y	q-o-q	y-o-y
<b>China, People's Rep. of (PRC)</b>													
<b>Total</b>	1,394	100.0	1,329	100.0	1,309	100.0				(0.6)	(7.7)	(1.5)	(6.1)
<b>Total Bills</b>	247	17.7	124	9.3	80	6.1	0.22	0.10	0.07	(34.8)	(68.1)	(35.4)	(67.6)
Treasury Bills	44	3.2	30	2.3	32	2.4	0.05	0.03	0.03	6.1	(29.0)	5.1	(27.8)
Central Bank Bills	203	14.5	94	7.0	48	3.7	0.89	0.44	0.23	(48.1)	(76.7)	(48.6)	(76.3)
<b>Total Bonds</b>	1,147	82.3	1,205	90.7	1,229	93.9				2.9	5.3	2.0	7.2
Treasury Bonds	920	66.0	993	74.7	1,018	77.8				3.5	8.8	2.6	10.7
Central Bank Bonds	227	16.3	212	16.0	211	16.1				0.0	(8.8)	(0.9)	(7.3)
<b>Hong Kong, China</b>													
<b>Total</b>	88	100.0	91	100.0	93	100.0				2.1	5.3	2.2	5.6
<b>Total Bills</b>	75	85.4	76	83.2	76	81.5	5.87	4.94	4.42	0.1	0.4	0.3	0.8
Treasury Bills	0	0.0	0	0.0	0	0.0	-	-	-	-	-	-	-
Central Bank Bills	75	85.4	76	83.2	76	81.5	8.40	8.46	8.51	0.1	0.4	0.3	0.8
<b>Total Bonds</b>	13	14.6	15	16.8	17	18.5				12.0	33.5	12.1	34.0
Treasury Bonds	4	4.4	6	7.0	8	8.9				29.3	113.3	29.4	114.0
Central Bank Bonds	9	10.2	9	9.8	9	9.6				(0.4)	(0.9)	(0.3)	(0.6)
<b>Indonesia</b>													
<b>Total</b>	103	100.0	94	100.0	94	100.0				3.0	0.5	(0.2)	(8.6)
<b>Total Bills</b>	25	24.2	14	15.2	13	13.8	0.32	0.18	0.16	(6.6)	(42.5)	(9.4)	(47.7)
Treasury Bills	3	2.7	4	3.8	3	3.3	0.04	0.04	0.04	(10.3)	24.4	(13.1)	13.2
Central Bank Bills	22	21.5	11	11.4	10	10.5	-	-	-	(5.3)	(50.9)	(8.2)	(55.3)
<b>Total Bonds</b>	78	75.8	80	84.8	81	86.2				4.7	14.1	1.5	3.8
Treasury Bonds	78	75.8	80	84.8	81	86.2				4.7	14.1	1.5	3.8
Central Bank Bonds	0	0.0	0	0.0	0	0.0				-	-	-	-
<b>Korea, Rep. of</b>													
<b>Total</b>	479	100.0	483	100.0	471	100.0				(1.3)	5.5	(2.4)	(1.6)
<b>Total Bills</b>	40	8.4	42	8.7	46	9.8	0.09	0.10	0.11	10.9	22.6	9.7	14.3
Treasury Bills	3	0.6	4	0.8	7	1.5	0.01	0.01	0.02	77.4	174.4	75.5	155.7
Central Bank Bills	37	7.8	38	7.8	39	8.2	0.31	0.33	0.38	3.7	11.2	2.6	3.7
<b>Total Bonds</b>	439	91.6	441	91.3	425	90.2				(2.5)	4.0	(3.5)	(3.1)
Treasury Bonds	320	66.8	326	67.6	324	68.7				0.2	8.5	(0.9)	1.2
Central Bank Bonds	119	24.8	114	23.7	102	21.6				(10.1)	(8.3)	(11.0)	(14.6)
<b>Malaysia</b>													
<b>Total</b>	160	100.0	179	100.0	176	100.0				1.6	15.4	(2.0)	9.7
<b>Total Bills</b>	37	23.3	48	26.7	46	26.2	0.30	0.36	0.35	(0.3)	29.8	(3.8)	23.4
Treasury Bills	1	0.9	1	0.8	1	0.8	0.01	0.01	0.01	0.0	0.0	(3.5)	(5.0)
Central Bank Bills	36	22.4	46	25.9	45	25.4	-	-	-	(0.3)	31.0	(3.8)	24.5
<b>Total Bonds</b>	123	76.7	132	73.3	130	73.8				2.3	11.0	(1.3)	5.5
Treasury Bonds	123	76.7	132	73.3	130	73.8				2.3	11.0	(1.3)	5.5
Central Bank Bonds	0	0.0	0	0.0	0	0.0				-	-	-	-
<b>Philippines</b>													
<b>Total</b>	63	100.0	70	100.0	72	100.0				1.9	11.7	3.7	15.0
<b>Total Bills</b>	9	14.0	6	8.9	6	8.4	0.16	0.10	0.09	(4.7)	(33.1)	(3.0)	(31.2)
Treasury Bills	9	14.0	6	8.9	6	8.4	0.16	0.10	0.09	(4.7)	(33.1)	(3.0)	(31.2)
Central Bank Bills	0	0.0	0	0.0	0	0.0	-	-	-	-	-	-	-
<b>Total Bonds</b>	54	86.0	63	91.1	66	91.6				2.5	19.0	4.4	22.5
Treasury Bonds	54	86.0	63	91.1	66	91.6				2.5	19.0	4.4	22.5
Central Bank Bonds	0	0.0	0	0.0	0	0.0				-	-	-	-

