Market Summaries

People's Republic of China

Yield Movements

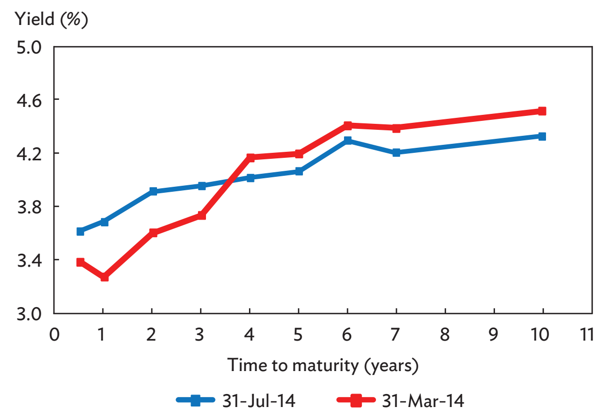
The government bond yield curve for the People's Republic of China (PRC) showed a mixed pattern between end-March and end-July **(Figure 1)**. Yields at the shorter-end of the curve rose. Yields for tenors of 3-years or less rose between 22 basis points (bps) and 41 bps. Yields for longer tenors fell 11 bps–19 bps.

The rise in yields at the shorter-end was driven mostly by volatility in the PRC's money market. In 2Q14, the 7-day repo rate peaked on 30 April at 4.18% as a result of seasonal liquidity driven by the payment of taxes. Rates then fell and were relatively stable until rising again from end-June to end-July. The 7-day repo rates rose to 3.85% at end-June and further to 4.02% at end-July. The rate rise was due to a combination of increased demand for liquidity toward the middle of 2014 as well as market concerns over a repeat of the June 2013 SHIBOR shock event. In July, a number of initial public offerings also increased demand for liquidity.

At the longer-end of the curve, the decline in yields was driven by data indicating that the PRC's economic growth might be slowing. Gross domestic product (GDP) growth in 2Q14 was up marginally at 7.5% year-on-year (y-o-y) from 7.4% in 1Q14. In contrast, the PRC's GDP growth for full-year 2013 was 7.7%. Inflation in the PRC has also been modest. In July, the PRC reported consumer price inflation of 2.3%, the same rate as in June, but down from May's 2.5%.

While concerns over the PRC's economic growth exist, the government seems focused on rebalancing the economy and is concerned with potential asset bubbles in the real estate market and rising credit risk. Thus, the PRC has not yet engaged in any full-blown stimulus measures, but has preferred to use targeted stimulus measures to promote development of the agricultural sector and small- and medium-sized enterprises (SMEs). On 31 May, the PRC expanded reserve requirement cuts, which were originally targeted to rural banks and rural cooperatives, to include other types of banks whose lending to the agricultural sector and SMEs reaches a certain level. Previously, on 22 April, the People's Bank of China (PBOC) cut the reserve requirement rate of rural banks and rural cooperatives by 200 bps and 50 bps, respectively. On 27 August, the PBOC increased relending quotas to the agricultural sector by CNY20 billion and decreased the relending rate by 100 bps.

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



LCY = local currency.
Source: Bloomberg LP.

There are also concerns regarding a slowdown in the country's property markets. In July, 64 out of 70 medium- and large-sized cities reported declines in the prices of newly constructed residential buildings. Also, 65 cities reported declines in prices of second-hand residential buildings.

Size and Composition

The amount of outstanding local currency (LCY) bonds in the PRC reached CNY30.2 trillion (US$4.9 trillion) at end-June, an increase of 3.4% quarter-on-quarter (q-o-q) and 10.8% y-o-y, largely driven by growth in policy bank and local corporate bonds **(Table 1)**.

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

	Outstanding Amount (billion)						Growth Rates (%)			
	2Q13		1Q14		2Q14		2Q13		2Q14	
	CNY	US$	CNY	US$	CNY	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**27,283**	**4,445**	**29,233**	**4,702**	**30,223**	**4,872**	**3.1**	**18.1**	**3.4**	**10.8**
Government	17,830	2,905	19,002	3,056	19,625	3,164	1.5	8.7	3.3	10.1
Treasury Bonds	8,438	1,375	9,136	1,470	9,461	1,525	4.5	12.5	3.56	12.1
Central Bank Bonds	995	162	552	89	489	79	(26.0)	(39.7)	(11.4)	(50.8)
Policy Bank Bonds	8,397	1,368	9,313	1,498	9,675	1,560	3.1	15.8	3.9	15.2
Corporate	9,453	1,540	10,231	1,646	10,598	1,708	6.3	41.1	3.6	12.1
Policy Bank Bonds										
China Development Bank	5,525	900	5,988	963	6,217	1,002	1.9	12.3	3.8	12.5
Export–Import Bank of China	1,268	207	1,458	235	1,480	239	7.2	36.4	1.5	16.7
Agricultural Devt. Bank of China	1,604	261	1,867	300	1,978	319	4.1	14.5	5.9	23.3

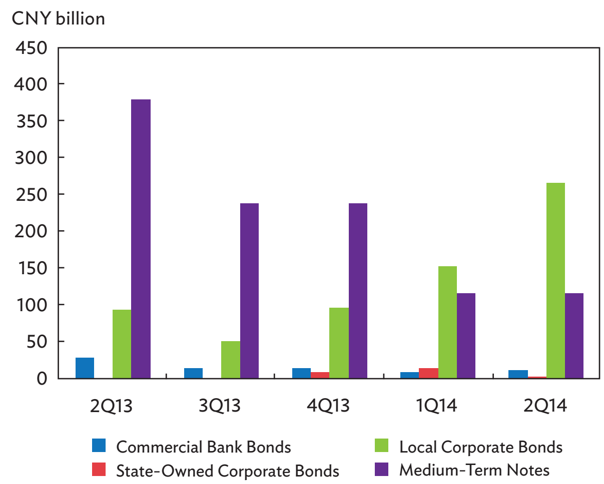
( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources. 2Q14 corporate bonds outstanding data based on *AsianBondsOnline* estimates.
2. Treasury bonds include savings bonds and local government bonds.
3. Bloomberg LP end-of-period LCY–US$ rate is used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Sources: *ChinaBond*, Shanghai Clearing, Shanghai Stock Exchange, Shenzen Stock Exchange, and *AsianBondsOnline* estimates.

Government Bonds. LCY government bonds outstanding grew 3.3% q-o-q and 10.1% y-o-y in 2Q14, driven by growth in policy bank bonds. Central bank bonds continued to decline as the PBOC opted to use other tools, such as reverse repos, to manage liquidity.

Corporate Bonds. Corporate bonds outstanding grew 3.6% q-o-q and 12.1% y-o-y in 2Q14 to reach CNY10.6 trillion **(Table 2)**. The bonds with positive growth rates were medium-term notes and local corporate bonds at 9.8% and 32.0% y-o-y, respectively. Outstanding commercial bank bonds were slightly lower in 2Q14 than in 1Q14, despite slightly higher issuance, due to more commercial bank bonds maturing.

LCY corporate bond issuance was the highest among the major corporate bond types in 2Q14 **(Figure 2)**. However, overall issuance levels were lower compared to 2013 owing to the uncertainty in money markets.

Figure 2: Corporate Bond Issuance in Key Sectors



LCY = local currency.
Sources: *ChinaBond*, Shanghai Clearing, Shanghai Stock Exchange, Shenzen Stock Exchange, and *AsianBondsOnline* estimates.

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)				Growth Rate (%)				
					q-o-q				y-o-y
	3Q13	4Q13	1Q14	2Q14	3Q13	4Q13	1Q14	2Q14	2Q14
Commercial Bank Bonds	1,299	1,294	1,287	1,264	(2.2)	(0.4)	(0.5)	(1.8)	(4.9)
SOE Bonds	647	630	635	618	(0.9)	(2.6)	0.8	(2.7)	(5.3)
Local Corporate Bonds	1,626	1,702	1,833	2,085	2.9	4.7	7.7	13.7	32.0
Medium Term Notes	3,721	3,848	3,841	3,867	5.7	3.4	(0.2)	0.7	9.8

( ) = negative, – = not applicable, q-o-q = quarter-on-quarter, SOE = state-owned enterprise, y-o-y = year-on-year.
Sources: *ChinaBond*, Shanghai Clearing, Shanghai Stock Exchange, Shenzen Stock Exchange, and *AsianBondsOnline* estimates.

At the end of 2Q14, the top 30 corporate bond issuers accounted for CNY4.1 trillion worth of corporate bonds outstanding, or about 39% of the market **(Table 3)**. Among the top 30 corporate issuers, the 10 largest accounted for CNY2.8 trillion worth of bonds outstanding.

State-owned companies—defined as majority-owned by the government—continued to dominate the corporate bond market in 2Q14. Among the top 30 corporate issuers at end-June, 21 were state-owned.

Table 3: Top 30 Issuers of LCY Corporate Bonds in the People's Republic of China

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (CNY billion)	LCY Bonds (US$ billion)			
1.	China Railway	896.0	144.44	Yes	No	Transportation
2.	State Grid Corporation of China	354.5	57.15	Yes	No	Public Utilities
3.	China National Petroleum	340.0	54.81	Yes	No	Energy
4.	Industrial and Commercial Bank of China	233.0	37.56	Yes	Yes	Banking
5.	Bank of China	224.9	36.26	Yes	Yes	Banking
6.	China Construction Bank	205.0	33.05	Yes	Yes	Banking
7.	Agricultural Bank of China	153.0	24.67	Yes	Yes	Banking
8.	China Minsheng Bank	134.7	21.71	No	Yes	Banking
9.	Central Huijin Investment	112.3	18.10	Yes	No	Diversified Financial
10.	Industrial Bank	109.0	17.57	No	Yes	Banking
11.	Senhua Group	106.0	17.09	Yes	No	Energy
12.	China Power Investment	102.3	16.49	Yes	No	Public Utilities
13.	Petrochina	97.0	15.64	Yes	Yes	Energy
14.	China Petroleum & Chemical	89.6	14.44	Yes	Yes	Energy
15.	Shanghai Pudong Development Bank	89.0	14.35	No	Yes	Banking
16.	China Guodian	82.2	13.25	Yes	No	Public Utilities
17.	China Southern Power Grid	77.5	12.49	Yes	No	Public Utilities
18.	China Life	71.0	11.45	Yes	Yes	Insurance
19.	China Merchants Bank	68.5	11.04	No	Yes	Banking
20.	China Three Gorges Project	68.0	10.96	Yes	No	Public Utilities
21.	Bank of Communications	64.7	10.43	No	Yes	Banking
22.	China Citic Bank	60.5	9.75	No	Yes	Banking
23.	Tianjin Infrastructure Investment Group	60.0	9.67	Yes	No	Capital Goods
24.	China Everbright Bank	55.0	8.87	No	Yes	Banking
25.	Shananxi Coal and Chemical Industry Group	52.7	8.50	No	Yes	Energy
26.	Beijing State-owned Assets Operation & Management Center	49.5	7.98	Yes	No	Diversified Financial
27.	Tianjin Binhai New Area Construction & Investment Group	47.8	7.71	Yes	No	Engineering and Construction
28.	China Huaneng Group	44.7	7.21	Yes	No	Public Utilities
29.	Citic Group	43.5	7.01	Yes	No	Diversified Financial
30.	Bank of Beijing	43.0	6.93	No	Yes	Banking
Total Top 30 LCY Corporate Issuers		**4,134.94**	**666.59**			
Total LCY Corporate Bonds		**10,597.50**	**1,708.42**			
Top 30 as % of Total LCY Corporate Bonds		**39.0%**	**39%**			

LCY = local currency.
Notes:
1. Data as of end-June 2014.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Table 4 presents the most significant issuances of 2Q14.

Table 4: Notable LCY Corporate Bond Issuance in 2Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China Railway		
20-year bond	7.58	20
20-year bond	5.70	20
15-year bond	5.26	15
15-year bond	5.42	15
15-year bond	5.26	15
Shenhua Group		
5-year bond	5.15	20

LCY = local currency.
Source: Bloomberg LP.

Investor Profile

Treasury Bonds. Banks remained the largest category of investors in the PRC's treasury bond market, which includes policy bank bonds, holding a slightly smaller share of treasury bonds at end-June (76.7%) than in the same period last year (77.7%) **(Figure 3)**.

Corporate Bonds. Banks were also the largest holders of corporate bonds at the end of 2Q14, albeit with a comparatively smaller share than their holdings of treasury bonds and policy bank bonds. Banks' share of corporate bonds fell to 28.9% at the end of 2Q14 from 31.3% in 2Q13 **(Figure 4)**. The second largest holders of corporate bonds were insurance companies, with a 13.1% share at the end of 2Q14, down from a 16.1% share in the prior year.

Figure 5 presents investor profiles across corporate bond categories for the latest period for which data are available (2Q14). Banks were the largest holders of medium-term notes at end-June 2014 with more than 50% of the total. Meanwhile, insurance companies were the largest holders of commercial bank bonds.

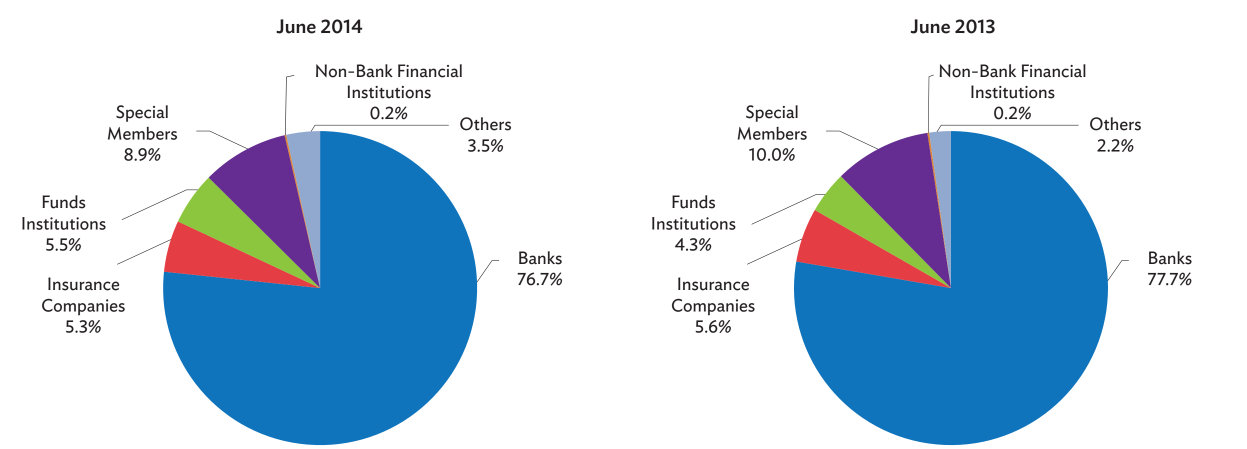
Liquidity

Figure 6 presents the turnover ratios for different categories of government bonds, which have seen a significant decline since 2013 owing to the tight liquidity conditions driven by the June 2013 SHIBOR shock and a crackdown on illegal bond trades. However, 2Q14 saw an increase in turnover ratios from 1Q14 due to increased trading as yields fell, particularly for longer-tenored bonds.

