

# Bond Market Developments in the Second Quarter of 2014

## Size and Composition

Emerging East Asian LCY bonds outstanding climbed to US\$7.9 trillion at end-June, up 2.5% q-o-q and 9.3% y-o-y.<sup>3</sup>

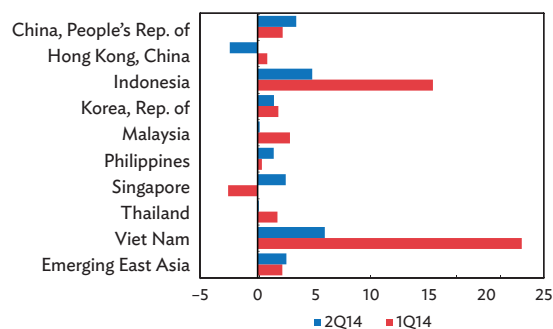
The outstanding size of the emerging East Asian local currency (LCY) bond market rose 2.5% quarter-on-quarter (q-o-q) to US\$7.9 trillion at end-June, compared with 2.2% q-o-q growth in the previous quarter. The People's Republic of China (PRC) continued to dominate the LCY bond market in emerging East Asia, with its stocks of government bonds (US\$3.2 trillion) and corporate bonds (US\$1.7 trillion) the largest in the region. The PRC bond market saw 3.4% q-o-q growth in 2Q14, with outstanding bonds climbing to US\$4.9 trillion at end-June (**Figure 1a**). Growth was driven mostly by the rapid rise in its stock of policy bank bonds and local corporate bonds.

On a q-o-q basis, the Republic of Korea's bond market expanded 1.4%, driven in large part by the growth of its government bond sector, particularly Korea Treasury Bonds and industrial finance debentures, as well as a modest increase in its stock of central bank bills. The outstanding size of LCY bonds in the Republic of Korea reached US\$1.8 trillion at the end of 2Q14.

Malaysia has the third largest market in the region, with outstanding bonds of US\$328 billion at end-June, followed by Thailand, with outstanding bonds of US\$283 billion. The LCY bond markets in both Malaysia and Thailand recorded negligible growth in 2Q14—0.2% and 0.1% q-o-q, respectively.

Singapore's bond market climbed 2.5% q-o-q to reach US\$247 billion at end-June, with growth mainly resulting from increases in the stock of Monetary Authority of Singapore (MAS) bills. MAS bills were first issued in April 2011 as a tool for money market operations. Singapore, which has no need for budget financing, has a debt cap to maintain. Hence, it prefers to issue MAS

**Figure 1a: Growth of LCY Bond Markets in 1Q14 and 2Q14 (q-o-q, %)**



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

Notes:

1. Calculated using data from national sources.
2. Growth rates are calculated from LCY base and do not include currency effects.
3. Emerging East Asia growth figures are based on end-June 2014 currency exchange rates and do not include currency effects.
4. For the People's Republic of China, 2Q14 corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond*, Shanghai Clearing, Shanghai Stock Exchange, Shenzhen Stock Exchange, and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Indonesia Debt Management Office, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

bills, as opposed to Singapore Government Securities, to avoid reaching its debt ceiling limit.

The LCY bond market of Hong Kong, China contracted during the review period. Hong Kong, China's LCY bonds outstanding fell 2.4% q-o-q to US\$192 billion at end-June as government and corporate bonds both declined.

The smaller markets of Indonesia, the Philippines, and Viet Nam recorded growth of 4.8%, 1.4%, and 5.9% q-o-q, respectively. The Indonesian LCY bond market reached a size of US\$123 billion at end-June, with increases coming mostly in the stocks of government bonds and central bank bills, which are known as *Sertifikat Bank Indonesia*, or SBI. The government continued with its frontloading issuance policy in 2Q14. In addition, a revised 2014 state budget was passed by the House of Representatives raising the budget deficit to an equivalent of 2.4% of gross domestic product (GDP) from 1.7% in the original budget. The revised 2014 state budget

<sup>3</sup> Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

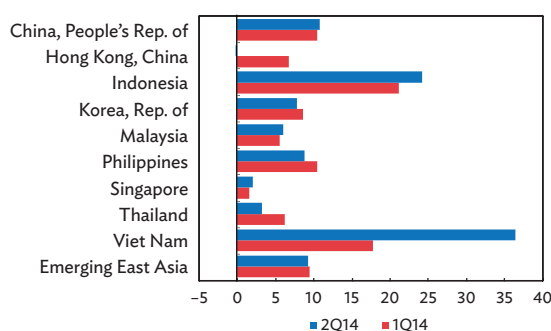
also raised the net government securities financing requirement to IDR265.0 trillion, up 29.2% from the original budget.

In 2Q14, the Philippine bond market grew 1.4% q-o-q, rising to US\$103 billion on the back of modest growth in the government bond sector as the Bureau of the Treasury issued more bonds in 2Q14 than in the previous quarter.

Viet Nam was the fastest growing bond market in emerging East Asia—albeit from a small base—registering a 5.9% q-o-q growth rate in 2Q14. Viet Nam’s rapid growth was driven mainly by its government bond sector, particularly Treasury bonds and central bank bonds

On a y-o-y basis, the region’s LCY bond market expanded 9.3% in 2Q14, slightly lower than expansion of 9.5% in the previous quarter (**Figure 1b**). The fastest growing bond markets on a y-o-y basis were Viet Nam (36.4%), Indonesia (24.2%), and the PRC (10.8%). The only market that recorded negative y-o-y growth in 2Q14 was Hong Kong, China.

**Figure 1b: Growth of LCY Bond Markets in 1Q14 and 2Q14 (y-o-y, %)**



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

Notes:

1. Calculated using data from national sources.
2. Growth rates are calculated from LCY base and do not include currency effects.
3. Emerging East Asia growth figures are based on end-June 2014 currency exchange rates and do not include currency effects.
4. For the People's Republic of China, 2Q14 corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond*, Shanghai Clearing, Shanghai Stock Exchange, Shenzhen Stock Exchange, and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Indonesia Debt Management Office, and Indonesia Stock Exchange); Republic of Korea (*EDAILY BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

At end-June, government bonds accounted for nearly 60% of emerging East Asian total LCY bonds outstanding (**Table 1**). The government bond sector grew 3.0% q-o-q and 9.2% y-o-y to reach US\$4.8 trillion. On a q-o-q basis, growth in the government sector was driven by increases in the stock of central bank bills and bonds, and Treasury bonds.

On an aggregate basis, Treasury bills and bonds accounted for the bulk of the total government bond stock in emerging East Asia in 2Q14. At end-June, the stock of Treasury bills stood at US\$43 billion and Treasury bonds at US\$2.3 trillion. The PRC has the largest stock of Treasury bonds (US\$1.3 trillion) and the Republic of Korea has the largest stock of Treasury bills (US\$12 billion).

At end-June, the stock of central bank securities in emerging East Asia stood at US\$558 billion (**Figure 2**). The Republic of Korea had the region’s largest market, accounting for 32.1% of total central bank securities outstanding in 2Q14. This was followed by Hong Kong, China (US\$97 billion) and Thailand (US\$87 billion). In the PRC, the amount of central bank securities outstanding continued to fall, settling at US\$79 billion at end-June, as the People’s Bank of China (PBOC) has been relying less on central bank issuances and more on other monetary policy tools.

Emerging East Asian LCY corporate bonds rose 1.9% q-o-q and 9.4% y-o-y to reach US\$3.2 trillion at end-June. Corporate bonds now account for 40.2% of total outstanding bonds in the region. On a q-o-q basis, only the PRC recorded significant growth in its stock of corporate bonds in 2Q14 at 3.6%. All other markets registered growth of 1.6% q-o-q or less, while the corporate bond markets of Hong Kong, China; the Philippines; and Viet Nam contracted on a q-o-q basis.

Hong Kong, China’s corporate bond stock declined 4.8% as most companies preferred to borrow funds through loans. In the Philippines, corporate bonds outstanding fell due to less issuance in 2Q14, as most corporates shied away from issuing bonds amid expectations of higher interest rates. In Viet Nam, corporate bonds outstanding have been on a downtrend, with no new corporate issuance since November 2012. As of end-June, only 13 corporate entities comprised the entire corporate bond market in Viet Nam.