continued on next page

Table 5 continued

	2Q11		1Q12		2Q12		Government Bills-to-Bonds Ratio			Growth Rate (LCY-base %)		Growth Rate (US\$-base %)	
	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	2Q11	1Q12	2Q12	2Q12		2Q12	
										q-o-q	y-o-y	q-o-q	y-o-y
<b>Singapore</b>													
<b>Total</b>	117	100.0	129	100.0	130	100.0				1.5	14.1	0.9	10.8
<b>Total Bills</b>	52	44.0	61	47.7	63	48.5	0.79	0.91	0.94	3.1	25.8	2.5	22.1
Treasury Bills	47	40.2	47	36.6	47	36.1	0.72	0.70	0.70	0.0	2.2	(0.6)	(0.7)
Central Bank Bills	4	3.8	14	11.1	16	12.4	-	-	-	13.3	277.8	12.7	266.8
<b>Total Bonds</b>	66	56.0	67	52.3	67	51.5				0.0	5.0	(0.6)	1.9
Treasury Bonds	66	56.0	67	52.3	67	51.5				0.0	5.0	(0.6)	1.9
Central Bank Bonds	0	0.0	0	0.0	0	0.0				-	-	-	-
<b>Thailand</b>													
<b>Total</b>	162	100.0	185	100.0	189	100.0				4.8	19.6	2.4	16.5
<b>Total Bills</b>	42	25.7	47	25.3	44	23.2	0.35	0.34	0.30	(4.0)	8.0	(6.2)	5.1
Treasury Bills	0	0.0	1	0.7	3	1.7	0.00	0.01	0.03	150.0	-	144.2	-
Central Bank Bills	42	25.7	45	24.6	41	21.5	1.12	0.93	0.76	(8.4)	0.2	(10.5)	(2.5)
<b>Total Bonds</b>	120	74.3	138	74.7	145	76.8				7.7	23.7	5.2	20.4
Treasury Bonds	83	51.3	89	48.1	92	48.6				5.9	13.4	3.5	10.4
Central Bank Bonds	37	23.0	49	26.6	53	28.2				11.0	46.6	8.4	42.8
<b>Viet Nam</b>													
<b>Total</b>	6	100.0	9	100.0	12	100.0				23.9	86.5	23.6	83.6
<b>Total Bills</b>	0.1	1.6	2	16.5	3	27.2	0.02	0.20	0.37	104.7	3,050.0	104.1	3,001.7
Treasury Bills	0.1	1.6	0.1	0.9	0.4	3.3	0.02	0.01	0.05	338.6	284.3	337.5	278.5
Central Bank Bills	0	0.0	1	15.5	3	23.9	-	-	-	90.6	-	90.1	-
<b>Total Bonds</b>	6	98.4	8	83.5	8	72.8				8.0	38.0	7.8	35.9
Treasury Bonds	6	98.4	8	83.5	8	72.8				8.0	38.0	7.8	35.9
Central Bank Bonds	0	0.0	0	0.0	0	0.0				-	-	-	-
<b>Emerging East Asia (EEA)</b>													
<b>Total</b>	2,573	100.0	2,568	100.0	2,546	100.0				0.3	0.2	(0.9)	(1.0)
<b>Total Bills</b>	527	20.5	420	16.3	377	14.8	0.26	0.20	0.17	(9.1)	(27.8)	(10.2)	(28.5)
Treasury Bills	107	4.2	94	3.7	100	3.9	0.06	0.05	0.06	7.0	(6.1)	6.2	(6.8)
Central Bank Bills	419	16.3	325	12.7	277	10.9	1.07	0.85	0.74	(13.8)	(33.4)	(14.9)	(34.0)
<b>Total Bonds</b>	2,046	79.5	2,149	83.7	2,169	85.2				2.1	7.4	0.9	6.0
Treasury Bonds	1,654	64.3	1,764	68.7	1,794	70.5				2.9	10.0	1.7	8.5
Central Bank Bonds	392	15.2	385	15.0	374	14.7				(1.6)	(3.3)	(2.7)	(4.6)
<b>EEA Less PRC</b>													
<b>Total</b>	1,179	100.0	1,239	100.0	1,237	100.0				1.3	10.1	(0.2)	4.9
<b>Total Bills</b>	280	23.7	296	23.8	297	24.0	0.31	0.31	0.32	1.7	9.6	0.4	6.1
Treasury Bills	63	5.3	64	5.1	68	5.5	0.09	0.08	0.09	7.4	10.8	6.7	8.0
Central Bank Bills	217	18.4	232	18.7	229	18.5	1.31	1.34	1.40	0.1	9.2	(1.3)	5.6
<b>Total Bonds</b>	899	76.3	944	76.2	940	76.0				1.1	10.2	(0.4)	4.5
Treasury Bonds	734	62.3	771	62.2	776	62.8				2.2	11.4	0.6	5.8
Central Bank Bonds	165	14.0	172	13.9	164	13.2				(3.6)	4.9	(5.0)	(0.9)
<b>Japan</b>													
<b>Total</b>	9,482	100.0	9,422	100.0	9,888	100.0				1.0	3.3	4.9	4.3
<b>Total Bills</b>	372	3.9	362	3.8	376	3.8	0.04	0.04	0.04	(0.0004)	(0.001)	3.9	1.0
Treasury Bills	372	3.9	362	3.8	376	3.8	0.04	0.04	0.04	(0.0004)	(0.001)	3.9	1.0
Central Bank Bills	0	0.0	0	0.0	0	0.0	-	-	-	-	-	-	-
<b>Total Bonds</b>	9,109	96.1	9,060	96.2	9,512	96.2				1.1	3.4	5.0	4.4
Treasury Bonds	9,109	96.1	9,060	96.2	9,512	96.2				1.1	3.4	5.0	4.4
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.

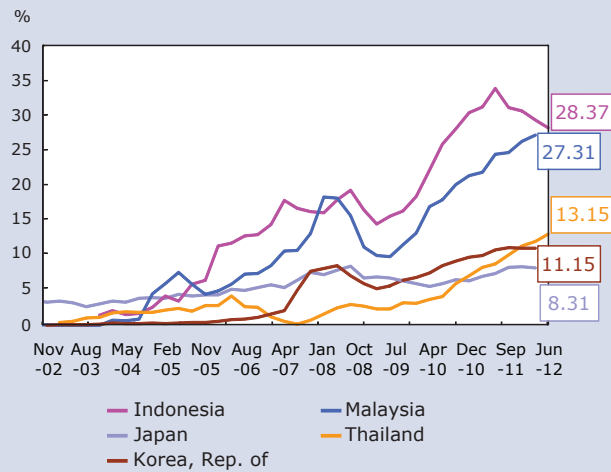
2. For LCY-base, emerging East Asia growth figures are based on end-June 2012 currency exchange rates and do not include currency effects.

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.

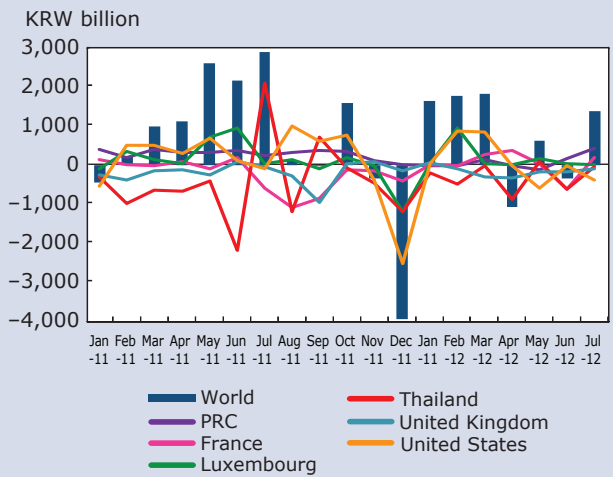
Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia and Indonesia Stock Exchange); Republic of Korea (Bloomberg LP); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); Singapore (Monetary Authority of Singapore);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