Interest Rate Swaps

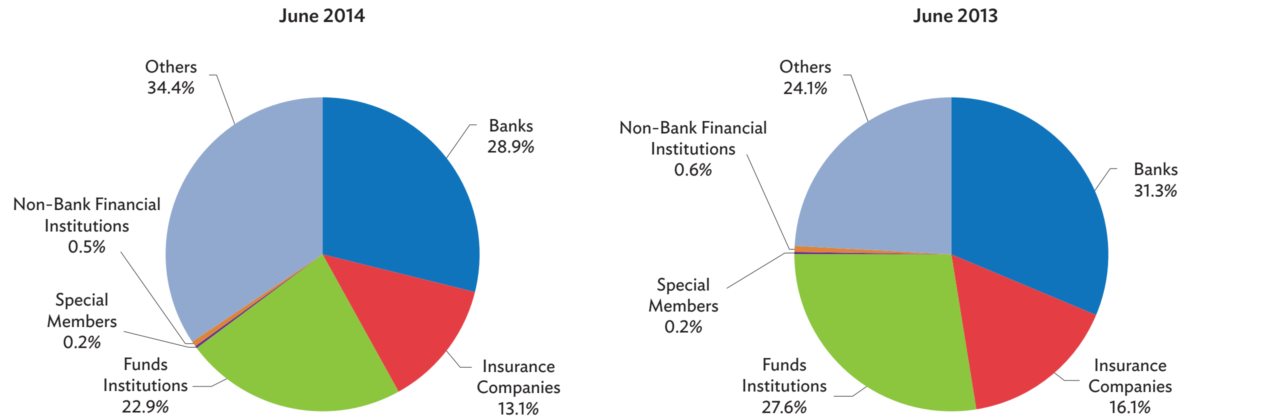
In 2Q14, the total notional amount of signed interest rate swap agreements in the PRC reached CNY894.2 billion on 9,292 transactions **(Table 5)**. The most popular benchmark is the 7-day repo, which accounts for 73% of all transactions.

Figure 3: LCY Treasury Bonds Investor Profile



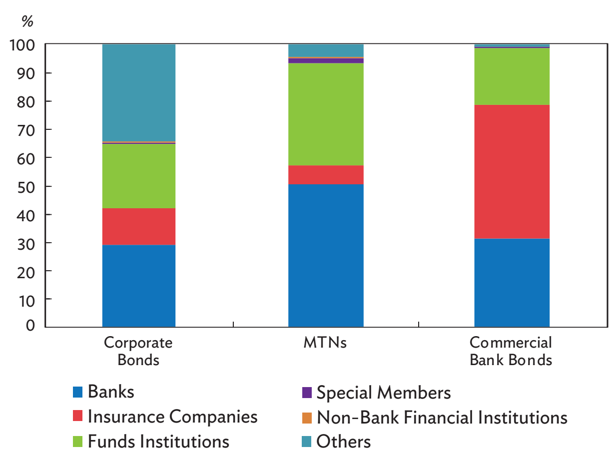
LCY = local currency.
Source: *ChinaBond*.

Figure 4: LCY Corporate Bonds Investor Profile



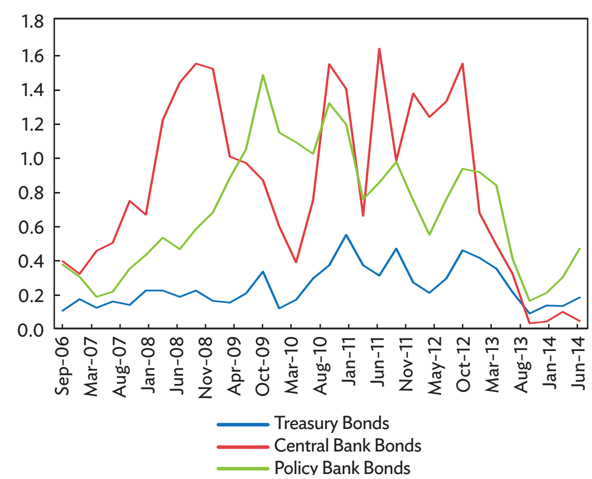
LCY = local currency.
Source: *ChinaBond*.

Figure 5: Investor Profile across Bond Categories



MTNs = medium-term notes.
Note: Data as of end-June 2014.
Source: *ChinaBond*.

Figure 6: Turnover Ratios for Government Bonds



Source: *ChinaBond*.

Policy, Institutional, and Regulatory Developments

Local Government Issuance Program Launched

On 29 May, the PRC launched a pilot program allowing 10 local government units to issue bonds directly. A similar pilot program was to have been launched before, but was scrapped over concerns about mounting local government debt. On 23 June, Guangdong issued the first local government bonds under the pilot program, auctioning 5-, 7-, and 10-year bonds for an aggregate amount of CNY14.8 billion.

The PRC Expands Coverage of Targeted Ratio Cuts

On 31 May, the PBOC announced that it would extend a reserve requirement ratio cut, originally targeted to state-level rural banks and rural cooperatives, to include other types of banks with a certain level of loans to the agricultural industry and SMEs.

Table 5: Notional Values of the PRC's Interest Rate Swap Market in 2Q14

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	% of Total Notional Amount	Number of Transactions	Growth Rate (%)
				q-o-q
7-Day Repo Rate	656.3	73.4	8,040	(2.7)
Overnight SHIBOR	140.6	15.7	231	243.4
3-Month SHIBOR	87.5	9.8	939	11.2
1-Year Term Deposit Rate	5.1	0.6	74	(22.8)
LIBOR	0.5	0.1	2	(80.6)
1-Year Lending Rate	3.7	0.4	2	96.8
LPR1Y	0.1	0.0	2	(50.0)
3-Year Lending Rate	0.2	0.0	1	–
5-Year Lending Rate	0.2	0.0	1	–
Total	**894.2**	**100.0**	**9,292**	**6.4**

( ) = negative, – = not available, PRC = People's Republic of China, q-o-q = quarter-on-quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.
Note: Growth rate computed based on national amounts.
Sources: *AsianBondsOnline* and *ChinaMoney*.

The PRC Pursues Measures to Promote Agricultural Sector

On 28 August, the PBOC announced an increase in its re-lending quota by CNY20 billion to help support the agricultural industry and rural financial institutions. The relending facility allows financial institutions to provide loans to various sectors from funds provided by the PBOC. In addition, the PBOC said that qualified rural financial institutions availing of the facility will be charged 100 bps less than the preferential rate for agricultural loans.

Hong Kong, China

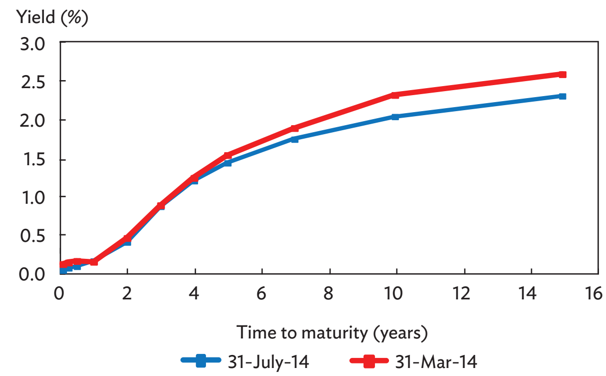
Yield Movements

Between end-March and end-July, yields for Hong Kong, China's Exchange Fund Bills and Notes fell for most maturities. The drop in yields was most significant for the 5- through 15-year tenors, resulting in the downward shift from the belly through the end of the curve **(Figure 1)**. Yields fell the most for the 15-year Exchange Fund Note (EFN), decreasing 28 basis points (bps), while yields at the short-end of the curve declined between 7 bps and 8 bps. The yield spread between 2- and 10-year EFNs narrowed to 162 bps at end-July from 185 bps at end-March.

The drop in yields at the longer-end of the curve followed the drop in United States (US) yields, as Hong Kong, China yields are highly correlated with US yields. This reflects Hong Kong, China's lack of independent monetary policy with its exchange rate pegged to the US$.

Hong Kong, China's economic expansion slowed to 1.8% year-on-year (y-o-y) in 2Q14, after rising 2.6% in 1Q14, on account of weaker growth in consumption due to lower tourism receipts and reduced domestic demand. Growth in private consumption eased to 1.2% y-o-y in 2Q14, after gaining 1.5% in the previous quarter. Investments also contracted 5.6% y-o-y, compared with 3.0% annual growth in 1Q14. As a result, the government has revised downward its economic growth forecast for 2014 to a range of 2.0%–3.0% from 3.0%–4.0%. Also, the government noted that risks to growth have increased,

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



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

including uncertainly in developed economies and reduced domestic demand.

Consumer price inflation climbed to 4.0% y-o-y in July from 3.6% in June and 3.7% in May and April. However, the government expects consumer price inflation to remain subdued for the rest of the year.

Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market declined 2.4% quarter-on-quarter (q-o-q) and 0.2% year-on-year (y-o-y) to reach HKD1,486 billion (US$192 billion) at end-June **(Table 1)**.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q13		1Q14		2Q14		2Q13		2Q14	
	HKD	US$	HKD	US$	HKD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,488**	**192**	**1,522**	**196**	**1,486**	**192**	**4.4**	**10.7**	**(2.4)**	**(0.2)**
Government	834	107	846	109	841	109	7.0	15.7	(0.5)	0.9
Exchange Fund Bills	682	88	683	88	684	88	6.5	16.0	0.1	0.4
Exchange Fund Notes	68	9	68	9	68	9	(0.4)	(0.9)	(0.4)	(0.9)
HKSAR Bonds	84	11	94	12	89	11	18.4	30.5	(5.3)	6.6
Corporate	655	84	677	87	645	83	1.3	4.9	(4.8)	(1.6)

( ) = negative, HKSAR = Hong Kong Special Administrative Region, LCY = local currency, 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.
Sources: Hong Kong Monetary Authority and Bloomberg LP.

At end-June, the stock of government bonds comprising Exchange Fund Bills, EFNs, and Hong Kong Special Administrative Region (HKSAR) bonds fell 0.5% q-o-q to reach HKD841 billion. This was largely driven by the decline in the size of outstanding HKSAR bonds as a result of less issuance by the Hong Kong Monetary Authority compared with 1Q14. However, on a y-o-y basis, government bonds slightly increased by 0.9%.

LCY corporate bonds outstanding fell 4.8% q-o-q and 1.6% y-o-y to reach HKD645 billion at end-June as companies preferred to raise funds via bank loans. In 2Q14, the three largest non-bank issuances came from Rexlot Holdings (HKD1.9 billion), China Ocean (HKD1.0 billion), and Wharf Finance (HKD0.57 billion) **(Table 2)**.

Corporate bonds outstanding from the top 30 non-bank issuers in Hong Kong, China amounted to HKD110.8 billion at end-June, representing about 17% of total outstanding corporate bonds at end-June. The top 30 list of issuers was dominated by real estate firms **(Table 3)**. HKMC remained the top issuer in Hong Kong, China with outstanding bonds of HKD13.1 billion. Next was CLP Power Hong Kong Financing with HKD10.4 billion of bonds outstanding, followed closely by Sun Hung Kai Properties with HKD10.3 billion. Among the list, there are 5 five state-owned companies and 11 Hong Kong Exchange-listed firms. Only one state-owned company, the MTR Corporation, is listed.

Table 2: Notable LCY Corporate Bond Issuance in 2Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
Rexlot Holdings		
5-year bond	4.50	1.90
China Ocean		
3-year bond	7.50	1.00
Wharf Finance		
10-year bond	4.25	0.20
10-year bond	4.10	0.18
10-year bond	3.90	0.20

LCY = local currency.
Source: Central Moneymarkets Unit (CMU) HKMA.

Policy, Institutional, and Regulatory Developments

Hong Kong, China Announces Planned *Sukuk* Issuance

On 4 July, Hong Kong, China announced that it had selected HSBC, Standard Chartered Bank, CIMB, and National Bank of Abu Dhabi as underwriters for its debut *sukuk* (Islamic bond) issuance. The issuance is expected to be priced in September with a target size of between US$500 million and US$1.0 billion, and a tenor of 5 years. The structure to be used is expected to follow the *ijarah* (leasing) principle.

