

Market Summaries

People's Republic of China—Update

Yield Movements

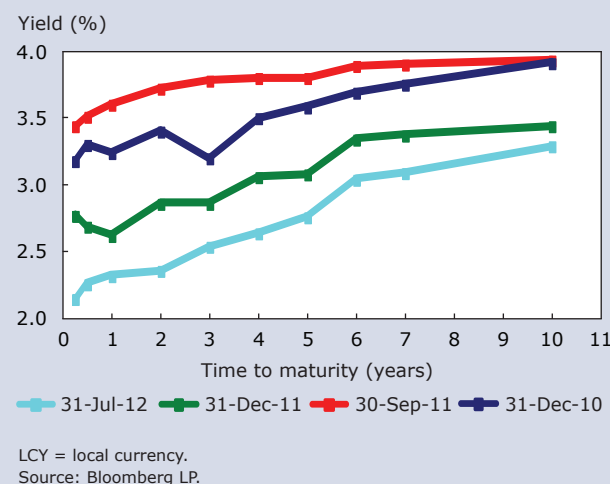
The government bond yield curve in the People's Republic of China (PRC) continued to shift downward through the end of July 2012, particularly at the shorter-end, as inflation continued to decline and the economy slowed. Yields fell between 43 basis points (bps) and 62 bps for tenors of less than 1 year, and between 30 bps and 50 bps for tenors of 1 year to 5 years (**Figure 1**). Yields fell within a range of 15 bps and 30 bps for tenors longer than 5 years.

The fall in yields was driven mostly by the continued decline in the PRC's inflation rate. Inflation fell to 3.4% year-on-year (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. The decline in the inflation rate has been driven primarily by easing food prices.

Gross domestic product (GDP) growth has slowed in the PRC as a result of continued weakness in developed economies. GDP growth fell to 8.1% y-o-y in 1Q12 from 8.9% in 4Q11, and slipped further to 7.6% in 2Q12. In response to the weak economic data, the PRC has engaged in a number of easing measures. Policy rates were cut for the first time in 3 years by 25 bps each in the first week of June. Rates were cut 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 People's Bank of China (PBOC) expanded the range in which banks could vary their deposit and lending rates from the benchmark policy rates.

Reserve requirement ratios were 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

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



the money supply by allowing existing central bank bills and bonds to mature.

As a result of the easing measures, particularly the reduction in policy rates, the yield curve had steepened by the end of July 2012, with rates at the shorter-end falling much more than those at the longer-end. The yield spread between the 2- and 10-year tenors widened to 93 bps at end-July from 58 bps at end-December 2011.

Other economic data showed signs of weakness as well. Industrial production, as measured by gross value added, expanded 11.9% y-o-y in March before growth slowed in May, June, and July to 9.6%, 9.5%, and 9.2%, respectively. The manufacturing purchasing managers' index (PMI) also declined from April's 53.3 figure to 50.1 in July.

New loans have also seen declines. New loans for July were at CNY540.1 billion compared with CNY919.8 billion in June.

Table 1: Size and Composition of the LCY Bond Market in the People's Republic of China

	Amount (billion)						Growth Rates (%)					
	Mar-12		Apr-12		May-12		Mar-12		Apr-12		May-12	
	CNY	US\$	CNY	US\$	CNY	US\$	y-o-y	q-o-q	m-o-m	y-o-y	q-o-q	m-o-m
Total	21,725	3,449	21,631	3,445	21,724	3,411	8.2	1.7	(0.4)	6.9	1.5	1.5
Government	16,218	2,575	16,130	2,569	16,150	2,536	4.5	1.4	(0.5)	3.9	1.1	1.5
Treasury Bonds	7,420	1,178	7,424	1,182	7,397	1,162	11.3	0.5	0.1	8.0	1.1	1.4
Central Bank Bonds	1,928	306	1,751	279	1,659	260	(39.3)	(9.4)	(5.3)	(41.0)	(14.7)	(0.9)
Policy Bank Bonds	6,869	1,091	6,955	1,108	7,094	1,114	21.1	6.0	1.3	20.0	5.6	2.2
Corporate	5,502	874	5,501	876	5,574	875	20.6	2.7	(0.02)	16.5	2.6	1.3
Policy Bank Bonds												
China Development Bank	4,676	742	4,685	746	4,779	750	14.8	5.2	0.2	2.0	5.2	3.0
Export-Import Bank of China	902	143	937	149	952	149	48.5	8.2	3.9	36.0	3.1	(2.3)
Agricultural Devt. Bank of China	1,291	205	1,333	212	1,363	214	30.4	7.5	3.2	30.0	8.4	2.7

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

Notes:

1. Calculated using data from national sources.
2. Treasury bonds include savings bonds and local government bonds.
3. Bloomberg LP end-of-period LCY-US\$ rate is used.
4. Growth rates are calculated from LCY base and do not include currency effects.

Source: ChinaBond and Bloomberg LP.

Size and Composition

The amount of outstanding local currency (LCY) bonds in the PRC market reached CNY22 trillion (US\$3.5 trillion) at end-June, representing a y-o-y increase of 6.9% and a quarter-on-quarter (q-o-q) rise of 1.5% (**Table 1**).

LCY government bonds outstanding grew 3.9% y-o-y and 1.1% q-o-q in 2Q12, while corporate bonds rose 16.5% y-o-y and 2.6% q-o-q. Central bank bonds continued to constrain overall government bond growth, falling 41.0% y-o-y and 14.7% q-o-q as a result of the PBOC's cessation of new bond issuance in 2012. In contrast, treasury bonds grew 8.0% y-o-y and 1.1% q-o-q, and policy bank bonds grew 20.0% y-o-y and 5.6% q-o-q.

Corporate Bonds. Overall, corporate bonds outstanding grew 16.5% y-o-y in 2Q12. Growth was driven mainly by an increase in outstanding commercial bank bonds, local corporate bonds, and medium-term notes (MTNs). Commercial bank bonds grew 44.9% y-o-y 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.

Local corporate bonds grew 38.2% and MTNs expanded 31.3% y-o-y in 2Q12, while state-owned corporate bonds rose 13.1% (**Table 2**). Commercial paper outstanding fell a dramatic 79.9% in 2Q12, on the back of a sharp decline in issuance in 1Q12 and 2Q12. Asset-backed securities continued to decline as well, falling 18.4% in 2Q12 due to an ongoing lack of issuance.

On a q-o-q basis, most categories of LCY corporate bonds outstanding grew in 2Q12, with the exception of commercial paper and asset- and mortgage-backed securities. Local corporate bonds grew 12.6%, MTNs grew 4.9%, and state-owned enterprise bonds grew 4.1%.

Issuance of corporate bonds was up overall in both 1Q12 and 2Q12, compared with 4Q11 levels (**Figure 2**), due to the low interest rate environment

Table 2: Corporate Bonds Outstanding in Key Sectors

	Amount (CNY billion)						Growth Rates (%)					
							q-o-q				y-o-y	
	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	2Q11	3Q11	4Q11	1Q12	2Q12	2Q12
Commercial Bank Bonds	625.0	758.8	755.2	924.3	1,027.6	1,099.8	21.4	(0.5)	22.4	11.2	7.0	44.9
State-Owned Corporate Bonds	879.6	877.1	876.4	894.4	953.0	991.9	(0.3)	(0.1)	2.1	6.6	4.1	13.1
Local Corporate Bonds	653.1	714.1	727.3	782.1	876.3	987.0	9.3	1.8	7.5	12.0	12.6	38.2
Commercial Paper	683.3	687.1	616.5	502.4	329.1	138.4	0.6	(10.3)	(18.5)	(34.5)	(58.0)	(79.9)
Asset- and Mortgage-Backed Securities	10.8	10.1	9.9	9.5	8.6	8.2	(6.1)	(2.3)	(3.5)	(9.6)	(4.3)	(18.4)
Medium-Term Notes	1,532.5	1,621.4	1,768.6	1,974.3	2,029.9	2,129.1	5.8	9.1	11.6	2.8	4.9	31.3

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

Source: ChinaBond.

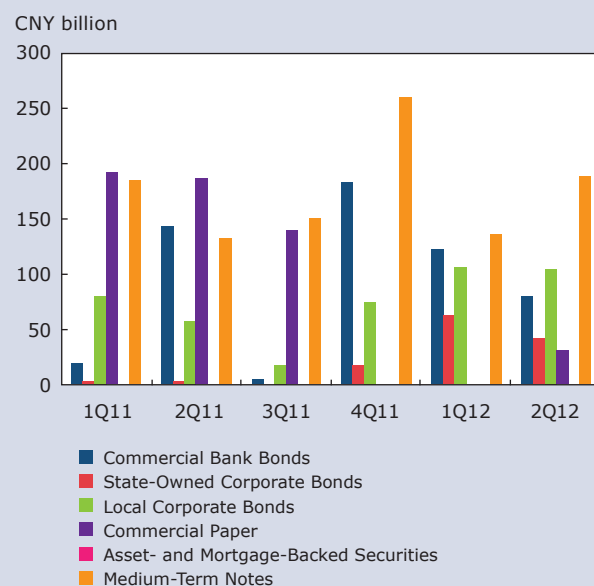
stemming from low inflation. However, issuance declined in 1Q12 and 2Q12 for commercial paper, MTNs, and asset- and mortgage-backed securities.

The lack of asset-backed securities stems from the PRC's decision to temporarily halt new issuance in 2008. However, a recently-expanded pilot program is currently underway. Commercial bank bond issuance was strong in 1Q12 and 2Q12, but lower than its peak levels in prior quarters, as banks sought to bolster their capital bases in preparation for the PRC's implementation of Basel III capital adequacy requirements.

Commercial paper issuance has been either weak or nonexistent since 4Q11, being negatively affected by the China Banking Regulatory Commission's (CBRC) decision to prevent banks from offering trust products that invest in commercial paper.

A relatively small number of issuers dominate the PRC's corporate bond market (**Table 3**). At end-June, the top 30 corporate bond issuers accounted for CNY3.4 trillion, or about 60% of total corporate bonds outstanding. Of the top 30 corporate issuers' bonds outstanding, the 10 largest issuers accounted for CNY2.3 trillion, or 68% of the total.

State-owned companies (defined as majority-owned by the government) dominate the corporate bond market in the PRC. Among the top 30 corporate bond issuers, 23 were state-owned, with a total of CNY2.9 trillion worth of bonds outstanding at end-June.

Figure 2: Corporate Bond Issuance in Key Sectors, 1Q11–2Q12

Source: ChinaBond.

SME Bonds. Collective bonds outstanding reached CNY3.5 billion as of 30 June 2011, and have fallen since then. The PRC has been promoting the development of small and medium-sized enterprises (SMEs) and diversifying the funding sources available to them. Past efforts included the launch of SME collective bonds. The SME collective bonds were first launched in 2007 and regulated by the National Development and Reform Council (NDRC). Due to the substantial application requirements, growth has been slow

Table 3: Top 30 Issuers of LCY Corporate Bonds in the People's Republic of China (as of end-June 2012)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (CNY billion)	LCY Bonds (US\$ billion)				
1. Ministry of Railways	632.0	99.46	Yes	No	No	Transportation
2. State Grid Corporation of China	301.5	47.45	Yes	No	No	Public Utilities
3. China National Petroleum	290.0	45.64	Yes	No	No	Energy
4. Industrial and Commercial Bank of China	230.0	36.20	Yes	No	Yes	Banking
5. Bank of China	196.9	30.99	Yes	No	Yes	Banking
6. China Petroleum & Chemical	163.2	25.68	Yes	No	Yes	Energy
7. China Construction Bank	160.0	25.18	Yes	No	Yes	Banking
8. Central Huijin Investment	109.0	17.15	Yes	No	No	Diversified Financial
9. Agricultural Bank of China	100.0	15.74	Yes	No	Yes	Banking
10. China Guodian	83.1	13.08	Yes	No	No	Public Utilities
11. China Minsheng Bank	82.3	12.95	No	Yes	Yes	Banking
12. Bank of Communications	76.0	11.96	No	Yes	Yes	Banking
13. Industrial Bank	72.1	11.34	No	Yes	Yes	Banking
14. Petrochina	67.5	10.62	Yes	No	Yes	Energy
15. Shanghai Pudong Development Bank	67.2	10.58	No	Yes	Yes	Banking
16. China Three Gorges Project	60.5	9.52	Yes	No	No	Public Utilities
17. China Power Investment	57.2	9.00	Yes	No	No	Public Utilities
18. Citic Group	53.5	8.42	Yes	No	No	Diversified Financial
19. China United Network Communications	53.0	8.34	Yes	No	Yes	Telecommunications
20. China Everbright Bank	52.7	8.29	No	Yes	Yes	Banking
21. Shenhua Group	52.0	8.18	Yes	No	No	Energy
22. China Southern Power Grid	51.0	8.03	Yes	No	No	Public Utilities
23. China Merchants Bank	50.0	7.87	No	Yes	Yes	Banking
24. China Huaneng Group	49.2	7.74	Yes	No	No	Public Utilities
25. State-Owned Capital Operation and Management Center of Beijing	45.0	7.08	Yes	No	No	Diversified Financial
26. China Citic Bank	42.5	6.69	No	Yes	Yes	Banking
27. Shougang Group	42.0	6.61	Yes	No	No	Raw Materials
28. China Telecom	40.0	6.30	Yes	No	Yes	Telecommunications
29. Metallurgical Corporation of China	39.6	6.23	Yes	No	Yes	Capital Goods
30. Huaneng Power International	39.0	6.14	Yes	No	Yes	Public Utilities
Total Top 30 LCY Corporate Issuers	3,358.0	528.48				
Total LCY Corporate Bonds	5,645.9	888.56				
Top 30 as % of Total LCY Corporate Bonds	59.5%	59.5%				

LCY = local currency.
Source: Bloomberg LP and Wind.

and outstanding SME collective bonds as of 30 June 2012 were only CNY3 billion. In 2009, the PRC also issued rules for SME collective notes, regulated by the PBOC and NAFMII. This facility was designed to have a much simpler application process, much like MTNs. Due to the easier application process, growth of the SME collective notes has been more rapid than that of SME collective bonds, and as of 30 June 2012 SME collective notes outstanding amounted to CNY13.3 billion.

In May 2012, the PRC released a pilot program for the issuance of SME private placement bonds (See **Policy, Institutional, and Regulatory Developments** for more details). Unlike the SME collective notes and bonds, which are jointly issued by a group of SMEs, issuance for the SME private placement bonds are on an individual name basis and they typically carry higher yields.

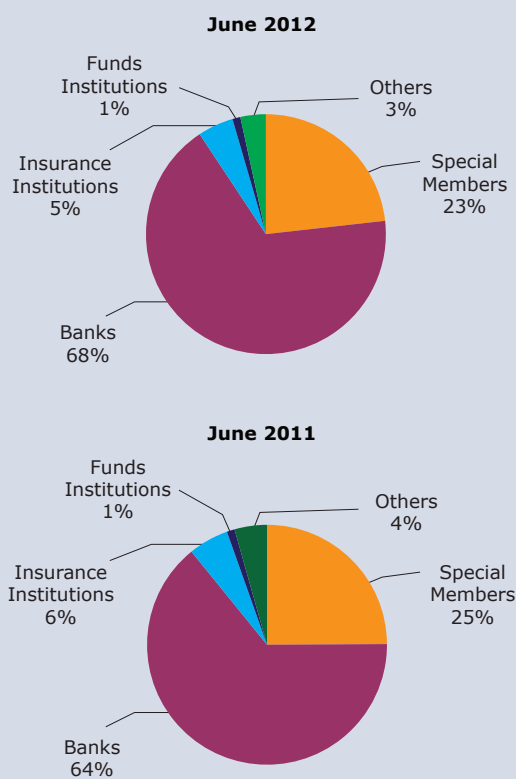
Since the launch of the program, there have been 33 issuances with a total cumulative amount of CNY3 billion.

Investor Profile

Treasury Bonds. Banks remained the largest category of investors in the PRC's treasury bond market, holding a slightly larger share of these bonds at end-June 2012 (68%) than at end-June 2011 (64%) (**Figure 3a**). The shares held by special members fell to 23% from 25% during the same period. Special members comprise the PBOC, Ministry of Finance, policy banks, China Government Securities Depository Trust and Clearing Co., and China Securities Depository and Clearing Corporation.

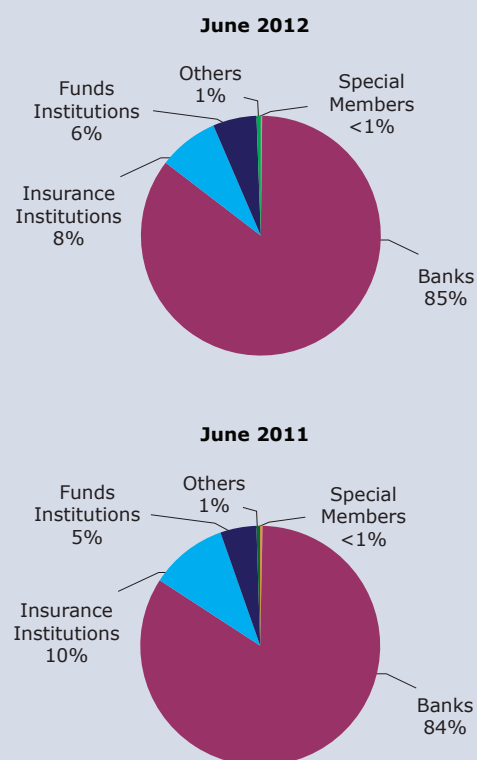
Banks are an even more significant holder of policy bank bonds (**Figure 3b**). At end-June, banks

Figure 3a: LCY Treasury Bonds Investor Profile



LCY = local currency.
Source: ChinaBond.

Figure 3b: LCY Policy Bank Bonds Investor Profile



LCY = local currency.
Source: ChinaBond.

held 85% of outstanding policy bank bonds, up slightly from 84% at end-June 2011. Insurance institutions' holdings fell slightly to 8% at end-June from 10% a year earlier.

Corporate Bonds. Banks remained the largest holder of corporate bonds at end-June, albeit with a comparatively smaller share than bank holdings of treasury bonds and policy bank bonds. Banks' share of corporate bonds fell slightly to 48% at end-June from 50% at end-June 2011 (**Figure 4**). The shares held by insurance and fund institutions at end-June were 21% and 22%, respectively, from 22% and 19% a year earlier.

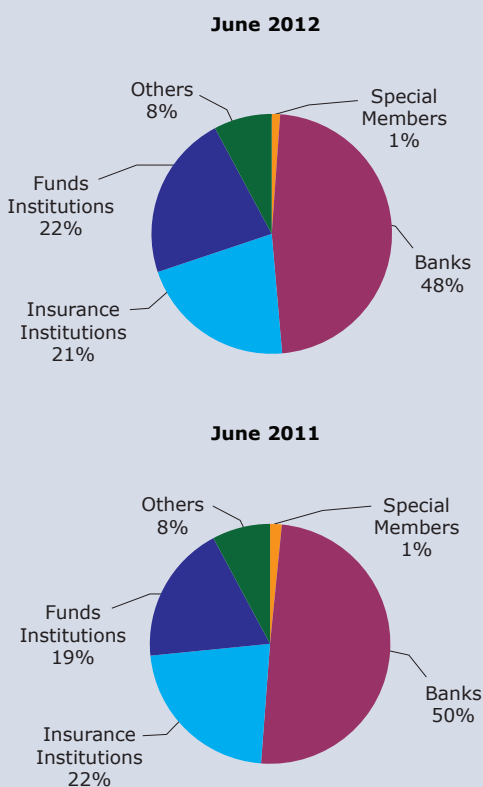
Figure 5 presents the investor profile across different bond categories. Banks were the largest holder of treasury bonds and policy bank bonds at end-June, with a more than 80% share of outstanding policy bank bonds. Meanwhile,

insurance institutions were the largest holder of commercial bank bonds.

Liquidity

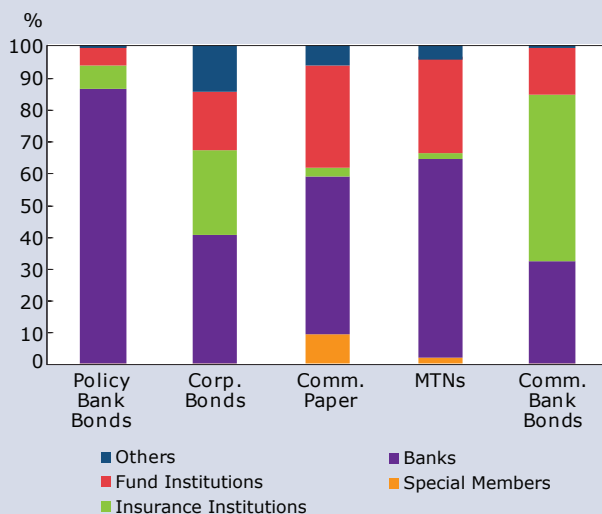
Liquidity for government bonds has showed a steady increase since the start of 2012 as evidenced by the decline in bid-ask spreads (**Figure 6**).