Table 1: Size and Composition of LCY Bond Markets

	2Q13		1Q14		2Q14		Growth Rate (LCY-base %)				Growth Rate (US\$-base %)			
	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	2Q13		2Q14		2Q13		2Q14	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
<b>China, People's Rep. of</b>														
<b>Total</b>	4,445	100.0	4,702	100.0	4,872	100.0	3.1	18.1	3.4	10.8	4.3	22.3	3.6	9.6
Government	2,905	65.4	3,056	65.0	3,164	64.9	1.5	8.7	3.3	10.1	2.7	12.5	3.5	8.9
Corporate	1,540	34.6	1,646	35.0	1,708	35.1	6.3	41.1	3.6	12.1	7.5	46.1	3.8	10.9
<b>Hong Kong, China</b>														
<b>Total</b>	192	100.0	196	100.0	192	100.0	4.4	10.7	(2.4)	(0.2)	4.5	10.7	(2.3)	(0.1)
Government	107	56.0	109	55.5	109	56.6	7.0	15.7	(0.5)	0.9	7.1	15.7	(0.4)	1.0
Corporate	84	44.0	87	44.5	83	43.4	1.3	4.9	(4.8)	(1.6)	1.4	4.9	(4.7)	(1.5)
<b>Indonesia</b>														
<b>Total</b>	118	100.0	123	100.0	123	100.0	2.2	12.4	4.8	24.2	(0.5)	6.0	0.2	4.6
Government	97	82.6	104	84.5	105	85.2	1.7	10.3	5.6	28.0	(1.0)	4.0	1.1	7.9
Corporate	21	17.4	19	15.5	18	14.8	4.5	23.6	0.02	5.9	1.7	16.5	(4.3)	(10.8)
<b>Korea, Rep. of</b>														
<b>Total</b>	1,445	100.0	1,648	100.0	1,759	100.0	2.2	10.6	1.4	7.8	(0.5)	11.0	6.7	21.7
Government	558	38.6	635	38.6	692	39.4	2.3	6.0	3.5	9.9	(0.4)	6.3	9.0	24.1
Corporate	887	61.4	1,012	61.4	1,066	60.6	2.1	13.8	0.1	6.5	(0.6)	14.1	5.4	20.2
<b>Malaysia</b>														
<b>Total</b>	314	100.0	322	100.0	328	100.0	(0.2)	6.4	0.2	6.0	(2.3)	6.9	1.9	4.3
Government	186	59.1	188	58.4	191	58.1	(0.2)	5.1	(0.3)	4.1	(2.3)	5.7	1.4	2.5
Corporate	128	40.9	134	41.6	138	41.9	(0.3)	8.2	0.9	8.7	(2.4)	8.8	2.6	7.0
<b>Philippines</b>														
<b>Total</b>	96	100.0	99	100.0	103	100.0	3.0	13.2	1.4	8.8	(2.6)	10.6	4.1	7.5
Government	83	86.9	84	84.6	87	85.0	3.2	13.8	1.9	6.5	(2.4)	11.2	4.6	5.2
Corporate	13	13.1	15	15.4	15	15.0	1.7	9.3	(1.1)	24.4	(3.8)	6.7	1.6	23.0
<b>Singapore</b>														
<b>Total</b>	238	100.0	239	100.0	247	100.0	2.0	14.0	2.5	2.0	(0.2)	13.8	3.4	3.8
Government	148	62.2	146	61.1	152	61.6	1.9	14.9	3.3	1.1	(0.3)	14.6	4.2	2.8
Corporate	90	37.8	93	38.9	95	38.4	2.2	12.6	1.1	3.6	(0.1)	12.4	2.0	5.4
<b>Thailand</b>														
<b>Total</b>	286	100.0	282	100.0	283	100.0	3.0	10.6	0.1	3.2	(2.9)	12.5	0.1	(1.2)
Government	226	78.9	217	76.8	216	76.4	3.4	8.7	(0.3)	0.01	(2.6)	10.5	(0.4)	(4.3)
Corporate	60	21.1	66	23.2	67	23.6	1.8	18.5	1.6	15.3	(4.1)	20.4	1.6	10.3
<b>Viet Nam</b>														
<b>Total</b>	27	100.0	35	100.0	37	100.0	(8.6)	26.8	5.9	36.4	(9.8)	25.0	4.7	35.6
Government	26	97.0	35	98.3	36	98.4	(8.1)	34.3	6.0	38.3	(9.3)	32.4	4.8	37.5
Corporate	1	3.0	0.6	1.7	0.6	1.6	(22.5)	(55.5)	(1.2)	(27.5)	(23.5)	(56.2)	(2.3)	(27.9)
<b>Emerging East Asia</b>														
<b>Total</b>	7,161	100.0	7,646	100.0	7,943	100.0	2.7	15.1	2.5	9.3	2.3	17.6	3.9	10.9
Government	4,337	60.6	4,574	59.8	4,752	59.8	1.8	8.8	3.0	9.2	1.5	11.3	3.9	9.6
Corporate	2,824	39.4	3,072	40.2	3,191	40.2	4.1	26.0	1.9	9.4	3.6	28.9	3.9	13.0
<b>Japan</b>														
<b>Total</b>	10,408	100.0	10,239	100.0	10,496	100.0	1.2	3.8	0.6	3.1	(3.8)	(16.5)	2.5	0.9
Government	9,567	91.9	9,443	92.2	9,689	92.3	1.4	4.6	0.7	3.5	(3.6)	(15.8)	2.6	1.3
Corporate	840	8.1	796	7.8	807	7.7	(0.8)	(4.4)	(0.5)	(1.9)	(5.7)	(23.0)	1.4	(4.0)

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

Notes:

1. For the People's Republic of China, 2Q14 corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

2. Corporate bonds include issues from financial institutions.

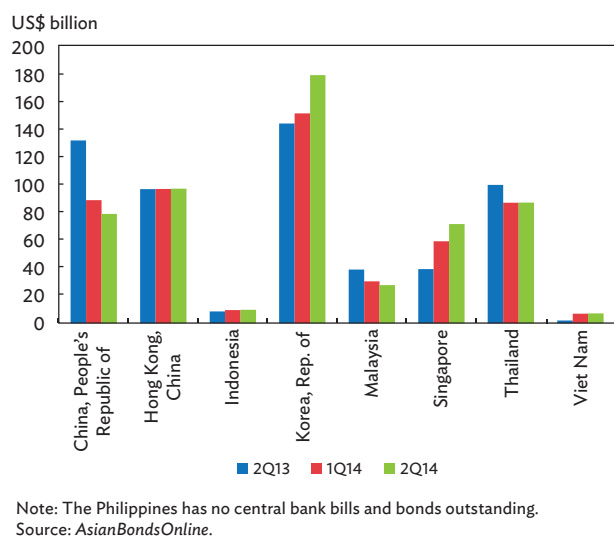
3. Bloomberg LP end-of-period LCY—US\$ rates are used.

4. For LCY base, emerging East Asia growth figures based on end-June 2014 currency exchange rates and do not include currency effects.

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

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Figure 2: Central Bank Bills and Bonds Outstanding



The size of the LCY bond market in emerging East Asia expressed as a percentage of GDP climbed to 59.3% in 2Q14 from 58.1% in the previous quarter and 57.2% a year earlier (**Table 2**). The Republic of Korea (129.6%) and Malaysia (101.8%) had the largest shares of bonds to GDP among all markets in the region.

### The maturity structures of LCY bond markets in the region were mostly concentrated at the shorter-end of the curve.

At end-June, the maturity structures of emerging East Asia's LCY government bond markets were mostly concentrated at the shorter-end of the curve (maturities of more than 1 year to 3 years), with the exceptions being the PRC, Indonesia, Malaysia, and the Philippines (**Figure 3**). The PRC and Malaysia had a larger share of their bonds with medium-dated tenors (maturities of more than 5 years to 10 years), while the Indonesian and Philippine markets were more concentrated at the longer-end (maturities of more than 10 years).