Table 3: Top 30 Nonbank Corporate Issuers in Hong Kong, China

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (HKD billion)	LCY Bonds (US$ billion)			
1.	The Hong Kong Mortgage Corporate	13.12	1.69	Yes	No	Finance
2.	CLP Power Hong Kong Financing	10.35	1.33	No	No	Electric
3.	Sun Hung Kai Properties (Capital Market)	10.31	1.33	No	No	Real Estate
4.	Wharf Finance	7.29	0.94	No	No	Diversified
5.	The Link Finance (Cayman) 2009	6.14	0.79	No	No	Finance
6.	MTR Corporation (C.I.)	5.75	0.74	Yes	Yes	Transportation
7.	HKCG (Finance)	5.60	0.72	No	No	Gas
8.	Swire Pacific	5.53	0.71	No	Yes	Diversified
9.	Hongkong Electric Finance	5.51	0.71	No	No	Electric
10.	NWD (MTN)	5.05	0.65	No	Yes	Real Estate
11.	Cheung Kong Bond Finance	4.62	0.60	No	Yes	Real Estate
12.	Urban Renewal Authority	4.60	0.59	Yes	No	Real Estate
13.	Kowloon-Canton Railway	4.40	0.57	Yes	No	Transportation
14.	Wheelock Finance	4.04	0.52	No	No	Diversified
15.	Yue Xiu Enterprises (Holdings)	3.00	0.39	No	No	Diversified
16.	Airport Authority Hong Kong	2.80	0.36	Yes	No	Transportation
17.	Hysan (MTN)	2.43	0.31	No	No	Finance
18.	Cathay Pacific MTN Financing	1.70	0.22	No	Yes	Airlines
19.	Nan Fung Treasury	1.31	0.17	No	No	Real Estate
20.	Henderson Land MTN	1.19	0.15	No	Yes	Finance
21.	AIA Group	1.16	0.15	No	Yes	Insurance
22.	Dragon Drays	1.00	0.13	No	No	Diversified
23.	Swire Properties MTN Financing	0.80	0.10	No	No	Real Estate
24.	R-Reit International Finance	0.78	0.10	No	No	Real Estate
25.	Wing Tai Properties (Finance)	0.58	0.07	No	No	Real Estate
26.	HLP Finance	0.56	0.07	No	Yes	Real Estate
27.	CITIC Pacific	0.50	0.06	No	Yes	Diversified
28.	K. Wah International	0.45	0.06	No	Yes	Real Estate
29.	The Hongkong Land Notes Company	0.20	0.03	No	No	Finance
30.	Far East Horizon	0.09	0.01	No	Yes	Finance
Total Top 30 Nonbank LCY Corporate Issuers		**110.82**	**14.30**			
Total LCY Corporate Bonds		**644.73**	**83.19**			
Top 30 as % of Total LCY Corporate Bonds		**17.2%**	**17.2%**			

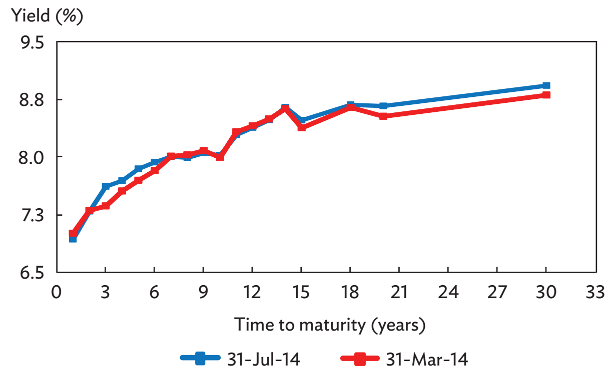
LCY = local currency.
Notes:
1. Data as of end-June 2014.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Hong Kong Monetary Authority data.

Indonesia

Yield Movements

Indonesian local currency (LCY) government bond yields rose for most tenors in the belly and longer-end of the curve between end-March and end-July, while falling at the shorter-end, resulting in the steepening of the yield curve **(Figure 1)**. Yields shed 8 basis points (bps) at the very short-end of the curve. Meanwhile, the 3-year maturity's yield increased 25 bps, the biggest increase among any tenor. The drop in yields at the short-end can be attributed to a sustained downward trend in inflation in recent months. In July, inflation eased to 4.5% year-on-year (y-o-y), marking the first time since June 2013 that inflation came within Bank Indonesia's 2013 and 2014 target range of 3.5%–5.5%.

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



LCY = local currency.
Source: Bloomberg LP.

Bond yields, however, remained under pressure on concerns over a widening current account deficit. The current account deficit reached US$9.1 billion in 2Q14, equivalent to 4.3% of gross domestic product (GDP), up from US$4.2 billion in 1Q14, equivalent to 2.1% of GDP. Bank Indonesia however expects the current account deficit to be lower in the second half of the year as the spike in 2Q14 was due mainly to Eid celebrations when imports normally rise ahead of the expected surge in domestic demand.

Other domestic factors also weighed on the bond market, dragging down sentiments as the rupiah remained weak, higher borrowing requirements due to revisions in the state budget, and uncertainty surrounding the presidential election results.

Economic growth in Indonesia slowed to 5.1% y-o-y in 2Q14, from revised 5.2% growth in 1Q14. The slower growth was due mainly to weak exports as regulations prohibiting raw mineral ore exports acting as a drag on GDP. Imports and government spending also slowed on a y-o-y basis in 2Q14. Meanwhile, domestic consumption and investment remained strong, expanding 5.6% and 4.5%, respectively. On a quarter-on-quarter (q-o-q) basis, the economy grew 2.5% in 2Q14.

Given these developments, Bank Indonesia continued to maintain a tightening bias toward its monetary policy and kept its benchmark rate steady at 7.5% in its meeting held on 14 August. The benchmark rate has stayed at this level since November 2013. Bank Indonesia noted that at its current level, the policy rate remains consistent with efforts to steer inflation toward its 2014 target range of 3.5%–5.5% and to lower the current account deficit to a more sustainable level.

Size and Composition

The outstanding size of LCY bonds in Indonesia reached IDR1,465.8 trillion (US$123 billion) at end-June on growth of 4.8% q-o-q **(Table 1)**. On a y-o-y basis, the bond market grew at a pace of 24.2%.

The outstanding stock of LCY government bonds stood at IDR1,248.4 trillion, up 5.6% over the previous quarter and 28.0% over the previous year. Growth in the government sector was driven by increases in central government bonds, comprising treasury instruments issued by the Ministry of Finance, and central bank bills, known as *Sertifikat* Bank Indonesia (SBI), issued by Bank Indonesia.

Central Government Bonds. The stock of central government bonds rose 5.5% q-o-q and 27.4% y-o-y to reach IDR1,131.6 trillion at end-June. Growth was largely driven by increases in the stock of conventional fixed-rate bonds and project-based *sukuk* (Islamic bonds).

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q13		1Q14		2Q14		2Q13		2Q14	
	IDR	US$	IDR	US$	IDR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,180,422**	**118**	**1,398,996**	**123**	**1,465,790**	**123**	**2.2**	**12.4**	**4.8**	**24.2**
Government	975,057	97	1,181,628	104	1,248,379	105	1.7	10.3	5.6	28.0
Central Govt. Bonds	888,514	89	1,072,741	94	1,131,630	95.3	3.1	12.3	5.5	27.4
of which: *Sukuk*	79,750	8	96,764	9	101,329	9	7.5	32.5	4.7	27.1
Central Bank Bills	86,543	9	108,887	10	116,749	10	(10.6)	(6.8)	7.2	34.9
of which: *Sukuk*	4,623	0.5	5,377	0.5	6,792	0.6	(4.8)	48.4	26.3	46.9
Corporate	205,365	21	217,369	19	217,412	18	4.5	23.6	0.02	5.9
of which: *Sukuk*	7,538	0.8	7,194	0.6	6,658	0.6	(10.1)	13.0	(7.5)	(11.7)

( ) = negative, LCY = local currency, 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.
4. The total stock of nontradable bonds as of end-June stood at IDR270.0 trillion.
Sources: Bank Indonesia, Indonesia Debt Management Office, Indonesia Stock Exchange, Otoritas Jasa Keuangan, and Bloomberg LP.

In 2Q14, the government raised a total of IDR69.6 trillion worth of Treasury bills and bonds in line with its quarterly target. There were seven auctions of conventional bonds, where the government issued benchmark series, and six auctions of Islamic instruments. As in the past, auctions of conventional bonds were either fully awarded or upsized from the targeted amount, while Islamic bond auctions fell below target except for one auction during the review period.

Central government issuance in 2Q14 was 16.0% lower than in 1Q14, but was 46.7% higher than in the previous year. The government continued with its frontloading policy into the second quarter, in which it issued a huge amount of bonds early in the year to take advantage of lower rates. Interest rates are expected to rise later this year with the anticipated end of the United States Federal Reserve's asset purchase program in October.

Based on the revised 2014 state budget, the government raised nearly 60% of its net government securities issuance target for the year, including foreign-currency denominated bonds, through end-June.

Central Bank Bills. The stock of SBI rose to IDR116.7 trillion at end-June, gaining 7.2% q-o-q and 34.9% y-o-y. Bank Indonesia issues SBI as one of its monetary tools for liquidity management. In 2Q14, new issuance of SBI and *shari'a*-compliant SBI with 9-month tenors totaled IDR28.1 trillion.

Corporate Bonds. LCY corporate bonds outstanding in Indonesia reached IDR217.4 trillion at end-June, rising by 0.02% q-o-q and 5.9% y-o-y. *Sukuk* comprised about 3% of the total corporate bond stock at the end of 2Q14.

The top 30 LCY corporate bond issuers in Indonesia in 2Q14 had aggregate outstanding bonds worth IDR161.9 trillion, accounting for 74.5% of total corporate bonds **(Table 2)**. By industry type, banks and financial institutions accounted for two-thirds of the firms on the list. State power firm PLN maintained the top spot with outstanding LCY bonds valued at IDR15.6 trillion, followed by state-owned Indonesia Eximbank (IDR12.6 trillion). Completing the top three was Astra Sedaya Finance, which rose up one spot from 1Q14, with outstanding bonds amounting to IDR12.3 trillion at the end of 2Q14.

New issuance of corporate bonds totaled IDR16.8 trillion in 2Q14, more than a three-fold increase from IDR5.2 trillion in 1Q14. On a y-o-y basis, however, corporate bond issuance declined 14.4% at end-June. A total of 15 corporate entities raised funds from the bond market in 2Q14; all of the issues were conventional bonds, including one issue of subordinated debt. New corporate names issuing bonds in 2Q14 included Bank UOB Indonesia, Express Transindo Utama, Sarana Multi Infrastruktur, and Sumber Alfaria Trijaya.

Eleven bond series carried 3-year maturities, with coupon rates ranging from 9.25% to 11.40%. There were seven

Table 2: Top 30 Issuers of LCY Corporate Bonds in Indonesia

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (IDR billion)	LCY Bonds (US$ billion)			
1.	PLN	15,573	1.31	Yes	No	Energy
2.	Indonesia Eximbank	12,608	1.06	Yes	No	Banking
3.	Astra Sedaya Finance	12,341	1.04	No	No	Finance
4.	Adira Dinamika Multi Finance	11,612	0.98	No	Yes	Finance
5.	Bank Tabungan Negara	7,950	0.67	Yes	Yes	Banking
6.	Bank CIMB Niaga	7,930	0.67	No	Yes	Banking
7.	Bank Internasional Indonesia	7,000	0.59	No	Yes	Banking
8.	Bank Pan Indonesia	6,800	0.57	No	Yes	Banking
9.	Bank Permata	6,478	0.55	No	Yes	Banking
10.	Indosat	6,190	0.52	No	Yes	Telecommunications
11.	Perum Pegadaian	5,739	0.48	Yes	No	Finance
12.	Jasa Marga	5,600	0.47	Yes	Yes	Toll Roads, Airports, and Harbors
13.	Federal International Finance	4,875	0.41	No	No	Finance
14.	Bank Tabungan Pensiunan Nasional	4,820	0.41	No	Yes	Banking
15.	Agung Podomoro Land	4,350	0.37	No	Yes	Property, Real Estate, and Building Construction
16.	Indofood Sukses Makmur	4,000	0.34	No	Yes	Food and Beverages
17.	Sarana Multigriya Finansial	3,511	0.30	Yes	No	Finance
18.	Bank Mandiri	3,500	0.29	Yes	Yes	Banking
19.	Medco-Energi International	3,500	0.29	No	Yes	Petroleum and Natural Gas
20.	Indomobil Finance Indonesia	3,059	0.26	No	No	Finance
21.	Antam	3,000	0.25	Yes	Yes	Petroleum and Natural Gas
22.	Telekomunikasi Indonesia	3,000	0.25	Yes	Yes	Telecommunications
23.	Bank OCBC NISP	2,907	0.24	No	Yes	Banking
24.	Toyota Astra Financial Services	2,795	0.24	No	No	Finance
25.	Bumi Serpong Damai	2,750	0.23	No	Yes	Property, Real Estate, and Building Construction
26.	Bank Jabar Banten	2,124	0.18	No	Yes	Banking
27.	BCA Finance	2,100	0.18	No	No	Finance
28.	Bank Rakyat Indonesia	2,000	0.17	Yes	Yes	Banking
29.	Garuda Indonesia	2,000	0.17	Yes	Yes	Infrastructure, Utilities, and Transportation
30.	BII Finance	1,824	0.15	No	No	Finance
Total Top 30 LCY Corporate Issuers		**161,935**	**13.64**			
Total LCY Corporate Bonds		**217,412**	**18.31**			
Top 30 as % of Total LCY Corporate Bonds		**74.5%**	**74.5%**			

LCY = local currency.
Notes:
1. Data as of end-June 2014.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Indonesia Stock Exchange data.

bond series with maturities of 370 days and coupon rates ranging from 8.25% to 11.00%, and seven bond series with 5-year tenors and coupon rates ranging from 9.75% to 12.40%. Two bond series had 7-year tenors, with coupons of 11.35% and 13.0% each. Some of the notable corporate bonds issued in 2Q14 are presented in **Table 3**.

Foreign Currency Bonds. As of end-June, foreign currency (FCY) government bonds outstanding reached US$34.2 billion. In January, the government raised a total of US$4 billion from the sale of US$-denominated bonds. Subsequently, in July, the Indonesian government sold its first EUR-denominated bonds amounting to EUR1 billion.

Table 3: Notable LCY Corporate Bond Issuance in 2Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Indonesia Eximbank		
370-day bond	8.25	803
2-year bond	8.50	134
3-year bond	9.25	1,594
5-year bond	9.75	1,469
Indofood Sukses Makmur		
5-year bond	10.13	2,000
Astra Sedaya Finance		
370-day bond	9.60	1,135
3-year bond	10.50	740
4-year bond	10.60	75
Adira Dinamika Multi Finance		
370-day bond	9.60	687
3-year bond	10.50	363
5-year bond	10.75	450
Bank UOB Indonesia		
7-year bond	11.35	1,000
Express Transindo Utama		
5-year bond	12.25	1,000
Sarana Multi Infrastruktur		
3-year bond	9.60	100
5-year bond	10.00	900
Sumber Alfaria Trijaya		
3-year bond	10.50	1,000

LCY = local currency.
Source: Indonesia Stock Exchange.

The bonds carried a maturity of 7 years and a coupon of 2.875%. The bond sale was oversubscribed with the orderbook reaching EUR6.7 billion.