Figure 4: LCY Corporate Bonds Investor Profile



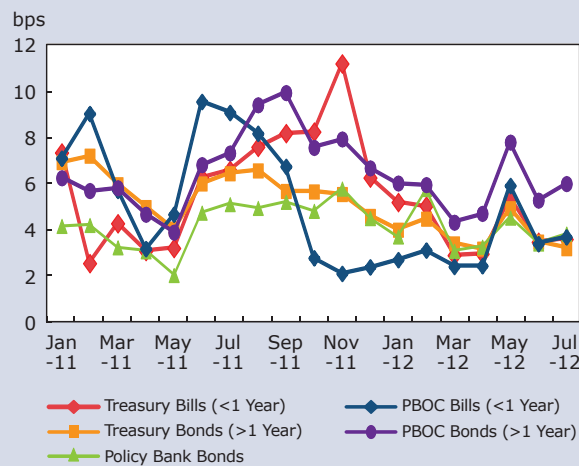
LCY = local currency.
Source: ChinaBond.

Figure 5: Investor Profile across Bond Categories
(as of end-June 2011)



bps = basis points, MTNs = medium-term notes.
Source: ChinaBond.

Figure 6: Bid-Ask Spreads by Market Makers, January 2011–July 2012

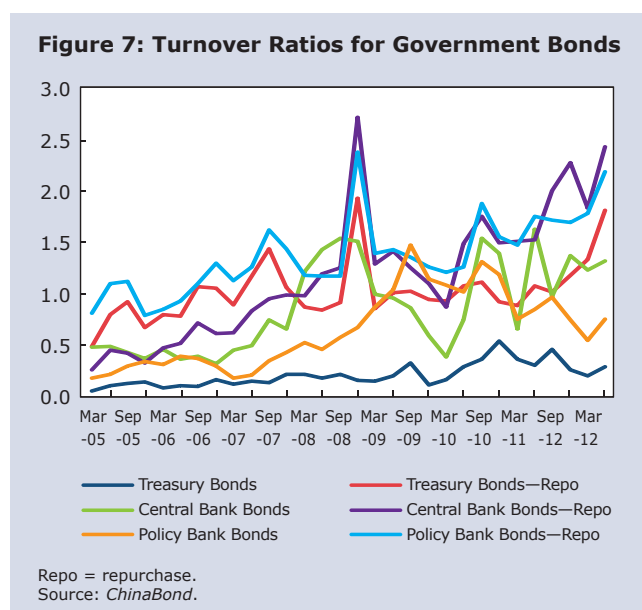


PBOC = People's Bank of China.
Source: Wind.

Demand for government bonds increased as the market expected the PBOC to continue easing as inflation declined over this period.

There was an uptick in bid-ask spreads, however, in May due to market concern that PBOC had yet to cut its policy rates. Bid-ask spreads then declined in June after PBOC cut its policy rates by 25 bps in the first week of June.

Figure 7 presents the turnover ratio for government bonds, including both spot trading



as well as repo trading volume. As can be seen, the repo market is much more active, with volumes much larger than for spot trading.

Interest Rate Swaps

The total notional amount traded in the interest rate swap (IRS) market rose 3.2% y-o-y and 39.0% q-o-q in 2Q12 to CNY682.1 billion, on a total of 5,173 transactions (**Table 4**). The most popular benchmark is the 7-day repurchase (repo) rate, accounting for 51% of the notional amount traded, followed by the overnight SHIBOR at 34%. These two benchmarks were the most actively traded in 2Q12 because the primary participants in the PRC's onshore IRS market are commercial banks with large funding exposure in the form of repo transactions. Therefore, banks make extensive use of the repo rate as the base rate to hedge their funding.

Rating Changes

On 11 April, Fitch Ratings (Fitch) reaffirmed the PRC's foreign currency credit rating at A+ with a stable outlook (**Table 5**). According to Fitch, the PRC's key rating strength is its strong on-balance sheet finances. Fitch also said that in 2011 the PRC had the second-strongest sovereign net foreign asset position in its rating group. The PRC's explicit sovereign debt also remains modest.

Table 4: Notional Values of the PRC's Interest Rate Swap Market in 2Q12

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	% of Total Notional Amount	Number of Transactions	Growth Rate (%)	
	2Q12			q-o-q	y-o-y
7-Day Repo Rate	347.6	51.0%	3,711	35.8%	(6.0%)
Overnight SHIBOR	233.5	34.2%	524	103.9%	42.6%
1-Week SHIBOR	0.1	0.0%	1	–	–
3-Month SHIBOR	75.5	11.1%	608	(2.3%)	(16.3%)
1-Year Term Deposit Rate	21.0	3.1%	221	(48.1%)	(40.6%)
6-Month Lending Rate	0.2	0.0%	17	1,260.0%	1,940.0%
1-Year Lending Rate	2.4	0.4%	75	10.9%	12,536.8%
3-Year Lending Rate	0.4	0.1%	9	410.5%	–
5-Year Lending Rate	0.7	0.1%	5	122.3%	(52.4%)
Above 5-Year Lending Rate	0.6	0.1%	2	–	–
Total	682.1	100.0%	5,173	39.0%	3.2%

– = not applicable, PRC = People's Republic of China, q-o-q = quarter-on-quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate, y-o-y = year on year.
Source: ChinaMoney, Wind, and AsianBondsOnline.

Table 5: Selected Sovereign Ratings and Outlook for the People's Republic of China

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	Aa3	A+	AA-	A+
Outlook	Positive	Stable	Stable	Stable

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

Policy, Institutional, and Regulatory Developments

The PRC Widens CNY Trading Band

On 14 April, the PRC widened the band in which the CNY is allowed to trade against the United States (US) dollar. The trading band was widened from 0.5% to 1.0% above or below the daily reference rate.

PBOC and World Bank Sign Investment Agreement

On 23 April, the PBOC and the World Bank Group signed an agreement allowing the latter to invest in the PRC's interbank bond market.

The PRC, Japan, and the Republic of Korea Agree to Promote Cross-Border Bond Investment

On 3 May, the PRC, Japan, and the Republic of Korea agreed to enhance trilateral financial cooperation. The three countries agreed to promote investment by their respective foreign reserve authorities in each other's local bond markets.

PBOC Reduces Reserve Requirement Ratios

On 14 May, the PBOC cut banks' reserve requirement ratio by 50 bps. It was the second reserve requirement ratio cut this year.

Pilot Program for SME Bonds Launched

On 23 May, the PRC launched a pilot program for the issuance of private placement bonds by SMEs.

The interest rates for the bonds will be capped at a maximum of three times the benchmark policy rate and the bonds must have maturities of 1 year or more.

The PRC and Japan Begin Direct CNY-JPY Trading

On 30 May, the PRC and Japan began directly trading their currencies, bypassing the need to first convert the currencies into US dollars. Also, unlike CNY-US\$ trading, CNY-JPY trading conducted in Japan will not be subject to a peg. However, CNY-JPY trading conducted in the PRC will be subject to a trading peg. The PBOC said that the move will help develop the foreign exchange market and reduce trading costs between the two countries.

PRC Expands Asset-Backed Securitization Program for Banks

On 8 June, the PRC launched a pilot program for asset-backed securitization in the banking sector. The program is an expansion of a prior asset-backed securitization program that was halted in 2008. Under the new program, the investor base will be expanded to include insurance companies, investment funds, corporate pension funds, National Social Security Funds, and other qualified non-bank institutional investors. Ratings from two agencies will be required and the originator is required to maintain a 5% equity tranche in the securitized assets.

The PRC Cuts Benchmark Rates

On 8 June, the PRC cut interest rates by 25 bps for the first time in 3 years. In addition, it adjusted the bands by which banks can vary their rates from the benchmark policy rates. The upper limit for deposit rates was set at 110% and the floor for lending rates was set at 80%. The PRC cut interest rates again on 5 July, this time by 31 bps for the lending rate and 25 bps for the deposit rate. This set the 1-year benchmark lending rate to 6.0% and the deposit rate to 3.0%. Also, the floor for lending rates was adjusted to 70% of the benchmark.

The PRC and Ukraine Sign Currency Swap Agreement

On 26 June, the PRC and Ukraine signed a currency swap agreement worth CNY19 billion. The 3-year agreement is designed to improve financial cooperation, facilitate trade and investment, and promote regional stability.

The PRC Limits Local Government Bond Issuance

On 28 June, during the budget session of the Standing Committee of the National People's Congress, the government rescinded an article in a budget law that would have allowed local governments to issue bonds directly. The move was taken in order to help contain fiscal risks.

The move, however, will not affect the prior approval given to Shanghai, Shenzhen, Guangdong, and

Zhejiang to issue local government bonds subject to a quota.

NAFMII Issues Guidelines for Asset-Backed Securities of Non-Financial Companies

On 8 August, the National Association of Financial Market Institutional Investors (NAFMII) issued guidelines allowing non-financial corporations to issue asset-backed securities. Previously, only banks were allowed to issue asset-backed securities. Under the guidelines, the bonds can either be sold through the interbank market or via private placement. If the bonds will be sold through the interbank market, there should be at least two ratings from two different rating agencies. Ningbo Urban Construction Investment, Nanjing Public Holding Group, and Shanghai Pudong Road & Bridge Construction were the first to issue bonds under the new rules.

Hong Kong, China—Update

Yield Movements

The yield curve for Hong Kong, China's Exchange Fund Bills and Notes (EFBNs) shifted markedly downward between end-December 2011 and end-July 2012 (**Figure 1**). The downward shift was greatest for the 7-year tenor, which fell 89 basis points (bps). The longer-end of the curve shifted downward more sharply than the shorter-end, with the longer-end falling between 72 bps and 89 bps. The shorter-end of the yield curve, in contrast, fell only 7 bps–9 bps.

Due to the greater downward shift at the longer-end of the yield curve, the spread between the 2- and 10-year rates fell to 50 bps at end-July from 112 bps at end-December.

Yields declined as Hong Kong, China's economy continued to weaken. Gross domestic product (GDP) growth improved slightly in 2Q12, growing 1.1% year-on-year (y-o-y) from 0.4% in 1Q12. The sluggish GDP growth in the past 2 quarters has been driven by weakness in the external environment. Real exports grew 1.1% y-o-y in 2Q12 after falling 5.7% y-o-y in 1Q12.

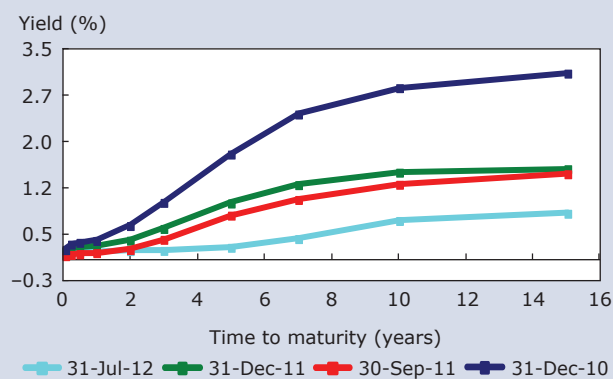
As a result of the weak economic performance, inflation tapered off in 2Q12. Consumer price inflation was at 4.3%, 3.7%, and 1.6% y-o-y for the months of May, June, and July, respectively. The decline in inflation rates was due mainly to moderating food and housing rental prices.

Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market grew 3.7% y-o-y to HKD1.3 trillion (US\$174 billion) at end-June (**Table 1**). On a quarter-on-quarter (q-o-q) basis, LCY bonds outstanding rose 1.2%.

Total LCY government bonds outstanding had risen 5.3% y-o-y and 2.1% q-o-q as of end-June. Government bonds include Exchange Fund Bills

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



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

(EFBs), Exchange Fund Notes (EFNs), and bonds issued under the Institutional Bond Issuance Programme (HKSAR Bonds).

The amount of LCY government bonds outstanding at end-June reached HKD720 billion. Most of the growth in government bonds in 2Q12 can be attributed to growth in HKSAR Bonds, which expanded 113.3% y-o-y to HKD64 billion from HKD30 billion at end-June 2011. On the other hand, the stock of EFNs declined slightly by 0.9% y-o-y to HKD69 billion, while EFBs grew only 0.4% y-o-y to HKD587 billion.

In May, HKD3 billion in 3-year HKSAR Bonds were issued, while HKD1.5 billion in 5-year bonds were sold in June. Also, HKD10 billion in 3-year bonds were sold as part of the government's Retail Bond Issuance Programme in June.

The amount of LCY corporate bonds outstanding rose to HKD627 billion at end-June, reflecting growth of 1.9% y-o-y and 0.1% q-o-q. The top 25 non-bank corporate issuers in Hong Kong, China accounted for almost 15% of total corporate bonds outstanding at end-June (**Table 2**). Hong Kong, China's top corporate issuer of LCY bonds remained the state-owned Hong Kong Mortgage

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

	Amount (billion)						Growth Rate (%)					
	Mar-12		Apr-12		May-12		Jun-12		Mar-12		Apr-12	
	HKD	US\$	HKD	US\$	HKD	US\$	HKD	US\$	y-o-y	q-o-q	m-o-m	y-o-y
Total	1,331	171	1,332	172	1,335	172	1,347	174	2.9	1.7	0.02	0.3
Government	705	91	705	91	709	91	720	93	3.5	0.3	0.01	0.4
Exchange Fund Bills	587	76	587	76	587	76	587	76	0.5	0.1	0.01	0.1
Exchange Fund Notes	69	9	69	9	69	9	69	9	(0.9)	0.0	0.0	(0.9)
HKSAR Bonds	50	6	50	6	53	7	64	8	80.0	3.1	0.0	6.1
Corporate	626	81	626	81	626	81	627	81	2.3	3.4	0.04	1.9

HKSAR = Hong Kong Special Administrative Region, LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.

2. Bloomberg LP end-of-period LCY-US\$ rates are used.

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

Source: Hong Kong Monetary Authority and Bloomberg LP.

Corporation (HKMC) with outstanding bonds valued at HKD17.7 billion at end-June. Sun Hung Kai Properties (Capital Market) Ltd. was the next largest issuer with outstanding bonds of HKD10.9 billion, while CLP Power Hong Kong Financing Ltd. was in the third spot with HKD10.5 billion.

Financial firms dominated the list of the top 25 non-bank corporate issuers, accounting for 9 out of the 25 issuers. Six state-owned companies were included on the list, while 14 were privately owned. Among the companies in Table 2, five are listed on the Hong Kong Exchange.

Policy, Institutional, and Regulatory Developments

HKMA Removes 20% Renminbi Net-Open Position Limits

On 22 May, the Hong Kong Monetary Authority (HKMA) removed the 20% renminbi net-open position limit for authorized institutions. The affected institutions may now set their own position limit so long as the HKMA is informed and endorses the proposed limit.

Renminbi Liquidity Facility Opened

On 15 June, the HKMA established a facility through which authorized institutions can obtain renminbi funding, provided sufficient eligible collateral is available. The renminbi funding has a tenor of 1 week; eligible collateral includes EFBNs, HKSAR Bonds, and CNH-denominated bonds issued by the People's Republic of China (PRC).

HKMA Launches Microfinance Scheme

On 29 June, the Hong Kong Mortgage Corporation, in cooperation with six banks and five non-governmental organizations (NGOs), launched the Microfinance Scheme to provide microfinance loans of up to HKD300,000 with a maximum tenor of 5 years. The target borrowers for the program are business starters; self-employed persons; and those wishing to undergo training, upgrade their skills, or take certification programs.

Table 2: Top 25 Non-Bank Corporate Issuers in Hong Kong, China (as of end-June 2012)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (HKD billion)	LCY Bonds (US\$ billion)				
1. The Hong Kong Mortgage Corporate Ltd.	17.66	2.28	Yes	No	No	Finance
2. Sun Hung Kai Properties (Capital Market) Ltd.	10.86	1.40	No	Yes	No	Real Estate
3. CLP Power Hong Kong Financing Ltd.	10.48	1.35	No	Yes	No	Energy
4. Kowloon-Canton Railway Corporation	6.30	0.81	Yes	No	No	Transportation
5. MTR Corporation (C.I.) Ltd.	6.20	0.80	Yes	No	Yes	Transportation
6. The Link Finance (Cayman) 2009 Ltd.	5.29	0.68	No	Yes	No	Finance
7. HKCG (Finance) Limited	5.29	0.68	No	Yes	No	Gas
8. Swire Pacific MTN Financing Ltd.	4.98	0.64	No	Yes	No	Diversified
9. Hongkong Electric Finance Ltd.	4.01	0.52	No	Yes	No	Energy
10. Urban Renewal Authority	3.00	0.39	Yes	No	No	Property Development
11. Airport Authority Hong Kong	2.60	0.34	Yes	No	No	Transportation
12. Wharf Finance Ltd.	2.50	0.32	No	Yes	No	Diversified
13. Cheung Kong Bond Finance Ltd.	2.45	0.32	No	Yes	Yes	Finance
14. Hysan (MTN) Ltd.	2.43	0.31	No	Yes	No	Finance
15. Cheung Kong Finance (MTN) Ltd.	2.21	0.28	No	Yes	No	Finance
16. Yue Xiu Enterprises (Holdings) Ltd.	2.00	0.26	No	Yes	No	Diversified
17. Henderson Land MTN Ltd.	1.83	0.24	No	Yes	Yes	Finance
18. Wheelock Finance Ltd.	1.59	0.20	No	Yes	No	Diversified
19. Cathay Pacific MTN Financing Ltd.	1.18	0.15	No	No	Yes	Airlines
20. Wharf Finance (No.1) Ltd.	1.14	0.15	No	Yes	No	Diversified
21. Dragon Drays Ltd.	1.00	0.13	No	Yes	No	Diversified
22. Bauhinia MBS Ltd.	0.86	0.11	Yes	No	No	Finance
23. Cheung Kong Infrastructure Finance (BVI) Ltd.	0.26	0.03	No	Yes	Yes	Finance
24. Wharf Finance (BVI) Ltd.	0.25	0.03	No	Yes	No	Diversified
25. The Hongkong Land Notes Company Ltd.	0.20	0.03	No	Yes	No	Finance
Total Top 25 Non-Bank LCY Corporate Issuers	93.99	12.12				
Total LCY Corporate Bonds	626.73	80.79				
Top 25 as % of Total LCY Corporate Bonds	15.0%	15.0%				

LCY = local currency.

Note: Based on Central Money Markets Unit data on tradeable non-bank debt securities issued and outstanding as of 1 July 2011.

Source: Hong Kong Monetary Authority.

Indonesia—Update

Yield Movements

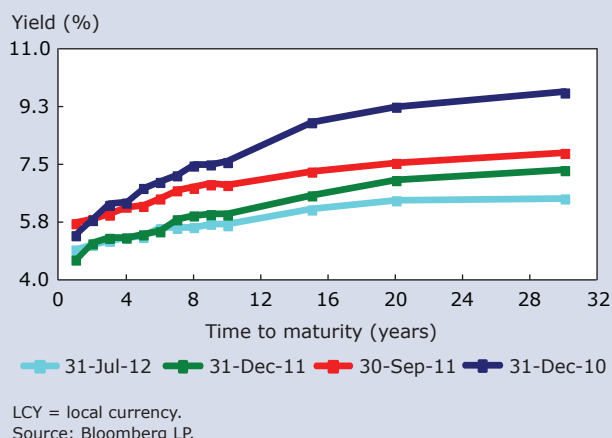
The local currency (LCY) government bond yield curve in Indonesia continued to flatten between end-December 2011 and end-July 2012, with yields at the longer-end of the curve falling more than at the shorter-end (**Figure 1**). Indonesian government bond yields fell amid fears that Europe's debt crisis would dampen economic growth. Yields fell across all tenors with the exception of the 1- and 6-year maturities, which rose 30 basis points (bps) and 9 bps, respectively. Yields fell between 4 bps and 85 bps from the 2-year maturity through the end of the curve. Yields at the longer-end of the curve (15-, 20-, and 30-years) fell between 43 bps and 85 bps. As a result, the yield spread between the 2- and 10-year maturities narrowed to 59 bps at end-July from 86 bps at end-December.

Consumer price inflation accelerated slightly in July to 4.56% year-on-year (y-o-y) from 4.53% in June on higher food prices. This, however, was still within the central bank's target range of 3.5%–5.5% for the year. According to the Central Statistics Agency (BPS), the increase in inflation is considered normal and was driven by seasonal factors such as the start of the fasting month of Ramadan and the start of the new academic year. On a month-on-month (m-o-m) basis, consumer prices rose 0.70% in July, following a rise of 0.62% in June.

On 9 August, 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. The central bank said that at its current level, the BI rate remains consistent with low and controlled inflation as targeted for the year. The central bank also said that it will remain vigilant about the rising current account deficit caused by the weaker export performance as the global economy slowed.

Weak global demand and declining commodity prices continued to affect Indonesian exports,

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



resulting in a 16.4% y-o-y contraction in June, after declining a revised 8.0% in May. Import growth eased to 10.7% y-o-y in June from a revised annual growth rate of 14.9% in May. Indonesia reported a trade deficit for a third consecutive month in June, posting a record-high deficit of US\$1.3 billion. In August, BI and the government initiated policy measures aimed at addressing the widening current account deficit. (See **Policy, Institutional, and Regulatory Developments** for more detail.)

In 2Q12, the real gross domestic product (GDP) growth rate of Indonesia accelerated to 6.4% y-o-y, compared with a 6.3% annual growth rate in 1Q12, led mainly by private consumption and investment. Domestic consumption grew 5.0% y-o-y and investment growth climbed 12.3%. All major industry sectors reported positive growth in 2Q12 compared with year-ago levels, led by transport and communications (10.1%), hotels and restaurants (8.9%), construction (7.3%), and financial services (7.0%). Between 1Q12 and 2Q12, the economy expanded 2.8%. BI estimates full-year 2012 economic growth to settle between 6.1% and 6.5%.