About 46% of government bonds in Indonesia had remaining maturities of more than 10 years (**Figure 4**). Three out of four benchmark government bond series carried maturities of more than 10 years, resulting in a bond curve heavily concentrated at the longer-end. The Indonesian government has been undertaking debt buybacks and debt switches on a regular basis as part of

Table 2: Size and Composition of LCY Bond Markets (% of GDP)

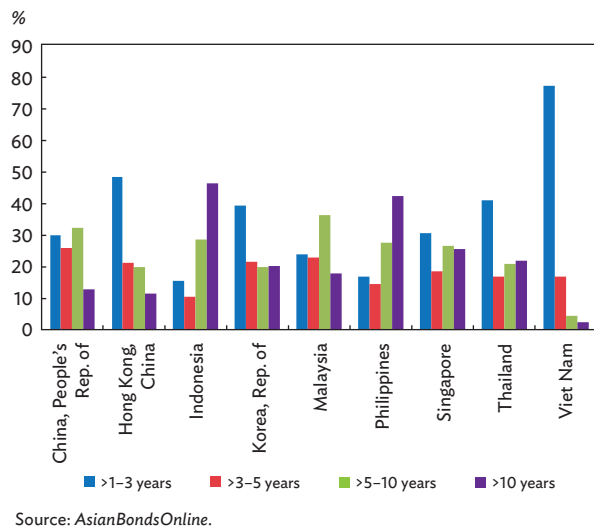
	2Q13	1Q14	2Q14
<b>China, People's Rep. of</b>			
<b>Total</b>	50.6	50.6	51.2
Government	33.1	32.9	33.3
Corporate	17.5	17.7	18.0
<b>Hong Kong, China</b>			
<b>Total</b>	71.7	70.8	68.3
Government	40.1	39.3	38.7
Corporate	31.5	31.5	29.6
<b>Indonesia</b>			
<b>Total</b>	13.8	15.0	15.2
Government	11.4	12.6	13.0
Corporate	2.4	2.3	2.3
<b>Korea, Rep. of</b>			
<b>Total</b>	118.0	121.4	129.6
Government	45.6	46.8	51.0
Corporate	72.4	74.6	78.6
<b>Malaysia</b>			
<b>Total</b>	104.3	104.1	101.8
Government	61.6	60.8	59.1
Corporate	42.6	43.3	42.7
<b>Philippines</b>			
<b>Total</b>	37.5	37.6	37.3
Government	32.5	31.8	31.7
Corporate	4.9	5.8	5.6
<b>Singapore</b>			
<b>Total</b>	82.8	79.5	81.1
Government	51.5	48.6	50.0
Corporate	31.3	30.9	31.1
<b>Thailand</b>			
<b>Total</b>	75.8	76.7	76.3
Government	59.8	58.9	58.3
Corporate	16.0	17.8	18.0
<b>Viet Nam</b>			
<b>Total</b>	16.5	20.4	21.1
Government	16.0	20.0	20.8
Corporate	0.5	0.3	0.3
<b>Emerging East Asia</b>			
<b>Total</b>	57.2	58.1	59.3
Government	34.6	34.7	35.5
Corporate	22.5	23.3	23.8
<b>Japan</b>			
<b>Total</b>	174.6	219.3	219.7
Government	160.5	202.3	202.8
Corporate	14.1	17.1	16.9

GDP = gross domestic product, LCY = local currency.

Notes:

1. Data for GDP is from CEIC. 2Q14 GDP figure carried over from 1Q14 for the Republic of Korea.
  2. For the People's Republic of China, 2Q14 corporate bonds outstanding data based on AsianBondsOnline estimates. For Singapore, corporate bonds outstanding data based on AsianBondsOnline estimates.
- Sources: People's Republic of China (ChinaBond, Shanghai Clearing, Shanghai Stock Exchange, Shenzhen Stock Exchange, and Wind); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Indonesia Debt Management Office, and Indonesia Stock Exchange); Republic of Korea (EDAILY BondWeb and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

**Figure 3: Government Bond Maturity Profiles**  
(individual maturities as % of total)

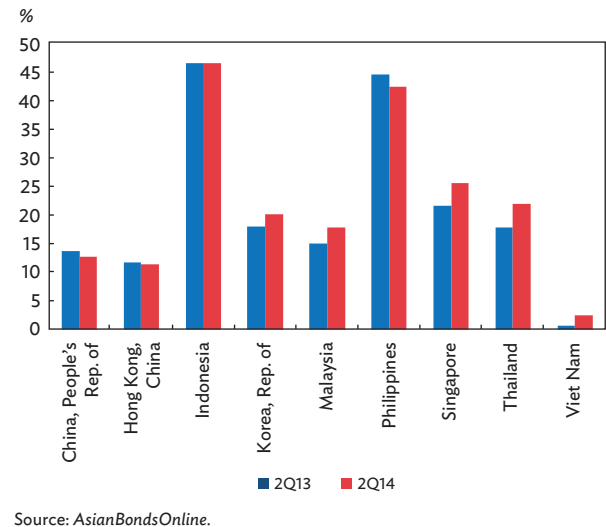


the portfolio management of its government securities. More recently, the government has structured its debt switches as “many-to-many,” in which destination bonds can be any one of its four benchmark series instead of only one series. This measure has helped to attract higher bids during debt switch offerings.

The government bond market of the Philippines is also more weighted toward the longer-end, with about 42% of bonds carrying a remaining maturity of more than 10 years. The maturity profile of Philippine LCY government bonds has changed significantly from the time the government introduced its debt liability management program in February 2006. Since then, the Bureau of the Treasury has held various bond swaps and reissuances, leading to the lengthening of the maturity profile of the securities issued. This has also deepened liquidity in the LCY bond market, where banks have been able to convert their illiquid holdings to liquid benchmark securities, thus increasing trading volume in the LCY bond market.

In the corporate sector, the maturity structures were also mostly concentrated at the shorter-end (**Figure 5**). Majority of corporate bonds in the PRC; Hong Kong, China; Indonesia; the Republic of Korea; and Thailand carried maturities of more than 1 year to 3 years. Meanwhile, in the Philippines and Viet Nam, more than 50% of corporate bonds had maturities of 5 years to 10 years. In Malaysia, about 37% of corporate bonds

**Figure 4: Government Bonds—Maturities of More Than 10 Years**  
(% of total)



had maturities of 5 years to 10 years. In Indonesia and Viet Nam, there were no corporate bonds with maturities of more than 10 years.

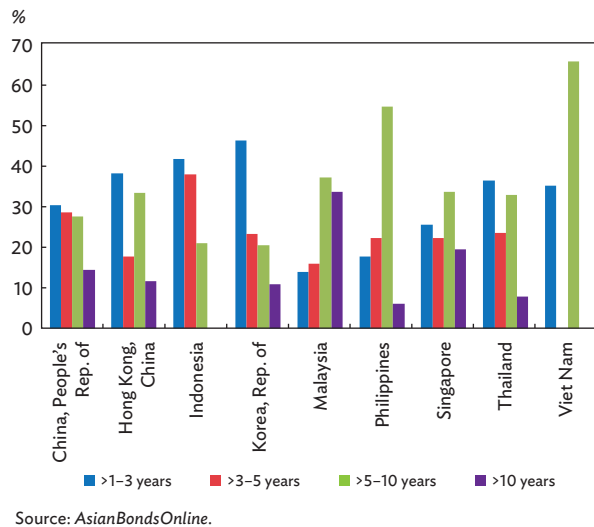
### Foreign holdings as a share of total LCY government bonds were mostly unchanged in the region's markets.

Foreign investor holdings in the region's LCY government bond markets were broadly stable for most markets in 1Q14 (**Figure 6**). The only exceptions were in Indonesia, where the share of foreign holdings hit new highs in recent months, and Thailand, where the share of foreign holdings declined in 2Q14.

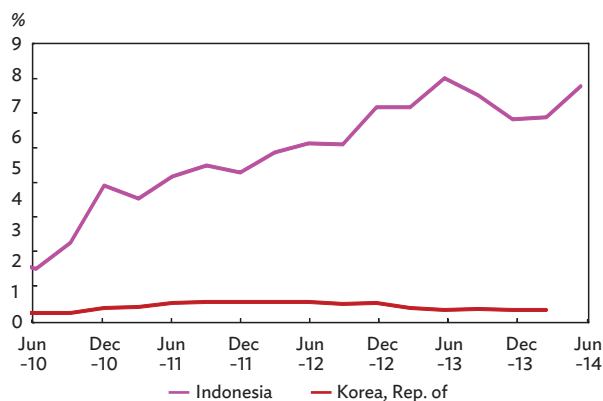
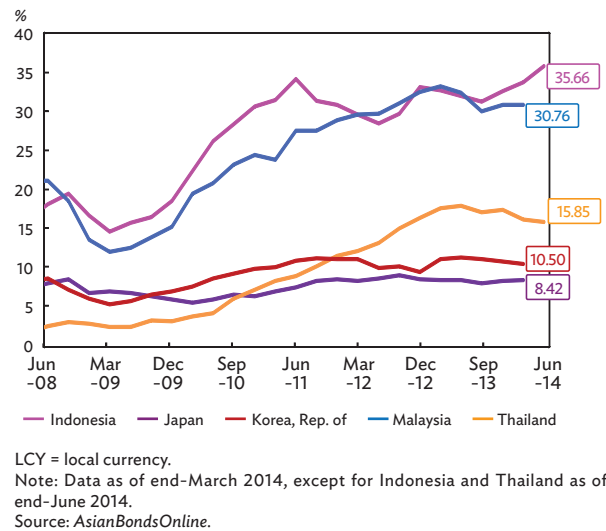
The share of foreign holdings in Indonesia rose to 35.7% at end-June, and climbed further to 36.3% at end-July. In addition to attractive yields, continued strong inflows from foreign participants can be partly attributed to rising market confidence amid the conclusion of the presidential election.