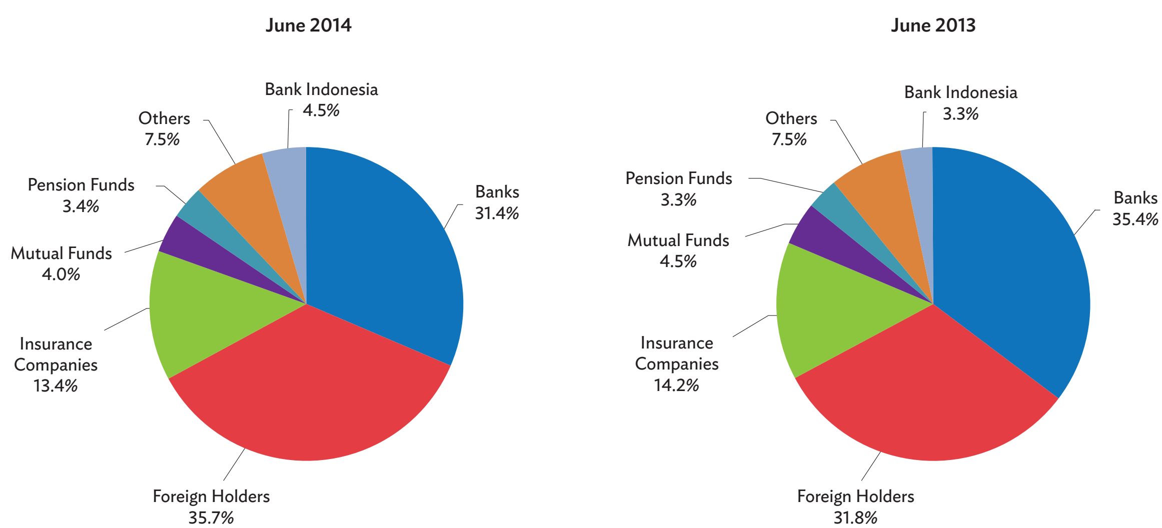
Investor Profiles

Central Government Bonds. Foreign investors now hold more than a third of Indonesia's LCY central government bonds, making them one of the biggest players in Indonesia's bond market. At end-June, the share of LCY central government bonds held by foreign investors climbed to 35.7% from 31.8% a year earlier **(Figure 2)**. In absolute terms, outstanding bonds held by foreign investors climbed to IDR403.6 trillion at end-June. Indonesian bonds continued to attract interest from foreign players due to attractive yields that are the highest (at the longer-end of the curve) among all emerging East Asian markets except Viet Nam.

At end-June, about 42% of government bonds held by foreign investors had maturities of more than 10 years, slightly lower compared with end-December's level **(Figure 3)**. However, the share of medium-term bonds (maturities of more than 5 years to 10 years) held by these investors increased slightly over the same period from about 32% to about 33%. The biggest change in terms of foreign ownership of bonds occurred for bonds with maturities of 2 years–5 years, with the share of foreign holdings climbing from about 13% at end-December to about 16% at end-June.

The second largest investor group comprised banking institutions, with a share of 31.4% of central government bonds at end-June, down from 35.4% a year earlier.

Figure 2: LCY Central Government Bonds Investor Profile



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

Banking institutions comprise state recap banks, private recap banks, non-recap banks, regional banks, and *shari'a* banks.

Meanwhile, central government bond holdings of other domestic investors were broadly unchanged in 2Q14, except for insurance companies, whose share of central government bond holdings dropped to 13.4% from 14.2% in 2Q13. Mutual funds' holdings of government bonds also declined to a share of 4.0% from 4.5% a year earlier. The only other significant increase in holdings was noted for Bank Indonesia, whose share of government bonds climbed to 4.5% at end-June from 3.3% a year earlier.

Central Bank Bills. At end-June, central bank bills, or SBI, were primarily held by banking institutions, which accounted for a share of 86.9% of the total **(Figure 4)**. Foreign non-bank investors accounted for the remaining 13.1% of SBI holdings. The share of SBI held by non-residents has markedly increased since June 2013 when Bank Indonesia lowered the minimum holding period for SBI from 6 months to 1 month.

Rating Changes

On 28 April, Standard & Poor's affirmed its BB+ sovereign credit rating for Indonesia. The outlook on the rating was stable. In making its decision, Standard & Poor's cited as key factors Indonesia's favorable fiscal and debt metrics, and moderately strong growth outlook.

Policy, Institutional, and Regulatory Developments

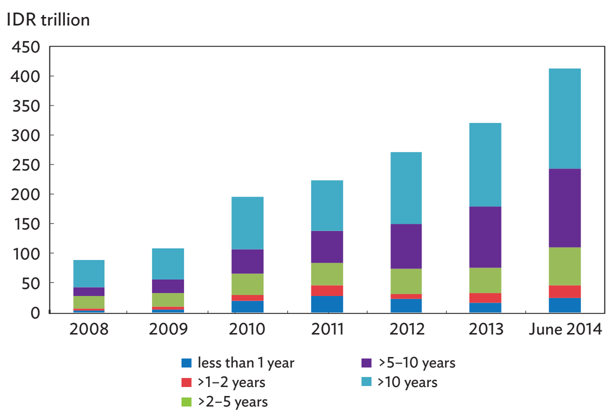
Parliament Approves Revised 2014 State Budget

In June, the House of Representatives approved the 2014 revised state budget, which projects a deficit equivalent to 2.4% of GDP, compared with 1.7% in the original budget. The revised 2014 state budget raised the net government securities financing requirement to 2.6% of GDP. In absolute terms, the net government securities financing requirement is up 29.2% from the original budget to IDR265.0 trillion. The underlying macroeconomic assumptions for the revised state budget include (i) GDP growth of 5.5%, (ii) annual inflation of 5.3%, (iii) an exchange rate of IDR11,600 to US$1, and (iv) a 3-month treasury bill rate of 6.0%.

Bank Indonesia Issues *Shari'a* FCY Term Deposits

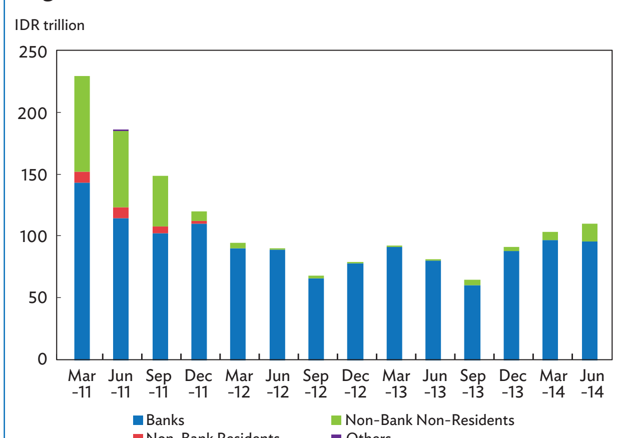
On 25 July, Bank Indonesia announced plans to issue *shari'a* FCY term deposits as part of efforts to develop *shari'a* banking and deepen the *shari'a* financial market. The term deposits are FCY-denominated Islamic monetary instruments that will complement FCY liquidity management in the *shari'a* financial market. They will be based on a *ju'alah* contract, which is backed by a commitment to provide a specific return after completion of a job, and carry a tenor of between 1 day and 12 months. The first auction was subsequently held on 20 August.

Figure 3: Foreign Holdings of LCY Central Government Bonds by Maturity



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

Figure 4: LCY Central Bank Bills Investor Profile



LCY = local currency.
Source: Bank Indonesia.

Republic of Korea

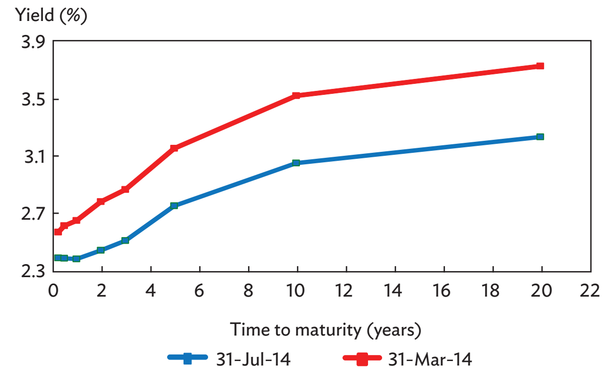
Yield Movements

The Republic of Korea's local currency (LCY) government bond yield curve shifted downward between end-March and end-July as yields fell for all tenors, with the sharpest drop at the longer-end of the curve, amid market expectations of a policy rate cut **(Figure 1)**. Meanwhile, the yield spread between 2- and 10-year tenors narrowed 13 basis points (bps) between end-March and end-July, resulting in a flattening of the yield curve.

Real gross domestic product (GDP) growth in the Republic of Korea moderated to 0.5% quarter-on-quarter (q-o-q) in 2Q14 from 0.9% q-o-q in 1Q14, and to 3.5% year-on-year (y-o-y) from 3.9% y-o-y, based on preliminary estimates released by The Bank of Korea. On a q-o-q basis, the decline in real GDP growth stemmed from a contraction in household consumption and domestic investment on the demand side. On the production side, weaker output growth in manufacturing and construction was accompanied by contractions in agriculture, fishery, and forestry, and utilities.

Consumer price inflation leveled off at 1.4% y-o-y in August, led by relatively high price hikes in housing and utilities. In the first half of 2014, the monthly y-o-y inflation rate ranged from 1.0% in February to 1.7% in May and June. Following 14 consecutive months of leaving the base rate unchanged, The Bank of Korea's Monetary Policy Committee decided on 14 August to reduce the base rate by 25 bps from 2.50% to 2.25%.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The outstanding size of the LCY bond market in the Republic of Korea expanded on both a quarterly and annual basis in 2Q14, bolstered by relatively strong growth in the stock of LCY government bonds **(Table 1)**. Central government bonds continued to dominate the LCY government bond market, accounting for 69% of outstanding government bonds. Growth in central government bonds in 2Q14 was led by Korea Treasury

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q13		1Q14		2Q14		2Q13		2Q14	
	KRW	US$	KRW	US$	KRW	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,650,267**	**1,445**	**1,754,188**	**1,648**	**1,779,533**	**1,759**	**2.2**	**10.6**	**1.4**	**7.8**
Government	637,277	558	676,491	635	700,464	692	2.3	6.0	3.5	9.9
Central Bank Bonds	165,420	145	170,800	160	174,000	172	(1.4)	0.5	1.9	5.2
Central Government Bonds	439,059	384	466,463	438	485,792	480	2.9	7.5	4.1	10.6
Industrial Finance Debentures	32,798	29	39,227	37	40,671	40	16.6	16.2	3.7	24.0
Corporate	1,012,990	887	1,077,697	1,012	1,079,069	1,066	2.1	13.8	0.1	6.5

( ) = negative, LCY = local currency, 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.
4. Central government bonds include Korea Treasury bonds, National Housing bonds, and Seoul Metro bonds.
Sources: EDAILY *BondWeb* and The Bank of Korea.

Bonds (KTBs), which climbed 4.6% q-o-q and 11.7% y-o-y. Meanwhile, central bank bonds, or Monetary Stabilization Bonds (MSBs), expanded on both a q-o-q and y-o-y basis in 2Q14, albeit at relatively modest paces, while industrial finance debentures also registered positive growth. Issuance of LCY government bonds rose 4.6% q-o-q in 2Q14, led by a 10.3% increase in central government bond issuance. On a y-o-y basis, LCY government bond issuance climbed 9.0% in 2Q14, induced by 25.1% growth in central government bond issuance and a 6.1% rise in MSB issuance.

LCY corporate bonds outstanding also rose in 2Q14, only marginally on a q-o-q basis and moderately on a y-o-y basis. On a q-o-q basis, the 0.1% growth resulted from an expansion in private corporate bonds that was almost negated by declines in special public bonds and financial debentures—excluding Korea Development Bank bonds. On a y-o-y basis, the 6.5% expansion was driven by 10.6% growth in the stock of private corporate bonds. Meanwhile, LCY corporate bond issuance was down 30.0% q-o-q and 31.3% y-o-y in 2Q14, amid lower issues of special public bonds, financial debentures, and private corporate bonds.

As of end-June, the top 30 LCY corporate issuers' share of total LCY corporate bonds outstanding stood at 61.9% **(Table 2)**, up 0.5 percentage points from 3 months earlier. Korea Land & Housing Corporation overtook Korea Housing Finance Corporation in 2Q14 as the largest issuer of LCY corporate bonds. Of the five largest LCY corporate bond issues in 2Q14, three were from banks, one from a housing finance entity, and one from a shipbuilding company **(Table 3)**.

Liquidity

Liquidity tightened in the LCY government bond market in 2Q14, with the turnover ratio falling to 0.80 from 0.85 in 1Q14. The quarterly drop stemmed from lower trading volumes for central government and central bank bonds. Between 1Q14 and 2Q14, the turnover ratio for central government bonds declined from 0.88 to 0.84, and for central bank bonds from 0.99 to 0.88 **(Figure 2)**.

Liquidity in the KTB futures market improved marginally in 2Q14, as the total number of traded 3- and 10-year KTB futures contracts inched up to 6.6 million from 6.4 million in 1Q14 **(Figure 3)**. Between 1Q14 and 2Q14, the share of 3-year KTB futures contracts traded declined from 73% to 61% of the total, while the share of 10-year KTB futures contracts rose from 27% to 39%.

Liquidity tightened in the LCY corporate bond market in 2Q14, with the turnover ratio for LCY corporate bonds slipping, marginally to 0.13 from 0.14 in 1Q14. The fall is attributed to q-o-q declines in the trading volumes of special public bonds, financial debentures, and private corporate bonds. Between 1Q14 and 2Q14, the turnover ratio for special public bonds fell from 0.13 to 0.10, financial debentures remained unchanged at 0.35, while private corporate bonds slipped from 0.06 to 0.05 **(Figure 4)**.

Investor Profile

Insurance companies and pension funds remained the largest investor group in the LCY government bond market in the Republic of Korea in 1Q14 **(Figure 5)**. They were followed by other financial institutions (financial institutions other than banks, insurance companies, and pension funds), the general government, banks, and foreign investors. Between end-March 2013 and end-March 2014, the share of total LCY government bond holdings of insurance companies and pension funds rose 3 percentage points, while other financial institutions' share inched up 1 percentage point. In contrast, the shares of the general government and foreign investors fell 4 percentage points and 1 percentage point, respectively.

Insurance companies and pension funds and other financial institutions each held 33% of total LCY corporate bonds outstanding at the end of 1Q14, with their shares up 3 percentage points and 2 percentage points, respectively, compared to a year earlier **(Figure 6)**. In contrast, the shares of banks, households and non-profit institutions, and non-financial corporations dropped 1 percentage point, 3 percentage points, and 1 percentage point, respectively.

Net foreign investment in the Republic of Korea's LCY bond market was positive for the fifth consecutive month in July, according to Financial Supervisory Service data **(Figure 7)**. Relatively large bond purchases by foreign investors, compared with bond redemptions, contributed to the net foreign bond inflow position for the month. In the first 7 months of the year, the cumulative amount of foreign investors' net bond investment was KRW3.1 trillion, down from KRW11.9 trillion in January–July 2013.