**Figure 4: Foreign Holdings of LCY Government Bonds in Select Asian Economies (% of total)**



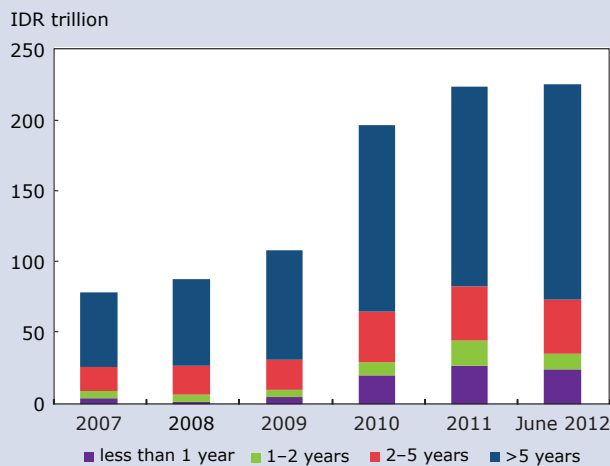
LCY = local currency.  
 Note: Data as of end-March 2012 except for Indonesia and Thailand as of end-June 2012.  
 Source: AsianBondsOnline.

**Figure 6: Net Foreign Investment by Country in LCY Bonds in the Republic of Korea, January 2011–July 2012**



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

**Figure 5: Foreign Holdings of Indonesian LCY Government Bonds by Maturity, 2007–June 2012**



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

in recent months. In August, government bond yields rose for all tenors in the PRC, Indonesia, and Viet Nam, and for most tenors in Hong Kong, China; Malaysia; Singapore; and Thailand. Yields rose most for shorter tenors in the PRC. Yields have fallen, however, in recent months for most

tenors at the shorter-end of the Philippine curve and for all tenors in the Republic of Korea.

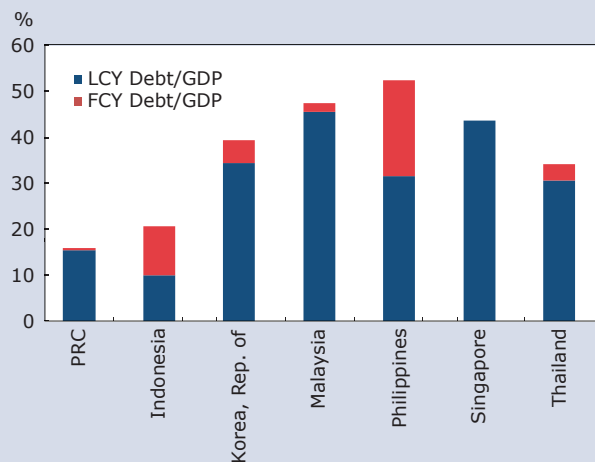
Despite the recent uptick in yields, Asia stands out for its relatively robust credit ratings at a time when sovereign ratings in the EU and elsewhere have come under pressure (Table 6). Two important reasons for the optimistic outlook for Asian credit ratings are the relatively low ratios of government debt to GDP (Figure 7) and the relatively high ratios of government revenue to GDP (Figure 8). The ratios of government debt to GDP are under 50% in most countries in the region. Furthermore, most of this debt is LCY-denominated. Only the

**Table 6: Sovereign Credit Ratings**

	S&P	Moody's	Fitch
China, People's Rep. of	AA-	Aa3	A+
Hong Kong, China	AAA	Aa1	AA+
Indonesia	BB+	Baa3	BBB-
Korea, Rep. of	A	Aa3	AA-
Malaysia	A-	A3	A-
Philippines	BB+	Ba2	BB+
Singapore	AAA	Aaa	AAA
Thailand	BBB+	Baa1	BBB

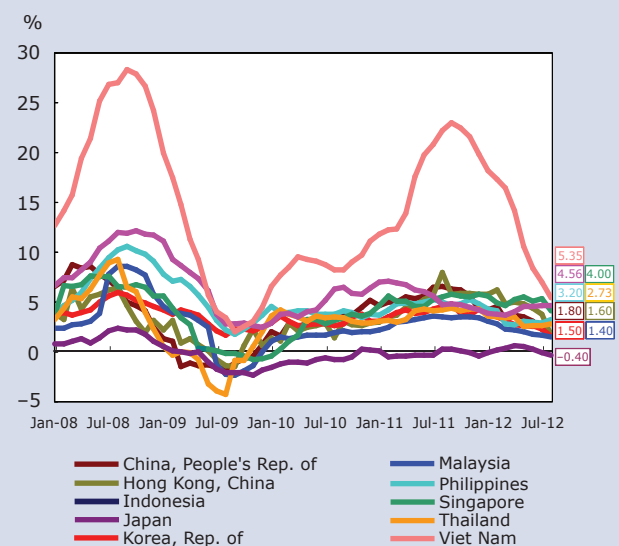
Note: Ratings as of 10 September 2012.  
 Source: Rating Agencies.

**Figure 7: Ratios of LCY and FCY Government Debt to GDP, 1Q12**



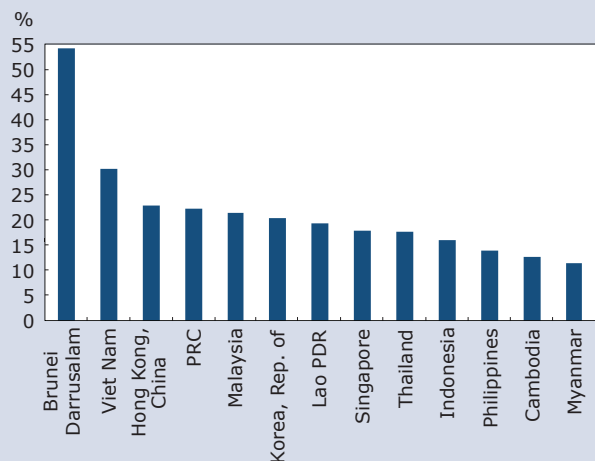
FCY = foreign currency, GDP = gross domestic product, LCY = local currency, PRC = People's Republic of China.  
 Note: Data as of 31 March 2012.  
 Source: AsianBondsOnline.

**Figure 9: Headline Inflation Rates, July 2012**



Source: Bloomberg LP.

**Figure 8: Central Government Revenue, 2011**  
(% of GDP)



GDP = gross domestic product, Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.  
 Note: Brunei Darrusalam data as of 2010.  
 Source: ADB's Asian Development Outlook 2012.

Philippines and Indonesia have a larger amount of their debt denominated in foreign currency (FCY) than in LCY.