In Thailand, foreign holdings' share of the government bond market declined to 15.8% in 2Q14 amid negative sentiments arising from political uncertainty in the first half of the year. Meanwhile, negligible declines were noted in shares of foreign holdings of government bonds in Malaysia and the Republic of Korea in 1Q14, the latest quarter for which data are available.



**Figure 5: Corporate Bond Maturity Profiles**  
 (individual maturities as % of total)


The shares of foreign holdings in LCY corporate bond markets in Indonesia and the Republic of Korea remained significantly lower compared with their respective government bond markets (**Figure 7**). In both economies, most corporate bonds are illiquid, and investors tend to buy and hold until maturity. The share of foreign holdings of LCY corporate bonds in Indonesia gained 1 percentage point in 2Q14 to reach 7.6% at end-June. Meanwhile, foreign holdings' share of LCY corporate bonds in the Republic of Korea in 1Q14 was negligible at 0.4%.

**Figure 7: Foreign Holdings of LCY Corporate Bonds in Indonesia and the Republic of Korea (% of total)**

**Figure 6: Foreign Holdings of LCY Government Bonds in Select Asian Markets (% of total)**


## Foreign capital inflows into Emerging East Asian LCY bond markets surged in July.

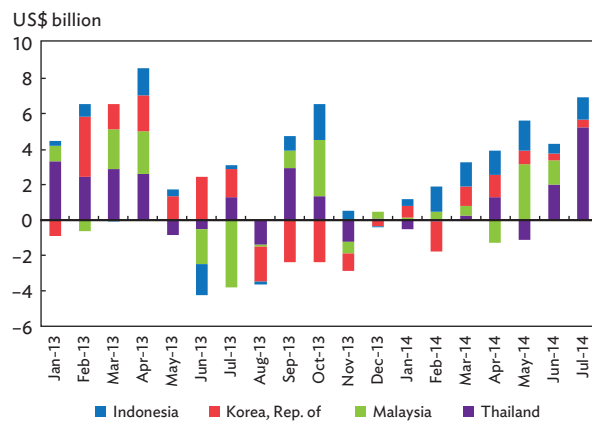
Emerging East Asian LCY bond markets continued to attract foreign interest, buoyed by improving sentiments toward emerging market assets. Foreign bond inflows recovered strongly in July for all markets except Malaysia (**Figure 8**). The biggest increase was noted in Thailand, where foreign bond inflows jumped to US\$5.3 billion in July on renewed interest among foreign investors resulting from the stabilizing political situation and the approval of an infrastructure investment plan.

## Emerging East Asian LCY bond issuance rose in 2Q14.

Emerging East Asian LCY bond issuance stood at US\$1.1 trillion in 2Q14, up from US\$852 billion in 1Q14 and US\$974 billion in 2Q13 (**Table 3**). The region's LCY government bond issuance in 2Q14 accounted for 72.7% of the total issuance for the period, led by central banks and monetary authorities' sales of US\$475 billion, and central governments and other government units' combined issuance of US\$315 billion.

In 2Q14, issuance in the region's LCY government bond sector reached US\$789 billion, reflecting double-digit growth on both a q-o-q and y-o-y basis. The region's corporate sector issued US\$296 billion worth of new

**Figure 8: Foreign Bond Flows in Select Emerging East Asian Markets**



LCY = local currency.

Notes:

1. The Republic of Korea and Thailand provide data on bond flows. For Indonesia and Malaysia, month-on-month changes in foreign holdings of LCY government bonds were used as a proxy for bond flows.
2. Data provided as of end-July 2014, except for Malaysia as of end-June 2014.
3. Figures were computed based on end-July 2014 exchange rates to avoid currency effects.

Sources: Indonesia Debt Management Office, Financial Supervisory Service, Bank Negara Malaysia, and Thai Bond Market Association.

LCY bonds in 2Q14, reflecting q-o-q growth and a y-o-y decline.

Hong Kong, China and the PRC led the region in terms of LCY government bond issuance in 2Q14, contributing US\$285 billion and US\$239 billion, respectively. The Hong Kong Monetary Authority (HKMA) again led the region in terms of central bank and monetary authority LCY bond issuance, generating bond sales worth US\$284 billion, or about 60% of total LCY bonds sold by central banks and monetary authorities in the region. The large issuances of HKMA were the result of the refinancing of matured short-term Exchange Fund Bills.

In the PRC, Treasury bonds, savings bonds, and local government bonds were all sold during the quarter, with issuance of Treasury bonds and savings bonds rising on a q-o-q basis and falling on a y-o-y basis, while issuance of local government bonds was up on both a q-o-q and y-o-y basis.

LCY government bond issuance was up on both a q-o-q and y-o-y basis in the Republic of Korea and the Philippines. Growth in government issuance in the Republic of Korea was driven by the issuance of Korea

Treasury Bonds and Monetary Stabilization Bonds, while in the Philippines it was due mainly to the successful auction of Treasury bonds in 2Q14.

LCY government bond issuance in Malaysia, Singapore, and Thailand was up from the previous quarter due to increases in bonds sold by their respective central banks and central governments; however, government bond issuance fell on a y-o-y basis in these three markets due to decreases in issuances of Bank Negara Malaysia bills, Bank of Thailand bills and bonds, and Singapore Government Securities.

Meanwhile, 2Q14 LCY government bond issuance in both Indonesia and Viet Nam was down on a q-o-q basis and up on a y-o-y basis. The quarterly decreases stemmed from lower bond issuance by central banks and central governments. In Indonesia, the y-o-y upswing emanated from higher bond sales by its central bank and central government; in the case of Viet Nam, growth in bond sales was driven by central bank issuance.

LCY corporate bond issuance in emerging East Asia in 2Q14 was dominated by the PRC, which accounted for 67% of the regional total. The PRC's LCY corporate bond issuance was up on both a q-o-q and y-o-y basis, with the quarterly uptick bolstered by greater issuance in commercial bank bonds and local corporate bonds in 2Q14, while the annual increase stemmed from y-o-y increases in the issuance of asset-backed and local corporate bonds. The second largest amount of corporate bond issuance in the region came from the Republic of Korea, which comprised 21% of the regional total.

In contrast to the PRC, LCY corporate bond issuance in the Republic of Korea was down on both a q-o-q and y-o-y basis, due to lower sales of special public bonds, financial debentures, and private corporate bonds. For the rest of emerging East Asia, corporate bond issuance fell on a q-o-q basis in all markets except Indonesia, Singapore, and Thailand. However, on a y-o-y basis, all markets recorded lower levels of corporate bond issuance in 2Q14 except Malaysia, the Philippines, and Singapore.

Intraregional bond issues continued in 2Q14, including the PRC's Yanlord Land Group's SGD400 million 3-year bond offering a 6.2% coupon issued in May; the PRC's Industrial and Commercial Bank of China's dual-tranche

Table 3: LCY-Denominated Bond Issuance (gross)