Table 2: Top 30 Issuers of LCY Corporate Bonds in the Republic of Korea

Issuers		Outstanding Amount		State-Owned	Listed on		Type of Industry
		LCY Bonds (KRW billion)	LCY Bonds (US$ billion)		KOSPI	KOSDAQ	
1.	Korea Land & Housing	57,646	57.0	Yes	No	No	Real Estate
2.	Korea Housing Finance	54,823	54.2	Yes	No	No	Financial
3.	Korea Finance	47,151	46.6	Yes	No	No	Financial
4.	Korea Deposit Insurance	42,200	41.7	Yes	No	No	Insurance
5.	KDB Daewoo Securities	38,281	37.8	Yes	Yes	No	Securities
6.	Korea Investment and Securities	35,319	34.9	No	No	No	Securities
7.	Woori Investment and Securities	34,783	34.4	Yes	Yes	No	Securities
8.	Korea Electric Power	30,910	30.5	Yes	Yes	No	Utilities
9.	Industrial Bank of Korea	29,561	29.2	Yes	Yes	No	Bank
10.	Hana Daetoo Securities	25,858	25.6	No	No	No	Securities
11.	Mirae Asset Securities	25,385	25.1	No	Yes	No	Securities
12.	Korea Expressway	21,280	21.0	Yes	No	No	Infrastructure
13.	Kookmin Bank	17,211	17.0	No	No	No	Bank
14.	Korea Rail Network Authority	17,010	16.8	Yes	No	No	Infrastructure
15.	Small & Medium Business Corp.	15,405	15.2	Yes	No	No	Financial
16.	Korea Gas	14,995	14.8	Yes	Yes	No	Utilities
17.	Hyundai Securities	14,623	14.5	No	Yes	No	Securities
18.	Shinhan Bank	14,614	14.4	No	No	No	Bank
19.	Woori Bank	14,412	14.2	Yes	No	No	Bank
20.	Shinhan Investment	13,847	13.7	No	No	No	Securities
21.	Tong Yang Securities	11,472	11.3	No	Yes	No	Securities
22.	Korea Railroad	11,150	11.0	Yes	No	No	Infrastructure
23.	Standard Chartered First Bank Korea	11,130	11.0	No	No	No	Bank
24.	Hana Bank	10,762	10.6	No	No	No	Bank
25.	Samsung Securities	10,613	10.5	No	Yes	No	Securities
26.	Korea Water Resources	10,304	10.2	Yes	Yes	No	Utilities
27.	Korea Eximbank	9,900	9.8	Yes	No	No	Bank
28.	Korea Student Aid Foundation	9,630	9.5	Yes	No	No	Financial
29.	Shinhan Card	9,156	9.0	No	No	No	Financial
30.	Hyundai Capital Services	8,805	8.7	No	No	No	Financial
Total Top 30 LCY Corporate Issuers		**668,235.8**	**660.4**				
Total LCY Corporate Bonds		**1,079,069.0**	**1,066.4**				
Top 30 as % of Total LCY Corporate Bonds		**61.9%**	**61.9%**				

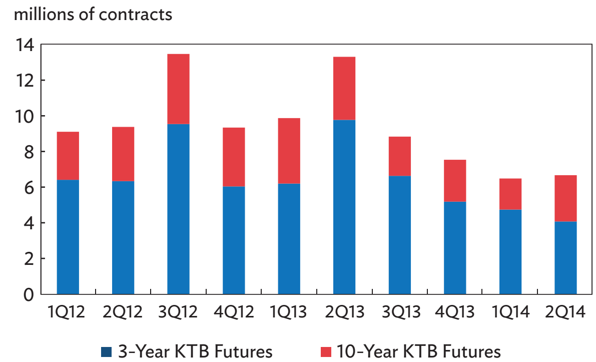
KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, LCY = local currency.
Notes:
1. Data as of end-June 2014.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Sources: *AsianBondsOnline* calculations based on Bloomberg and EDAILY *BondWeb* data.

Table 3: Notable LCY Corporate Bond Issuance in 2Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Industrial Bank of Korea		
1-year bond	2.63	580
Korea Finance Corporation		
2-year bond	2.85	600
Daewoo Shipbuilding & Marine Engineering		
3-year bond	3.37	440
Woori Bank		
1-year bond	2.65	410
1.5-year bond	2.80	380

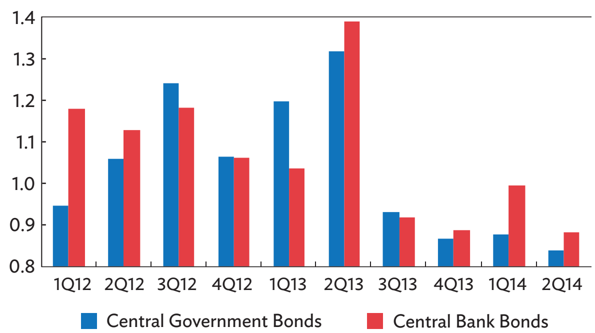
LCY = local currency.
Note: Coupon rates for 1-year bond of Industrial Bank of Korea and Woori Bank are indicative yields as of end-June 2014.
Source: Bloomberg LP.

Figure 3: Trading Volume of KTB Futures Contracts



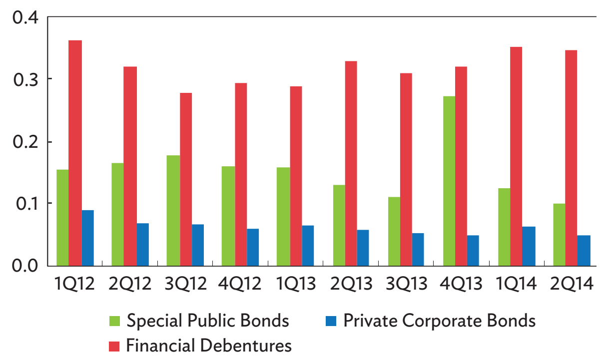
KTB = Korea Treasury Bond.
Source: Korea Exchange.

Figure 2: Turnover Ratios for Central Government and Central Bank Bonds



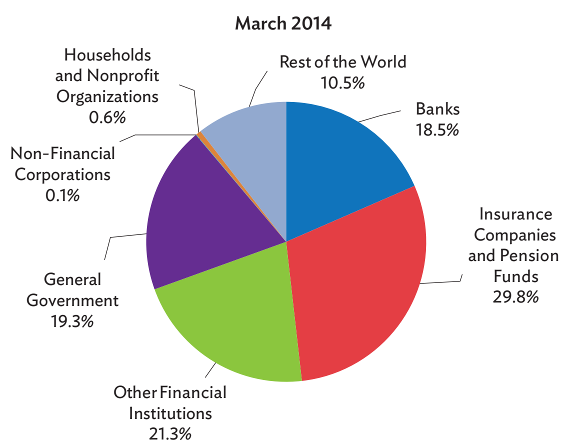
Note: Central government bonds include Korea Treasury Bonds and National Housing Bonds.
Sources: The Bank of Korea and EDAILY *BondWeb*.

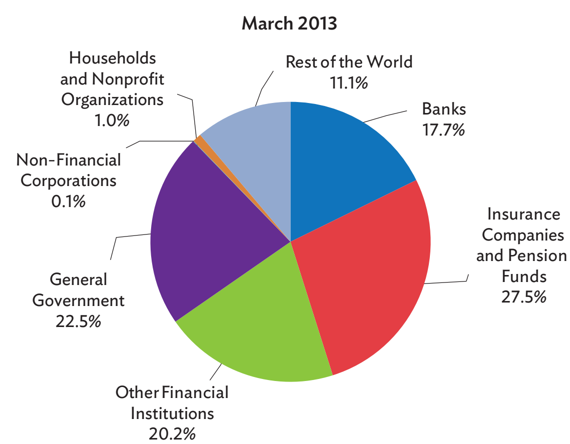
Figure 4: Turnover Ratios for Special Public Bonds, Financial Debentures, and Private Corporate Bonds



Source: EDAILY *BondWeb*.

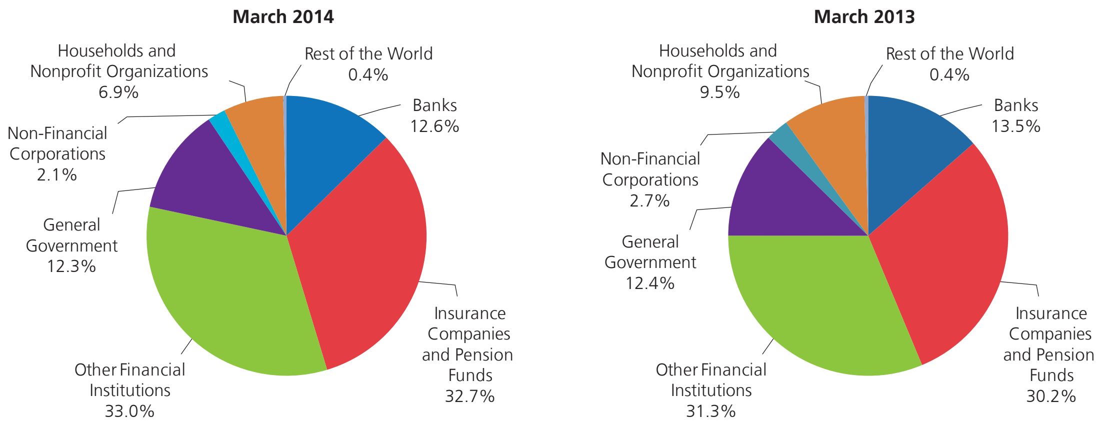
Figure 5: LCY Government Bonds Investor Profile





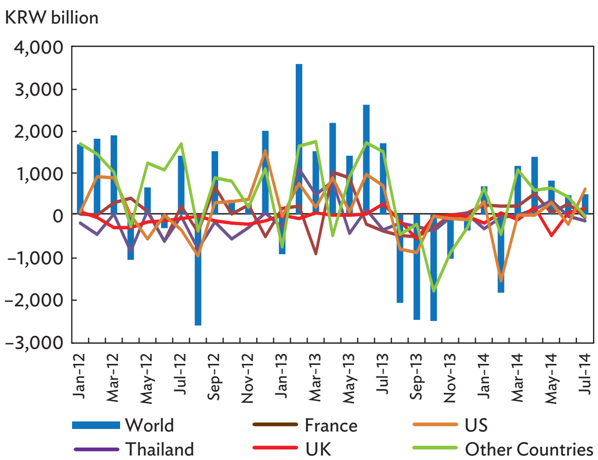
LCY = local currency.
Sources: *AsianBondsOnline* and The Bank of Korea.

Figure 6: LCY Corporate Bonds Investor Profile



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

Figure 7: Net Foreign Investment by Country in LCY Bonds in the Republic of Korea



LCY = local currency, UK = United Kingdom, US = United States.
Source: Financial Supervisory Service.

Policy, Institutional, and Regulatory Developments

Financial Regulatory Reforms Announced

The Republic of Korea's Financial Services Commission announced in July plans for financial regulatory reform, including (i) building a financial regulatory system with "better regulation," (ii) mitigating inconveniences facing financial consumers and enhancing support for the real economy, (iii) creating growth opportunities and new markets for the financial sector, (iv) abolishing implicit regulations, (v) establishing a permanent system for financial regulatory reform, and (vi) tightening internal controls and market discipline for financial institutions.

Road Map for Derivatives Market Unveiled

The Financial Services Commission introduced in June a road map for the development of the country's derivatives market. The road map seeks to develop the exchange-traded derivatives market into a "risk-managed market" by promoting greater autonomy in market operations and introducing new derivatives products. The road map also calls for the over-the-counter derivatives market to utilize a central counterparty for a wider range of derivatives contracts and to introduce a trade repository system. In the derivatives-linked securities market, the road map calls for the listing of exchange-traded notes, enhancing public disclosure and sales of equity-linked securities and derivatives-linked securities, and standardizing issuance of equity-linked warrants.

Public Institutions' Debt Reduction Plans Approved

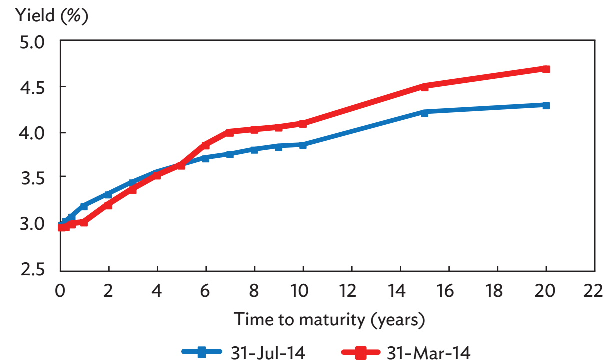
The Republic of Korea's Ministry of Strategy and Finance announced in June the acceptance of the revised debt reduction plans—totaling KRW6.2 trillion—submitted by 10 highly-indebted public institutions to frontload debt reduction in 2014.

Malaysia

Yield Movements

Between end-March and end-July, Malaysia's local currency (LCY) government bond yields rose for short-term instruments with maturities of 5 years and less, while yields declined for longer-dated tenors (maturities of more than 6 years), resulting in a slight flattening of the curve **(Figure 1)**. Yields rallied the most for the 1-year tenor, which rose 17 basis points (bps), followed by the 2-year maturity, which gained 11 bps. Yields slumped at the longer-end of the curve, falling between 14 bps and 39 bps. The yield spread between 2- and 10-year tenors tightened to 53 bps at end-July from 87 bps at end-March.

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



LCY = local currency.
Source: Bloomberg LP.

Rising inflationary pressures, which were triggered in January by sugar and fuel subsidy rationalization, may have prompted bonds yields at the shorter-end to move higher. Consumer price inflation reached 3.5% year-on-year (y-o-y) in February—the fastest pace in 2.5 years—before easing to 3.3% in June. To guard against inflation and potential economic and financial imbalances, the Monetary Policy Committee of Bank Negara Malaysia (BNM) decided on 10 July to raise its overnight policy rate by 25 bps to 3.25%. This was the first rate hike since May 2011. BNM expects inflation to remain elevated and exceed its long-run average on higher domestic cost factors. The rate hike seeks to mitigate the risk of broader economic and financial imbalances that could undermine the growth prospects of the Malaysian economy.