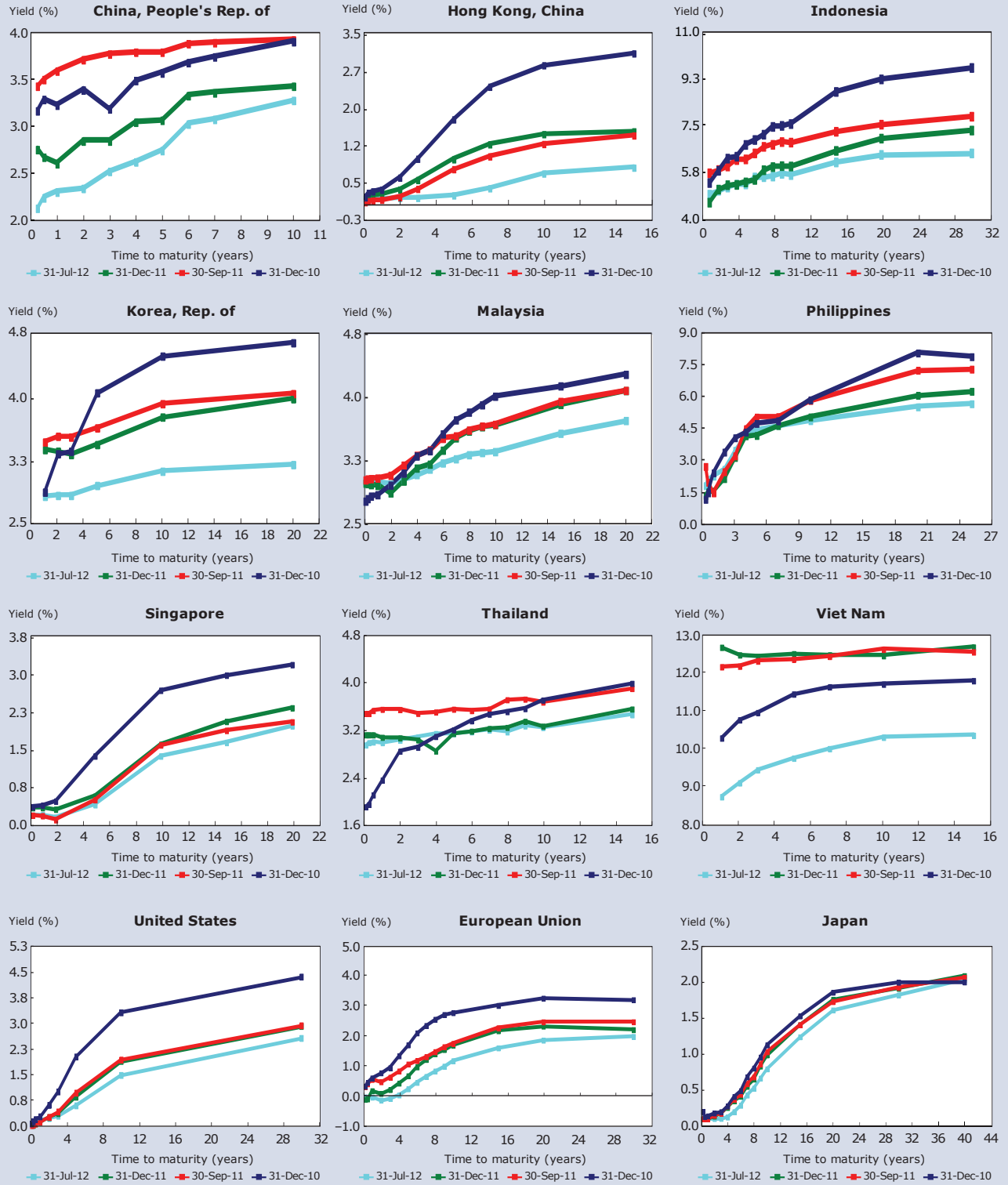
The ratio of revenue to GDP is at a comfortable level of about 20% or higher in most of the larger economies in emerging East Asia, with the exception of Indonesia and the Philippines, whose ratios are 16.1% and 14.0% of GDP, respectively.

Inflation has been subdued throughout the region. **Figure 9** shows the trend in inflation rates. Inflation rates in most Asian countries are currently around 3% or lower, with the notable exceptions of Indonesia, Singapore, and Viet Nam. The Philippines' inflation rate had been at 3% or lower since January, until it rose to 3.2% in July. The inflation rate of the Republic of Korea, on the other hand, fell to 1.5% in July from 2.2% in June, and decreased further to 1.2% in August.

The consequences of these developments on the individual government bond yield curves of emerging East Asia have been varied (**Figure 10**). For example, the yield curve of the PRC shifted downward between end-December 2011 and end-July 2012, while also steepening in the process as short-term yields fell more than long-term yields: between 43 basis points (bps) and 62 bps for tenors of less than 1 year, 32 bps for the 5-year maturity, and 15 bps for the 10-year maturity.

The government bond yield curves for Indonesia, Malaysia, the Philippines, Singapore, and Thailand all flattened between end-December and end-July, with long-term yields generally falling much more than short-term yields. The most dramatic case of a yield curve flattening among these five markets was the Philippines, which experienced a rise in

**Figure 10: Benchmark Yield Curves—LCY Currency Bonds**



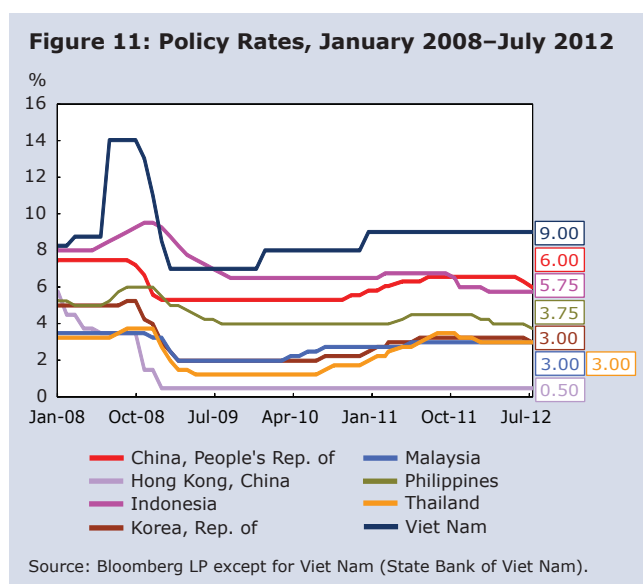
LCY = local currency.  
Source: Based on data from Bloomberg LP.



yields for bonds with maturities of 7 years or less, while yields for maturities of 10 years or more fell 17 bps–59 bps. The fall in Thai yields has been much more modest than in other markets, and has actually been most significant at the very short- and very long-end of the yield curve. Thai government bills with maturities of less than 1 year fell between 12 bps and 17 bps, while Thai government bonds with a maturity of 15 years fell 10 bps. Yields for bonds with maturities in the middle of the curve fell by low single digits; in the case of Thai 3- and 4-year maturities, yields actually rose.