	Amount (billion)										Growth Rate (%)					
	Mar-12		Apr-12		May-12		Jun-12		Mar-12		Apr-12		May-12		Jun-12	
	IDR	US\$	IDR	US\$	IDR	US\$	IDR	US\$	y-o-y	q-o-q	m-o-m	y-o-y	m-o-m	y-o-y	q-o-q	m-o-m
Total	1,013,454	111	1,026,071	112	1,035,125	109	1,050,246	111	(1.6)	2.0	1.2	0.9	3.8	3.6	1.5	
Government	858,644	94	870,982	95	879,099	93	884,029	94	(5.5)	1.4	1.4	0.9	0.5	3.0	0.6	
Central Govt. Bonds	760,580	83	772,330	84	780,275	82	791,180	84	12.7	5.1	1.5	1.0	14.5	4.0	1.4	
Central Bank Bills	98,064	11	98,652	11	98,824	10	92,849	10	(58.0)	(20.4)	0.6	0.2	(50.9)	(5.3)	(6.0)	
Corporate	154,810	17	155,089	17	156,026	16	166,217	18	27.8	5.3	0.2	0.6	25.9	7.4	6.5	

Notes:

1. Calculated using data from national sources.
 2. Bloomberg LP end-of-period LCY-US\$ rates are used.
 3. Growth rates are calculated from LCY base and do not include currency effects.
 4. The total stock of non-tradable bonds as of end-June stood at IDR278.4 trillion
- Source: Bank Indonesia, Indonesia Debt Management Office, Indonesia Stock Exchange, and Bloomberg LP.

The size of Indonesia's LCY bond market climbed to IDR1.05 quadrillion (US\$111.3 billion) in 2Q12, expanding 3.8% y-o-y after declining 1.6% in 1Q12 (**Table 1**). On a quarter-on-quarter (q-o-q) basis, bonds outstanding grew 3.6% in 2Q12, compared with 2.0% in the previous quarter. Growth in Indonesia's bond market was mostly driven by the corporate sector.

At end-June, LCY government bonds outstanding had grown at a marginal rate of only 0.5% y-o-y to reach IDR884.0 trillion. Growth in the government bond market was mainly driven by central government bonds, which comprise treasury bills and bonds issued by the Ministry of Finance. The stock of central bank bills, known as *Sertifikat Bank Indonesia* (SBI), continued to drop significantly, falling 50.9% y-o-y and 5.3% q-o-q.

Central Government Bonds. The stock of central government bonds rose 14.5% y-o-y to IDR791.2 trillion in 2Q12. On a q-o-q basis, central government bonds rose a modest 4.0%. Government bonds accounted for nearly 85% of Indonesia's total LCY bonds outstanding.

At end-June, some 68.4% of the total LCY government bonds were fixed-rate bonds and 16.4% were variable-rate bonds (**Table 2**). Conventional treasury bills and retail bonds accounted for 3.6% and 3.8%, respectively, of the total, while *sukuk* (Islamic bonds) as a whole accounted for 7.6%. Among the Islamic instruments, retail *sukuk* accounted for 3.7% of total government bonds outstanding and Islamic treasury bills and project-based *sukuk* each accounted for 2.0% or less.

In 2Q12, new issuance of treasury bills and bonds reached IDR40.5 trillion for a 2.4% increase over a year earlier. On a q-o-q basis, however, central government bond issuance fell 32.9%. Issuance volume in 2Q12 was less than the government's target of IDR46.5 trillion.

The government raised during the first 6 months of 2012 a total of IDR117.6 trillion through bond

Table 2: Government Bonds Outstanding by Type of Bond (as of end-June 2012)

Government Bonds	Amount Outstanding (IDR billion)	% Share
Treasury Bills (SPN)	28,180	3.6
Fixed-Rate Bonds	540,732	68.35
Variable-Rate Bonds	129,773	16.40
Zero Coupon Bonds	2,512	0.32
Retail Bonds	29,775	3.8
Islamic Treasury Bills	1,185	0.15
<i>Sukuk</i>	17,137	2.17
Retail <i>Sukuk</i>	28,989	3.66
Project-Based <i>Sukuk</i>	12,897	1.63
Total	791,180	100.00

Source: Indonesia Stock Exchange.

sales (including international bond issuance), representing 73.7% of the 2012 revised state budget target of IDR159.6 trillion. According to the Ministry of Finance's Debt Management Office, government issuance in the second half of 2012 is expected to reach IDR42 trillion. The government will continue to prioritize issuance of IDR-denominated government securities as part of its financing strategy. In addition, the government plans to issue global *sukuk* and *samurai* bonds.

Corporate Bonds. The corporate bond market in Indonesia continued to post strong growth in 2Q12 as it expanded 25.9% y-o-y. On a q-o-q basis, corporate bonds grew a more modest 7.4%. Corporate bonds only comprise a small share of Indonesia's LCY bond market, with a share of 15.8% of total LCY bonds.

About 83% of total corporate bonds outstanding in 2Q12 were conventional bonds (**Table 3**). Subordinated bonds accounted for some 13.6% of total outstanding corporate bonds. *Sukuk* issues by corporate entities represented a small percentage of total corporate bonds, with a share of only 3.4% at end-June.

The top 30 LCY corporate bond issuers in Indonesia accounted for nearly 80% of total corporate bonds outstanding at the end of 2Q12 (**Table 4**). Total bonds issued by the top 30 corporate issuers reached IDR130.6 trillion. State-power firm

Table 3: Corporate Bonds Outstanding by Type of Bond (as of end-June 2012)

Corporate Bonds	Amount Outstanding (IDR billion)	% Share
Conventional Bonds	137,387	82.66
Subordinate Bonds	22,611	13.60
Conversion Bonds	150	0.09
Zero Coupon Bonds	500	0.30
<i>Sukuk Ijarah</i>	4,480	2.70
<i>Sukuk Mudharabah</i>	775	0.47
<i>Sukuk Mudharabah</i> Subordinate	314	0.19
Total	166,217	100.00

Notes:

1. *Sukuk Ijarah* refers to Islamic bonds backed by a lease agreement.2. *Sukuk Mudharabah* refers to Islamic bonds backed by a profit-sharing scheme from a business venture or partnership.

Source: Indonesia Stock Exchange.

PLN remained the top issuer of LCY corporate bonds with total bonds valued at IDR14.2 trillion. Telecommunications firm Indosat rose to the second spot with bonds outstanding of IDR9.4 trillion. Automotive leasing company Adira Dinamika Multifinance dropped to the third spot with bonds outstanding of IDR8.0 trillion at end-June.

Issuers from the banking and financial sectors dominated the top 30 list at end-June, accounting for 73% of the firms listed. Ten companies on the top 30 list were state-owned firms. More than half of the 30 firms were listed on the Indonesia Stock Exchange.

Corporate bond issuance surged in 2Q12, with total issuance reaching IDR25.0 trillion on 42 bond series from 19 corporate entities. Compared with 2Q11 and 1Q12, corporate issuance in 2Q12 was up 67.2% y-o-y and 131.7% q-o-q, respectively, albeit from a low base. New corporate bond issues in 2Q12 were mostly conventional bonds, except for three subordinated bond issues and two *sukuk*. More than half of total corporate issuance in 2Q12 carried maturities of 3 years–5 years, and two bond issues carried maturities of 10 years. **Table 5** lists some notable corporate bonds issued in 2Q12.

Motorcycle financing company Federal international Finance raised a total of IDR4.0 trillion of bonds through a triple-tranche bond sale in April. The proceeds from the sale will be used to help boost

Table 4: Top 30 Issuers of LCY Corporate Bonds in Indonesia (as of end-June 2012)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (IDR billion)	LCY Bonds (US\$ billion)				
1. PLN	14,208	1.51	Yes	No	No	Energy
2. Indosat	9,350	0.99	No	Yes	Yes	Telecommunications
3. Adira Dinamika Multifinance	8,032	0.85	No	Yes	Yes	Finance
4. Federal International Finance	7,379	0.78	No	Yes	No	Finance
5. Astra Sedaya Finance	7,355	0.78	No	Yes	No	Finance
6. Bank Tabungan Negara	7,150	0.76	Yes	No	Yes	Banking
7. Indonesia Eximbank	7,034	0.75	Yes	No	No	Banking
8. Bank Pan Indonesia	5,500	0.58	No	Yes	Yes	Banking
9. Jasa Marga	5,000	0.53	Yes	No	Yes	Toll Roads, Airports, and Harbors
10. Perum Pegadaian	4,664	0.49	Yes	No	No	Finance
11. Bank CIMB Niaga	4,480	0.47	No	Yes	Yes	Banking
12. Bank Internasional Indonesia	4,000	0.42	No	Yes	Yes	Banking
13. Bank Tabungan Pensiunan Nasional	3,650	0.39	No	Yes	Yes	Banking
14. Indofood Sukses Makmur	3,610	0.38	No	Yes	Yes	Food and Beverages
15. Bank Mandiri	3,500	0.37	Yes	No	Yes	Banking
16. Antam	3,000	0.32	Yes	No	Yes	Petroleum and Natural Gas
17. Telekomunikasi Indonesia	3,000	0.32	Yes	No	Yes	Telecommunications
18. Sarana Multigriya Finansial	2,812	0.30	Yes	No	No	Finance
19. Bank Danamon Indonesia	2,800	0.30	No	Yes	No	Banking
20. Bank Jabar Banten	2,750	0.29	No	Yes	Yes	Banking
21. BCA Finance	2,708	0.29	No	Yes	No	Finance
22. Toyota Astra Financial Services	2,500	0.27	No	Yes	No	Finance
23. Medco-Energi Internasional	2,487	0.26	No	Yes	Yes	Petroleum and Natural Gas
24. Bank Permata	2,450	0.26	No	Yes	Yes	Banking
25. Indomobil Finance Indonesia	2,225	0.24	No	Yes	No	Finance
26. Bank Rakyat Indonesia	2,000	0.21	Yes	No	Yes	Banking
27. Japfa	2,000	0.21	No	Yes	Yes	Animal Feed
28. Surya Artha Nusantara Finance	1,995	0.21	No	Yes	No	Finance
29. Bank Bukopin	1,500	0.16	No	Yes	Yes	Banking
30. Bank DKI	1,500	0.16	No	Yes	No	Banking
Total Top 30 LCY Corporate Issuers	130,637	13.85				
Total LCY Corporate Bonds	166,217	17.62				
Top 30 as % of Total LCY Corporate Bonds	78.6%	78.6%				

LCY = local currency.
Source: Indonesia Stock Exchange.

Table 5: Notable LCY Corporate Issuance, 2Q12

Corporate Issuers	Amount Issued (IDR billion)
Federal International Finance	4,000
Indosat	3,000
Bank Tabungan Negara	2,000
Indofood Sukses Makmur	2,000
Adira Dinamika Multifinance	1,850
BCA Finance	1,700
Medco-Energi Internasional	1,500
Indomobil Finance	1,300
Toyota Astra Financial Services	1,300
Sarana Multigriya Finansial	1,250
Mayora Indah	1,000
Others	4,124
Total	25,024

Source: Indonesia Stock Exchange.

the company's lending business. The bond sale comprised the following series:

- 370-day bonds worth IDR998 billion, coupon of 6.40%;
- 2-year bonds worth IDR1.3 trillion, coupon of 7.35%; and
- 3-year bonds worth IDR1.6 trillion, coupon of 7.65%.

Indosat, an Indonesian mobile operator, issued a total of IDR3.0 trillion worth of bonds in a three-tranche bond sale in June. The proceeds from the bond sale will finance the company's operations and fund its bond buyback program. The bond issue consisted of the following series:

- 7-year bonds worth IDR1.2 trillion, coupon of 8.625%;
- 10-year bonds worth IDR1.5 trillion, coupon of 8.875%; and
- 7-year *sukuk* worth IDR300 billion, coupon of 8.625%.

Bank Tabungan Negara issued a total of IDR2 trillion of 10-year conventional bonds in June. The bonds carry a coupon of 7.90%. Proceeds from the bond sale will be used for credit expansion and to settle maturing debts.

Indonesian noodle manufacturer Indofood Sukses Makmur issued a IDR2 trillion 5-year bond in May. The bond carries a coupon of 7.25% and was given a rating of idAA+ from Pefindo. The sale was oversubscribed with the order book reaching IDR6 trillion.

Automotive financing firm Adira Dinamika Multifinance issued a total of IDR1.85 trillion through a triple-tranche bond sale in May. The bonds consisted of the following series:

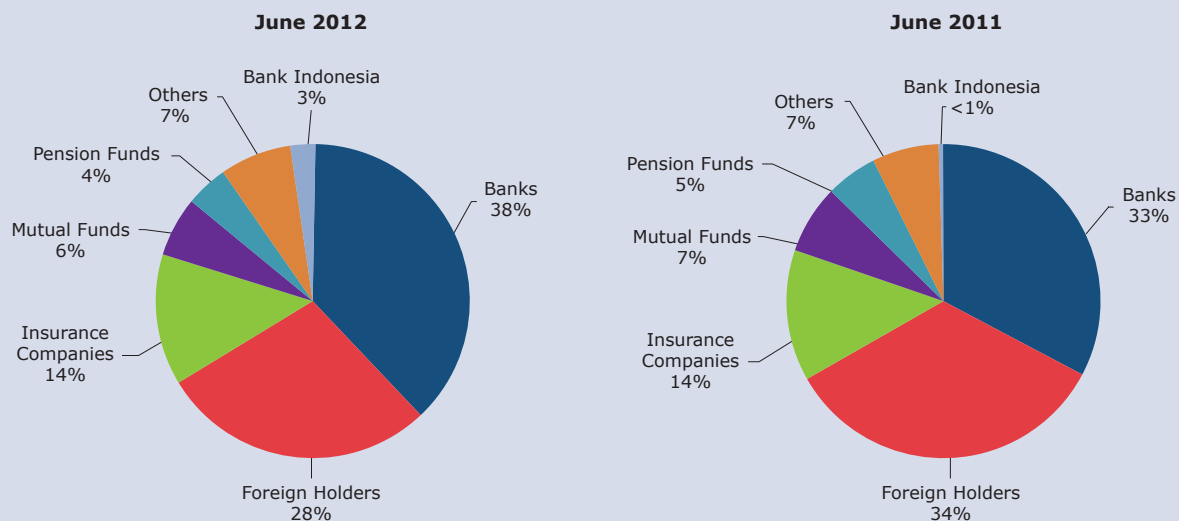
- 1-year bonds worth IDR786 billion, coupon of 6.50%;
- 2-year bonds worth IDR200 billion, coupon of 7.50%; and
- 3-year bonds worth IDR864 billion, coupon of 7.75%.

Automotive financing company BCA Finance raised a total of IDR1.7 trillion worth of bonds in May. The proceeds from the bond sale will be used to boost the company's financing requirements. The bonds consisted of the following series:

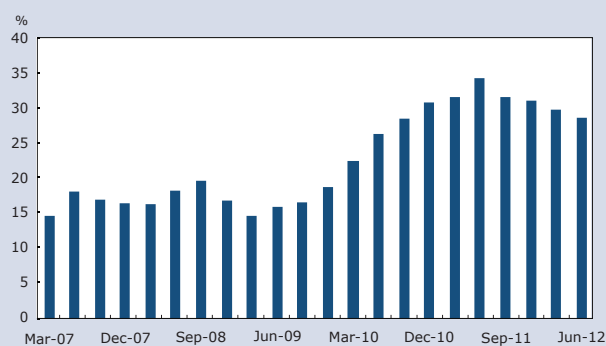
- 1-year bonds worth IDR650 billion, coupon of 6.35%;
- 2-year bonds worth IDR200 billion, coupon of 7.35%;
- 3-year bonds worth IDR250 billion, coupon of 7.60%; and
- 4-year bonds worth IDR600 billion, coupon of 7.70%.

Investor Profile

Central Government Bonds. At the end of 2Q12, banking institutions were the largest holders of central government bonds in Indonesia (**Figure 2**). The share of banking institutions climbed to 38% in 2Q12 from 33% in the same period a year earlier. Banking institutions include state banks, private banks, non-recap banks, regional banks, and *shari'a* (Islamic law) banks. Among these institutions, state banks accounted for nearly 50% of total bond holdings.

Figure 2: LCY Government Bonds Investor Profile

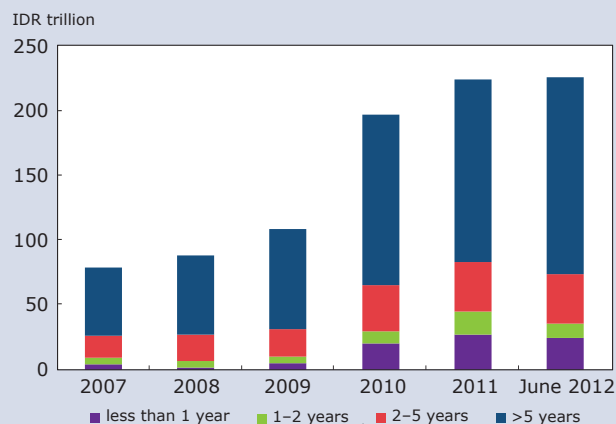
LCY = local currency.
Source: Indonesia Debt Management Office.

Figure 3: Quarterly Foreign Investor Share of LCY Government Bonds, March 2007–June 2012

LCY = local currency
Source: Indonesia Debt Management Office.

Between end-June 2011 and end-June 2012, the share of central government bonds held by foreign investors fell from 34% to 28% (**Figure 3**). Foreign investors began selling government bonds heavily in September 2011. While concerns over the eurozone crisis have led foreign investors to reduce their exposure to emerging market assets, their share of the Indonesian LCY bond market remains the highest in the region.

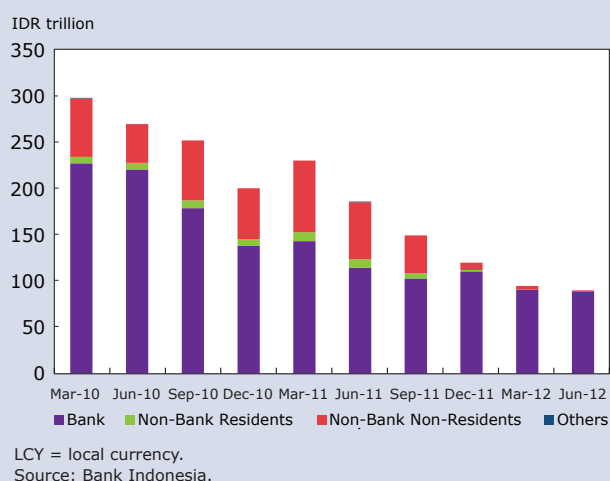
In 2Q12, 67.3% of LCY bonds held by foreigners were in long-dated tenors (maturities of 5 years or

Figure 4: Foreign Holdings of LCY Government Bonds by Maturity, 2007–June 2012

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

more) (**Figure 4**). This was an increase from the 63.2% share of the total recorded at end-2011. Offshore holdings of short-dated tenors (bonds with maturities of less than 1 year) dropped to 10.6% at end-June from a share of 11.9% at end-December.

At end-June, the share of LCY government bonds held by BI climbed to 3.0%, reaching IDR20.4 trillion from only IDR3.1 trillion at end-

Figure 5: LCY Central Bank Bills Investor Profile, March 2010–June 2012

June 2011. The central bank has actively supported the LCY bond market through the purchase of government bonds as part of efforts to stabilize market prices.

Meanwhile, the share of contractual savings institutions' holdings of government bonds in Indonesia remained low in 2Q12 compared with other markets in the region. The share of insurance companies was steady at 14.0% at end-June, the same share as a year earlier. On the other hand, the share of pension funds fell slightly to 4.0% from 5.0% over the same period.

Central Bank Bills. At end-June, SBI were held almost entirely by banking institutions, with an ownership share of 99.0%, compared with 95.7% in 1Q12 and 92.2% in 4Q11 (**Figure 5**). The remaining 1.0% was held by foreign investors, a share that has dropped substantially since March 2011 after reaching a high of 33.0% in early 2011. The central bank's implementation of a 6-month holding period for SBI effectively negated foreign investor interest in SBI.

Rating Changes

On 23 April, Standard & Poor's (S&P) affirmed Indonesia's short- and long-term sovereign ratings at B and BB+, respectively, with the

Table 6: Selected Sovereign Ratings and Outlook for Indonesia

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	Baa3	BB+	BBB-	BB+
Outlook	Stable	Positive	Positive	Positive

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

outlook remaining positive for both (**Table 6**). According to S&P, "the rating on Indonesia balances institutional and economic constraints with a moderately strong fiscal, external, and monetary profile." The rating agency also said "the positive outlook signals the potential for an upgrade if the country's growth prospects improve further and financial markets deepen with steadier policy implementation."

On 16 July, Moody's Investors Service (Moody's) maintained its stable outlook on Indonesia's Baa3 sovereign rating. The rating agency cited Indonesia's strong growth, low government debt, and recent track record of prudent fiscal management as the reasons for its ratings action. Earlier this year, Moody's raised Indonesia's foreign currency (FCY) and LCY ratings to Baa3 from Ba1, with a stable outlook for both.

Policy, Institutional, and Regulatory Developments

Government Postpones Issuance of Project-Financing *Sukuk*

In April, the government announced that its plan to issue project-financing *sukuk* (Islamic bonds issued to finance new projects) would be postponed until 2013 due to administrative reasons. Approval from the House of Representatives is required for issuance of *sukuk* backed by project financing. Currently, the National Development Planning Agency (Bappenas) is still in the process of selecting projects proposed by ministries and agencies. The government had previously announced plans to issue project-financing *sukuk* in 2H12 to complement the existing stock of project-based *sukuk* (Islamic bonds backed by infrastructure projects).