	2Q13		1Q14		2Q14		Growth Rate (LCY-base %)		Growth Rate (US\$-base %)	
	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	2Q14		2Q14	
							q-o-q	y-o-y	q-o-q	y-o-y
<b>China, People's Rep. of</b>										
<b>Total</b>	387	100.0	298	100.0	437	100.0	46.4	14.2	46.8	13.0
Government	194	50.3	137	46.0	239	54.7	73.9	24.3	74.3	23.0
Central Bank	19	4.8	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	176	45.5	137	46.0	239	54.7	73.9	37.4	74.3	35.9
Corporate	192	49.7	161	54.0	198	45.3	23.0	4.1	23.3	3.0
<b>Hong Kong, China</b>										
<b>Total</b>	220	100.0	195	100.0	292	100.0	49.5	32.3	49.6	32.4
Government	212	96.1	186	95.5	285	97.6	52.7	34.4	52.9	34.5
Central Bank	210	95.3	185	95.0	284	97.4	53.3	35.3	53.4	35.4
Treasury and Other Govt.	2	0.8	1	0.5	0.5	0.2	(49.3)	(70.8)	(49.3)	(70.7)
Corporate	9	3.9	9	4.5	7	2.4	(19.8)	(19.1)	(19.7)	(19.1)
<b>Indonesia</b>										
<b>Total</b>	9	100.0	11	100.0	10	100.0	(4.6)	32.9	(8.7)	11.9
Government	7	77.2	10	95.6	8	85.3	(14.9)	46.8	(18.6)	23.7
Central Bank	2	22.2	3	26.6	2	24.6	(11.9)	46.9	(15.7)	23.7
Treasury and Other Govt.	5	55.0	7	69.0	6	60.7	(16.0)	46.7	(19.7)	23.6
Corporate	2	22.8	0.5	4.4	1	14.7	221.1	(14.4)	207.2	(27.9)
<b>Korea, Rep. of</b>										
<b>Total</b>	146	100.0	158	100.0	144	100.0	(13.7)	(13.0)	(9.2)	(1.8)
Government	67	45.6	75	47.1	82	57.1	4.6	9.0	10.1	23.0
Central Bank	39	26.7	45	28.1	47	32.6	0.0	6.1	5.3	19.8
Treasury and Other Govt.	28	18.8	30	19.0	35	24.5	11.4	13.0	17.2	27.5
Corporate	80	54.4	84	52.9	62	42.9	(30.0)	(31.3)	(26.3)	(22.5)
<b>Malaysia</b>										
<b>Total</b>	39	100.0	36	100.0	37	100.0	1.3	(2.3)	3.0	(3.8)
Government	32	83.0	27	73.9	29	77.7	6.5	(8.6)	8.2	(10.0)
Central Bank	24	61.7	18	48.9	19	52.2	8.0	(17.3)	9.8	(18.6)
Treasury and Other Govt.	8	21.4	9	24.9	9	25.5	3.5	16.5	5.2	14.7
Corporate	7	17.0	9	26.1	8	22.3	(13.4)	28.6	(12.0)	26.6
<b>Philippines</b>										
<b>Total</b>	3	100.0	6	100.0	5	100.0	(5.7)	74.1	(3.2)	72.1
Government	3	89.6	3	60.1	4	75.3	18.2	46.3	21.3	44.6
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	3	89.6	3	60.1	4	75.3	18.2	46.3	21.3	44.6
Corporate	0.3	10.4	2	39.9	1	24.7	(41.6)	314.2	(40.0)	309.3
<b>Singapore</b>										
<b>Total</b>	91	100.0	77	100.0	86	100.0	11.2	(7.0)	12.2	(5.4)
Government	88	96.7	74	95.7	83	96.0	11.6	(7.7)	12.5	(6.1)
Central Bank	56	61.9	71	91.8	75	87.4	5.9	31.3	6.8	33.5
Treasury and Other Govt.	32	34.8	3	3.9	7	8.6	144.7	(76.9)	146.9	(76.5)
Corporate	3	3.3	3	4.3	3	4.0	3.1	13.5	4.1	15.4
<b>Thailand</b>										
<b>Total</b>	76	100.0	60	100.0	65	100.0	7.6	(10.9)	7.6	(14.7)
Government	57	75.8	46	77.2	50	77.5	8.1	(8.8)	8.0	(12.7)
Central Bank	51	67.4	35	58.9	39	60.5	10.6	(20.0)	10.5	(23.4)
Treasury and Other Govt.	6	8.4	11	18.3	11	17.0	0.1	80.2	0.0	72.5
Corporate	18	24.2	14	22.8	15	22.5	6.2	(17.2)	6.1	(20.8)

continued on next page



Table 3 continued

Viet Nam	2Q13		1Q14		2Q14		Growth Rate (LCY-base %)		Growth Rate (US\$-base %)	
	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	2Q14		2Q14	
							q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	3	100.0	12	100.0	9	100.0	(23.0)	259.2	(23.9)	257.1
Government	3	100.0	12	100.0	9	100.0	(23.0)	259.2	(23.9)	257.1
Central Bank	0	0.0	8	69.1	7	79.4	(11.5)	-	(12.5)	-
Treasury and Other Govt.	3	100.0	4	30.9	2	20.6	(48.8)	(26.1)	(49.4)	(26.5)
Corporate	0	0.0	0	0.0	0	0.0	-	-	-	-
<b>Emerging East Asia</b>										
<b>Total</b>	974	100.0	852	100.0	1,085	100.0	25.8	10.2	27.3	11.5
Government	663	68.1	570	66.9	789	72.7	37.2	18.4	38.4	19.1
Central Bank	401	41.2	365	42.8	475	43.7	29.1	17.5	30.2	18.4
Treasury and Other Govt.	262	26.9	206	24.1	315	29.0	51.7	19.7	53.0	20.2
Corporate	311	31.9	282	33.1	296	27.3	3.0	(7.0)	4.8	(4.8)
<b>Japan</b>										
<b>Total</b>	546	100.0	485	100.0	522	100.0	5.5	(2.4)	7.5	(4.5)
Government	503	92.1	459	94.5	480	91.9	2.6	(2.5)	4.5	(4.6)
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	503	92.1	459	94.5	480	91.9	2.6	(2.5)	4.5	(4.6)
Corporate	43	7.9	26	5.5	42	8.1	55.7	(1.1)	58.7	(3.2)

(-) = negative, - = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. For the People's Republic of China, 2Q14 corporate bond issuance based on *AsianBondsOnline* estimates.

2. Corporate bonds include issues from financial institutions.

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

4. For LCY base, emerging East Asia growth figures are based on end-June 2014 currency exchange rates and do not include currency effects.

Sources: People's Republic of China (ChinaBond); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Indonesia Debt Management Office, and Indonesia Stock Exchange); Republic of Korea (EDAILY Bondweb and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bloomberg LP); Singapore (Singapore Government Securities and Bloomberg LP); Thailand (Bank of Thailand and ThaiBMA); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

sale of IDR-denominated bonds, also issued in May, comprising a IDR265 billion 1-year bond at a 9.7% coupon and a IDR235 billion 3-year bond at a 10.6% coupon; Hong Kong, China's Sun Hung Kai Properties' SGD320 million 7-year bond sold in May at 3.25%; Indonesia's Trikomsel's SGD100 million 3-year bond carrying a 7.875% coupon sold in June; and Singapore's OCBC Bank's CNY200 million 3-year bond with a 2.7% coupon issued in June.

Emerging East Asian companies issued a number of HKD-denominated bonds in 2Q14. These included Malaysia's CIMB Bank, which sold a HKD300 million 5-year bond offering a 2.7% coupon; the Korea Development Bank, which issued a HKD1.0 billion 7-year bond at a 3.2% coupon; and Singapore's Wilmar International, which sold a HKD300 million 7-year bond at a 4.7% coupon. In more recent months, CIMB Thai sold a MYR400 million 10-year bond at a 5.6% coupon in July.

### Emerging East Asian G3 currency bond issuance remained on pace to exceed last year's record level.

Emerging East Asian G3 currency bond issuance remained vibrant, reaching US\$121.4 billion in January–July, which was on pace to exceed the US\$141.5 billion of issuance in full-year 2013 (**Table 4**). G3 bond issuers continued to lock in low interest rates in anticipation of a rate hike by the Federal Reserve amid signs of economic recovery in the US.

The PRC was the largest source of G3 currency bond issuance in emerging East Asia at US\$56.8 billion, already surpassing the previous year's total and accounting for 47% of the region's total. Energy companies and financial institutions were the dominant issuer groups in the PRC, including Sinopec, which raised US\$7 billion from selling five US\$-denominated bonds in April and three in June;