These developments come as the economy re-gained positive momentum in 2014 and appeared poised to gather additional pace. Robust exports and private consumption drove economic growth higher in 2014. Real gross domestic product (GDP) growth accelerated to 6.4% y-o-y in 2Q14, the fastest pace in 6 quarters, from 6.2% in 1Q14. Exports advanced 8.8%—a significant reversal from the negative growth of 4.4% in 2Q13 and higher than the 7.8% growth recorded in 1Q14—contributing the bulk of GDP growth during the quarter. The expansion in exports was underpinned by both recovery in the advanced economies and regional demand. Private consumption grew 6.5% in 2Q14, down from a 7.1% gain in 1Q14. Buoyant private spending could be linked in part to a low unemployment rate of 3.1% and average real wages that rose an estimated 1.0% in 2Q14.

On the supply side, growth was fueled by increases in the manufacturing sector, which expanded 7.3% y-o-y in 2Q14, compared with 6.8% in 1Q14, led by electrical and electronics products, and transport equipment. Services climbed 6.0% in 2Q14, following a 6.6% rise in the previous quarter. On a seasonally adjusted and quarter-on-quarter (q-o-q) basis, the economy expanded 1.8%.

Size and Composition

Total LCY bonds outstanding in Malaysia rose 6.0% y-o-y to MYR1,053 billion (US$328.0 billion) at end-June, slightly lower than the pace of 6.4% in 2Q13, but higher than the 5.5% rise in 1Q14 **(Table 1)**. The corporate bond sector expanded faster than the government bond market on both a q-o-q and y-o-y basis. *Sukuk* (Islamic bonds) dominated the market, after surpassing conventional securities in terms of share of the total market in 1Q14, with 51.5% of bonds outstanding.

Government Bonds. LCY government bonds outstanding stood at MYR611.8 billion at end-June, up 4.1% y-o-y but down 0.3% q-o-q. Central government bonds, which accounted for 82.3% of total government bonds, led the increase with 10.7% y-o-y growth to MYR507.9 billion. In absolute terms, the increase in the outstanding amount of central government bonds was driven by Malaysian Government Securities (MGSs), up MYR156.0 billion, or 7.0% y-o-y, to MYR315.5 billion. Government Investment

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q13		1Q14		2Q14		2Q13		2Q14	
	MYR	US$	MYR	US$	MYR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**994**	**314**	**1,051**	**322**	**1,053**	**328**	**(0.2)**	**6.4**	**0.2**	**6.0**
Government	588	186	614	188	612	191	(0.2)	5.1	(0.3)	4.1
Central Government Bonds	459	145	502	154	508	158	2.8	10.0	1.2	10.7
of which: *sukuk*	162	51	180	55	190	59	8.0	24.2	5.6	17.6
Central Bank Bills	123	39	99	30	88	28	(10.1)	(13.7)	(10.5)	(27.9)
of which: *sukuk*	51	16	41	12	35	11	(12.5)	(1.3)	(12.7)	(30.1)
Sukuk Perumahan Kerajaan	6	2.0	13	4	16	5	0.0	–	20.2	150.0
Corporate	406	128	438	134	442	138	(0.3)	8.2	0.9	8.7
of which: *sukuk*	272	86	298	91	302	94	(0.3)	13.0	1.4	11.1

( ) = negative, – = not applicable, 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.
Sources: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) and Bloomberg LP.

Issues (GIIs) also made rapid gains, albeit from a low base, rising MYR28.5 billion, or 17.9% y-o-y, to MYR188.0 billion. Total central bank bills outstanding, on the other hand, plunged 27.9% y-o-y and 10.5% q-o-q, due to a decline in monetary note issuance by BNM.

The government issued more bonds in 2Q14 than in the previous quarter, with issuance rising 6.5% q-o-q to MYR92.4 billion, led by central government bills and central bank bills. On a y-o-y basis, however, the issuance of government bonds saw negative growth of 8.6% due to a drop in central bank bill issuance.

Corporate Bonds. LCY corporate bonds rose 8.7% y-o-y, bringing total outstanding bonds to MYR441.5 billion at end-June. The split between corporate *sukuk* and conventional bonds stood at 68.3% to 31.7%.

Islamic medium-term notes (IMTNs) were the most common instrument at 52.4% of total corporate bonds and 76.7% of total *sukuk* outstanding at end-June. IMTNs are sold in smaller amounts compared with corporate bonds and provide semi-annual dividends depending on the structure used.

Corporate issuance contracted 13.4% q-o-q to MYR26.6 billion in 2Q14. A total of 88 new issues were completed during the quarter. *Sukuk* remained the preferred structure of corporate debt financing and accounted for over 60%, or MYR16.3 billion, of new corporate issuance in 2Q14. **Table 2** lists some notable corporate bonds issued in 2Q14.

Table 2: Notable LCY Corporate Bond Issuance in 2Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Danainfra Nasional		
7-year Islamic MTN	4.40	500
10-year Islamic MTN	4.55	500
15-year Islamic MTN	5.03	200
20-year Islamic MTN	5.25	300
25-year Islamic MTN	5.38	700
30-year Islamic MTN	5.51	400
Aman *Sukuk*		
3-year Islamic MTN	4.00	260
5-year Islamic MTN	4.30	305
7-year Islamic MTN	4.53	310
10-year Islamic MTN	4.78	355
12-year Islamic MTN	4.93	245
15- year Islamic MTN	5.13	105
Midciti *Sukuk*		
3-year Islamic MTN	3.90	300
5-year Islamic MTN	4.20	400
7-year Islamic MTN	4.55	400
10-year Islamic MTN	4.80	455

LCY = local currency, MTN = medium-term note.
Source: Bank Negara Malaysia Bond Info Hub.

The largest corporate issuer in 2Q14 was DanaInfra Nasional, a company wholly owned by the Ministry of Finance to raise funds for infrastructure projects assigned by the government. DanaInfra raised MYR2.6 billion from six tranches of government-guaranteed IMTNs with maturities ranging from 7 years to 30 years. Profit rates ranged from 4.40% to 5.51%, which were 40 bps–56 bps more than sovereign non-Islamic notes with similar maturities, and about 35bps–45bps higher than existing *sukuk* with similar tenors issued in October 2013. Proceeds of the sale will be spent on expanding Mass Rapid Transit rail network coverage in the Klang Valley and Kuala Lumpur.

Other notable issuers in 2Q14 included government-owned special purpose vehicles. Aman Sukuk issued six tranches of IMTNs amounting to MYR1.58 billion and with profit rates ranging from 4.00% to 5.13% for tenures of between 3 years and 15 years. The IMTNs were assigned an AAAIS rating by MARC and given a stable outlook. Aman Sukuk is the funding vehicle for Pembinaan BLT, a unit wholly owned by the Government of Malaysia and established to build facilities for the Royal Malaysia Police. Meanwhile, Midciti Sukuk issued a total of MYR1.55 billion of IMTNs with profit rates ranging from 3.9% to 4.8%. The IMTNs were rated AAA by RAM Ratings and given a stable outlook. Midciti Sukuk is a wholly owned funding vehicle of KLCC Real Estate Investment Trust, which owns PETRONAS Twin Towers, Menara 3 Petronas, and Menara ExxonMobil.

Table 3 provides a breakdown of the top 30 LCY corporate bond issuers in Malaysia, whose total LCY bonds outstanding stood at MYR240.5 billion at end-June, representing 54.5% of the LCY corporate bond market. Financial firms comprised 10 of the 30 largest corporate bond issuers, with bonds outstanding worth MYR83.8 billion.

Highway operator Project Lebuhraya Usahasama remained the largest issuer with outstanding bonds valued at MYR30.6 billion.

Investor Profile

Financial institutions—including banking institutions, development financial institutions, and non-bank financial institutions—saw the largest increase in their holdings of government bonds, which rose MYR43.7 billion, or 39.2% y-o-y, in 1Q14. Financial institutions accounted for a 32.7% share of total outstanding government bonds at end-March **(Figure 2)**. Social security institutions saw the largest decrease in their holdings by 3 percentage points, followed by foreign investors and insurance companies, which reduced their holdings by 2.4 percentage points and 0.9 points, respectively.

Domestic banks (commercial and Islamic) decreased their holdings of LCY corporate bonds but still remained the largest investor group at end-June with a share of 46.8% of corporate bonds outstanding **(Figure 3)**. Life insurance companies are the only investor group that have consistently increased their investments in LCY corporate bonds since 2006, increasing holdings by MYR11.1 billion on an annual basis in 2Q14 to reach MYR130.3 billion, or 31.5% of the LCY corporate bond market.

Rating Changes

On 23 July, Fitch Ratings affirmed a negative credit outlook for Malaysia, while also affirming the long-term foreign currency and LCY issuer default ratings at A– and A, respectively. Fitch Ratings maintains that the country's key sovereign weakness stems from its public finances, the same reason it provided for its downgrade last year. The credit rating agency is also concerned that (i) the path to achieving the government's budget deficit targets remains unclear as the impact of the new goods and services tax has yet to be determined, (ii) the current account might shift into a deficit amid heavy public sector deficits, and (iii) rising household debt could magnify the impact of any future macroeconomic volatility on the credit profile.

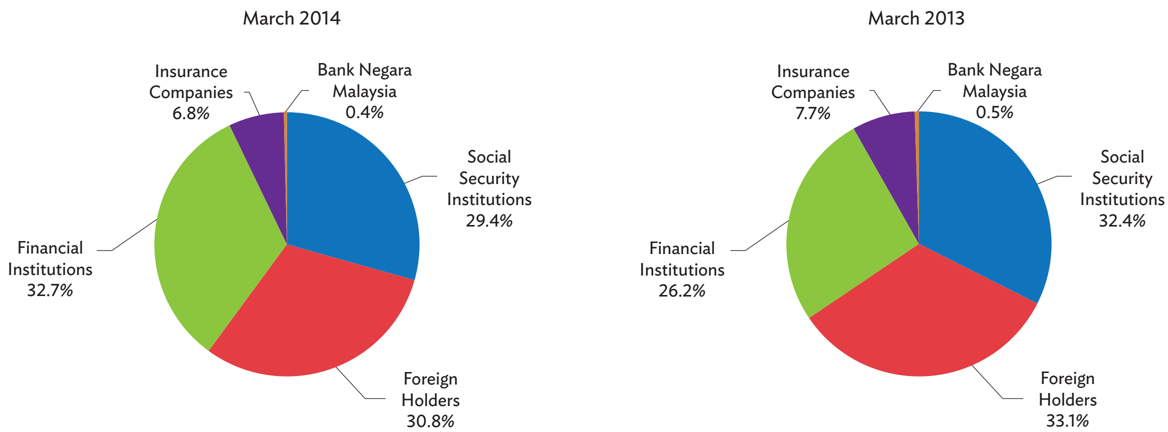
On 24 July, Standard & Poor's likewise affirmed Malaysia's A– and A long-term foreign currency and LCY ratings, respectively, with a stable outlook for both. Standard & Poor's asserts that Malaysia's strong external asset position, which is expected to see stronger trade surpluses in the next 2–3 years, and its high degree of monetary flexibility, demonstrated by a track record of controlling inflation, balances its moderate fiscal deficits and government debt burden.

Table 3: Top 30 Issuers of LCY Corporate Bonds in Malaysia

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (MYR billion)	LCY Bonds (US$ billion)			
1.	Project Lebuhraya Usahasama	30.60	9.53	No	Yes	Transport, Storage, and Communications
2.	Cagamas	24.00	7.47	Yes	No	Finance
3.	Khazanah	20.00	6.23	Yes	No	Quasi-Government
4.	Prasarana	13.91	4.33	Yes	No	Transport, Storage, and Communications
5.	Pengurusan Air	11.73	3.65	Yes	No	Energy, Gas, and Water
6.	Maybank	11.30	3.52	No	Yes	Finance
7.	Danainfra Nasional	9.10	2.83	Yes	No	Finance
8.	Perbadanan Tabung Pendidikan Tinggi Nasional	8.50	2.65	Yes	No	Quasi-Government
9.	CIMB Bank	8.05	2.51	No	No	Finance
10.	Public Bank	8.02	2.50	No	Yes	Finance
11.	BGSM Management	7.20	2.24	No	No	Transport, Storage, and Communications
12.	Aman *Sukuk*	6.44	2.01	Yes	No	Construction
13.	Cagamas MBS	5.76	1.79	Yes	No	Finance
14.	Sarawak Energy	5.50	1.71	Yes	No	Energy, Gas, and Water
15.	Malakoff Power	5.38	1.68	No	No	Energy, Gas, and Water
16.	Turus Pesawat	5.31	1.65	Yes	No	Quasi-Government
17.	Celcom Transmission	5.00	1.56	No	No	Transport, Storage, and Communications
18.	1Malaysia Development	5.00	1.56	Yes	No	Quasi-Government
19.	Hong Leong Bank	4.95	1.54	No	Yes	Finance
20.	Manjung Island Energy	4.85	1.51	No	No	Energy, Gas, and Water
21.	RHB Bank	4.60	1.43	No	No	Finance
22.	AM Bank	4.54	1.41	No	No	Finance
23.	Putrajaya Holdings	4.43	1.38	No	No	Property and Real Estate
24.	KL International Airport	4.36	1.36	Yes	No	Transport, Storage, and Communications
25.	Tanjung Bin Power	4.05	1.26	No	Yes	Energy, Gas, and Water
26.	YTL Power International	3.77	1.17	No	Yes	Energy, Gas, and Water
27.	Jimah Energy Ventures	3.71	1.16	No	No	Energy, Gas, and Water
28.	TNB Western Energy	3.66	1.14	No	No	Construction
29.	Cekap Mentari	3.50	1.09	Yes	No	Finance
30.	Rantau Abang	3.30	1.03	Yes	No	Quasi-Government
Total Top 30 LCY Corporate Issuers		**240.51**	**74.90**			
Total LCY Corporate Bonds		**441.54**	**137.51**			
Top 30 as % of Total LCY Corporate Bonds		**54.5%**	**54.5%**			

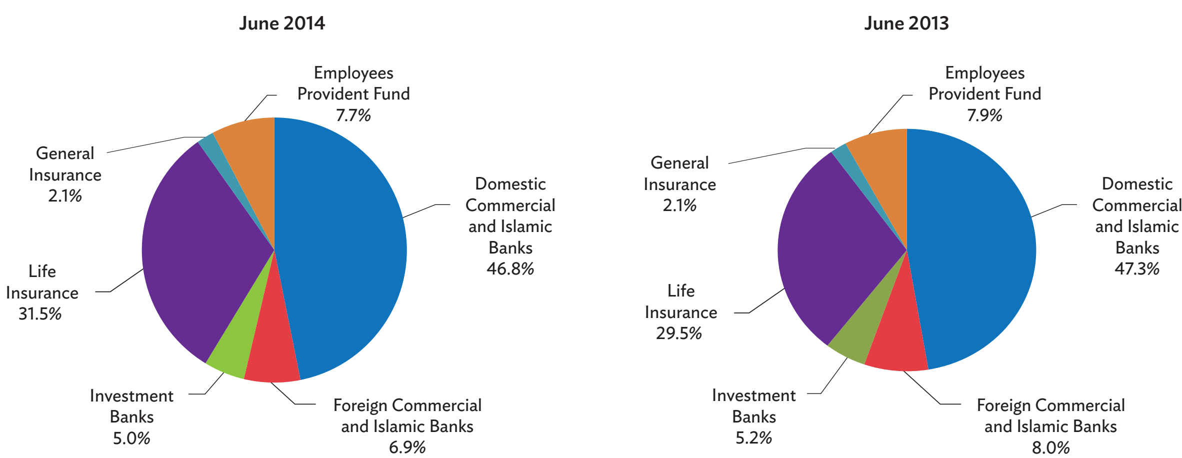
LCY = local currency.
Notes:
1. Data as of end-June 2014.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) data.