BI Issues FCY Term Deposit

In June, BI began offering a term deposit instrument for FCY. The new instrument involves the placement of FCY by banks with BI. According to the central bank, the term deposit will be managed through various foreign exchange (FX) transactions to increase the FX supply in the market and enhance monetary policy operations through FX swap operations. The FCY term deposit facilities will carry maturities of 7, 14, and 30 days, and will be auctioned every Wednesday, or on other days as specified by BI. The central bank held its first auction on 13 June, consisting of 7- and 14-day term deposits. The auction was oversubscribed as bids reached US\$1.6 billion compared with a target of US\$700 million.

BI Signs MOUs with Australia and the Republic of Korea on Cross-Border Bank Supervision

In June, BI entered into memorandums of understanding (MOUs) on cross-border banking supervision with the Australian Prudential Regulation Authority and the Republic of Korea's Financial Services Commission (FSC) and Financial Supervisory Service (FSS). The MOUs, which became effective on 6 June, promote mutual exchanges of information and enhance cooperation in the area of banking supervision. In 2010, BI also signed a similar agreement with Bank Negara Malaysia, the China Banking Regulatory Commission, and the Monetary Authority of Singapore.

PBOC and BI Interbank Bond Market Agreement

On 21 June, the People's Bank of China (PBOC) and BI signed an Agency Agreement that will allow BI to invest in the interbank bond market of the PRC. The agreement reflects close collaboration between the PBOC and BI, and represents cooperation as a follow-up to their bilateral swap agreement. According to BI, access to the PRC

bond market will facilitate efforts to diversify its FX reserves. As of end-June, Indonesia's foreign exchange reserves totaled US\$106.5 billion.

BI Announces New Regulations on Bank Ownership

In July, BI announced new regulations limiting investor ownership of Indonesian banks. Under the new rules that became effective 13 July, the new acquisition of a domestic commercial bank by a financial institution is limited to a 40% ownership stake, a non-financial institution to 30%, and families or individuals to 20%. State-owned banks and banks undergoing a recovery are exempt from the new rules. Also, exemptions can be granted for new acquisitions of listed banks exhibiting financial strength and possessing a Tier 1 capital ratio of more than 6%.

BI and the Indonesian Government Announce Measures to Address Increasing Current Account Deficit

In August, BI and the government held a coordination meeting to discuss measures to help the economy cope with a rising current account deficit. New measures announced on the part of BI include the following: (i) BI will allow investors to hedge their FX transactions with financial instruments carrying a minimum tenor of 1 week from a minimum of 3 months previously, effective 14 August; (ii) BI raised the floor of its deposit facility rate by 25 bps to 4.0% from 3.75%; the upper limit remains at 6.75%; (iii) BI also plans to tighten credit growth by strengthening the implementation of Loan-to-Value (LTV) limit, including a plan to ban the use of unsecured personal loans for credit advances. On the government side, a number of policies will be pursued to strengthen the current account to boost exports, manage imports, and improve the investment climate through fiscal instruments. In particular, anticipatory measures have been undertaken by the government with respect to taxation and custom duties.

Republic of Korea—Update

Yield Movements

Government bond yields in the Republic of Korea fell for all tenors between end-December 2011 and end-July 2012, with the decline ranging from 49 basis points (bps) for both the 3- and 5-year tenors to 79 bps for the 20-year tenor (**Figure 1**). The decline in yields has been attributed to expectations of a slowdown in the country's economic growth, amid sluggish economic performances among major trading partners and market concerns over the eurozone's sovereign debt and banking problems. The yield spread between 2- and 10-year tenors narrowed 12 bps between end-December and end-July—as the fall in the yield of the 10-year tenor was greater than in the 2-year.

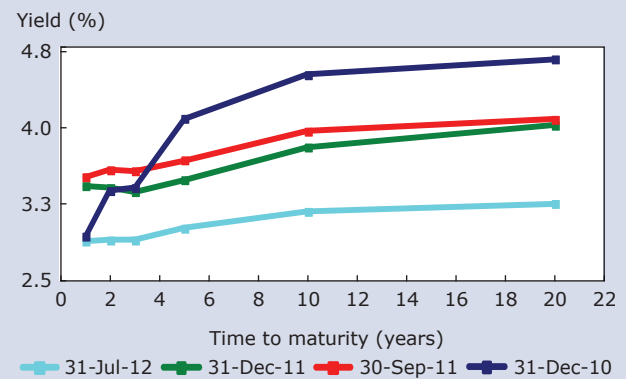
The Bank of Korea's Monetary Policy Committee decided on 9 August to keep the base rate—the 7-day repurchase rate—steady at 3.0%. In its previous meeting in July, the committee decided to lower the base rate by 25 bps. Inflationary pressures in the Republic of Korea have moderated, as the year-on-year (y-o-y) inflation rate based on the consumer price index dropped for 8 consecutive months, reaching 1.2% in August.

Real gross domestic product (GDP) growth slowed down to 0.3% quarter-on-quarter (q-o-q) in 2Q12 from 0.9% in 1Q12. Manufacturing activity fell 0.2% q-o-q in 2Q12, following 2.0% growth in the previous quarter. Private consumption rose 0.4% q-o-q, while government expenditure decreased 0.3%. Gross fixed capital formation and total exports contracted 2.9% and 0.6% q-o-q, respectively. On a y-o-y basis, real GDP grew 2.3% in 2Q12 after expanding 2.8% in 1Q12.

Size and Composition

Total local currency (LCY) bonds outstanding in the Republic of Korea grew 9.7% y-o-y

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



LCY = local currency.
Source: Bloomberg LP.

and 2.1% q-o-q to KRW1,491 trillion (US\$1.3 trillion) as of end-June (**Table 1**). The outstanding amount of LCY government bonds stood at KRW601.2 trillion, up 3.0% y-o-y and roughly unchanged from the previous quarter. Central government bonds, which include Korea Treasury Bonds (KTBs), posted positive growth rates of 5.5% y-o-y and 1.1% q-o-q to level off at KRW408.4 trillion. On the other hand, central bank bonds, or Monetary Stabilization Bonds (MSBs), recorded declines of 1.5% y-o-y and 2.0% q-o-q to settle at KRW164.6 trillion, while industrial finance debentures, or Korea Development Bank (KDB) bonds, fell 4.4% y-o-y and 5.0% q-o-q to KRW28.2 trillion.

In 2Q12, issuance of LCY government bonds amounted to KRW66.8 trillion, which was 1.5% lower than in the previous quarter. The quarterly decline stemmed from a 44.0% q-o-q drop in issuance of industrial finance debentures. Meanwhile, central government bond issues in 2Q12 totaled KRW22.6 trillion, which was only 0.3% higher than in the previous quarter. Central bank bond issues also rose marginally by 0.5% q-o-q to KRW42.5 trillion.

		Amount (billion)										Growth Rate (%)						
		Mar-12		Apr-12		May-12		Jun-12		Mar-12		Apr-12		May-12		Jun-12		
		KRW	US\$	KRW	US\$	KRW	US\$	KRW	US\$	Y-o-Y	Q-o-Q	m-o-m	Y-o-Y	Q-o-Q	m-o-m	Y-o-Y	Q-o-Q	m-o-m
Total		1,461,197	1,290	1,468,452	1,299	1,488,483	1,261	1,491,463	1,302	10.0	3.2	0.5	1.4	9.7	2.1	0.2		
Government		601,437	531	603,049	534	609,077	516	601,162	525	4.6	2.4	0.3	1.0	3.0	(0.05)	(1.3)		
Central Bank Bonds		167,970	148	165,690	147	166,950	141	164,580	144	(0.3)	1.9	(1.4)	0.8	(1.5)	(2.0)	(1.4)		
Central Government Bonds		403,751	356	408,552	362	413,276	350	408,361	357	6.7	2.8	1.2	1.2	5.5	1.1	(1.2)		
Industrial Finance Debentures		29,716	26	28,807	25	28,851	24	28,221	25	5.9	(0.6)	(3.1)	0.2	(4.4)	(5.0)	(2.2)		
Corporate		859,760	759	865,403	766	879,406	745	890,301	777	14.1	3.7	0.7	1.6	14.7	3.6	1.2		

Notes:

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

Source: EDALY *BondWeb* and The Bank of Korea.

Trading activity improved in the KTB futures market, as the number of traded KTB futures contracts increased from 9.1 million in 1Q12 to 9.3 million in 2Q12. Furthermore, the share of 10-year KTB futures as a portion of the total market has been steadily on the rise and that of 3-year KTB futures has been on the decline (**Figure 2**).

Table 2: Top 30 Issuers of LCY Corporate Bonds in the Republic of Korea (as of end-June 2012)

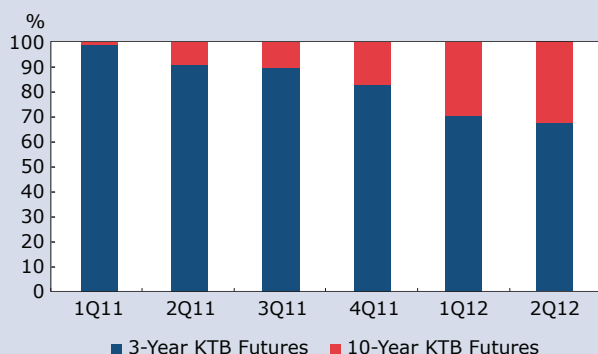
Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed on		Type of Industry
	LCY Bonds (KRW billion)	LCY Bonds (US\$ billion)			KOSPI	KOSDAQ	
1. Korea Land & Housing Corp.	55,865	48.8	Yes	No	No	No	Real Estate
2. Korea Housing Finance Corp.	42,216	36.9	Yes	No	No	No	Financial
3. Korea Deposit Insurance Corp.	36,090	31.5	Yes	No	No	No	Insurance
4. Korea Finance Corp.	35,390	30.9	Yes	No	No	No	Financial
5. Industrial Bank of Korea	28,152	24.6	Yes	No	Yes	No	Bank
6. KDB Daewoo Securities	27,584	24.1	Yes	No	Yes	No	Securities
7. Korea Electric Power Corp.	27,120	23.7	Yes	No	Yes	No	Utility
8. Woori Investment and Securities	23,287	20.3	Yes	No	Yes	No	Securities
9. Korea Investment and Securities	20,089	17.5	No	Yes	No	No	Securities
10. Kookmin Bank	19,540	17.1	No	Yes	No	No	Bank
11. Korea Expressway Corp.	19,290	16.8	Yes	No	No	No	Infrastructure
12. Shinhan Bank	19,047	16.6	No	Yes	No	No	Bank
13. Mirae Asset Securities	17,075	14.9	No	Yes	Yes	No	Securities
14. Woori Bank	16,082	14.0	Yes	No	No	No	Bank
15. Tong Yang Securities	16,078	14.0	No	Yes	Yes	No	Securities
16. Small & Medium Business Corp.	15,038	13.1	Yes	No	No	No	Financial
17. Korea Rail Network Authority	13,270	11.6	Yes	No	No	No	Infrastructure
18. Korea Gas Corp.	12,665	11.1	Yes	No	Yes	No	Utility
19. Hana Bank	12,614	11.0	No	Yes	No	No	Bank
20. Hyundai Securities	10,646	9.3	No	Yes	Yes	No	Securities
21. Hana Daetoo Securities	10,477	9.1	No	Yes	No	No	Securities
22. Standard Chartered First Bank Korea	9,330	8.1	No	Yes	No	No	Bank
23. Korea Water Resources	9,254	8.1	Yes	No	Yes	No	Utility
24. Korea Eximbank	9,030	7.9	Yes	No	No	No	Bank
25. Shinhan Card	8,700	7.6	No	Yes	No	No	Financial
26. Shinhan Investment Corp.	8,567	7.5	No	Yes	No	No	Securities
27. Hyundai Capital Services	7,508	6.6	No	Yes	No	No	Securities
28. Shinhan Financial Group	7,490	6.5	No	Yes	Yes	No	Financial
29. Korea Railroad Corp.	7,440	6.5	Yes	No	No	No	Infrastructure
30. Nonghyup Bank	7,300	6.4	Yes	No	No	No	Bank
Total Top 30 LCY Corporate Issuers	552,233	482.1					
Total LCY Corporate Bonds	890,301	777.3					
Top 30 as % of Total LCY Corporate Bonds	62.0%	62.0%					

KOSPI = Korea Composite Stock Price Index, KOSDAQ = Korean Securities Dealers Automated Quotations, LCY = local currency.
Source: *AsianBondsOnline*, Bloomberg LP, and *EDAILY BondWeb*.

Meanwhile, the turnover ratio for LCY corporate bonds slipped to 0.16 in 2Q12 from 0.18 in 1Q12, as the turnover ratio for financial debentures fell to 0.32 in 2Q12 from 0.36 in 1Q12, while that

for private corporate bonds decreased to 0.07 in 2Q12 from 0.09 in 1Q12. On the other hand, the turnover ratio for special public bonds inched up to 1.06 in 2Q12 from 0.95 in 1Q12.

Figure 2: Trading Volume of KTB Futures Contracts, 1Q11–2Q12 (%)



KTB = Korea Treasury Bond.
Source: Korea Exchange.

Investor Profile

Insurance companies and pension funds were the largest investor group in LCY government bonds in 1Q12, holding 25% of total government bonds at end-March (**Figure 3**). They were followed by the general government—consisting of the central government, local governments, and social security funds—which held 24% of the total. Banks and other financial companies posted shares of 19% and 18%, respectively, while foreign investors held 11%. Compared with a year earlier, the share of insurance companies and pension funds increased 2 percentage points, while the shares of banks and foreign investors

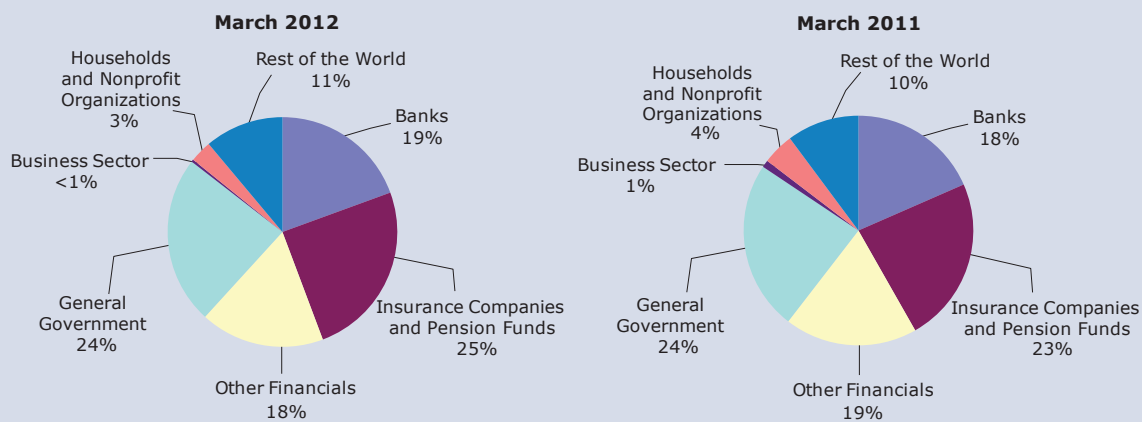
climbed 1 percentage point each. In contrast, a 1 percentage point fall was evident in the shares of other financial companies, and households and nonprofit organizations.

The largest investor group in LCY corporate bonds at end-March was insurance companies and pension funds, which held 33% of total corporate bonds (**Figure 4**). Financial companies other than banks, insurance companies, and pension funds were the next largest holders at 29%, followed by banks (18%), the general government (12%), households and nonprofit organizations (5%), non-financial companies (2%), and foreign investors (1%). Compared with end-March 2011, the shares of insurance companies and pension funds, non-financial companies, and foreign investors climbed 1 percentage point each, while that of households and nonprofit organizations rose 2 percentage points. In contrast, the share of banks dropped 4 percentage points and the share of other financial companies declined 1 percentage point.

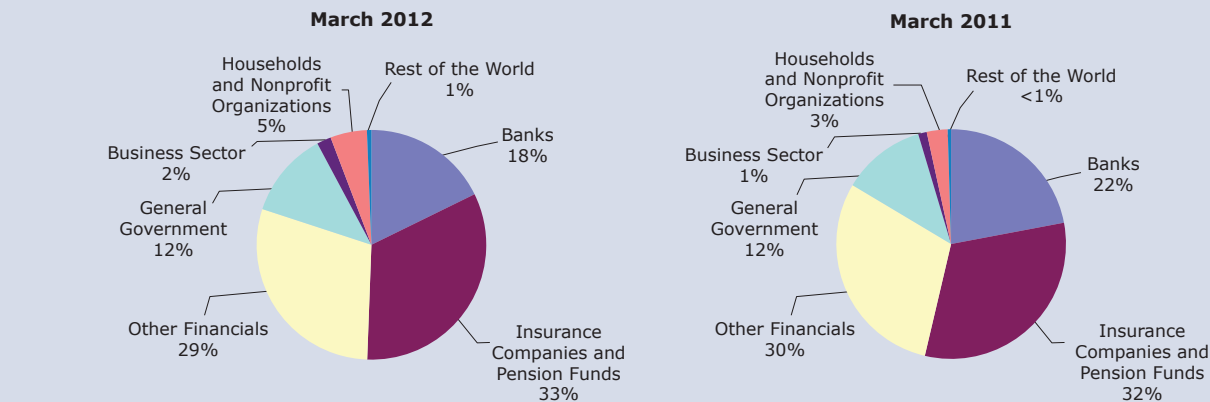
Rating Changes

Rating and Investment Information, Inc. (R&I) announced in April that it had affirmed the Republic of Korea's foreign currency (FCY) and LCY issuer ratings at A+ and AA–, respectively, and that the

Figure 3: LCY Government Bonds Investor Profile



LCY = local currency.
Source: AsianBondsOnline and The Bank of Korea.

Figure 4: LCY Corporate Bonds Investor Profile

LCY = local currency.

Source: AsianBondsOnline and The Bank of Korea.

Table 3: Selected Sovereign Ratings and Outlook for the Republic of Korea

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	Aa3	A	AA-	A+
Outlook	Stable	Stable	Stable	Stable

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

outlook for both ratings was stable (**Table 3**). R&I reported that the country has “sound fiscal conditions,” a stable financial system, and a “sustained current account surplus.” Moody’s Investor Service (Moody’s) stated in August that it upgraded the country’s government bond rating to Aa3 from A1 due to its strong fiscal fundamentals, reduced banking sector vulnerability, and high degree of competitiveness and economic resilience.

Policy, Institutional, and Regulatory Developments

Regulation on Corporate Bond Underwriting Amended

According to the Financial Supervisory Service (FSS), the regulation on underwriting corporate bonds was amended in April to require lead arrangers to conduct due diligence on corporate bond issuers and carry out demand forecasting in order to determine investors’ level of demand and desired pricing for the bond.

MOSF Reports Economic Policy for 2H12

The Ministry of Strategy and Finance (MOSF) reported in June that the economic policies of the Republic of Korea in the second half of the year would focus on minimizing the adverse effects of the global economic crisis on the domestic economy, conducting economic reforms, and supporting the working class. MOSF mentioned seven important tasks for the government to pursue, including (i) dealing with global financial turmoil effectively, (ii) continuing with fiscal stimulus by raising budgetary spending and providing supplementary budgets, (iii) establishing a facility investment fund to support such investment, (iv) keeping consumer price inflation at or near 2.0%, (v) generating 400,000 jobs within the year, (vi) promoting microfinance and housing support programs, and (vii) nurturing certain sectors as future growth engines.

FSC Forms Task Force for Legislation of Covered Bond Act

In July, the Financial Services Commission (FSC) formed a task force that will help legislate the Covered Bond Act and thereby encourage banks to issue covered bonds. The FSC has reported that with the legislation of the Covered Bond Act, issuance of covered bonds will help banks lower their funding costs. The FSC expects that the draft bill will be submitted to the National Assembly for approval in November.

Malaysia—Update

Yield Movements

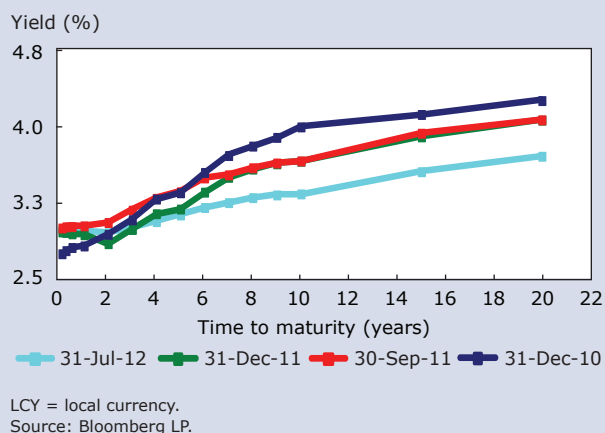
The yield curve for Malaysian local currency (LCY) government bonds flattened in the first half of the year, as yields rose at the shorter-end and fell at the belly and longer-end of the curve (**Figure 1**). Moderated by easing inflation amid concerns over the impact of the European debt crisis, yields at the shorter-end rose between 2 basis points (bps) and 11 bps between end-December 2011 and end-July 2012. On the other hand, yields for 4- and 5-year maturities fell 8 bps and 6 bps, respectively, while yields between the 6- and 20-year maturities posted double digit declines of 15 bps–35 bps. The yield spread between the 2- and 10-year maturities narrowed to 39 bps at end-July from 82 bps at end-December.