Table 4: G3 Currency Bond Issuance

2013			1 January–31 July 2014		
Issuer	US\$ (million)	Issue Date	Issuer	US\$ (million)	Issue Date
<b>China, People's Rep. of</b>	<b>56,709</b>		<b>China, People's Rep. of</b>	<b>56,802</b>	
CNOOC Finance 3.0% 2023	2,000	9-May-13	CNOOC Finance 4.25% 2024	2,250	30-Apr-14
Evergrande Real Estate 8.75% 2018	1,500	30-Oct-13	Tencent 3.375% 2019	2,000	29-Apr-14
Sinopec Group 4.375% 2023	1,500	17-Oct-13	Sinopec 1.0136% 2017	1,800	10-Apr-14
CNOOC Curtis Funding 4.5% 2023	1,300	3-Oct-13	State Grid Overseas Investment 4.125% 2024	1,600	7-May-14
Sinopec Capital 3.125% 2023	1,250	24-Apr-13	Sinopec 1.75% 2017	1,550	10-Apr-14
Others	49,159		Others	47,602	
<b>Hong Kong, China</b>	<b>24,011</b>		<b>Hong Kong, China</b>	<b>16,291</b>	
Hutchison Whampoa 3.75% Perpetual	2,367	10-May-13	CLP Power 4.25% Perpetual	750	7-May-14
Shimao Property 6.625% 2020	800	14-Jan-13	New World Development 5.25% 2021	750	26-Feb-14
Others	20,844		Others	14,791	
<b>Indonesia</b>	<b>12,270</b>		<b>Indonesia</b>	<b>8,971</b>	
Pertamina 4.3% 2023	1,625	20-May-13	Indonesia (Sovereign) 5.875% 2024	2,000	15-Jan-14
Pertamina 5.625% 2043	1,625	20-May-13	Indonesia (Sovereign) 6.75% 2044	2,000	15-Jan-14
Indonesia (Sovereign) 3.375% 2023	1,500	15-Apr-13	Pertamina 6.45% 2044	1,500	30-May-14
Indonesia (Sovereign) 4.625% 2043	1,500	15-Apr-13	Perusahaan Gas Negara (PGN) 5.125% 2024	1,350	16-May-14
Perusahaan Penerbit SBSN 6.125% 2019	1,500	17-Sep-13	Indonesia (Sovereign) 2.875% 2021	1,339	8-Jul-14
Others	4,520		Others	782	
<b>Korea, Rep. of</b>	<b>30,400</b>		<b>Korea, Rep. of</b>	<b>23,038</b>	
Korea Eximbank 2.0% 2020	1,369	30-Apr-13	Republic of Korea (Sovereign) 2.125% 2024	1,004	10-Jun-14
The Republic of Korea (Sovereign) 3.875% 2023	1,000	11-Sep-13	Republic of Korea (Sovereign) 4.125% 2044	1,000	10-Jun-14
Korea Development Bank 3.0% 2019	750	17-Sep-13	Woori Bank 4.75% 2024	1,000	30-Apr-14
Others	27,281		Others	20,034	
<b>Malaysia</b>	<b>4,065</b>		<b>Malaysia</b>	<b>1,689</b>	
1MDB Global Investments 4.40% 2023	3,000	19-Mar-13	AmBank 3.125% 2019	400	3-Jul-14
Sime Darby 2.053% 2018	400	29-Jan-13	Malayan Banking 0.669% 2019	303	6-Feb-14
Sime Darby 3.29% 2023	400	29-Jan-13	EXIM Sukuk Malaysia 2.874% 2019	300	19-Feb-14
Others	265		Others	686	
<b>Philippines</b>	<b>3,858</b>		<b>Philippines</b>	<b>2,675</b>	
San Miguel Corporation 4.875% 2023	800	26-Apr-13	Philippines (Sovereign) 4.2% 2024	1,500	21-Jan-14
JG Summit 4.375% 2023	750	23-Jan-13	SM Investments 4.875% 2024	350	10-Jun-14
Petron Corporation 7.50% Perpetual	750	6-Feb-13	SMC Global Power 7.5% Perpetual	350	7-May-14
Others	1,558		Others	475	
<b>Singapore</b>	<b>5,925</b>		<b>Singapore</b>	<b>8,548</b>	
Olam International 6.75% 2018	750	29-Jan-13	OCBC Bank 4% 2024	1,000	15-Apr-14
Global A&T Electronics 10.00% 2019	625	7-Feb-13	OCBC Bank 4.25% 2024	1,000	19-Jun-14
Stats Chippac 4.5% 2018	611	20-Mar-13	Avago Technologies 2% 2021	1,000	6-May-14
Flextronics International 5.0% 2023	500	20-Feb-13	United Overseas Bank 3.75% 2024	800	19-Mar-14
Others	3,439		Others	4,748	
<b>Thailand</b>	<b>3,445</b>		<b>Thailand</b>	<b>3,390</b>	
PTT Exploration & Production 3.707% 2018	500	16-Sep-13	PTT Exploration & Production 4.875% Perpetual	1,000	18-Jun-14
Others	2,945		Others	2,390	
<b>Viet Nam</b>	<b>827</b>		<b>Viet Nam</b>	<b>0</b>	
<b>Emerging East Asia Total</b>	<b>141,510</b>		<b>Emerging East Asia Total</b>	<b>121,405</b>	
<b>Memo Items:</b>			<b>Memo Items:</b>		
<b>India</b>	<b>14,053</b>		<b>India</b>	<b>13,409</b>	
Bharti Airtel International 5.125% 2023	1,500	11-Mar-13	Bharti Airtel 3.375% 2021	1,004	20-May-14
Vedanta Resources 6.0% 2019	1,200	3-Jun-13	Abja Investment 5.95% 2024	1,000	31-Jul-14
Others	11,353		Others	11,405	
<b>Sri Lanka</b>	<b>2,441</b>		<b>Sri Lanka</b>	<b>1,915</b>	

Sources: Bloomberg LP, newspaper and wire reports.

CNOOC Finance, which sold three US\$-denominated bonds totaling US\$4 billion in April; and China EximBank, which raised US\$3 billion from a dual-tranche bond sale in July.

The Republic of Korea was the second largest source of emerging East Asian G3 currency bond issuance

in January–July at US\$23.0 billion, or 19% of the region's total. Korean banks sustained their active participation in the G3 currency bond market, including Korea Development Bank and Korea Eximbank with G3 currency bond issues of US\$3.4 billion and US\$3.5 billion, respectively. In addition, the government of the Republic of Korea was a major sovereign issuer

of G3 currency bonds in the region, selling a 30-year US\$-denominated bond worth US\$1 billion and carrying a coupon rate of 4.125%, and a 10-year EUR750 million bond with a 2.125% coupon in June. Meanwhile, G3 currency bonds sold by firms domiciled in Hong Kong, China were valued at US\$16.3 billion, with half of total issuance coming from financial institutions.

G3 currency bond issuance from Association of Southeast Asian Nations (ASEAN) member in the first 7 months of the year totaled US\$25.3 billion—of which 35% was from Indonesia, 34% from Singapore, 13% from Thailand, 11% from the Philippines, and 7% from Malaysia. The largest Indonesian G3 currency bond issuer was the central government, raising US\$4 billion from a dual-tranche bond sale in January and EUR1 billion from the sale of 7-year bonds in July.

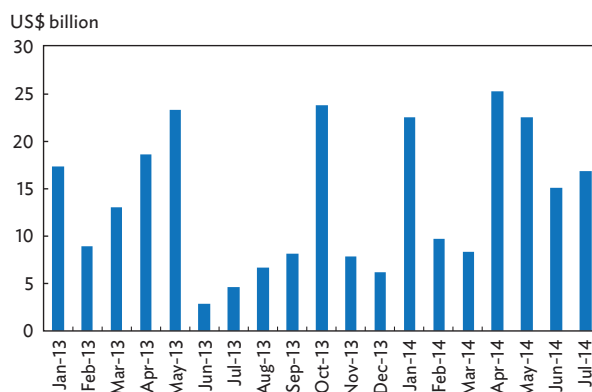
Most G3 currency bond issuers in Singapore in January–July were banks, including OCBC Bank, DBS, and United Overseas Bank. The largest issuer was OCBC Bank, which raised a total of US\$2.4 billion from selling six US\$-denominated bonds, two of which were 10-year bonds at US\$1 billion each, with one sold in April carrying a 4.0% coupon and the other issued in June offering a 4.25% coupon.

In Thailand, the domestic banking sector raised US\$1.8 billion from the G3 currency bond market in January–July. The total comprised Siam Commercial Bank's US\$750 million 5-year bond sold in April at a 3.5% coupon, Krung Thai Bank's US\$700 million 10-year bond issued in June offering a 5.2% coupon, and Kasikorn Bank's US\$350 million 5.5-year bond issued in April at a 3.5% coupon. In addition, PTT Exploration and Production issued a US\$1 billion perpetual bond carrying a 4.875% coupon in June.

In the Philippines, there were only five G3 currency bond issuers during the first 7 months of the year. The biggest seller was the Government of the Philippines, which issued a 10-year bond in January worth US\$1.5 billion and with a coupon of 4.2%. In Malaysia, there were only four issuers of G3 currency bonds, three of which were banks—AmBank, Export–Import Bank of Malaysia, and Maybank.

Through the first 7 months of the year, April saw the most G3 currency bond issuance, with a total of US\$25.3 billion, followed by May's US\$22.7 billion and

**Figure 9: G3 Currency Bond Issuance in Emerging East Asia**



Source: AsianBondsOnline calculations based on Bloomberg LP data.

January's US\$22.5 billion (**Figure 9**). The majority of the issuance of G3 currency bonds in April and May came from PRC-based companies, specifically CNOOC and Sinopec in April, and State Grid Corporation of China in May. The Government of the Republic of Korea was the largest G3 currency bond issuer in June, while China Eximbank was the largest issuer in July.