The yield curves for the Republic of Korea and Viet Nam can best be described as having shifted downward along most of their length between the end of December 2011 and the end of July. Yields on bonds in the Republic of Korea fell 49 bps–79 bps from the shorter- to longer-end of the curve between end-December and end-July. The large inflows of foreign capital have been very important in explaining the large decline in yields along the entire yield curve of the Republic of Korea. Yields on Vietnamese government bonds have fallen between 215 bps and 394 bps along the curve.

The region-wide downward shifting of yield curves has also been supported by a growing inclination among monetary authorities in the region to reduce their policy rates (**Figure 11**).



Some of the more important developments in explaining the movement of individual yield curves in emerging East Asia in 2012 include the following:

- (i) The fall in yields along the PRC's curve was driven mostly by a continued decline in the inflation rate and a number of monetary policy easing measures. Inflation fell to 3.4% y-o-y in April from 3.6% in March and has continued to fall since then, decelerating to 3.0% in May, 2.2% in June, and 1.8% in July. This most recent decline in inflation, along with a weakened export performance in July, has raised expectations of further easing of monetary policy in coming months.
- (ii) The policy rates of the PBOC were cut for the first time in 3 years in the first week of June, by 25 bps for all rates, and again by 25 bps and 31 bps for the 1-year deposit rate and 1-year lending rate, respectively, in the first week of July. In addition, the PBOC expanded the range in which banks could vary their deposit and lending rates from the benchmark policy rates. Reserve requirement ratios were also cut twice in the first half of 2012, each time by 50 bps. Furthermore, the PBOC has not issued any central bank bills or bonds this year, thereby increasing the money supply by allowing existing central bank bills and bonds to mature.
- (iii) The Bank of Korea decided not to lower its base rate—the 7-day repurchase rate—in the first half of 2012 out of concern over lingering inflationary pressures. However, these concerns have eased since the end of 2Q12 as the Republic of Korea's export performance weakened and consumer price inflation fell to 2.2% y-o-y in June. In response, The Bank of Korea cut its base rate by 25 bps to 3.0% on 12 July. Consumer price inflation subsequently fell even further in July to 1.5% y-o-y. In August, consumer price inflation stood at 1.2% y-o-y.

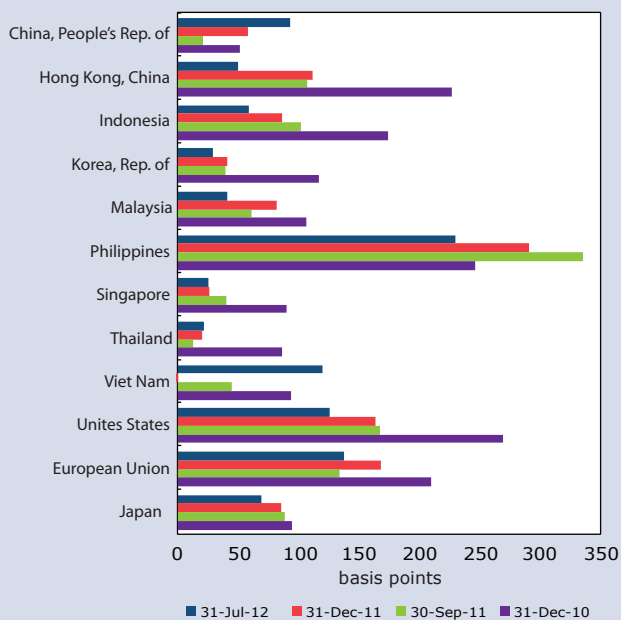
- (iv) Consumer price inflation in the Philippines rose slightly to 3.2% y-o-y in July, after having fallen in June to 2.8% from 2.9% in May. The fall of inflation rates in May and June led Bangko Sentral Pilipinas (BSP) to cut its policy rates in July by 25 bps, pushing them to new record lows following rate cuts in January and March. This most recent cut lowered the overnight borrowing (reverse repurchase) and lending (repurchase) rates to 3.75% and 5.75%, respectively.
- (v) Bank Negara Malaysia (BNM), on the other hand, has not felt it necessary to move its policy rate yet this year. At its Monetary Policy Committee meeting on 5 July, BNM decided to keep its overnight policy rate steady at 3.0%, the same level it has been at since May 2011. According to BNM, Malaysia's domestic consumption and investment activity remain resilient, while inflation is expected to remain moderate at 2%–3% for the full-year 2012.
- (vi) MAS has acknowledged that consumer price inflation in Singapore will likely reach 4.0%–4.5% this year, but that it will continue with its policy of modest and gradual appreciation, and slightly increase the slope of the policy band of the Singapore dollar nominal effective exchange rate (S\$NEER). Also, in July, MAS announced that it was considering issuing inflation-linked bonds to retail investors seeking to preserve their savings in light of the prevailing near-zero interest rates being offered by Singapore's banks.
- (vii) The BOT reduced its policy rate—the 1-day repurchase rate—by 25 bps to 3.0% on 25 January. There have been no further reductions by BOT's Monetary Policy Committee since then, including at its most recent meeting on 5 September. Thailand's consumer price inflation stood at 2.7% y-o-y in July, compared with 2.6% in June and 2.5% in both May and April. In August, consumer price inflation was 2.7% y-o-y.
- (viii) Indonesia's consumer price inflation accelerated in July, mainly on account of higher food prices. Inflation rose to 4.56% y-o-y from 4.53% in June, but was still within the central bank's full-year target range of 3.5%–5.5%. On 12 July, Bank Indonesia's (BI) Board of Governors decided to keep the benchmark rate steady at 5.75%. The BI rate has been kept at its current record-low level since February. According to the central bank, the benchmark rate at its current level remains consistent with BI's inflation target. The central bank also said that it will remain vigilant in monitoring global economic conditions as they affect Indonesia's external performance.

The most dramatic change among the yield curves of emerging East Asia, however, may have been in Hong Kong, China, where the yield curve for EFBNs shifted so far downward between end-December and end-July that actual yields were only 79 bps at the longer-end of the curve (15-year maturity). The downward shift was greatest in the 7-year tenor, which fell 89 bps. The longer-end shifted downward much more than the shorter-end, falling between 72 bps and 89 bps. The shorter-end of the yield curve, in contrast, fell only 7 bps–9 bps.

The effect of these trends on the yield spreads between 2- and 10-year government bonds is shown in **Figure 12**. Yield spreads fell in all markets—except the PRC, Thailand, and Viet Nam—between end-December and end-July. In Thailand, the spread between the 2- and 10-year maturities did not decline on account of the relative stability of the Thai yield curve. In the cases of the PRC and Viet Nam, yields at the shorter-end of the curve fell more than at the longer-end.

The strengthening of regional exchange rates has been an additional factor in attracting foreign funds and exerting downward pressure on yield curves (**Table 7**).

**Figure 12: Yield Spreads Between 2- and 10-Year Government Bonds**



Source: Based on data from Bloomberg LP.