Bank Negara Malaysia (BNM) decided to keep its overnight policy rate steady at 3.0% at its Monetary Policy Committee meeting on 5 July. BNM has kept its rate at this level since May 2011. According to BNM, Malaysia's domestic consumption and investment activity remain resilient, while inflation is expected to remain moderate during the remainder of the year. BNM forecasts inflation to average 2%–3% for the full-year 2012.

Malaysia's consumer price inflation eased to 1.6% year-on-year (y-o-y) in June from 1.7% in May and 2.2% in April. Inflation during the first half of the year was 2.0% y-o-y, compared with 3.0% in the same period in 2011.

Malaysia's economy has remained resilient in 2012, supported largely by domestic demand. Growth in Malaysia's real gross domestic product (GDP) slowed to 4.7% y-o-y in 1Q12 from a revised 5.2% growth rate in 4Q11. Domestic demand growth remained firm at 9.6% y-o-y in 1Q12, supported by an increase in private consumption of 7.4%, which was up slightly from 7.3% growth in 4Q11. Meanwhile, public consumption grew 5.9% y-o-y in 1Q12, after registering 22.9% growth in 4Q11. Growth in gross fixed capital formation accelerated

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



to 16.1% y-o-y in 1Q12 versus 8.4% in the previous quarter.

On the supply side, the agriculture and manufacturing sectors posted lower growth rates of 2.1% and 4.2% y-o-y, respectively, in 1Q12, compared with growth of 6.9% and 5.2% in the previous quarter. The services sector grew 5.0% in 1Q12, compared with 6.6% in 4Q11. The mining sector grew 0.3% in 1Q12 in a reversal of the 3.8% decline in 4Q11, and the construction sector posted robust 15.5% growth following an expansion of 7.5% in the previous quarter.

Size and Composition

Malaysia's bond market continues to post double digit growth rates, with total LCY bonds outstanding rising 15.0% y-o-y to MYR934.2 billion (US\$294.0 billion) at end-June after posting 18.7% growth at end-March (**Table 1**). LCY government and corporate bonds both posted strong growth at 15.3% and 14.6% y-o-y, respectively, in 2Q12. On a quarter-on-quarter (q-o-q) basis, total LCY bonds outstanding grew 9.1% in 1Q12 and 2.3% in 2Q12.

Growth in LCY government bonds eased slightly to 15.3% y-o-y in 2Q12 after posting a 20.0%

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

	Amount (billion)						Growth Rate (%)					
	Mar-12		Apr-12		May-12		Jun-12		Mar-12		Apr-12	
	MYR	US\$	MYR	US\$	MYR	US\$	MYR	US\$	y-o-y	q-o-q	m-o-m	m-o-m
Total	913	298	916	302	929	293	934	294	18.7	9.1	0.2	1.5
Government	550	179	553	183	565	178	559	176	20.0	9.6	0.5	2.1
Central Government Bonds and Bills	408	133	413	136	420	132	417	131	13.5	6.0	1.2	1.8
Central Bank Bills	142	46	140	46	145	46	142	45	44.4	21.5	(1.5)	3.1
Corporate	363	119	363	120	364	115	375	118	16.9	8.5	(0.2)	0.4

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

Notes:

1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY-US\$ rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. All government bonds, previously under the category "Others," have matured as of end-February 2012. "Others" refers to Khazanah Nasional Bhd. and Cagamas Bonds and Notes, Bithaman Aji Islamic Securities, Sanadat ABBA Cagamas, and Sanadat Mudharabah Cagamas issued by Cagamas Bhd.

Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) and Bloomberg LP.

increase in 1Q12. Total LCY government bonds outstanding stood at MYR559 billion at end-June. Central government bills and bonds rose 10.9% y-o-y at end-June, slightly lower than the 13.5% growth recorded at end-March. Meanwhile, outstanding central bank bill growth increased 31.2% y-o-y in 2Q12 after surging 44.4% in 1Q12. On a q-o-q basis, total LCY government bonds outstanding rose 1.6% in 2Q12.

Total LCY government bond issuance increased 8.4% during the first half of 2012 to reach MYR235 billion, up from MYR216.7 billion in the same period last year. Issuance of government bonds—Malaysian Government Securities (MGSs) and Government Investment Issues (GIIs)—rose 1.0% and 1.9% y-o-y in 1Q12 and 2Q12, respectively. Meanwhile, issuance of central bank bills rose 29.0% y-o-y in 1Q12, but fell 8.5% y-o-y in 2Q12.

Outstanding LCY corporate bonds rose 14.6% y-o-y at end-March and 17.4% y-o-y at end-June. On a q-o-q basis, total LCY corporate bonds outstanding rose 8.5% and 3.2% in 1Q12 and 2Q12, respectively. The first half of 2012 saw a surge in issuance of corporate bonds, particularly *sukuk* (Islamic bonds). Issuance of Islamic medium-term notes (IMTNs) reached MYR50.6 billion during the first 6 months of 2012, up from the MYR40.4 billion of IMTN issuance in all of 2011. Issuance of IMTNs has been rapidly increasing since 2005 (**Table 2**).

Among the notable *sukuk* issues during the first half of 2012 was toll expressway operator Projek Lebuhraya Utara Selatan Bhd.'s (PLUS) MYR30.6 billion worth of IMTNs, the world's largest *sukuk* issuance to date (**Table 3**). 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 the multi-tranche sale of *sukuk* in March. More recently, Encorp Systembilt raised MYR1.6 billion from the sale of multi-tranche *sukuk* in May.

Table 2: Issuance of Corporate LCY Bonds, 2005–1H12
(MYR billion)

Year	BONDS	IBONDS	MTNs	IMTNs
2005	1.88	7.04	2.18	4.81
2006	8.16	6.80	4.56	12.12
2007	5.60	13.13	11.70	29.24
2008	18.57	9.40	11.57	13.98
2009	9.65	5.96	16.58	26.33
2010	5.25	3.67	15.24	26.47
2011	9.99	4.67	14.07	40.43
1H12	4.33	3.43	7.39	50.57

BONDS = conventional corporate bonds, IBONDS = Islamic bonds, IMTNs = Islamic medium-term notes, MTNs = medium-term notes.
Source: Bank Negara Malaysia.

Malaysian Airlines sold an initial tranche—worth MYR1 billion—of its perpetual junior *sukuk*, the world's first perpetual *sukuk*, to Kumpulan Wang Persaraan Retirement Fund Inc.

Several state-owned companies also issued *sukuk* during the first 6 months of the year. In April, construction company Pembinaan BLT, which is owned by the Ministry of Finance, issued MYR1.4 billion in a multi-tranche sale. The *sukuk*, issued through a special purpose vehicle, Aman Sukuk Bhd., are part of the construction company's MYR10 billion IMTN Programme under the *musharakah* (joint venture) concept. Johor Corp. raised MYR3 billion from the sale of IMTNs issued under the *wakalah billstithmar* (investment through agent) principle. These *sukuk* are irrevocable and unconditionally guaranteed by the Malaysian government. Finally, Perbadanan Tabung Pendidikan Tinggi Nasional (Malaysia's National Higher Education Corporation) issued MYR2.5 billion worth of 10-year *sukuk* under the principle of *murahaba* (cost-plus financing).

Meanwhile, a number of conventional bonds were issued by banks and financial institutions in the first half of the year. Malayan Bank (Maybank) raised MYR2.1 billion from the issuance of 12-year subordinated debt, while Hong Leong Bank raised MYR1.5 billion from the sale of 12-year senior subordinated notes. Genting Capital raised

Table 3: Notable Corporate Issues in 1H12

Corporate Issuer	Instrument	Amount (MYR billion)
Projek Lebuhraya Utara Selatan (PLUS) Bhd.	IMTNs	30.60
Tanjung Bin Energy	IMTNs	3.29
Johor Corp	IMTNs	3.00
Sarawak Energy	IMTNs	2.50
Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN)	IMTNs	2.50
Maxis Bhd.	IMTNs	2.45
Maybank	BONDS	2.10
Genting Capital	MTNs	2.00
Encorp Systembilt	IBONDS	1.58
Hong Leong Bank	BONDS	1.50
Pembinaan BLT (Aman Sukuk)	IMTNs	1.35
Malaysian Airlines	IBONDS	1.00

BONDS = conventional corporate bonds, IBONDS = Islamic bonds, IMTNs = Islamic medium-term notes, MTNs = medium-term notes.
Source: Bank Negara Malaysia.

MYR2 billion from the sale of 10- and 5-year medium-term notes (MTNs). The issue is covered by an irrevocable and fully unconditional guarantee of the parent company.

As of end-June, the top 30 issuers in Malaysia accounted for 56.9% of total LCY corporate bonds outstanding. With the issuance of its MYR30.6 billion multi-tranche *sukuk*, PLUS became the largest issuer of LCY corporate bonds, followed by Cagamas Bhd., Khazanah Nasional, and Binariang GSM, with outstanding amounts of MYR19.2 billion, MYR13.2 billion, and MYR11.3 billion, respectively (**Table 4**).

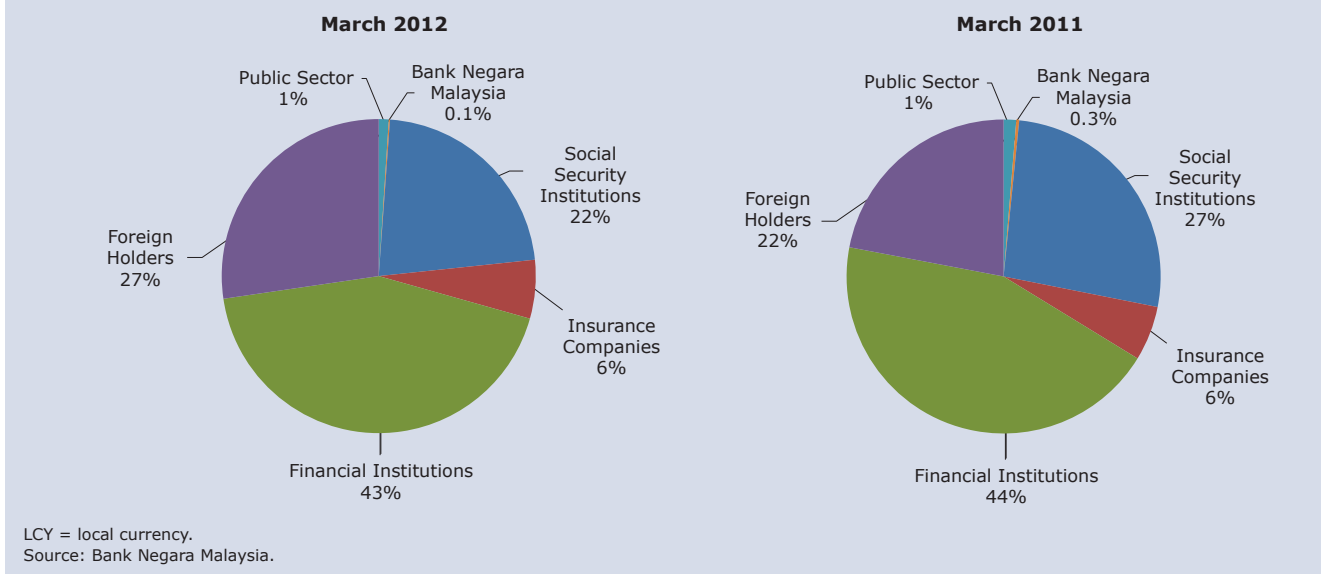
Investor Profile

As of end-March, financial institutions were the largest holders of MGSs and GIIs, with 43% of total outstanding government bonds, followed by foreign investors and social security institutions, which held 27 and 22%, respectively (**Figure 2**). Insurance companies comprised 6% of the total. The share of government bonds held by foreign investors continued its gradual rise to 27% at end-March, up from 26% at end-December 2011 and 25% at end-September 2011.

Table 4: Top 30 Issuers of LCY Corporate Bonds in Malaysia (as of end-June 2012)

Issuers	Outstanding Amount (MYR billion)					State- Owned	Privately- Owned	Listed Company	Type of Industry
	BONDS	IBONDS	MTNs	IMTNs	TOTAL				
1. Project Lebuhraya				30.60	30.60	No	Yes	Yes	Transport, Storage, and Comm.
2. Cagamas			9.52	9.65	19.17	Yes	No	No	Finance
3. Khazanah		13.20			13.20	Yes	No	No	Quasi-Govt. and Other
4. Binariang GSM		3.02		8.28	11.30	No	Yes	No	Transport, Storage, and Comm.
5. Maybank	9.70	1.50			11.20	No	Yes	Yes	Finance
6. Pengurusan Air Bhd.				11.08	11.08	Yes	No	No	Energy, Gas, and Water
7. Prasarana	2.91	2.00		4.00	8.91	Yes	No	No	Finance
8. Malakoff Corp		1.70		5.60	7.30	No	Yes	No	Finance
9. CIMB Bank	7.00				7.00	No	Yes	No	Finance
10. Public Bank	1.20		4.87		6.07	No	Yes	Yes	Finance
11. Senai Desaru Expressway Bhd.				5.58	5.58	No	Yes	No	Construction
12. Sarawak Energy				5.50	5.50	Yes	No	Yes	Energy, Gas, and Water
13. KL International Airport	1.60	3.76			5.36	Yes	No	No	Transport, Storage, and Comm.
14. Johor Corp		2.15		3.00	5.15	Yes	No	No	Quasi-Govt. and Other
15. 1Malaysia Development Bhd.				5.00	5.00	Yes	No	No	Finance
16. Hong Leong Bank	3.70		1.16		4.86	No	Yes	Yes	Finance
17. Manjung Island Energy Bhd.				4.85	4.85	No	Yes	No	Energy, Gas, and Water
18. AM Bank	0.49		4.28		4.77	No	Yes	Yes	Finance
19. RHB Bank	0.60		4.00		4.60	No	Yes	No	Finance
20. Putrajaya Holdings		0.50		3.88	4.38	No	Yes	No	Finance
21. Jimah Energy Ventures				4.32	4.32	No	Yes	No	Energy, Gas, and Water
22. Celcom Transmission				4.20	4.20	No	Yes	No	Transport, Storage, and Comm.
23. Bank Pembangunan Malaysia	0.90		2.40	0.90	4.20	Yes	No	No	Finance
24. Rantau Abang Capital Bhd.				3.80	3.80	No	Yes	No	Quasi-Govt. and Other
25. Aman Sukuk Bhd.				3.62	3.62	Yes	No	No	Construction
26. Danga Capital				3.60	3.60	Yes	No	No	Finance
27. YTL Power International			3.54		3.54	No	Yes	Yes	Energy, Gas, and Water
28. Tanjung Bin				3.53	3.53	No	Yes	No	Energy, Gas, and Water
29. Cepak Mentari	3.50				3.50	No	Yes	Yes	Finance
30. Tanjung Bin Energy				3.29	3.29	No	Yes	No	Energy, Gas, and Water
Total Top 30 LCY Corporate Issuers	31.60	27.82	29.77	124.26	213.46				
Total LCY Corporate Bonds	61.52	60.58	59.75	172.10	375.21				
Top 30 as % of Total LCY Corporate Bonds	51.4%	45.9%	49.8%	72.2%	56.9%				

BONDS = conventional corporate bonds, IBONDS = Islamic bonds, IMTNs = Islamic medium-term notes, LCY = local currency, MTNs = medium-term notes.
Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST).

Figure 2: Malaysian LCY Government Bonds Investor Profile

Rating Changes

In August, international credit rating agency Standard & Poor's (S&P) affirmed Malaysia's A-/A-2 foreign currency (FCY) credit rating and A/A-1 LCY credit rating, citing the country's strong external liquidity position, competitive middle-income economy, and high savings rate (**Table 5**).

Fitch Ratings also affirmed Malaysia's long-term FCY and LCY issuer default ratings at A- and A, respectively, with a stable outlook for both ratings. According to Fitch, the affirmation of the ratings and stable outlooks reflect Malaysia's macroeconomic stability and strong net external creditor position. However, Fitch also cited the deterioration of public debt ratios and structural weaknesses in Malaysia's public finances as weighing on its credit profile.

Table 5: Selected Sovereign Ratings and Outlook for Malaysia

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	A3	A-	A-	A
Outlook	Stable	Stable	Stable	Stable

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

Policy, Institutional, and Regulatory Developments

BNM Announces Renminbi Settlement Services

BNM announced that Renminbi Settlement Services (RSS) would be included in its Real-Time Electronic Transfer of Funds and Settlement System (RENTAS), effective 21 March. Bank of China (Malaysia) Bhd. has been appointed as the onshore settlement institution for the RSS, which is expected to provide greater efficiency and competitiveness in trade settlement, facilitate bilateral trade between Malaysia and the People's Republic of China (PRC), and provide a natural hedge against the fluctuations and volatility of other currencies to eliminate settlement risk for renminbi transactions.

BNM, Euroclear, and HKMA Unveil Pilot Program for Cross-Border Bond Transactions

BNM, Euroclear Bank, and the Hong Kong Monetary Authority (HKMA) announced the launch of a pilot platform in March. The platform, which

became operational on 30 March, allows investors in Hong Kong, China and Malaysia to buy and hold foreign debt securities, and settle cross-border transactions on a delivery-versus-payment basis. According to BNM and HKMA's joint press release, the platform is intended to facilitate the harmonization of market practices and standardization of the issuance and settlement of debt securities in order to deepen Asian bond market liquidity, attract investment, and increase operational efficiency. The pilot platform will optimize existing system links between HKMA's

Central Moneymarkets Unit (CMU), BNM's RENTAS, and Euroclear, as well as strengthen the connections between local central securities depositories and FCY real-time gross settlement systems. It will also contain a comprehensive Asian debt securities database maintained by Euroclear. The new infrastructure is expected to strengthen cross-border issuance of local bonds in Hong Kong, China and Malaysia, and the rollout of the platform will provide investors and market intermediaries with efficient and cost effective cross-border access to the Hong Kong, China and Malaysian bond markets.

Philippines—Update

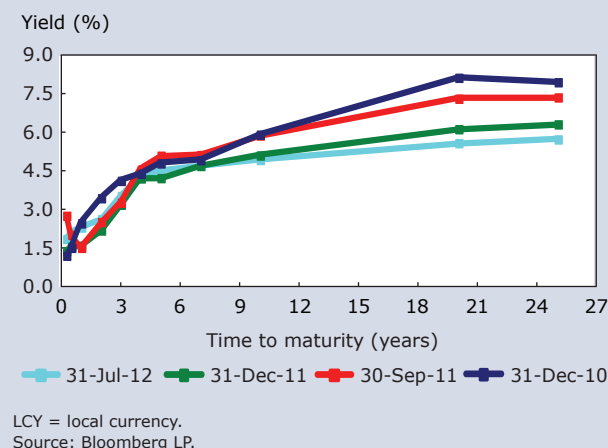
Yield Movements

The Philippine government bond yield curve flattened between end-December 2011 and end-July 2012 as the positive outlook on the country's fiscal and economic fundamentals fueled aggressive buying. Liquidity was primarily centered on longer-dated tenors, causing these yields to fall, while investor appetite for short- and medium-term notes waned. Yields for tenors between 10 years and 25 years dropped between 17 basis points (bps) and 59 bps from end-December to end-July. Meanwhile, yields for all other tenors rose between 1 bp and 71 bps. Yields for treasury bills and bonds maturing within the next 2 years rose the most, climbing between 43 bps and 71 bps. Yields for maturities of 3 years–7 years increased between 1 bp and 34 bps. Yield spreads between 2- and 10-year notes tightened to 230 bps at end-July from 291 bps at end-December (**Figure 1**).

The Philippine economy performed strongly in 1H12, with its gross domestic product (GDP) posting 6.1% year-on-year (y-o-y) growth following a lackluster 3.7% performance in full-year 2011. The country's GDP expanded 6.3% and 5.9% y-o-y in 1Q12 and 2Q12, respectively. 1Q12 GDP growth was buoyed by the combined effects of higher exports, accelerated spending, and robust household consumption, while 2Q12 was boosted by the resilient services sector, strong exports, and domestic consumption. Export growth for 1H12 climbed 7.7% y-o-y to US\$26.8 billion, including a sharp 19.7% rise in May. Personal remittances from overseas Filipinos reached US\$11.3 billion in 1H12, which translated to 5.3% y-o-y growth. In June, Bangko Sentral ng Pilipinas (BSP) began recording personal remittances in line with the International Monetary Fund's balance of payment (BOP) calculation methodology.

Inflation rose to a 7-month high of 3.8% y-o-y in August, following July's 3.2% and readings below 3.0% in May and June, bringing year-to-date (YTD) headline inflation to 3.2%, which is at the lower bound of the government's full-year

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



forecast of 3%–5%. However, core inflation, which excludes some food and energy items, remained at an elevated level of 4.3% y-o-y in August, translating into YTD core inflation of 3.7%.

With core inflation posing a risk to BSP's inflation target, GDP growing rapidly in 1Q12, and two policy rate cuts already this year (January and March), most economists believed that BSP would pause from instituting additional monetary stimulus measures at its July monetary meeting. However, BSP surprisingly cut its policy rates by 25 bps, pushing them to new record lows. The overnight borrowing (reverse repurchase) and lending (repurchase) rates were lowered to 3.75% and 5.75%, respectively. In addition, BSP recently lowered the rates it pays on special deposit accounts (SDAs) by 1/32 of a percentage point and tightened its rules relating to the use of this facility. (See **Policy, Institutional, and Regulatory Developments** for more details).