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.
Source: Bank Negara Malaysia.

Figure 3: LCY Corporate Bonds Investor Profile



LCY = local currency.
Note: Employees Provident Fund as of end-2012.
Source: Bank Negara Malaysia.

Policy, Institutional, and Regulatory Developments

Prime Minister Announces Liberalization Measures

In June, Prime Minister Najib Razak announced several measures aimed at liberalizing Malaysia's financial sector. Effective immediately, the barriers for new foreign unit trust management companies entering Malaysia were lifted. Effective 1 January 2015, credit rating agencies will be given more flexibility in the trading of unrated bonds and *sukuk*. Effective 1 January 2017, mandatory credit ratings for new corporate issues will be removed and full foreign ownership of international credit rating agencies will be allowed. The liberalization program seeks to strengthen the country's capital market in support of sustainable, long-term growth.

Philippines

Yield Movements

Between end-March and end-July, yield movements were volatile for Philippine local currency (LCY) bonds **(Figure 1)**. The yield for the 3-month tenor fell 13 basis points (bps), while yields for the 6-month and 1-year tenors rose 33 bps and 55 bps, respectively. Yields for medium-term tenors of 3- and 4-years fell 18 bps and 22 bps, respectively, while yields for 5- and 7-year tenors increased 13 bps and 11 bps, respectively. Yields on the longer-end of the curve fell between 5 bps and 29 bps.

Between end-March and end-April, yields rose for most tenors due to speculation over possible monetary tightening by the Bangko Sentral ng Pilipinas (BSP) generated by inflation concerns. Yields for tenors between 6 months and 7 years increased 3 bps–90 bps. In contrast, the yield for the 3-month tenor fell 20 bps as the market favored the shorter-end of the curve.

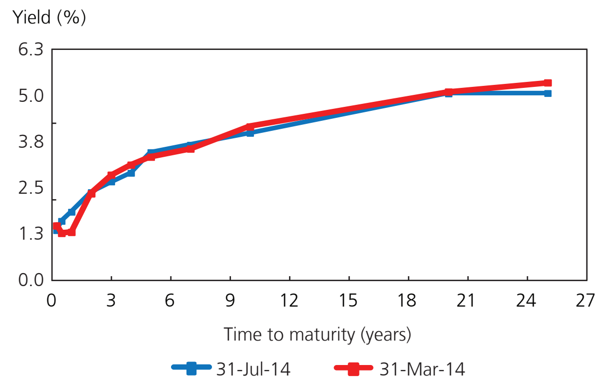
Yields fell 23 bps–54 bps across the length of the curve between end-April and end-May due to Standard & Poor's (S&P) upgrade of the Philippines to BBB from BBB–. Lower-than-expected gross domestic product (GDP) growth in 1Q14 suggests that the BSP may keep policy rates unchanged.

Yields rose again between end-May and end-July as inflation accelerated to 4.5% year-on-year (y-o-y) in May from 4.1% in April. On 19 June, the BSP raised the special deposit account rate by 25 bps to dampen inflation risks arising from increased liquidity in the market. As a result, the yield for the 3-month tenor rose 31 bps, yields for tenors of 5 years and above rose 13bps–32bps.

On 31 July, the BSP raised its key policy rates by 25 bps—bringing the overnight reverse repurchase rate to 3.75% and the overnight repurchase rate to 5.75%—in response to rising inflation expectations.

Inflation fell slightly in June to 4.4% before accelerating again to 4.9% in July. Average inflation for the first 7 months of the year was 4.3%, which is at the upper end of the BSP's 2014 target range of 3%–5%. Current inflationary pressures are coming from elevated food prices, volatile oil prices, and pending rate adjustments in energy and transport prices.

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



LCY = local currency.
Source: Bloomberg LP.

The Philippines' real GDP growth accelerated to 6.4% y-o-y in 2Q14, following 5.6% growth in 1Q14. However, this was down from the 7.9% growth posted in the same period last year. Growth in 2Q14 was mainly driven by the industrial and services sectors, which expanded 7.8% and 6.0% y-o-y, respectively.

Size and Composition

The Philippine LCY bond market grew 8.8% y-o-y at end-June, led by Treasury and corporate bonds **(Table 1)**. Total LCY bonds reached PHP4,492 billion (US$103 billion), up 1.4% from end-March's level of PHP4,429 billion. Government securities accounted for the majority of bonds outstanding, totaling PHP3,819 billion, while corporate bonds summed to PHP673 billion.

Government Bonds. Outstanding fixed-income instruments issued by the Philippine government and government-controlled companies rose 1.9% quarter-on-quarter (q-o-q) and 6.5% y-o-y to close at PHP3,819 billion at end-June. Treasury bills decreased 1.6% q-o-q and 6.4% y-o-y to stand at PHP288 billion at end-June. The Bureau of the Treasury (BTr) rejected some of its Treasury bill auctions as investors

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q13		1Q14		2Q14		2Q13		2Q14	
	PHP	US$	PHP	US$	PHP	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**4,128**	**96**	**4,429**	**99**	**4,492**	**103**	**3.0**	**13.2**	**1.4**	**8.8**
Government	3,587	83	3,749	84	3,819	87	3.2	13.8	1.9	6.5
Treasury Bills	308	7	293	7	288	7	6.4	20.9	(1.6)	(6.4)
Treasury Bonds	3,165	73	3,340	75	3,415	78	3.0	14.2	2.2	7.9
Others	113	3	116	3	116	3	0.0	(8.5)	0.0	2.1
Corporate	541	13	680	15	673	15	1.7	9.3	(1.1)	24.4

( ) = negative, LCY = local currency, 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 an LCY base and do not include currency effects.
4. "Others" comprise bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. This includes bonds issued by Power Sector Assets and Liabilities Management (PSALM) and the National Food Authority, among others.
5. Peso Global Bonds (PHP-denominated bonds payable in US dollars) and multi-currency Retail Treasury Bonds (RTBs) are not included. As of end-June 2014, the Government of the Philippines and Petron Corporation had PHP129.7 billion and PHP20.0 billion of outstanding Peso Global Bonds, respectively. There was a total of PHP9.0 billion of outstanding multi-currency Treasury Bonds as of end-June 2014.
Sources: Bloomberg LP and Bureau of the Treasury.

sought higher yields given rising inflationary concerns. Treasury bonds increased 2.2% q-o-q and 7.9% y-o-y to PHP3,415 billion. Fixed-income instruments issued by government-controlled companies remained unchanged at PHP116 billion.

In terms of issuance, 2Q14 saw higher volume at PHP177 billion compared to PHP150 billion in 1Q14, due to more successful government bond auctions by BTr. The government has programmed LCY borrowing of PHP135 billion through its regular auction schedule in 3Q14: PHP60 billion of Treasury bills with 91-, 182-, and 364-day tenors; and PHP75 billion of Treasury bonds with 7-, 10-, and 20-year tenors.

Corporate Bonds. Total outstanding LCY corporate bonds increased 24.4% y-o-y to reach PHP673 billion at end-June, but declined 1.1% on a quarterly basis.

Table 2: Notable LCY Corporate Bond Issuance in 2Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
San Miguel Brewery		
7-year bond	5.50	12.46
10-year bond	6.00	2.54
SM Investments		
7-year bond	5.30	11.67
10-year bond	5.61	3.33
Ayala Land		
11-year bond	5.63	8.00
RCBC		
10-year Tier 2 note	5.38	7.00
Cebu Holdings		
7-year bond	5.32	5.00
Vista Land		
5.5-year bond	5.65	4.32
7-year bond	5.94	0.67
Philippine Savings Bank		
10-year Tier 2 note	5.50	3.00

LCY = local currency.
Source: Bloomberg LP.

Total corporate bond issuance in 2Q14 stood at PHP58 billion. Seven companies issued bonds and Tier 2 notes. San Miguel Brewery and SM Investments were the largest issuers in 2Q14, raising PHP15 billion worth of bonds each, Ayala Land was third with PHP8 billion, and RCBC was fourth with PHP7 billion **(Table 2)**.

Only 54 companies are actively tapping the bond market in the Philippines. The top 30 issuers accounted for 88.5% of total LCY corporate bonds outstanding at end-June **(Table 3)**. Out of this group, only seven companies were privately-held corporations and the rest were publicly listed with the Philippine Stock Exchange. Ayala Land was the largest corporate issuer in the country as of end-June with PHP57.9 billion of outstanding debt, SM Investments was the next largest borrower (PHP41.9 billion) and Ayala Corporation was third (PHP40.0 billion).

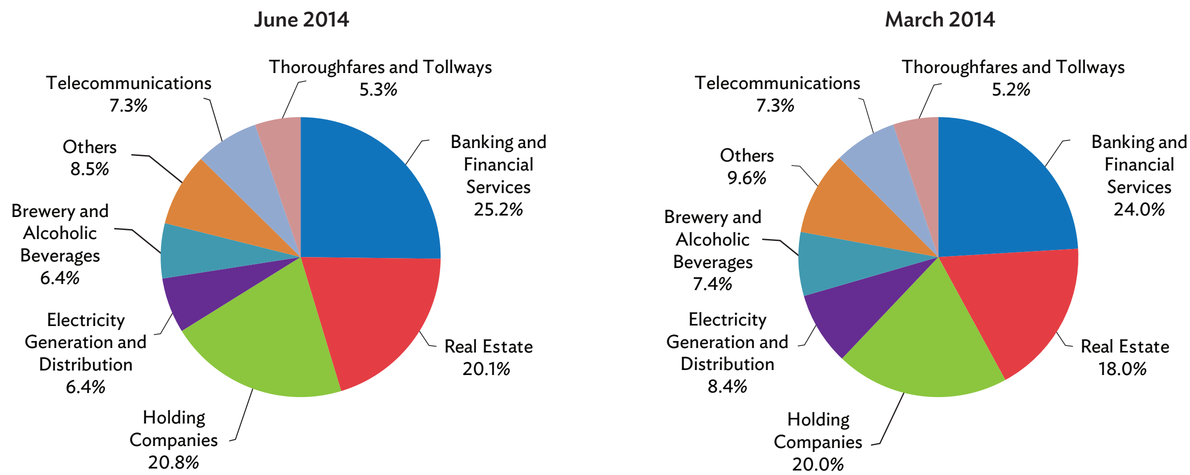
The diversity of LCY corporate bond issuers in 2Q14 was comparable with that in 1Q14 **(Figure 2)**. Banks and financial services, including investment houses, remained the leading issuers of debt in 2Q14 with 25.2% of the total as the BSP moved toward more stringent liquidity and capital requirements. The market share of most industries remained unchanged, except for real estate, which increased to 20.1% from 18.0%. Firms from industries as diverse as electricity generation and distribution, telecommunications, and thoroughfares and tollways

Table 3: Top 30 Issuers of LCY Corporate Bonds in the Philippines

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (PHP billion)	LCY Bonds (US$ billion)			
1.	Ayala Land	57.9	1.3	No	Yes	Real Estate
2.	SM Investments	41.9	1.0	No	Yes	Diversified Operations
3.	Ayala Corporation	40.0	0.9	No	Yes	Diversified Operations
4.	JG Summit Holdings	39.0	0.9	No	Yes	Diversified Operations
5.	San Miguel Brewery	37.8	0.9	No	Yes	Brewery
6.	Philippine Long Distance Telephone	29.8	0.7	No	Yes	Telecommunications
7.	Philippine National Bank	27.6	0.6	No	Yes	Banking
8.	Metrobank	26.0	0.6	No	Yes	Banking
9.	Meralco	23.5	0.5	No	Yes	Electricity Distribution
10.	RCBC	22.0	0.5	No	Yes	Banking
11.	Filinvest Land	21.5	0.5	No	Yes	Real Estate
12.	BDO Unibank	20.0	0.5	No	Yes	Banking
13.	Energy Development Corporation	19.0	0.4	No	Yes	Electricity Generation
14.	Globe Telecom	17.0	0.4	No	Yes	Telecommunications
15.	Maynilad Water Services	16.6	0.4	No	No	Water
16.	MCE Leisure	15.0	0.3	No	No	Casino Services
17.	SM Development	14.3	0.3	No	Yes	Real Estate
18.	Manila North Tollways	13.0	0.3	No	No	Transport Services
19.	Security Bank	13.0	0.3	No	Yes	Banking
20.	First Metro Investment	12.0	0.3	No	No	Investment Banking
21.	MTD Manila Expressway	11.5	0.3	No	No	Transport Services
22.	South Luzon Tollway	11.0	0.3	No	No	Transport Services
23.	GT Capital Holdings	10.0	0.2	No	Yes	Investment Companies
24.	United Coconut Planters Bank	9.5	0.2	No	No	Banking
25.	Filinvest Development	8.8	0.2	No	Yes	Real Estate
26.	Petron	8.4	0.2	No	Yes	Oil Refining and Marketing
27.	Aboitiz Equity Ventures	8.0	0.2	No	Yes	Diversified Operations
28.	Allied Bank	8.0	0.2	No	Yes	Banking
29.	Union Bank of the Philippines	6.8	0.2	No	Yes	Banking
30.	Megaworld	6.4	0.1	No	Yes	Real Estate
Total Top 30 LCY Corporate Issuers		**595.3**	**13.6**			
Total LCY Corporate Bonds		**673.0**	**15.4**			
Top 30 as % of Total LCY Corporate Bonds		**88.5%**	**88.5%**			

LCY = local currency.
Notes:
1. Data as of end-June 2014.
2. Petron has PHP20 billion of Global Peso Bonds outstanding that were not included in this table.
3. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Figure 2: LCY Corporate Bond Issuers by Industry



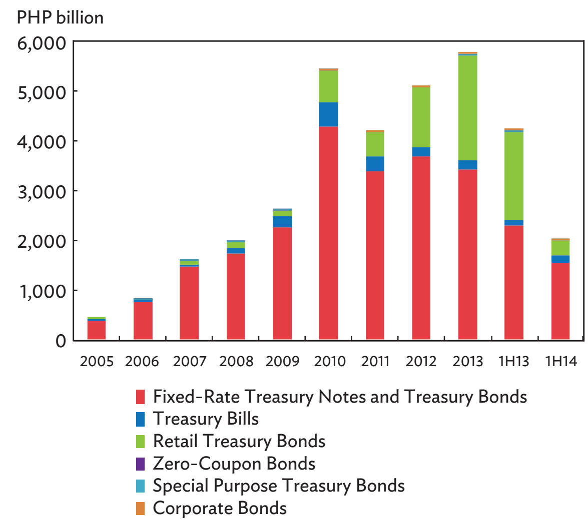
LCY = local currency.
Source: Bloomberg LP.

had shares of total corporate bonds outstanding in the single-digit levels.