## Corporate Bond Credit Spreads

**Corporate bond credit spreads have generally tightened in the high-grade segments of LCY corporate bond markets since the end of 2011, while widening in the high-yield segments.**

This trend is especially clear for the high-grade markets of the PRC and the Republic of Korea, but somewhat less clear for Malaysia and Thailand (Figure 13a). The tightening of credit spreads in the high-grade segments of the LCY corporate bond market in the PRC would seem to reflect the monetary easing discussed previously. Monetary easing in the Republic of Korea is also a factor, along with foreign investment inflows into agencies (government-owned corporations and financial institutions). The tightening trend for high-grade bonds was less clear in the Malaysian market. Meanwhile, credit spreads widened somewhat or changed little for some longer-dated maturities in the Thai high-grade market.

**Table 7: Appreciation (Depreciation) of Emerging East Asian Currencies (%)**

Currency	2010	2011	As of 31 July 2012	
	y-o-y	y-o-y	y-o-y	q-o-q
CNY	3.3	4.8	1.2	(0.1)
HKD	(0.2)	0.1	0.5	0.04
IDR	4.4	(0.8)	(10.7)	(0.4)
KRW	3.3	(2.3)	(7.0)	1.3
MYR	11.2	(3.4)	(5.3)	1.5
PHP	5.2	(0.1)	0.9	0.9
SGD	9.0	(1.0)	(3.3)	1.6
THB	10.4	(4.8)	(5.7)	0.1
VND	(5.4)	(7.6)	(1.3)	0.2
JPY	13.7	5.3	(1.8)	2.1

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

Notes:

1. Appreciation (depreciation) is equal to  $-\text{LN}(\text{end-of-period rate}/\text{start-of-period rate})$ .

2. For 31 July 2012 q-o-q figures, appreciation (depreciation) is equal to  $-\text{LN}(31 \text{ July } 2012 \text{ rate}/\text{end-2Q12 rate})$ .

Source: Bloomberg LP.

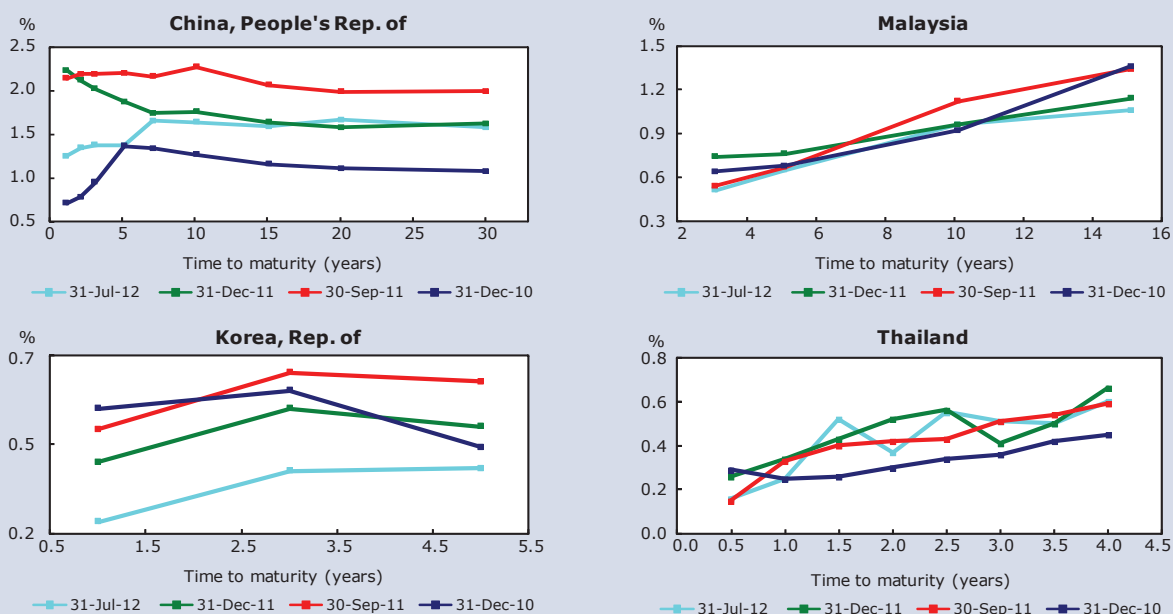
In the high-yield markets, credit spreads generally widened between the end of 2011 and the end of July, with the exception of the Republic of Korea’s entire credit spread curve (Figure 13b). The widening of credit spreads was most pronounced along the PRC’s entire high-yield corporate credit curve, as well as at the longer-end of the credit curve for Thai high-yield corporate bonds.

## G3 Currency Bond Issuance

**G3 currency bond issuance in Asia grew dramatically between the end of 2011 and end-July to reach US\$81.2 billion, resulting in YTD issuance 8.3% higher than the US\$75.0 billion of G3 currency bonds issued in all of 2011.**

Growth of the G3 currency bond market in 2012 has been driven mainly by issuance in Hong Kong, China; Indonesia; Malaysia; and Singapore (Table 8). The large volumes of issuance in these markets—Hong Kong, China’s issuance in the first 7 months of the year was US\$18.5 billion compared with US\$8.6 billion in all of 2011—offset declines in issuance in the traditionally larger markets of

**Figure 13a: Credit Spreads—LCY Corporates Rated AAA vs. Government Bonds**

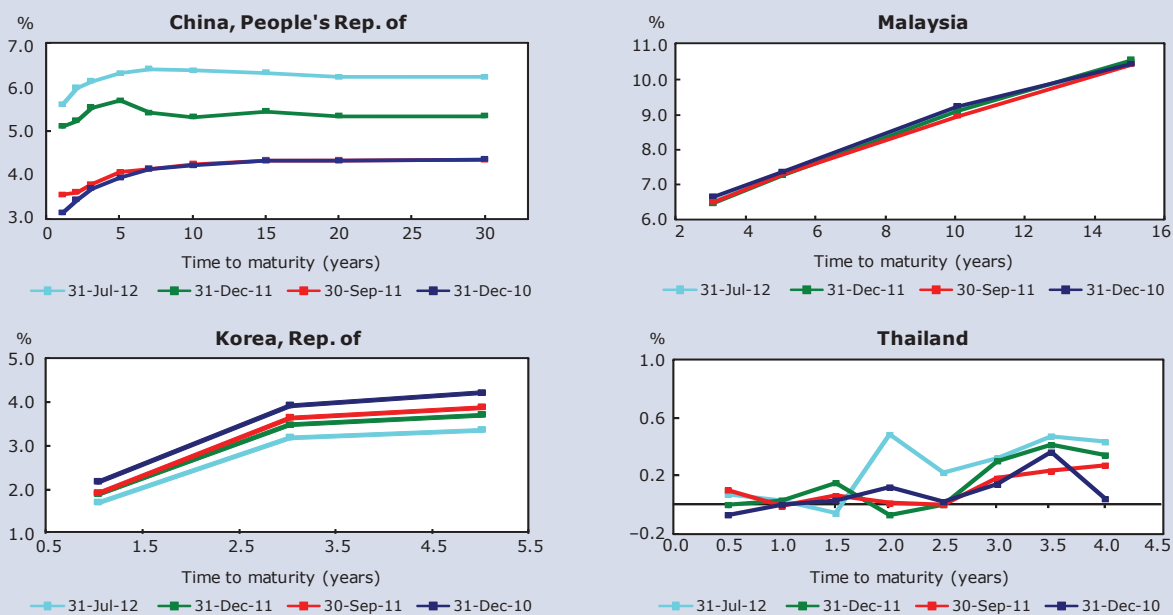


LCY = local currency.