Size and Composition

LCY bonds outstanding grew 12.4% y-o-y and 2.9% quarter-on-quarter (q-o-q) to reach PHP3.7 trillion (US\$87 billion) at end-June. Growth in treasury and corporate bonds led the robust expansion. Fixed-Rate Treasury Notes (FXTNs) stood at

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

	Amount (billion)						Growth Rate (%)					
	Mar-12		Apr-12		May-12		Jun-12		Mar-12		Apr-12	
	PHP	US\$	PHP	US\$	PHP	US\$	PHP	US\$	Y-o-Y	Q-o-Q	m-o-m	Y-o-Y
Total	3,562	83	3,595	85	3,621	83	3,667	87	12.8	4.3	0.9	12.4
Government	3,118	73	3,122	74	3,138	72	3,172	75	13.2	4.9	0.1	11.5
Treasury Bills	268	6	258	6	261	6	255	6	(33.0)	(1.6)	(3.7)	(33.1)
Treasury Bonds	2,724	63	2,737	65	2,753	63	2,793	66	21.8	5.5	0.5	19.0
Others	127	3	127	3	124	3	124	3	6.0	7.8	0.0	6.4
Corporate	444	10	473	11	483	11	495	12	10.4	0.2	6.5	18.7

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

Notes:

1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY-US\$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. "Others" includes bonds issued by government agencies, instrumentalities, and corporations with which repayment was guaranteed by the National Government. These include issues of Power Sector Assets and Liabilities Management (PSALM), National Food Authority, and others.
5. Peso Global Bonds (PHP-denominated bonds but payable in US\$) and multi-currency Retail Treasury Bonds are not included. As of 30 June 2012, the Government of the Philippines and Petron Corporation have an outstanding PHP98.9 billion and PHP20.0 billion of Peso Global Bonds, respectively. The National government also has an outstanding PHP21.8 billion of multi-currency Retail Treasury Bonds.

Source: Philippine Bureau of the Treasury and Bloomberg LP.

PHP2.8 trillion in the first half of 2012 on a slow ascent of 2.5% q-o-q. Corporate bonds reached PHP495 billion, an impressive 11.5% q-o-q increase. On the other hand, treasury bills declined 4.7% q-o-q to PHP255 billion (**Table 1**).

Government Bond Market Development.

Treasury bonds outstanding grew 19.0% y-o-y in 2Q12 and corporate bonds grew 18.7%. Increased government expenditure encouraged private companies to expand their businesses and raise additional capital in private markets. Meanwhile, treasury bills contracted 33.1% y-o-y.

In the first half of 2012, the Bureau of the Treasury (BTr) issued a total of PHP404 billion worth of treasury bills and bonds. Treasury bonds comprised 69% of total issuance (PHP278.6 billion), while bills accounted for the remaining 31% (PHP125.4 billion). In March, BTr completed another record-breaking sale of Retail Treasury Bonds (RTBs), totaling almost PHP180 billion, with longer-dated maturities of 15 and 20 years. In addition to the RTB sale, BTr also sold PHP27.1 billion of 7-year notes, PHP18.0 billion of 10-year notes, and another PHP9.0 billion of 20-year bonds in 1Q12. A total of almost PHP37 billion of treasury bills was sold in 1Q12.

In 2Q12, BTr issued PHP44.5 billion of treasury bonds and PHP88.4 billion of treasury bills. The treasury bonds issued have maturities of 5 years (PHP18.0 billion), 7 years (PHP10.9 billion), 10 years (PHP9.0 billion), and 20 years (PHP6.7 billion).

BTr is set to auction a total of PHP45 billion of treasury bills and PHP63 billion of treasury bonds in 3Q12. Treasury bonds for offer have tenors of 5, 7, 10, 20, and 25 years. As of 10 August 2012, PHP21.3 billion and PHP27.0 billion have been raised from the sale of treasury bills and bonds, respectively.

Corporate Bond Market Development. A total of PHP93.5 billion of new LCY corporate bonds were printed during the first half of 2012. Of this total, roughly PHP74 billion worth were issued in 2Q12, resulting in an 11.5% q-o-q jump in corporate bond issuance. Banks tapped the bond market to improve their capitalization and liquidity ratios in

advance of the adoption of Basel III regulations on 1 January 2014. Other LCY corporate bonds issuers were real estate and telecommunications firms, tollway operators, and a brewery (**Table 2**).

In July, SM Investments Corporation sold PHP15 billion of senior unsecured bonds: PHP6.3 billion at 7 years and a 6.0% coupon rate, and PHP8.7 billion at 10 years and a 6.9442% coupon rate. In August, First Metro Investment Corporation sold PHP7 billion of callable retail bonds with maturities of 5 years and 3 months, and 7 years.

Total LCY corporate bonds outstanding in the Philippines reached PHP495 billion at end-June. San Miguel Brewery Inc. remained the top corporate issuer with PHP45.2 billion worth of outstanding bonds (**Table 3**). The next largest borrowers in the bond market in 2Q12 were (i) BDO Unibank Inc. with PHP38.0 billion of debt, (ii) Ayala Corporation with PHP36.0 billion, (iii) Ayala Land Inc. with PHP30.5 billion, and (iv) Philippine National Bank with PHP27.9 billion.

Among the top 30 bond issuers, 25 companies were publicly listed on the Philippine Stock Exchange. The five unlisted companies among the top 30 corporate issuers were (i) MTD Manila Expressway Corporation, (ii) South Luzon Tollway Corporation, (iii) Manila North Tollways Corporation, (iv) Tanduay Distillers Inc., and (v) Philippine Phosphate Fertilizer Corporation.

Fifteen out of the top 30 issuers have bonds listed with the Philippine Dealing and Exchange Corporation (PDEX), the sole fixed-income exchange in the country. The Power Sector Assets and Liabilities Management Corporation (PSALM) has PHP30 billion worth of bonds listed with PDEX; however, *AsianBondsOnline* classifies these as government bonds.

Banking and financial service institutions remained the dominant issuers of bonds in 2Q12, accounting for 33% of the total market (**Figure 2**). This was down from 36% in 4Q11. Real estate companies accounted for 18% of the total, up from 13%

Table 2: Selected Issuance in 1H12

	Issue Date	Amount		Coupon Rate (%)	Bond Type
		PHP (billion)	US\$ (billion)		
April–June 2012					
San Miguel Brewery	02-Apr-12	20.00	0.47		Senior Unsecured
PHP3 billion 6.05% due 2017					
PHP10 billion 5.93% due 2019					
PHP7 billion 6.6% due 2022					
Ayala Land Inc.	27-Apr-12	15.00	0.36		Senior Unsecured
PHP9.35 billion 5.625% due 2019					
PHP5.65 billion 6.0% due 2022					
South Luzon Tollway Corporation	10-Apr-12	11.00	0.26		Secured
Variable rate due 2017					
Ayala Corporation	11-May-12	10.00	0.24	6.875	Senior Unsecured
Globe Telecom Inc.	01-Jun-12	10.00	0.24		Senior Unsecured
PHP4.5 billion 5.75% due 2017					
PHP5.5 billion 6.00% due 2019					
Filinvest Land Inc.	08-Jun-12	7.00	0.17	6.2731	Senior Unsecured
SM Development Corporation	27-Apr-12	6.31	0.15	6.0096	Senior Unsecured
January–March 2012					
Philippine Savings Bank	20-Feb-12	3.00	0.07	5.75	Tier 2 Notes
MTD Manila Expressways	15-Mar-12	11.50	0.27	8.6615	Secured
Development Bank of the Philippines	22-Mar-12	5.65	0.13	5.75	Tier 2 Notes

Source: Bloomberg LP.

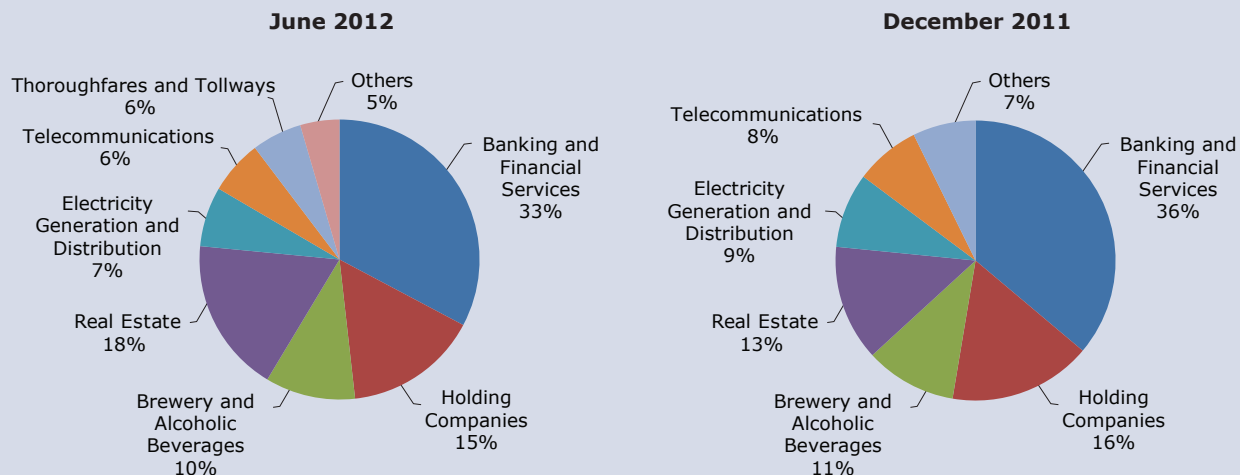
Table 3: Top 30 Issuers of LCY Corporate Bonds in the Philippines (as of end-June 2012)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (PHP billion)	LCY Bonds (US\$ billion)				
1. San Miguel Brewery Inc.	45.21	1.07	No	Yes	Yes	Brewery
2. BDO Unibank Inc.	38.00	0.90	No	Yes	Yes	Banking
3. Ayala Corporation	36.00	0.85	No	Yes	Yes	Diversified Operations
4. Ayala Land Inc.	30.51	0.72	No	Yes	Yes	Real Estate
5. Philippine National Bank	27.85	0.66	No	Yes	Yes	Banking
6. SM Investments Corporation	21.10	0.50	No	Yes	Yes	Diversified Operations
7. Rizal Commercial Banking Corporation	21.00	0.50	No	Yes	Yes	Banking
8. Manila Electric Company	19.38	0.46	No	Yes	Yes	Electricity Distribution
9. Metropolitan Bank & Trust Co.	18.50	0.44	No	Yes	Yes	Banking
10. Philippine Long Distance Telephone Co.	17.50	0.42	No	Yes	Yes	Telecommunications
11. SM Development Corporation	16.31	0.39	No	Yes	Yes	Real Estate
12. Filinvest Land, Inc.	15.00	0.36	No	Yes	Yes	Real Estate
13. Petron Corporation	13.60	0.32	No	Yes	Yes	Oil Refining and Marketing
14. JG Summit Holdings, Inc.	13.31	0.32	No	Yes	Yes	Diversified Operations
15. Robinsons Land Corporation	12.00	0.28	No	Yes	Yes	Real Estate
16. Energy Development Corporation	12.00	0.28	No	Yes	Yes	Electricity Generation
17. MTD Manila Expressway Corporation	11.50	0.27	No	Yes	No	Transport Services
18. South Luzon Tollway Corporation	11.00	0.26	No	Yes	No	Transport Services
19. Globe Telecom Inc.	10.92	0.26	No	Yes	Yes	Telecommunications
20. Security Bank Corporation	8.00	0.19	No	Yes	Yes	Banking
21. Allied Banking Corporation	8.00	0.19	No	Yes	Yes	Banking
22. United Coconut Planters Bank	7.67	0.18	No	Yes	Yes	Banking
23. Megaworld Corporation	6.38	0.15	No	Yes	Yes	Real Estate
24. Manila North Tollways Corporation	6.15	0.15	No	Yes	No	Public Thoroughfares
25. Tanduay Distillers Inc.	5.00	0.12	No	Yes	No	Alcoholic Beverages
26. SM Prime Holdings Inc.	5.00	0.12	No	Yes	Yes	Real Estate Management Services
27. First Metro Investment Corporation	5.00	0.12	No	Yes	Yes	Investment Banking
28. China Banking Corporation	5.00	0.12	No	Yes	Yes	Banking
29. Bank of the Philippine Islands	5.00	0.12	No	Yes	Yes	Banking
30. Philippine Phosphate Fertilizer Corporation	4.50	0.11	No	Yes	No	Agricultural Chemicals
Total Top 30 LCY Corporate Issuers	451.88	10.72				
Total LCY Corporate Bonds	495.00	11.75				
Top 30 as % of Total LCY Corporate Bonds	91.3%	91.3%				

LCY = local currency.

Note: Petron Corporation has an outstanding PHP20 billion peso global bonds that are not included in this statistics.

Source: Bloomberg LP.

Figure 2: LCY Corporate Bond Issuers by Industry

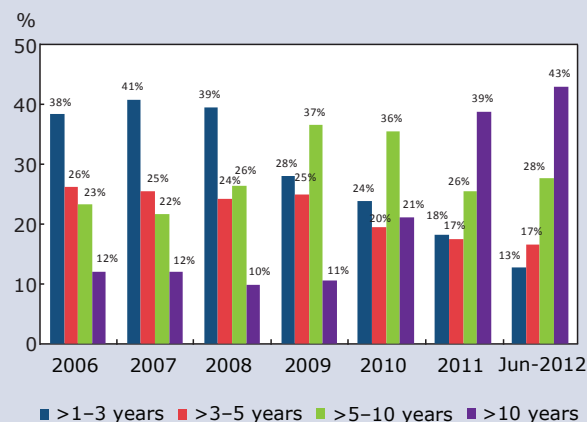
LCY = local currency.
Source: Bloomberg LP.

in 4Q11. Holding companies' share represented 15% of the total, slightly down from 16% in 4Q11. Brewery and alcoholic beverage companies comprised 10% of the total in 2Q12, down marginally from 11%. The share of companies operating tollways and expressways rose to 6% in 2Q12 from zero in 2011. The growing share of real estate companies and operators of expressways and tollways reflected the effects of the government's resumption of public works and infrastructure expenditure in the first half of the year.

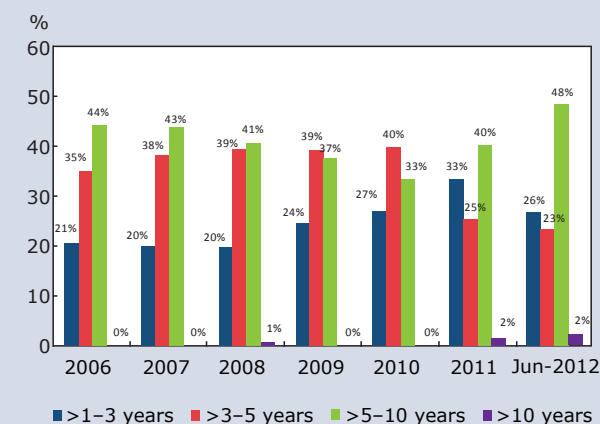
10 years re-emerged in the market last year after a long hiatus, although they comprise only a 2% share of the total corporate bond market. Prior to 2006, corporate bond issuers rarely offered bonds with maturities beyond 5 years and never more than 10 years. Moreover, the proportion of bonds maturing within 5 years–10 years reached new highs in June, accounting for 48% of total corporate bonds outstanding. Meanwhile, the share of bonds maturing within 3 years–5 years shrank to 23% in June from 35% in 2006. Corporate issues with

Government and Corporate Bond Maturity Profiles. The growing confidence of domestic investors in the Philippines has given the government the ability to execute its debt consolidation and lengthening strategy. The share of FXTNs with maturities of more than 1 year to 3 years dropped to 12.7% in June from 18.3% in December 2011, while the share of FXTNs with maturities of more than 3 years to 5 years increased to 17.4% from 16.6%. On the other hand, the share of FXTNs with maturities of more than 5 years to 10 years grew to 27.7% from 25.5%, while the share of FXTNs with maturity terms of more than 10 years rose to almost 43% in June from 38.8% in December 2011 (**Figure 3**).

Corporate issuers also have been able to sell longer-dated bonds, albeit in smaller amounts than the government. Bonds with maturities of more than

Figure 3: Historical Government Bond Maturity Profile, 2006–2012

Note: Bills and bonds maturing in 1 year or less are excluded in the calculation of the bond maturity profile.
Source: AsianBondsOnline.

Figure 4: Historical Corporate Bond Maturity Profile, 2006–2012

Note: Bills and bonds maturing in 1 year or less are excluded in the calculation of the bond maturity profile.

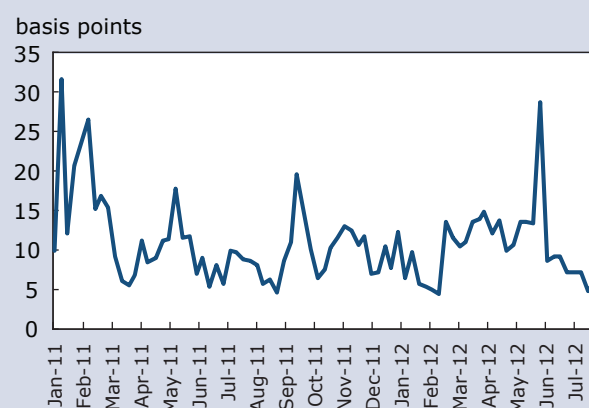
Source: AsianBondsOnline.

tenors between 1 year and 3 years have consistently accounted for about 25% of the total market (Figure 4).

Benchmark Government Securities Bid–Ask Spreads

Bid–ask spreads for the most traded government securities (GS) between 7 January 2011 and 31 July 2012 are presented in Figure 5. Treasury bonds with the highest outstanding sizes—and with daily or frequently available bid–ask (two-way) quotes—were analyzed in order to monitor liquidity in the LCY secondary market. The data used to capture the bid–ask spreads for these securities were obtained from the Bloomberg pages of money brokers operating in the Philippines.

Between 15 March and 1 June, average bid–ask spreads widened from 11 bps to a high of 29 bps on 1 June. The mean spread during this period was 13.8 bps. Risk aversion prevailed among LCY market participants on the back of negative news of a possible Greek exit from the eurozone and a slowdown in the People’s Republic of China’s (PRC) economy. After 1 June, average bid–ask spreads returned to single digits, with a mean spread of 7.2 bps, as positive domestic developments overshadowed the negative overhang from foreign markets. Among the positive information points

Figure 5: Weekly Average Bid–Ask Spreads for the Most Active Government Securities, 7 January 2011–31 July 2012

Note: The following were included among the monitored government securities: (i) FXTN 5-67, (ii) FXTN 7-48, (iii) FXTN 10-42, (iv) FXTN 7-49, (v) FXTN 7-51, (vi) FXTN 7-53, (vii) RTB 10-2, (viii) FXTN 10-53, (ix) RTB 10-3, (x) FXTN 10-54, (xi) RTB15-1, (xii) RTB15-2, (xiii) FXTN 20-17, (xiv) RTB 20-1, and (xv) FXTN 25-8.

Source: AsianBondsOnline.

that encouraged investors’ risk appetite were (i) stable or declining inflation, (ii) the long-term foreign currency (FCY) sovereign credit rating upgrade by Standard & Poor’s (S&P), and (iii) monetary easing by BSP.

From 15 March to 31 July, the bonds posting the tightest bid–ask spreads were FXTN 20-17 (1.7 bps), RTB 20-1 (3.8 bps), FXTN 25-8 (5.3 bps), RTB 10-3 (7.8 bps), FXTN 10-53 (7.8 bps), and FXTN 10-54 (9.0 bps).

Investor Profile

Major investors in GS in 2Q12 included (i) banks and other financial institutions, (ii) BTr-managed funds, (iii) contractual savings and tax-exempt institutions (TEIs), (iv) custodians, (v) other government entities such as government-owned and -controlled corporations (GOCCs), and (vi) various corporate and individual investors. The category of banks and other financial institutions comprise institutions supervised by BSP. The BTr-managed funds consist of the Bond Sinking Fund (BSF), Securities Stabilization Fund (SSF), and the Special Guaranty Fund (SGF). Contractual savings institutions (CSIs) and TEIs include government

pension and insurance funds (e.g., Government Service Insurance System [GSIS], Social Security System [SSS], and Philippine Health Insurance Corp. [PHIC]), private insurance companies, and tax exempt funds and corporations.

Custodians are not primary bond investors. Instead, they are BSP-accredited securities custodians designated to perform safekeeping, administration, and monitoring of investments for their clients. BSP Circular 524 of 2006 requires the delivery of securities by the seller to the purchaser or his designated BSP-accredited custodian. The inception of third-party custodians has made it difficult for BTr to identify the ultimate holders of its bonds, particularly foreign investors.

Investor diversity in the LCY government bond market changed significantly between 2005 and 2012 (**Figure 6**). The share of banks and financial institutions declined to 31% of total bonds outstanding in 2Q12 from 52% in 2005, while the BTr's managed funds' share of the total fell to 19% from 21%. A notable trend has been the growing shares of CSIs and TEIs, and custodians. CSIs and TEIs comprised 28% of the total in 2Q12, up from only 16% in 2005. In LCY terms, these investors' GS holdings grew from PHP332 billion

in 2005 to PHP840 billion in 2Q12, a 153% increase. Currently, CSI investors are segmented from real-time price action in the secondary market due to limitations in security transfers between taxable and tax exempt investors, and prohibitions in the corporate charters of government CSIs.