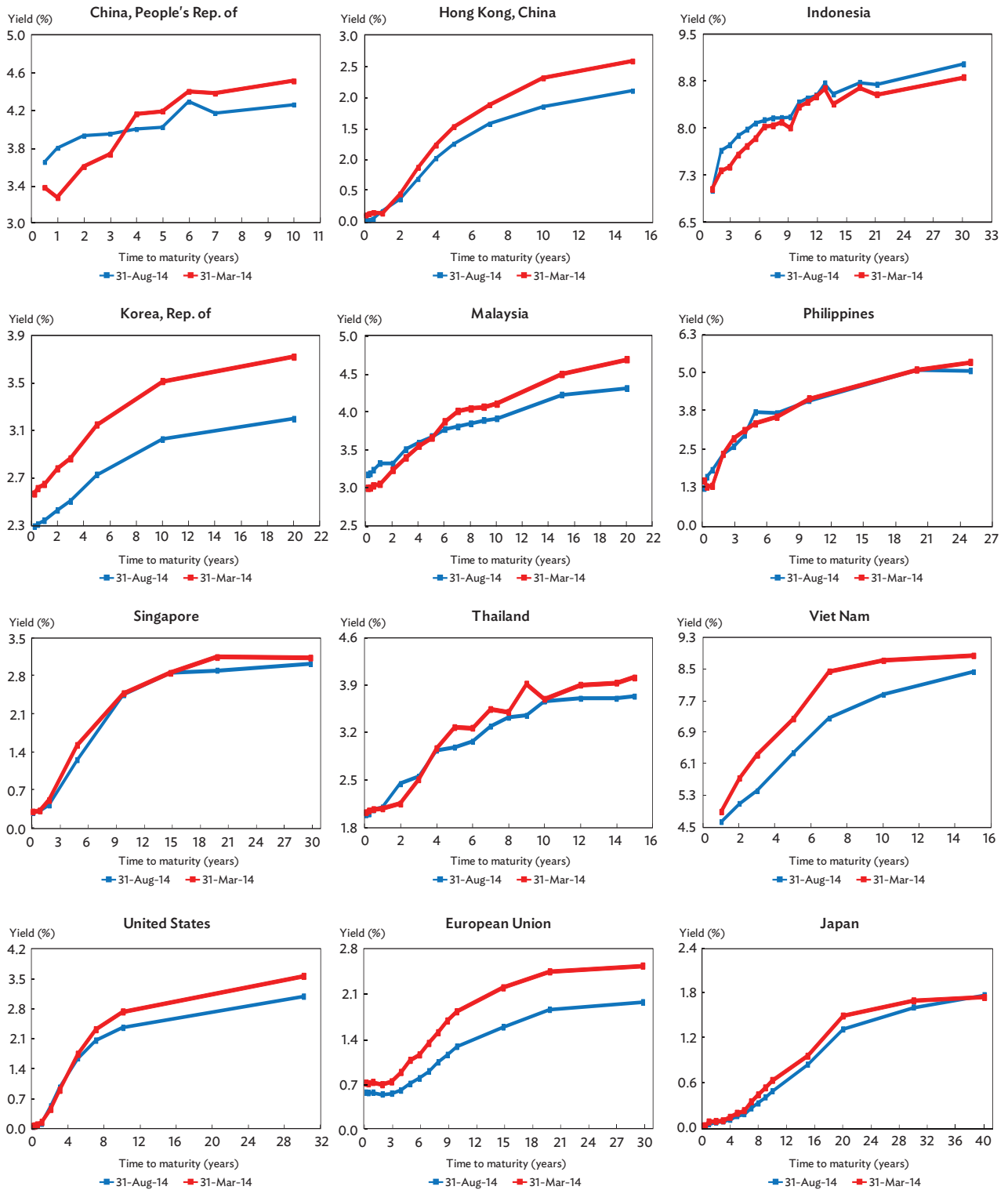
### Government bond yields in emerging East Asia fell in all markets except Indonesia.

Despite the better-than-expected economic growth in the US in 2Q14, slowing growth and moderate inflation in the majority of economies in emerging East Asia led to a decline in yields, mostly at the longer-end of the curve, with the exception of Indonesia.

From end-March to end-August, the yield curve shifted downward in most economies. Yields fell at the longer-end in the PRC and Malaysia, while yield changes in the Philippines were mixed. Indonesia was the only economy whose yield curve rose during the period (**Figure 10**).

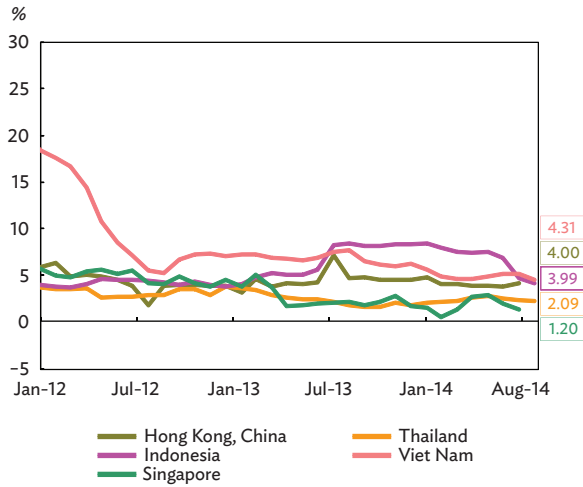
The markets whose yield curves shifted downward the most were Viet Nam and the Republic of Korea's. The 10-year yield in Viet Nam fell 86 basis points (bps) and the Republic of Korea's fell 49 bps. Despite accelerating y-o-y GDP growth in Viet Nam in 2Q14 (5.3% versus 5.1% in the previous quarter), the inflation outlook remains benign (**Figures 11a and 11b**). Viet Nam reported inflation of 4.3% in August, lower than July's 4.5% and well below the country's full year target of 7.0%. Viet Nam's credit rating was upgraded by Moody's in July

Figure 10: Benchmark Yield Curves—LCY Government Bonds



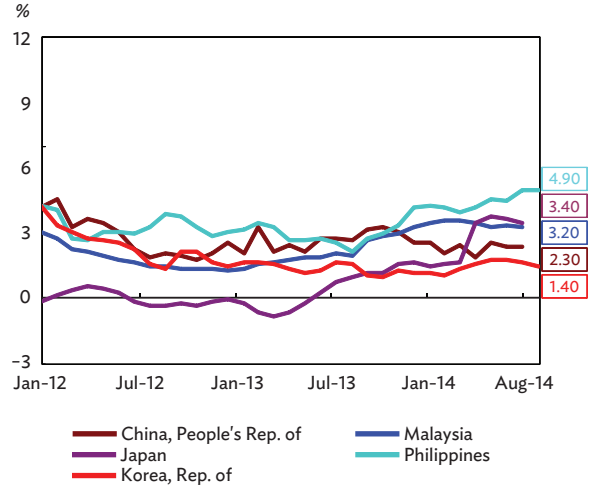
LCY = local currency.  
 Source: Based on data from Bloomberg LP.

Figure 11a: Headline Inflation Rates



Note: Data as of end-August 2014, except for Hong Kong, China and Singapore as of end-July 2014.  
Source: Bloomberg LP.

Figure 11b: Headline Inflation Rates



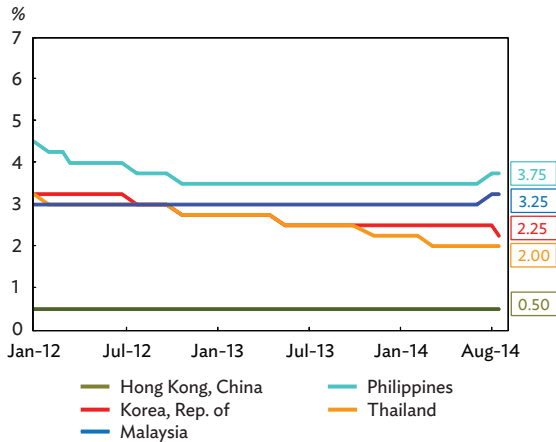
Note: Data as of end-July 2014, except for the Republic of Korea and the Philippines as of end-August 2014.  
Source: Bloomberg LP.

to B1. The Republic of Korea experienced lower growth on a q-o-q basis, with 2Q14's GDP expanding only 0.6%, down from 0.9% in 1Q14. The slower growth prompted the Republic of Korea to cut its policy rates by 25 bps in August (Figures 12a and 12b).

Tracking US interest rate movements, Hong Kong, China's yields moved downward, with the 10-year bond yield falling 46 bps. The US 10-year yield fell 37 bps in the same period. The economy's GDP growth slowed to 1.8% in 2Q14 from 2.6% in the prior quarter. Hong Kong, China's 10-year bond yield fell 46 bps.

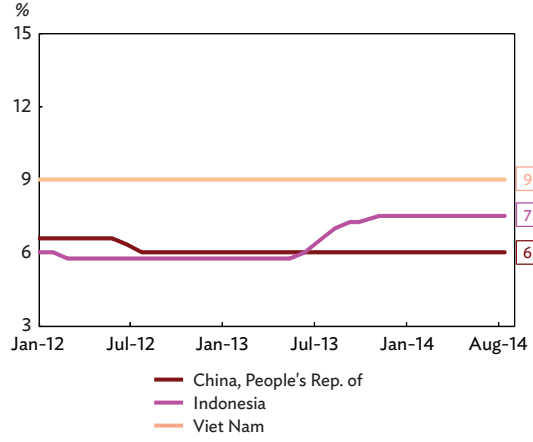
While growth slowed in the PRC and accelerated in Malaysia in 2Q14, yields in both economies decreased at the longer-end and increased at the shorter-end of the curve. In the PRC, the 10-year yield fell 25 bps and the 1-year rate rose 53 bps. In Malaysia, the 10-year yield fell 19 bps and the 1-year yield rose 27 bps. The fall in the PRC's longer-term yields was driven by concerns over slowing growth, while shorter-term yields rose due to seasonal factors in money markets. In the case of Malaysia, higher GDP growth has led to the central bank hiking policy rates in July, which has put upward pressure on yields with shorter tenors.