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 13b: 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).

**Table 8: G3 Currency Bond Issuance, 2011 and 1 January–31 July 2012**

2011			1 January–31 July 2012		
Issuer	US\$ (million)	Issue Date	Issuer	US\$ (million)	Issue Date
<b>China, People's Rep. of</b>	<b>17,829</b>		<b>China, People's Rep. of</b>	<b>15,579</b>	
CNOOC Finance 4.25% 2021	1,500	26-Jan-11	CNOOC Finance 3.875% 2022	1,500	2-May-12
Country Garden 11.125% 2018	900	23-Feb-11	Sinopec 2.75% 2017	1,000	17-May-12
China Resources Power 7.25% Perpetual	750	9-May-11	Sinopec 3.9% 2022	1,000	17-May-12
Citic Pacific 7.875% Perpetual	750	15-Apr-11	Sinopec 4.875% 2042	1,000	17-May-12
ENN Energy 6.0% 2021	750	13-May-11	China Overseas Finance 4.875% 2017	750	15-Feb-12
Longfor Properties 9.5% 2016	750	7-Apr-11	Citic Pacific 6.875% 2018	750	21-Mar-12
Others	12,429		Others	9,579	
<b>Hong Kong, China</b>	<b>8,565</b>		<b>Hong Kong, China</b>	<b>18,455</b>	
Bank of China (Hong Kong) 3.75% 2016	750	8-Nov-11	Hutchison Whampoa 2.5% 2017	1,538	6-Jun-12
China Resources Land 4.625% 2016	750	19-May-11	Hutchison Whampoa 4.625% 2022	1,500	13-Jan-12
HSBC 1.0599% 2014	500	31-May-11	Hutchison Whampoa 3.5% 2017	1,000	13-Jan-12
Newford Capital 0.0% 2016	500	12-May-11	Hutchison Whampoa 6.0% Perpetual	1,000	7-May-12
The Hong Kong Mortgage Corp. 0.5293% 2013	450	15-Apr-11	Wharf Finance 4.625% 2017	900	8-Feb-12
Others	5,615		Others	12,517	
<b>Indonesia</b>	<b>6,673</b>		<b>Indonesia</b>	<b>9,021</b>	
Indonesia (sovereign) 4.875% 2021	2,500	5-May-11	Indonesia (sovereign) 3.75% 2022	2,000	25-Apr-12
Pertamina 5.25% 2021	1,000	23-May-11	Indonesia (sovereign) 5.25% 2042	1,750	17-Jan-12
PLN 4.0% 2018	1,000	21-Nov-11	Pertamina 6.0% 2042	1,250	3-May-12
Others	2,173		Pertamina 4.875% 2022	1,250	3-May-12
			Others	2,771	
<b>Korea, Rep. of</b>	<b>32,035</b>		<b>Korea, Rep. of</b>	<b>20,942</b>	
Korea Development Bank 3.875% 2017	1,000	4-Nov-11	Korea Eximbank 4.0% 2017	1,250	11-Jan-12
Korea Eximbank 4.375% 2021	1,000	15-Sep-11	Korea Eximbank 5.0% 2022	1,000	11-Jan-12
Korea National Oil Corp. 4.0% 2016	1,000	27-Oct-11	Korea National Oil Corp. 3.125% 2017	1,000	3-Apr-12
Korea Development Bank 4.0% 2016	750	9-Mar-11	Samsung Electronics 1.75% 2017	1,000	10-Apr-12
Korea Finance 4.625% 2021	750	16-Nov-11	Korea Gas 6.25% 2042	750	20-Jan-12
Korea Eximbank ( <i>samurai</i> ) 0.93% 2013	741	8-Jul-11	Korea Development Bank 3.5% 2017	750	22-Feb-12
Hyundai Capital 4.375% 2016	700	27-Jan-11	Shinhan Bank 4.375% 2017	700	27-Jan-12
Korea Eximbank 3.75% 2016	700	20-Apr-11	Korea Exchange Bank 3.125% 2017	700	26-Jun-12
Posco 5.25% 2021	700	14-Apr-11	Others	13,792	
Others	24,694				
<b>Malaysia</b>	<b>3,100</b>		<b>Malaysia</b>	<b>5,185</b>	
Wakala Global ( <i>sukuk</i> ) 2.991% 2016	1,200	6-Jul-11	MIDB Energy 5.99% 2022	1,750	21-May-12
Others	1,900		Others	3,435	
<b>Philippines</b>	<b>3,450</b>		<b>Philippines</b>	<b>2,625</b>	
Philippines (sovereign) 5.5% 2026	1,500	30-Mar-11	Philippines (sovereign) 5.0% 2037	1,500	13-Jan-12
San Miguel Corp. 2.0% 2014	600	5-May-11	Others	1,125	
Energy Development Corp. 6.5% 2021	300	20-Jan-11			
Others	1,050		<b>Singapore</b>	<b>7,717</b>	
			Temasek Financial 2.375% 2023	1,200	23-Jul-12
<b>Singapore</b>	<b>1,868</b>		DBS 2.35% 2017	1,000	28-Feb-12
SingTel Group 4.5% 2021	600	8-Mar-11	OCBC Bank 1.625% 2015	1,000	13-Mar-12
Others	1,268		Others	4,517	7-Mar-12
<b>Thailand</b>	<b>1,370</b>		<b>Thailand</b>	<b>1,100</b>	
PTTEP 5.692% 2021	700	5-Apr-11	Siam Commercial Bank 3.375% 2017	600	19-Mar-12
Others	670		PTTEP Canada 6.35% 2042	500	12-Jun-12
<b>Viet Nam</b>	<b>90</b>		<b>Viet Nam</b>	<b>550</b>	
<b>Emerging East Asia Total</b>	<b>74,981</b>		<b>Emerging East Asia Total</b>	<b>81,174</b>	
<b>Memo Items:</b>			<b>Memo Items:</b>		
<b>India</b>	<b>11,673</b>		<b>India</b>	<b>4,524</b>	
Novelis 8.75% 2020	1,400	13-Apr-11	Reliance Holdings 5.4% 2022	1,500	14-Feb-12
Novelis 8.375% 2017	1,100	13-Apr-11	Reliance Holdings 5.4% 2022	500	28-Feb-12
ICICI Bank 4.75% 2016	1,000	25-May-11	Axis Bank 5.125% 2017	500	5-Mar-12
Others	8,173		Others	2,024	
<b>Sri Lanka</b>	<b>1,512</b>		<b>Sri Lanka</b>	<b>2,313</b>	