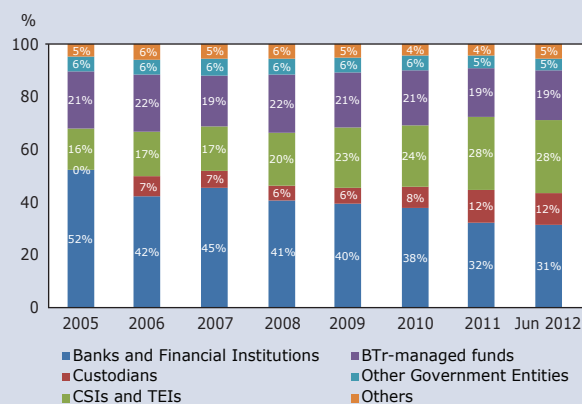
The share of custodians' holdings of total GS outstanding swelled to 12% in 2Q12 from 7% in 2006. In LCY terms, GS under the safekeeping of custodians stood at PHP368 billion at end-June.

Rating Changes

On 29 May, Moody's Investors Service (Moody's) raised its outlook on the Philippines' sovereign credit rating from stable to positive (**Table 4**). Moody's maintained its credit rating for the country at Ba2, or two notches below investment grade. The rating agency noted the government's continued prudent fiscal management as evidenced by a low budget deficit (compared with its economic peers) and a steadily declining debt-to-GDP ratio resulting from improved revenue collections and controlled spending. Moody's also noted, however, that deeper structural reforms in revenue mobilization, accelerated investment spending, and a sustained low debt-to-GDP ratio are needed for a ratings upgrade.

On 4 July, S&P upgraded the Philippines' long-term FCY sovereign credit rating to BB+ from BB, the highest long-term FCY rating the country has received since 2003. S&P also affirmed the Philippines' long-term LCY sovereign rating of BB+. The outlooks on both ratings are stable. S&P noted the country's increased fiscal flexibility, improved government debt profile, and reduced interest burden as the primary basis for the upgrade.

Figure 6: LCY Government Bonds Investor Profile, December 2005–June 2012



CSIs = contractual savings institutions, LCY = local currency, TEIs = tax-exempt institutions.

Note: For purpose of investor profile presentation only, LCY government bonds are defined as domestic bonds, which include multi-currency (US\$ and EUR) retail bonds totaling almost PHP21 billion as of end-June 2012.

Source: Bureau of the Treasury.

Table 4: Selected Sovereign Ratings and Outlooks for the Philippines

	Moody's	S&P	Fitch
Sovereign FCY LT Rating	Ba2	BB+	BB+
Outlook	Positive	Stable	Stable

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

Policy, Institutional, and Regulatory Developments

BSP Adopts Stricter Compliance Rules for Banks

In May, BSP adopted global practices for good corporate governance based on the Basel Committee on Banking Supervision's Principles for Enhancing Corporate Governance. These guidelines emphasize the need for the Board of Directors of banks to enhance their ability to exercise objective judgment and ensure a system of checks and balances. The 34-page circular (including appendices) imposed the following guidelines:

- (i) The Board of Directors should have a sufficient number of non-executive members. Non-executive members are those who are not involved in the day-to-day management of banking operations.
- (ii) The minimum composition of independent directors was raised from two to at least 20% of the Board of Directors' membership (not less than two). Furthermore, independent directors will have term limits of 10 years: a period of 5 consecutive years extendable for another 5 years following a 2-year hiatus.
- (iii) The Chief Executive Officer and Chief Financial Officer and/or Treasurer are prohibited from participating on the audit committee.
- (iv) Non-executive board members are required to conduct regular meetings with the external auditor and heads of the internal audit, compliance, and risk management functions.

The guidelines also covered the appointment and reporting line of a Chief Risk Officer. The performance ratings of the Chief Risk Officer should be confirmed by the Board of Directors and any replacement for this position should be reported to BSP.

The approved guidelines are the first of a three-part analysis of corporate governance, which will

be followed by further reports governing internal controls and risk management. The three-part governance package is expected to be completed this year.

BSP Defers Implementation of PFRS 9 Financial Instruments to 1 January 2015

In July, BSP deferred the mandatory effectivity date of Philippine Financial Reporting Standards (PFRS) 9 Financial Instruments to 1 January 2015 from 1 January 2013. BSP said the deferment is in line with the issuance by the International Accounting Standards Board (IASB) of further amendments to International Financial Reporting Standards (IFRS) 9, as well as its local adoption by the Financial Reporting Standards Council in December 2011. IFRS 9 Financial Instruments is the first phase of a three-phased improvement project by the IASB to replace IAS 39 Financial Instruments: Recognition and Measurement. Phases 2 and 3 of the project are ongoing and deal with impairment and hedge accounting.

BSP Cuts SDA Rates and Tightens Rules

BSP cut its SDA rates by 1/32 of a percentage point effective 13 July. SDAs are fixed-term deposits made by banks and trust entities with the BSP. This deposit facility was introduced in November 1998 to expand BSP's toolkit for liquidity management after the central bank was stripped of its power to issue bills and bonds under its revised charter. In April 2007, BSP expanded access to the SDA facility to allow the trust entities of financial institutions under BSP supervision to make deposits. After the BSP lowered its SDA rate and cut its policy rates last month, the 7-day SDA rate had been reduced to 3.78125% from 4.0625%, the 14-day SDA rate to 3.84375% from 4.125%, and the 32-day SDA rate to 3.90625% from 4.1875%. Based on data from BSP, SDA deposits stood at PHP1.64 trillion as of 22 June. BSP also tightened the rules on the use of the SDA by requiring banks and trust entities to certify that funds invested in the facility did not come from foreign investors or entities. This rule was issued to curb currency speculation.

Singapore—Update

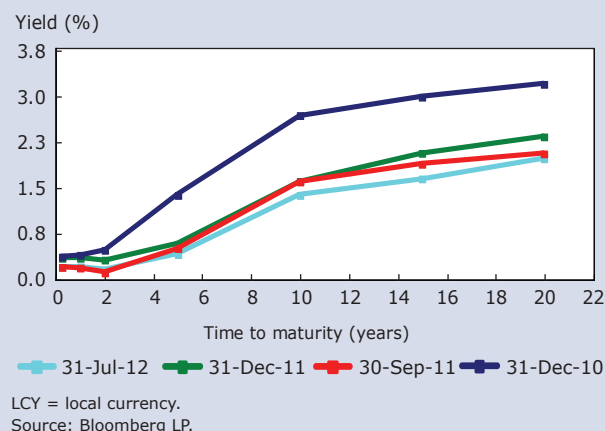
Yield Movements

The yield curve for local currency (LCY) government bonds in Singapore fell across all maturities between end-December 2011 and end-July 2012. As consumer price inflation eased slightly during the first half of the year, yields fell for all tenors (Figure 1). Yields fell between 14 basis points (bps) and 17 bps at the very short-end and the belly of the curve. Meanwhile, yields for the 10-, 15-, and 20-year maturities fell by 23 bps, 42 bps, and 36 bps, respectively. The yield curve flattened slightly in July, with the spread between the 2- and 10-year maturities falling to 122 bps at end-July from 129 bps at end-December.

Consumer price inflation during the first 6 months of the year was 5.1% year-on-year (y-o-y), slightly lower than the 5.2% posted for the full-year 2011. At the start of 2012, Singapore's consumer price inflation eased to 4.8% and 4.6% y-o-y in January and February, respectively. It subsequently rose to 5.2% in March and 5.4% in April before easing to 5.0% in May. In June, consumer price inflation rose to 5.3%, mainly due to higher housing costs.

In April, the Monetary Authority of Singapore (MAS) said that external inflationary pressures will likely persist due to higher oil prices. MAS announced that it will (i) continue with its policy of a modest and gradual appreciation of the Singapore dollar, (ii) slightly increase the slope of the policy band of the nominal effective exchange rate (S\$NEER), and (iii) restore a narrower policy band. More recently, MAS revised its consumer price inflation forecast for 2012 to 4.0%–4.5% from 3.5%–4.5%, on expectations that costs for housing rentals and certificate of entitlement (COE) premiums will remain high. In July, MAS announced to Parliament that it is considering issuing inflation-linked bonds as one measure to ease the burden of inflationary pressures on investors. The possible issuance of inflation-linked

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



bonds is expected to help retail investors preserve their savings in light of prevailing interest rates that are near zero.

Singapore's gross domestic product (GDP) registered 2.0% y-o-y growth in 2Q12, higher than the 1.5% growth posted in 1Q12. The manufacturing sector grew 4.5% y-o-y in 2Q12 after contracting 0.8% in 1Q12. The construction sector expanded 5.3% and the services sector grew 0.8% in 2Q12. On a quarter-on-quarter (q-o-q) seasonally-adjusted and annualized basis, however, Singapore's GDP fell 0.7% in 2Q12, largely due to declines in electronics manufacturing, wholesale trade, and tourism-related services.

Singapore's Ministry of Trade and Industry (MTI) narrowed its 2012 GDP growth forecast from 1.0%–3.0% to 1.5%–2.5%, as the slowdown in advanced economies is expected to affect externally-oriented sectors. Global uncertainties are also expected to affect sentiment-sensitive segments within the finance and insurance sectors. Expansion in the transport engineering and construction sectors, however, may provide modest support to Singapore's economy.

	Amount (billion)												Growth Rate (%)							
	Mar-12			Apr-12			May-12			Jun-12			Mar-12		Apr-12		May-12		Jun-12	
	SGD	US\$		SGD	US\$		SGD	US\$		SGD	US\$		Y-o-Y	Q-o-Q	m-o-m	m-o-m	Y-o-Y	Q-o-Q	m-o-m	
Total	266	211	266	215	268	208	274	217	217	217	217	217	19.5	8.2	(0.1)	0.9	15.8	3.2	2.3	
Government	162	129	159	129	161	125	164	130	130	130	130	130	21.4	5.4	(1.5)	1.1	14.1	1.5	1.9	
Central Gov't Bonds and Bills	144	114	141	114	142	110	144	114	114	114	114	114	7.9	3.8	(2.1)	0.5	3.8	0.0	1.6	
Central Bank Bills	18	14	19	15	20	15	20	16	16	16	16	16	-	20.0	3.3	5.4	277.8	13.3	4.1	
Corporate	104	83	106	86	107	83	110	87	87	87	87	87	16.7	12.9	2.1	0.7	18.3	5.8	2.9	

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

Notes:

Notes:
1. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondsOnline* estimates.

1. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsiamBondwatch* estimates.

2. Government bonds and bills does not include the special issue of Singapore Government Securities held by the Singapore Central Provident Fund (CPF).

3. Bloomberg LP end-of-period LCY-US\$ rate is used.

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

Source: Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP.

LCY bonds outstanding continued to post double-digit growth in 2Q12, expanding 15.8% y-o-y to SGD274.2 billion (US\$216.7 billion) at end-June (**Table 1**). LCY government bonds outstanding rose 14.1% y-o-y in 2Q12, but this was largely due to outstanding MAS bills, which stood at SGD20.4 billion at end-June, almost four times the SGD5.4 billion outstanding at end-June 2011. Meanwhile, outstanding Singapore Government Securities (SGS) bills and bonds rose 3.8% y-o-y and were flat on a q-o-q basis at SGD143.8 billion.

Issuance of SGS bonds dropped 30.8% y-o-y and 30.8% q-o-q in 2Q12. During the first half of the year, SGS bond issuance was 12.9% lower than during the same period last year. On the other hand, issuance of SGS bills rose 10.6% y-o-y and 15.4% q-o-q in 2Q12. Meanwhile, issuance of MAS bills rose 342.3% y-o-y and 11.0% q-o-q.

Outstanding LCY corporate bonds continued to post robust growth in 2Q12, rising 18.3% y-o-y to SGD110 billion at end-June, after posting 16.7% growth in 1Q12. On a q-o-q basis, outstanding LCY corporate bonds rose 5.8% in 2Q12.

The first half of 2012 saw several issuances of perpetual LCY corporate bonds. In 1Q12, four corporates issued such 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, while Ascendas and Hotel Properties sold SGD300 million and SGD150 million of perpetual bonds, respectively.

The top 30 corporate issuers in Singapore, which mainly come from the financial and consumer sectors, accounted for 52.2% of total LCY corporate bonds outstanding at end-June (**Table 2**). The Housing and Development Board remained the biggest issuer with SGD11.5 billion of outstanding bonds at the end of 2Q12, followed by CapitaLand and DBS Bank with outstanding amounts of SGD4.9 billion and SGD4 billion, respectively.

Table 2: Top 30 Issuers of LCY Corporate Bonds in Singapore (as of end-June 2012)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (SGD billion)	LCY Bonds (US\$ billion)				
1. Housing and Development Board	11.5	9.1	Yes	No	No	Financial
2. CapitalLand	4.9	3.9	No	Yes	Yes	Financial
3. DBS Bank Singapore	4.0	3.2	No	Yes	Yes	Financial
4. Temasek Financial I	3.6	2.8	No	Yes	No	Financial
5. United Overseas Bank	3.3	2.6	No	Yes	Yes	Financial
6. Genting Singapore PLC	2.3	1.8	No	Yes	No	Industrial
7. Land Transport Authority	2.3	1.8	Yes	No	No	Industrial
8. Public Utilities Board	2.1	1.7	Yes	No	No	Utilities
9. Land Transport Authority	2.1	1.9	Yes	No	No	Industrial
10. Oversea-Chinese Bank	2.0	1.6	No	Yes	Yes	Financial
11. GLL IHT PTE	1.4	1.1	No	Yes	No	Financial
12. Keppel Land	1.4	1.1	No	Yes	Yes	Financial
13. Temasek Financial III	1.3	1.0	No	Yes	No	Financial
14. Keppel Corp	1.2	0.9	No	Yes	Yes	Industrial
15. Overseas Union Enterprise	1.1	0.9	No	Yes	Yes	Consumer
16. City Developments	1.1	0.9	No	Yes	Yes	Consumer
17. PSA Corporation	1.0	0.8	No	Yes	No	Consumer
18. Neptune Orient Lines	1.0	0.8	No	Yes	Yes	Industrial
19. F&N Treasury	1.0	0.8	No	Yes	No	Financial
20. Hyflux	0.9	0.7	No	Yes	Yes	Industrial
21. CapitaMall Trust	0.9	0.7	No	Yes	Yes	Financial
22. Olam International	0.9	0.7	No	Yes	Yes	Consumer
23. Capitaland Treasury	0.9	0.7	No	Yes	No	Financial
24. Singtel Group Treasury	0.9	0.7	No	Yes	No	Communications
25. Singapore Post	0.9	0.7	Yes	No	No	Industrial
26. Singapore Airlines	0.8	0.6	No	Yes	No	Communications
27. Global Logistic Properties	0.8	0.6	No	Yes	Yes	Diversified
28. Mapletree Treasury	0.7	0.6	No	Yes	No	Diversified
29. Capitaland Treasury	0.7	0.6	No	Yes	No	Financial
30. Sembcorp Financial Services	0.7	0.6	No	Yes	No	Industrial
Total Top 30 LCY Corporate Issuers	57.4	45.4				
Total LCY Corporate Bonds	110.0	86.9				
Top 30 as % of Total LCY Corporate Bonds	52.2%	52.2%				

LCY = local currency.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

MAS Announces Initiatives to Develop Singapore's Capital Markets

In March, MAS Managing Director Ravi Menon announced three initiatives to improve efficiency and liquidity in Singapore's LCY debt market:

- (i) Provide swap liquidity to primary dealer banks handling SGD-denominated debt issuances for foreign companies. MAS will support swap transactions at market-determined prices to facilitate swap market liquidity among the longer-dated tenors.
- (ii) Partner with the industry in the creation of a lending platform for SGD-denominated corporate debt securities on which market players will be allowed to borrow securities for market-making.
- (iii) Initiate a price discovery platform that will be targeted for completion by the second half of the year. This platform, which aims to improve transparency in the corporate bond market and provide reliable mark-to-market prices, will allow market participants to contribute end-of-day prices for a universe of SGD-denominated corporate bonds.

SGX Introduces Dual Currency Trading

In March, Singapore Exchange (SGX) introduced dual currency trading that enables the trading of listed securities in two different currencies. Dual-currency listed shares will be consolidated in investors' central depository accounts. The introduction of dual currency trading is aimed at improving cost efficiency by allowing investors to trade foreign currency-denominated securities in their respective LCY.

MAS Revises Requirements Governing Marketing and Sale of Listed and Unlisted Investment Products

In May, MAS announced that effective 1 October the prescribed list of Excluded Investment Products (EIPs) would be revised to include EIP-equivalent investment products listed on foreign exchanges, certain Collective Investment Schemes (CIS), and sub-funds of investment-linked life insurance policies. Currently, all CIS are classified as Special Investment Products (SIPs). By October, MAS will classify a CIS as an EIP if its investment mandate (i) permits investments only in EIPs and (ii) prohibits it from engaging in securities lending or repurchase transactions.

SGX Ready to Trade Renminbi-Denominated Securities

In July, SGX announced that it was ready to list, quote, trade, clear, and settle renminbi-denominated securities, which will complement the offshore renminbi bonds listed on the exchange. Also, SGX is the first exchange to offer the clearing of over-the-counter (OTC) foreign exchange forwards for renminbi. Issuers listing renminbi-denominated securities on SGX can also choose to offer dual-currency trading. This would allow investors the flexibility to trade the securities in either renminbi or Singapore dollars.

MAS Sets Up Contingent Liquidity Facility

MAS announced in its annual report released last July that it has entered into an agreement with the Singapore Deposit Insurance Corporation Limited (SDIC) through which MAS will offer a contingent liquidity facility of up to SGD20 billion in the event of a banking crisis. The agreement was signed in February; as of 31 March, no request had been made on the facility.

Thailand—Update

Yield Movements

Thailand's government bond yields dropped for all maturities, except the 3- and 4-year tenors, between end-December 2011 and end-July 2012, amid market concerns over the eurozone's fiscal and banking problems (**Figure 1**). Meanwhile, the yield spread between the 2- and 10-year tenors climbed 1.5 basis points (bps) between end-December and end-July.

The Bank of Thailand's (BOT) Monetary Policy Committee decided to maintain the 1-day repurchase rate at 3.0% at its 5 September meeting, the fifth consecutive time that the policy rate has remained unchanged. The committee noted that risks to the global economy remained elevated, yet the domestic economy continued its steady growth.

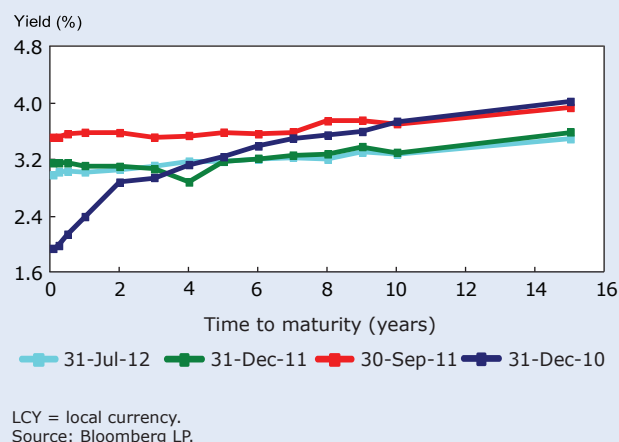
Consumer price inflation stood at 2.69% year-on-year (y-o-y) in August, compared with 2.73% in July. The price index for food and beverages rose 4.02% y-o-y in August, compared with a 5.42% hike in the previous month. Meanwhile, the price index for non-food and beverages climbed 1.84% y-o-y in August, compared with a 1.03% increase in July.

Real gross domestic product (GDP) grew 4.2% y-o-y in 2Q12, following a 0.4% rise in 1Q12. Private consumption expenditure rose 5.3% y-o-y after climbing 2.9% in the previous quarter. Gross fixed capital formation also expanded 10.2% y-o-y, following a 5.2% increase in 1Q12. Exports of goods and services rose 0.9% y-o-y in 2Q12, while the manufacturing sector grew 2.7%.

Size and Composition

Local currency (LCY) bonds outstanding in Thailand amounted to THB8 trillion (US\$254 billion) at end-

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



June, up 17.7% y-o-y and 4.1% quarter-on-quarter (q-o-q) (**Table 1**). Total government bonds grew 17.9% y-o-y and 4.8% q-o-q to THB6.4 trillion, led by government bonds and treasury bills, which rose 17.3% y-o-y and 8.0% q-o-q to THB3.0 trillion, and central bank bonds, which increased 22.1% y-o-y and 1.7% q-o-q to reach THB3.0 trillion. Meanwhile, the stock of state-owned enterprise (SOE) bonds slipped 0.2% y-o-y, but rose 4.5% q-o-q to level off at THB481 billion.

Total government bond issuance in 2Q12 stood at THB2.3 trillion, down 18.8% y-o-y and 7.2% q-o-q. The drop was caused by a 24.6% y-o-y and 10.1% q-o-q decline in central bank bond issuance, which accounted for about 89% of total government bond issuance. In contrast, 2Q12 issuance in government bonds, treasury bills, and SOE bonds surged 110.9% y-o-y and 25.5% q-o-q to THB260 billion.