Figure 12a: Policy Rates



Note: Data as of end-August 2014.  
Source: Bloomberg LP.

Figure 12b: Policy Rates



Notes:  
1. Data as of end-August 2014.  
2. For Viet Nam, base interest rate was used.  
Source: Bloomberg LP.

In the Philippines, changes in the yield curve were mixed due to a combination of positive and negative news. Yields fell in May after a rating upgrade from Moody's to BBB, but fell in later months due to rising inflation and inflationary expectations amid elevated food prices, prompting the central bank to raise policy rates 25 bps in July.

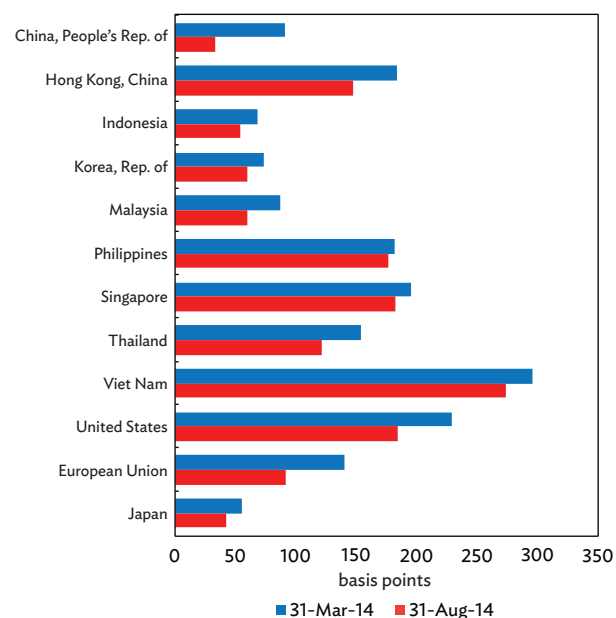
Indonesia is the sole market whose bond market saw a rise in yields between end-March and end-August. Indonesian bond yields were under pressure as the rupiah remained weak on concerns over a widening current account deficit and the initial uncertainty over the result of the presidential election. In 2Q14, the current account deficit widened to US\$9.1 billion (equivalent to 4.3% of GDP), compared with US\$4.2 billion in 1Q14 (equivalent to 2.1% of GDP). Further upward pressure on yields is expected as the government is being pushed to raise subsidized fuel prices. Indonesia's 10-year rate rose 17 bps during the period under review.

The 2- versus 10-year spread fell in all markets from end-March to end-August, mostly due to lower growth expectations (**Figure 13**). In the case of Malaysia, the fall in the yield spread was mostly due to larger increases at the shorter-end of the curve as the result of policy rate changes. In Indonesia, yields at the shorter-end rose at a faster pace on rising inflationary expectations.

### Corporate yield spreads were stable in the Republic of Korea, and mixed in the PRC and Malaysia.

Credit spreads between AAA-rated corporate bonds and government bonds tightened in the PRC, particularly

**Figure 13: Yield Spreads Between 2- and 10-Year Government Bonds**



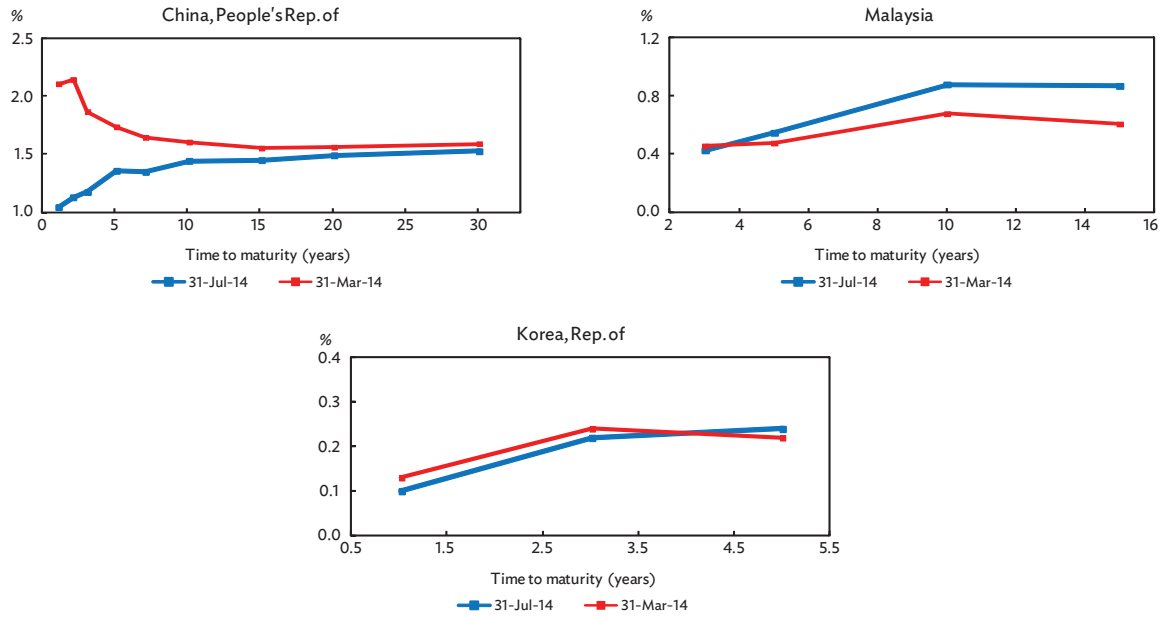
Source: Based on data from Bloomberg LP.

at the shorter-end of the curve, mostly due to lower demand for government bonds with shorter tenors, thereby raising yields. In contrast, the spread widened for Malaysia, particularly for longer-dated tenors, owing to higher demand for government bonds. The spread in the Republic of Korea was mostly unchanged (**Figure 14a**).

Credit spreads between AAA-rated and lower-rated corporate bonds were mostly unchanged in all markets, with the exception of the PRC, possibly due to heightened risk aversion on concerns of a downturn in the PRC's property market (**Figure 14b**).

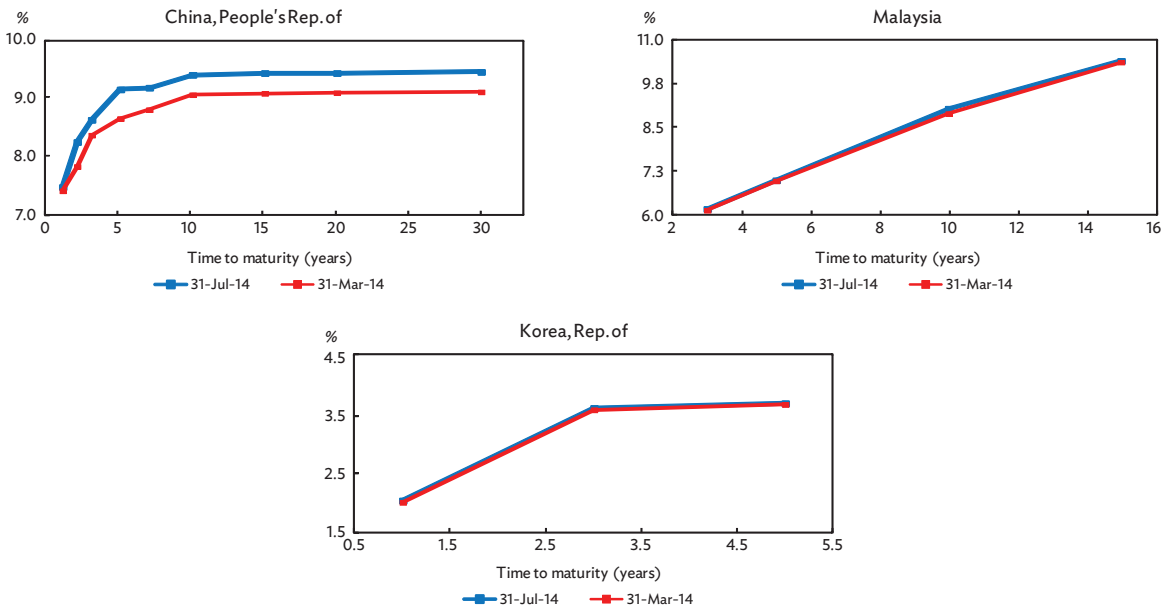


Figure 14a: Credit Spreads—LCY Corporates Rated AAA vs. Government Bonds



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

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



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