Note: Not included in this table is the Philippines' sovereign Global Peso bond, a PHP54.8 billion (US\$1.2 billion) 25-year bond issued in January 2011.  
Source: Bloomberg LP, newspaper and wire reports.

the PRC and the Republic of Korea during the first 7 months of 2012 compared with full-year 2011. The PRC's issuance of US\$15.6 billion during the first 7 months of the year was 12.6% less than the US\$17.8 billion issued in all of 2011. The Republic of Korea's issuance of US\$20.9 billion was 34.6% less than the US\$32.0 billion issued in full-year 2011. On the other hand, the G3 currency bond issuance of Hong Kong, China was 115% larger in the first 7 months of 2012 than it was in all of 2011, and the G3 currency bond issuance of Singapore was 313% larger during the first 7 months of 2012 than in all of 2011.

The largest issuer in Hong Kong, China was Hutchison Whampoa, which issued over US\$5 billion of US\$-denominated bonds during the first 7 months of 2012, including a US\$-denominated perpetual bond. In Indonesia, the sovereign issued US\$3.75 billion worth of US\$-denominated bonds in the first 7 months of the year, while the state oil company Pertamina issued US\$2.5 billion. The single largest G3 currency corporate bond issued to date in 2012 was the US\$1.75 billion bond issued by 1MDB Energy of Malaysia. (The 1MDB Energy bond pays a coupon of 5.99%.)

Financial sector issuers have also been particularly active in the G3 currency bond market during the first 7 months of 2012. Korea Eximbank issued two bonds worth a total of US\$2.25 billion, Temasek Financial in Singapore issued a 20-year bond for US\$1.2 billion, DBS Bank and OCBC Bank of Singapore issued bonds of US\$1 billion each, and Siam Commercial Bank of Thailand issued a new bond worth US\$600 million.

## Market Returns

### Market returns for emerging East Asia's LCY bonds show YTD gains in most markets.

The Pan-Asian Index has risen 4.5% year-to-date (YTD) through 31 July compared with 6.8% for 2011 as a whole, while the HSBC ALBI index has risen 4.6% YTD compared with 4.9% for all of 2011 (**Table 9**). The best performing government bond markets in 2011 were Indonesia and the Philippines, on both an LCY total return and a US\$ unhedged basis. Both markets have continued to perform well in the first 7 months of 2012. However, the Indonesian return of 2.9% YTD on a US\$ unhedged basis is only one-half of its return

**Table 9: iBoxx Asia Bond Fund Index Family Returns**

Market	Modified Duration (years)	2010 Returns (%)		2011 Returns (%)		2012 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	6.24	1.5	5.1	5.4	9.9	2.9	1.7
Hong Kong, China	4.28	2.0	1.8	5.2	5.2	2.9	3.1
Indonesia	7.04	19.3	23.7	19.7	18.4	6.8	2.9
Korea, Rep. of	4.57	8.0	10.6	6.2	4.7	5.1	6.9
Malaysia	4.99	5.2	15.6	4.7	1.8	3.0	4.1
Philippines	7.15	14.3	19.7	14.8	14.7	5.9	10.6
Singapore	6.35	2.5	11.3	6.3	5.0	3.5	7.7
Thailand	5.04	5.4	15.4	4.9	0.3	2.4	2.3
Pan-Asian Index	5.48	–	10.2	–	6.8	–	4.5
HSBC ALBI	7.48	–	11.5	–	4.9	–	4.6
US Govt. 1–10 years	4.01	–	5.3	–	6.8	–	1.9

– = 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 2012 are year-to-date as of 31 July 2012.
3. Annual returns are computed for each year using a natural logarithm of end-of-year index value/beginning-of-year index value.
4. Duration as of 31 July 2012.

Source: *AsianBondsOnline* and Bloomberg LP.

on an LCY total return basis, while the Philippine return on a US\$ unhedged basis is nearly double its return on an LCY total return basis.

The only other market to experience a significant difference between its rates of return on an LCY total return basis and an US\$ unhedged basis is Singapore, which has enjoyed a 7.7% YTD rate of return on a US\$ unhedged basis and a more modest LCY total return of 3.5%.

The performance of the region's equity markets has markedly improved in 2012 after a dramatic downturn in 2011 (**Table 10**). The Far East ex-Japan Index returned about 6%–7% through the first 7 months of 2012 on both an LCY and a US\$

basis, compared with 16% and 17% downturns, respectively, in 2011. The most strongly performing equity markets this year have been the Philippines, Singapore, and Thailand. The PRC market's returns, on the other hand, have been slightly less than 3.0% in both LCY and US\$ terms. Meanwhile, the Indonesian market has been essentially flat in US\$ terms, although it has risen by 4.6% in LCY terms.

Thus, the story for both fixed income and equity markets in emerging East Asia was a positive one in 2Q12. Demand for the region's bonds and equities is being driven by interest from both domestic and foreign investors, who are increasingly viewing Asia as a refuge from the ongoing problems of Europe and the uncertainties of the US.

**Table 10: MSCI Index Returns**

Market	2010 Returns (%)		2011 Returns (%)		2012 YTD Returns (%)	
	LCY terms	US\$ terms	LCY terms	US\$ terms	LCY terms	US\$ terms
China, People's Rep. of	2.6	2.3	(20.4)	(20.3)	2.6	2.7
Hong Kong, China	20.0	19.7	(18.5)	(18.4)	9.3	9.5
Indonesia	25.8	31.2	4.7	4.0	4.6	0.2
Korea, Rep. of	22.1	25.3	(11.5)	(12.8)	6.1	8.2
Malaysia	19.3	32.5	(0.2)	(2.9)	4.7	6.0
Philippines	23.5	30.3	(3.1)	(3.2)	20.6	26.7
Singapore	8.1	18.4	(20.0)	(21.0)	16.5	21.3
Thailand	36.4	50.8	(1.7)	(5.6)	15.1	15.3
Far East ex-Japan Index	12.5	16.7	(15.6)	(16.8)	5.8	6.8
MSCI US	–	13.2	–	(0.1)	–	9.6

– = not applicable, LCY = local currency, MSCI = Morgan Stanley Capital International, US = United States, YTD = year-to-date.

Notes:

1. Market indices are from MSCI country indexes. 2012 returns are year-to-date as of 31 July 2012.

2. Far East ex-Japan includes the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Taipei, China; and Thailand.

Source: *AsianBondsOnline* and Bloomberg LP.