The outstanding amount of LCY corporate bonds at end-June was THB1.6 trillion, up 16.9% y-o-y and 1.6% q-o-q. Between May and June, the LCY corporate bond market contracted 2.5%. LCY corporate bond issuance in 1Q12

	Amount (billion)										Growth Rate (%)					
	Mar-12		Apr-12		May-12		Jun-12		Mar-12		Apr-12		May-12		Jun-12	
	THB	US\$	THB	US\$	THB	US\$	THB	US\$	y-o-y	q-o-q	y-o-y	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	7,709	250	7,944	259	7,989	251	8,027	254	13.1	8.4	13.1	3.0	0.6	17.7	4.1	0.5
Government	6,151	200	6,341	206	6,366	200	6,444	204	12.3	7.1	12.3	3.1	0.4	17.9	4.8	1.2
Government Bonds and Treasury Bills	2,777	90	2,897	94	2,940	92	3,000	95	9.1	5.7	9.1	4.3	1.5	17.3	8.0	2.0
Central Bank Bonds	2,913	94	2,985	97	2,960	93	2,963	94	19.0	10.3	19.0	2.5	(0.8)	22.1	1.7	0.1
State-Owned Enterprise Bonds	461	15	459	15	467	15	481	15	(4.5)	(2.9)	(4.5)	(0.3)	1.6	(0.2)	4.5	3.2
Corporate	1,558	51	1,603	52	1,623	51	1,583	50	16.5	14.0	16.5	2.9	1.2	16.9	1.6	(2.5)

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

Notes:

1. Calculated using data from national sources.

2. Bloomberg end-of-period LCY-US\$ rates are used.

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

Source: Bank of Thailand (BOT) and Bloomberg LP.

The combined bonds outstanding of the top 30 corporate issuers at end-June were valued at THB962 billion, comprising 61% of total LCY corporate bonds outstanding (**Table 2**). PTT and Siam Cement remained the two largest corporate issuers of LCY bonds.

Investor Profile

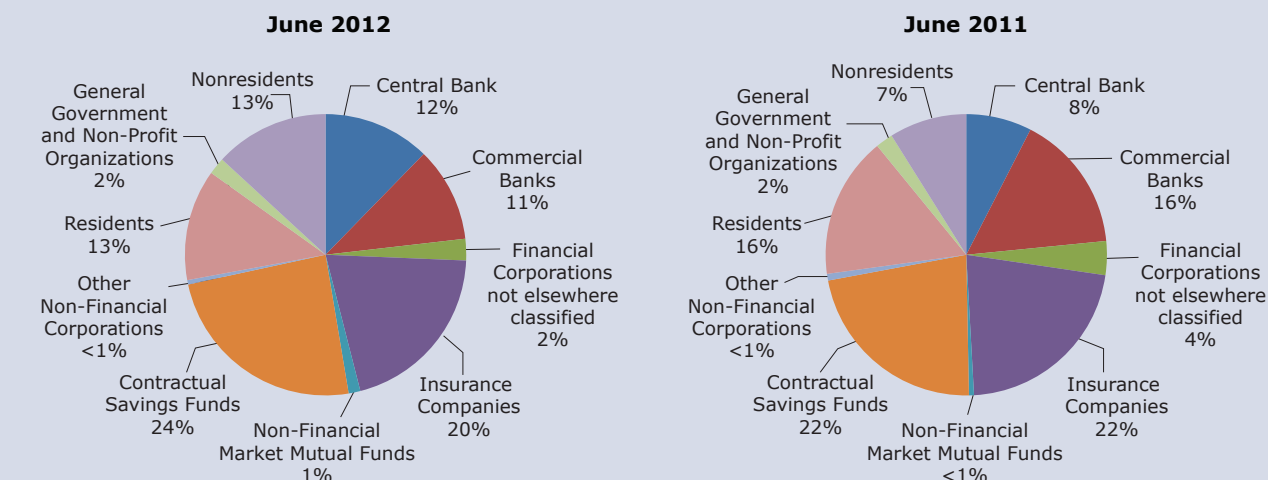
Contractual savings funds remained the largest holder of LCY government bonds in Thailand at end-June, accounting for 24% of the total, followed by insurance companies with a 20% share (**Figure 2**). Compared with end-June 2011, the shares of the central bank, contractual savings funds, foreign investors, and non-financial market mutual funds increased, while shares fell for most other types of bondholders.

Individual retail investors were the largest investor group in LCY corporate bonds, holding 46% of the total at end-March (**Figure 3**). This was followed by other investors—such as the government, cooperatives, and foundations—with a combined 15% share, contractual savings funds and mutual funds with a 10% share each, and insurance companies with 9%. Compared with end-March 2011, the share of other investors—such as the government, cooperatives, and foundations—had a relatively large increase, while the shares of most other types of corporate bondholders declined.

Table 2: Top 30 Issuers of LCY Corporate Bonds in Thailand (as of end-June 2012)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (THB billion)	LCY Bonds (US\$ billion)				
1. PTT Public Company	178.5	5.7	Yes	No	Yes	Energy
2. Siam Cement Public Company	115.0	3.6	Yes	No	Yes	Diversified
3. Kasikorn Bank	47.1	1.5	No	Yes	Yes	Financial
4. Charoen Pokphand Foods	46.0	1.5	No	Yes	Yes	Consumer
5. Siam Commercial Bank	40.0	1.3	No	Yes	Yes	Financial
6. Bank of Ayudhya	37.8	1.2	No	Yes	Yes	Financial
7. PTT Global Chemical	35.4	1.1	Yes	No	Yes	Basic Materials
8. Thai Airways International	32.2	1.0	Yes	No	Yes	Consumer
9. Thanachart Bank	30.1	1.0	No	Yes	no	Financial
10. PTT Exploration and Production Company	29.2	0.9	Yes	No	Yes	Energy
11. Thai Oil	27.8	0.9	Yes	No	Yes	Energy
12. TMB Bank	27.7	0.9	No	Yes	Yes	Financial
13. Banpu	25.3	0.8	No	Yes	Yes	Energy
14. Toyota Leasing Thailand	22.9	0.7	No	Yes	No	Consumer
15. Mitr Phol Sugar Corporation	22.7	0.7	No	Yes	No	Consumer
16. Krung Thai Card	22.5	0.7	Yes	No	Yes	Financial
17. Ayudhya Capital Auto Lease	22.3	0.7	No	Yes	No	Financial
18. Glow Energy	20.6	0.7	No	Yes	Yes	Utilities
19. Kiatnakin Bank	19.6	0.6	No	Yes	Yes	Financial
20. Quality Houses	18.0	0.6	No	Yes	Yes	Consumer
21. Indorama Ventures	16.9	0.5	No	Yes	Yes	Basic Materials
22. Bangkok Expressway	16.1	0.5	No	Yes	Yes	Consumer
23. True Corporation	16.1	0.5	No	Yes	Yes	Communications
24. Advanced Info Service	15.5	0.5	No	Yes	Yes	Communications
25. Land & Houses	15.5	0.5	No	Yes	Yes	Consumer
26. Tisco Bank	12.8	0.4	No	Yes	No	Financial
27. Central Pattana	12.2	0.4	No	Yes	Yes	Industrial
28. Minor International Public Company	12.2	0.4	No	Yes	Yes	Consumer
29. Bangkok Mass Transit System	12.0	0.4	Yes	Yes	No	Industrial
30. Italian-Thai Development Public Company	12.0	0.4	No	Yes	Yes	Industrial
Total Top 30 LCY Corporate Issuers	961.8	30.5				
Total LCY Corporate Bonds	1,583.0	50.5				
Top 30 as % of Total LCY Corporate Bonds	60.8	60.8				

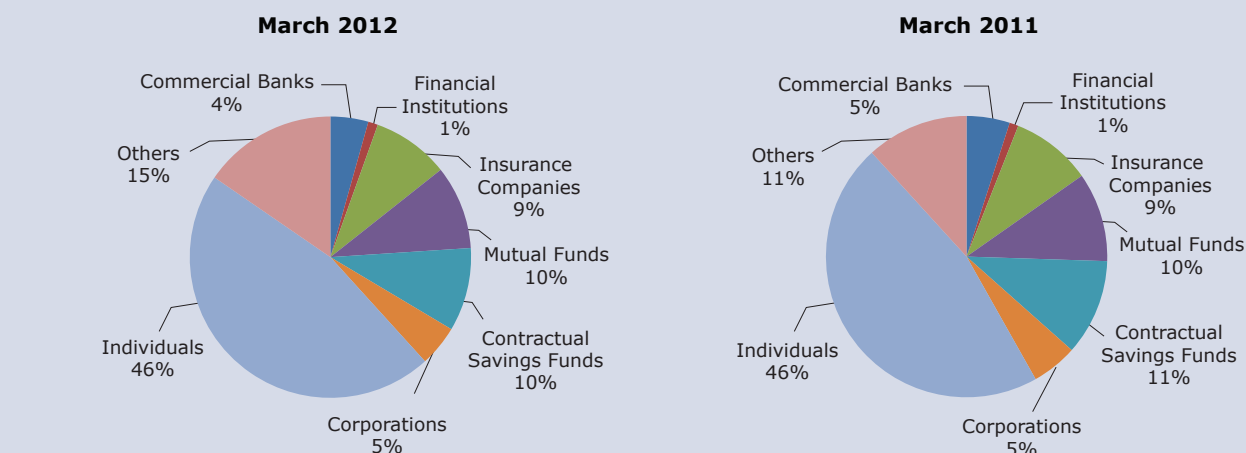
LCY = local currency.
Source: Bloomberg LP.

Figure 2: LCY Government Bonds Investor Profile

LCY = local currency.

Note: Government bonds exclude central bank bonds and state-owned enterprise bonds.

Source: AsianBondsOnline and Bank of Thailand.

Figure 3: LCY Corporate Bonds Investor Profile

LCY = local currency.

Source: ThaiBMA.

Rating Changes

Rating and Investment Information, Inc. (R&I) reported in March that it affirmed Thailand's foreign currency (FCY) and LCY issuer ratings at BBB and BBB+, respectively, and that it was maintaining a stable rating outlook for both (**Table 3**). R&I noted the country's rapid recovery from last year's flooding, its current account surplus, and solid fiscal management.

Table 3: Selected Sovereign Ratings and Outlook for Thailand

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	Baa1	BBB+	BBB	BBB
Outlook	Stable	Stable	Stable	Stable

FCY = foreign currency, LT = long-term.

Source: Rating agencies.

Policy, Institutional, and Regulatory Developments

BOT and MAS Sign Memorandum of Understanding on Cross-Border Collateral Arrangement

BOT announced in June that it had signed a memorandum of understanding with the Monetary Authority of Singapore (MAS) to enter into a cross-border collateral arrangement to help maintain financial stability in Thailand and Singapore. Under this arrangement, eligible financial institutions operating in Thailand may obtain Thai baht liquidity from BOT by pledging Singaporean dollars or Singaporean central bank and government securities. Eligible financial institutions operating in Singapore may acquire Singaporean dollar liquidity from MAS by pledging Thai baht or Thai central bank and government securities.

Ministry of Finance Gives Approval to Five Foreign Entities to Issue LCY Bonds

The Ministry of Finance announced in June that it had given approval to five foreign entities to sell LCY bonds in Thailand, totaling THB33 billion, between 1 May 2012 and 31 January 2013. The foreign entities and the allowable amount of their respective bond issuances are (i) International Bank for Reconstruction and Development (THB5 billion), (ii) International Finance Corporation (THB5 billion), (iii) Swedish Export Credit Corporation (THB5 billion), (iv) Korea Gas Corporation (THB8 billion), and (v) Kookmin Bank (THB10 billion).

SEC Allows Sale of Unrated Bonds to Accredited Investors

The Securities and Exchange Commission (SEC) decided in June to allow the sale of the following financial products to accredited investors such as institutional investors and high-net worth investors: (i) unrated bonds and (ii) non-retail mutual funds that invest in non-investment grade debt securities or in unrated bonds.

Viet Nam—Update

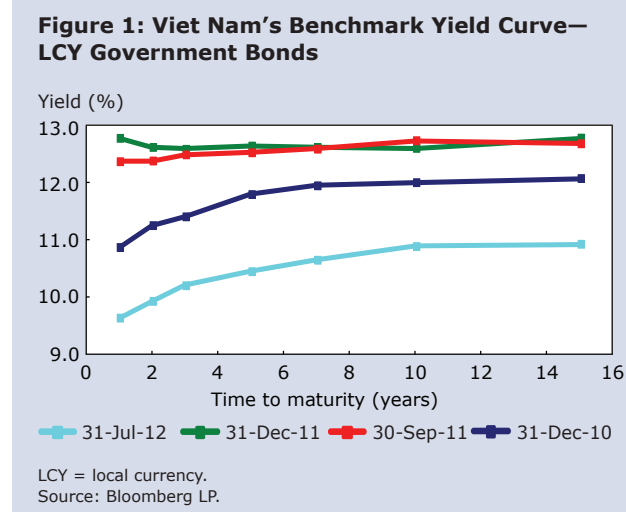
Yield Movements

Between end-December 2011 and end-July 2012, yields on Viet Nam's government bonds fell significantly across all tenors following a series of five interest rate cuts implemented by the State Bank of Viet Nam (SBV) in response to a steady decline in the inflation rate. The largest drop in the yield curve occurred for the 1-year tenor, which fell 394 basis points (bps) to 8.78% from 12.72% (**Figure 1**). The yield curve assumed a more normal curvature by the middle of 2012, compared to its inverted shape at the end of 2011, as short-term interest rates fell more rapidly than long-term rates during the first half of the year.

Viet Nam experienced lower growth in gross domestic product (GDP) in the first half of 2012, as the economy grew 4.4% year-on-year (y-o-y) compared with growth of 5.6% in 1H11. On a quarterly basis, however, Viet Nam's GDP grew faster in 2Q12—at a rate of 4.7%—compared with 4.0% in 1Q12.

The overall slowdown in Viet Nam's economy in 1H12 reflected a worsened global outlook as well as measures taken by the SBV to slow inflation and cap credit growth at 15%–17% per annum (p.a.). The latter move also aimed to help curb inflation, in addition to the rate cuts, and allay concerns over nonperforming loans in the banking system. The bad debt ratio of state-owned banks was 3.76% and that of non-state commercial banks was 4.73% at end-June.

Many businesses have experienced difficulties in accessing credit as banks have adopted more stringent lending standards in the face of rising credit risk. Since the beginning of the year, the SBV has required the banking sector to make loans at preferential interest rates in four priority fields—agricultural and rural development, exports,



supporting industries, and small and medium-sized enterprises (SMEs)—at a ceiling interest rate of 15% p.a.

Meanwhile, inflation continued to drop throughout the first half of this year, reaching single-digit levels in May for the first time since October 2010. Consumer price inflation eased further to 5.04% y-o-y in August on falling prices in food, housing and construction materials, and transport. The SBV forecasts that inflation will average less than 10% for the full-year 2012.

Size and Composition

As of end-June, Viet Nam's total local currency (LCY) bonds outstanding stood at VND455.9 trillion (US\$21.8 billion)—an increase of 28.5% y-o-y—driven by 42.0% growth in treasury bonds outstanding and the resumption of SBV bill issuance in March. On the other hand, the significant growth in treasury bonds and SBV bills was somewhat offset by contractions of 4.4% and 8.7% y-o-y, respectively, in state-owned enterprise (SOE) and corporate bonds outstanding (**Table 1**).

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

	Amount (billion)						Growth Rate (%)					
	Mar-12		Apr-12		May-12		Mar-12		Apr-12		May-12	
	VND	US\$	VND	US\$	VND	US\$	y-o-y	q-o-q	m-o-m	y-o-y	m-o-m	q-o-q
Total	412,464	20	454,892	22	466,830	22	20.1	12.8	10.3	28.5	2.6	10.5
Government	370,797	18	413,225	20	425,363	20	23.7	14.8	11.4	33.5	2.9	12.6
Treasury Bonds	165,974	8	176,567	8	184,853	9	36.1	11.6	6.4	42.0	4.7	11.7
Central Bank Bonds	30,478	1	68,334	3	69,276	3	-	-	124.2	-	1.4	90.6
State-Owned Enterprise Bonds	174,345	8	168,324	8	171,234	8	(2.0)	(0.04)	(3.5)	(4.4)	1.7	(0.2)
Corporate	41,667	2	41,667	2	41,467	2	(4.1)	(2.3)	-	(8.7)	(0.5)	(7.9)

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

Notes:

1. Bloomberg LP end-of-period LCY-US\$ rates are used.

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

Source: Bloomberg LP.

Total LCY government bonds outstanding surged 33.5% y-o-y and stood at VND417.5 trillion as of end-June. Treasury bond issuance was quite active in the first half of the year, due to issuance of VND60.9 trillion out of the VND100 trillion planned by the State Treasury for the full-year 2012. Total new issuance of SOE bonds reached VND31.8 trillion in the first half of the year out of planned issuance of VND59 trillion in 2012. Meanwhile, the SBV resumed its bill issuance in March with total issuance amounting to VND58.1 trillion through end-June.

Total LCY corporate bonds outstanding contracted 8.7% y-o-y to VND38.4 trillion as of end-June, due to the overall lack of new corporate bond issuance since the beginning of the year.

As of 30 June, the Viet Nam Technological and Commercial Joint Stock Bank (Techcombank) had the largest volume of bonds outstanding at VND6.85 trillion (**Table 2**), overtaking the previous lead issuer, the Viet Nam Joint Stock Bank for Industry and Trade (Vietin Bank) at VND4.1 trillion. In between these two issuers in the second spot was the Asia Commercial Joint Stock Bank with a total of VND5.09 trillion bonds outstanding. Total LCY bonds outstanding among the 15 largest issuers comprised 93.2% of all LCY corporate bonds outstanding.

Rating Changes

On 7 June, Standard & Poor's (S&P) revised Viet Nam's outlook from negative to stable on the back of its success in bringing inflation back down to single-digit levels (**Table 3**). The rating agency also affirmed the country's long-term sovereign credit rating at BB- and the short-term rating at B.

Policy, Institutional, and Regulatory Developments

SBV Sets Maximum VND Short-Term Lending Rate of Credit Institutions

Effective 8 May, the SBV set credit institutions' maximum VND short-term lending rate for

Table 2: Top 15 Issuers of LCY Corporate Bonds in Viet Nam (as of end-June 2012)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (VND billion)	LCY Bonds (US\$ billion)				
1. Vietnam Techcombank	6,850	0.33	No	Yes	No	Finance
2. Asia Commercial Joint Stock Bank	5,090	0.24	No	Yes	Yes	Finance
3. Vietin Bank	4,095	0.20	No	Yes	Yes	Finance
4. Vincom	4,000	0.19	No	Yes	Yes	Real Estate
5. Vinpearl	3,500	0.17	No	Yes	Yes	Resorts and Theme Parks
6. HAGL	3,260	0.16	No	Yes	Yes	Real Estate
7. Agribank Securities	2,000	0.10	No	Yes	Yes	Finance
8. Sacombank	1,900	0.09	No	Yes	Yes	Finance
9. Vietnam Maritime Commercial Bank	1,000	0.05	No	Yes	No	Finance
10. Minh Phu Seafood	900	0.04	No	Yes	No	Fisheries
11. Hoa Phat Group	800	0.04	No	Yes	Yes	Industrial
12. PFV Investment & Trading	650	0.03	No	Yes	No	Real Estate
13. An Binh Bank	600	0.03	No	Yes	No	Finance
14. Phu Hoang Anh	600	0.03	No	Yes	No	Real Estate
15. Kinh Bac City Development	500	0.02	No	Yes	Yes	Real Estate
Total Top 15 LCY Corporate Issuers	35,745	1.71				
Total LCY Corporate Bonds	38,367	1.84				
Top 15 as % of Total LCY Corporate Bonds	93.2%	93.2%				

LCY = local currency.
Source: Bloomberg LP.

Table 3: Selected Sovereign Ratings and Outlook for Viet Nam

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	B1	BB-	B+
Outlook	Negative	Stable	Stable

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

borrowers at 300 bps above the ceiling VND deposit rate for term deposits longer than 1 month. In the same circular, the SBV required credit institutions to set a ceiling loan interest rate of 15% p.a. for four priority fields—agricultural and rural development, exports, supporting industries, and SMEs—once borrowers have met the credit extension conditions required by credit institutions.

SBV Cuts VND Ceiling Deposit Rates

The SBV has cut VND ceiling deposit rates four times since the beginning of the year. Effective 11 June, the SBV set the ceiling VND deposit rate at 2% for demand and time deposits of less than 1 month, and 9% for time deposits of 1 month to 12 months. Local people's credit funds have been authorized to apply a ceiling VND deposit rate of 9.5% for time deposits of 1 month to 12 months. The ceiling VND deposit rate for time deposits of 12 months or longer can be set by local people's credit funds, based on capital supply and demand in the local market.

SBV Cuts Key Rates for the Fifth Time in 2012

Effective 1 July, the SBV cut key interest rates for the fifth time in 2012 on the back of easing inflation. The discount rate, refinancing interest rate, and overnight rate for inter-bank electronic payments were each cut by an additional 100 bps to 8%, 10%, and 11%, respectively.

New Rules for Issuance of Treasury Bills through SBV

Effective 14 August, new rules guide the issuance of treasury bills via the SBV. These new rules include (i) securities companies as new participants in the bidding, (ii) direct sale to the SBV as a new method of issuance, and (iii) multi-price bidding as a new method of determining bidding results. Also, the Viet Nam Securities Depository (VSD) has replaced the SBV as the payment agent for principal and interest payments.