As the sole fixed-income exchange in the country, the Philippine Dealing and Exchange Corporation captures the secondary trading of listed fixed-income issues. The volume of secondary trading of government securities surged from PHP438 billion in 2005 to PHP5,732 billion in 2013 **(Figure 3)**.

Total trading volume of bonds for the first half of 2014 dropped 52.0% y-o-y to PHP2,003 billion from PHP4,180 billion in the same period in 2013, as the market remained cautious due to domestic inflation concerns and tapering by the United States Federal Reserve. Between January 2005 and June 2014, Treasury bonds accounted for the largest share of total trading volume at about 76%, followed by Retail Treasury Bonds at about 17%.

Figure 3: PDEx Trade Volume Trends—Government Securities

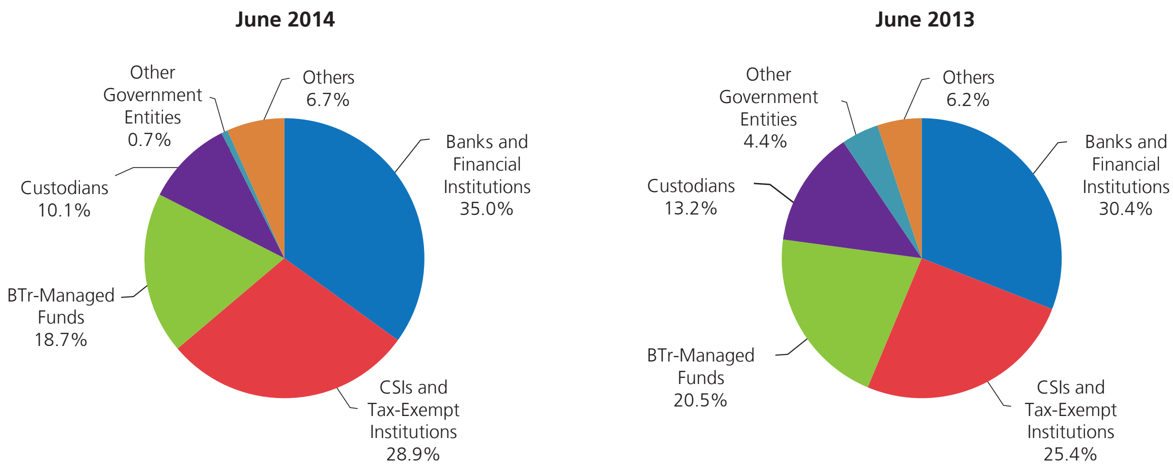


Notes:
1. PDEx reports one side of the trade only.
2. Data on Corporate Bonds started in 2010.
Source: Philippine Dealing and Exchange Corporation (PDEx).

Investor Profile

The largest grouping of investors in government securities in 2Q14 comprised banks and financial institutions, with a 35.0% of the total **(Figure 4)**. This was up slightly from a share of 30.4% in 2Q13. Contractual savings institutions—including the Social Security System, Government Service Insurance System, Pag-ibig, and life insurance companies—and tax-exempt institutions—such as trusts and other tax-exempt entities—accounted for 28.9% of the total in 2Q14, up from 25.4% in 2Q13. The share of funds being managed by BTr, which includes the Bond Sinking Fund, fell to 18.7% in 2Q14 from 20.5% in 2Q13. The participation of custodians slightly decreased to 10.1% from 13.2%. The share of other government entities and other investors, which include individuals and private corporations, also decreased to 7.4% in 2Q14 from 10.6% in 2Q13.

Figure 4: LCY Government Bonds Investor Profile



BTr = Bureau of the Treasury, CSIs = contractual savings institutions, LCY = local currency.
Source: Bloomberg LP.

Rating Changes

On 7 May, S&P upgraded its long-term sovereign credit rating for the Philippines to BBB from BBB–, and its short-term rating to A-2 from A-3, with a stable outlook for both. S&P raised both ratings based on expectations that the government will be able to maintain its structural, administrative, institutional, and governance reforms after the presidential election in 2016. The ratings also reflect the Philippines' sustained low level of inflation and low interest rates, strong external liquidity and international investment positions, and effective monetary policy framework.

Policy, Institutional, and Regulatory Developments

BSP to Monitor Banks' Real Estate Exposure

On 11 June, the Monetary Board of the BSP approved preemptive macroprudential policy measures to monitor the exposure of the banking system to real estate development. This policy, which includes stress tests, reinforces the requirement for banks to have sufficient capital to withstand shocks that could affect their credit risk exposure to real estate. The stress tests are in accordance with international standards under the Basel Accords. Universal, commercial, and thrift banks are required to meet a Capital Adequacy Ratio of 10% of qualifying capital (QC) after adjusting for the stress test results. Universal and commercial banks, and their thrift bank subsidiaries are also required to maintain a level of Common Equity Tier 1 equivalent to at least 6% of QC after adjusting for the stress test. For stand-alone thrift banks, a Tier 1 ratio of 6% of QC is required.

Singapore

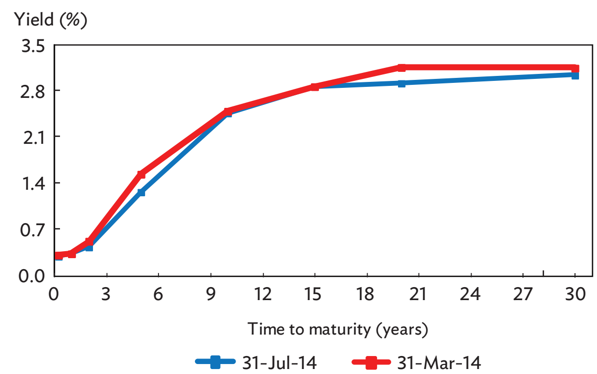
Yield Movements

Between end-March and end-July, local currency (LCY) government bond yields in Singapore fell for most tenors **(Figure 1)**. The largest drops in yields were noted for the 5-year maturity, which shed 27 basis points (bps), and the 20-year tenor, which fell 24 bps. The yield spread between the 2- and 10-year maturities widened to 202 bps at end-July from a spread of 196 bps at end-March.

Slight upticks in prices of goods were noted in 2Q14, although overall inflation has remained benign. Consumer price inflation rose 2.5% year-on-year (y-o-y) in April, and 2.7% in May, before easing to 1.8% in June and 1.2% in July. The Monetary Authority of Singapore (MAS), however, expects inflation to ease further in the rest of the year, and estimates inflation to range between 1.5% and 2.0% in 2014.

Economic growth slowed to 2.4% y-o-y in 2Q14 from 4.8% in 1Q14. Growth in the manufacturing sector eased to 1.5% y-o-y, a significant drop from 9.9% growth in 1Q14, due mainly to a decline in electronics output and a slowdown in transport engineering output. Growth in the construction sector also moderated to 4.4% y-o-y from 6.4% in 1Q14. Services industries recorded slower growth in 2Q14, expanding 2.6% y-o-y compared with 3.9% in 1Q14. On a seasonally adjusted quarter-on-quarter (q-o-q) basis, gross domestic product (GDP) grew a marginal 0.1% in 2Q14.

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



LCY = local currency.
Source: Bloomberg LP.

The Ministry of Trade and Industry expects the economy to grow modestly in 2014, revising its annual GDP growth forecast downward to a range of 2.5%–3.5%. It also noted that global growth has remained weak and cited that uncertainties remain over the pace of the United States Federal Reserve's exit from its accommodative monetary policy stance.

Size and Composition

The outstanding size of LCY bonds in Singapore climbed to SGD307 billion (US$247 billion) at end-June on modest growth of 2.5% q-o-q and 2.0% y-o-y **(Table 1)**.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q13		1Q14		2Q14		2Q13		2Q14	
	SGD	US$	SGD	US$	SGD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**301**	**238**	**300**	**239**	**307**	**247**	**2.0**	**14.0**	**2.5**	**2.0**
Government	187	148	183	146	189	152	1.9	14.9	3.3	1.1
SGS Bills and Bonds	138	109	109	87	100	80	(6.1)	(3.4)	(8.0)	(27.3)
MAS Bills	50	39	74	59	89	72	33.3	143.1	19.9	79.8
Corporate	114	90	117	93	118	95	2.2	12.6	1.1	3.6

( ) = negative, LCY = local currency, MAS = Monetary Authority of Singapore, q-o-q = quarter-on-quarter, SGS = Singapore Government Securities, y-o-y = year-on-year.
Notes:
1. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondsOnline* estimates.
2. SGS bills and bonds do not include the special issue of SGS held by the Singapore Central Provident Fund (CPF).
3. Bloomberg LP end-of-period LCY–US$ rates are used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Sources: Bloomberg LP, Monetary Authority of Singapore, and Singapore Government Securities.

Government Bonds. LCY government bonds grew 3.3% q-o-q and 1.1% y-o-y to reach SGD189 billion at end-June. Growth was mainly driven by increases in the stock of MAS bills, which were issued for the first time in April 2011 as a new tool for money market operations. The stock of MAS bills climbed 19.9% q-o-q and 79.8% y-o-y to SGD89 billion. Issuance of MAS bills was up during the quarter, rising 5.9% q-o-q and 31.3% y-o-y.

Table 2: Top 30 Issuers of LCY Corporate Bonds in Singapore

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (SGD billion)	LCY Bonds (US$ billion)			
1.	Housing and Development Board	19.3	15.5	Yes	No	Financial
2.	United Overseas Bank	5.1	4.1	No	Yes	Financial
3.	DBS Bank	3.3	2.6	No	Yes	Financial
4.	Temasek Financial I	3.6	2.9	No	No	Financial
5.	SP PowerAssets	2.4	1.9	No	No	Utilities
6.	CapitaLand	2.3	1.9	No	Yes	Financial
7.	Public Utilities Board	2.1	1.7	Yes	No	Utilities
8.	GLL IHT	1.8	1.5	No	No	Real Estate
9.	Land Transport Authority	1.8	1.4	Yes	No	Industrial
10.	City Developments	1.6	1.3	No	Yes	Consumer
11.	Keppel	1.5	1.2	No	Yes	Industrial
12.	Olam International	1.4	1.1	No	Yes	Consumer
13.	Singapore Airlines	1.3	1.0	No	No	Transportation
14.	Neptune Orient Lines	1.3	1.0	No	Yes	Industrial
15.	Hyflux	1.3	1.0	No	Yes	Industrial
16.	Keppel Land	1.1	0.9	No	Yes	Real Estate
17.	CapitaMalls Asia Treasury	1.0	0.8	No	No	Financial
18.	Oversea-Chinese Banking Corp.	1.0	0.8	No	Yes	Financial
19.	PSA	1.0	0.8	No	No	Consumer
20.	Mapletree Treasury Services	1.0	0.8	No	No	Financial
21.	Singtel Group Treasury	0.9	0.7	No	No	Telecommunications
22.	DBS Group Holdings	0.8	0.6	No	Yes	Financial
23.	Temasek Financial III	0.8	0.6	No	No	Financial
24.	CMT MTN	0.8	0.6	No	No	Financial
25.	Global Logistic Properties	0.8	0.6	No	Yes	Industrial
26.	CapitaLand Treasury	0.7	0.6	No	No	Financial
27.	Joynote	0.7	0.6	No	No	Financial
28.	Overseas Union Enterprise	0.7	0.6	No	Yes	Consumer
29.	Sembcorp Financial Services	0.7	0.6	No	No	Industrial
30.	SMRT Capital	0.7	0.6	No	No	Financial
Total Top 30 LCY Corporate Issuers		**62.6**	**50.2**			
Total LCY Corporate Bonds		**118.0**	**94.6**			
Top 30 as % of Total LCY Corporate Bonds		**53.1%**	**53.1%**			

LCY = local currency.
Notes:
1. Data as of end-June 2014.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

On the other hand, SGS bills and bonds outstanding, which comprised 53% of the total government bond stock, declined 8.0% q-o-q and 27.3% y-o-y in 2Q14 to SGD100 billion. Issuance of SGS bonds and bills surged more than two-fold in 2Q14 from 1Q14. However, new issuance was more than offset by SGS redemptions in 2Q14. On a y-o-y basis, issuance of SGS bills and bonds fell 76.9%.

Corporate Bonds. LCY corporate bonds outstanding reached SGD118 billion at end-June, according to *AsianBondsOnline* estimates. This represented an increase of 1.1% q-o-q and 3.6% y-o-y. At end-June, the outstanding bonds of the top 30 LCY corporate issuers in Singapore totaled SGD62.6 billion, representing 53.1% of the total LCY corporate bond market **(Table 2)**.

Leading the list was the state-owned Housing and Development Board, with outstanding bonds valued at SGD19.3 billion. United Overseas Bank was in the second spot with outstanding bonds amounting to SGD5.1 billion. Completing the top three was DBS Bank with outstanding bonds amounting to SGD3.3 billion. Issuers from the financial sector dominated the list, accounting for about half of the total number of companies on the list.

In 2Q14, new issuance of corporate bonds totaled SGD4.3 billion, up 3.1% q-o-q and 13.5% y-o-y. A total of 29 new bond series were issued by 24 corporate entities. Most of the bonds issued carried medium-term maturities (5–7 years). Three new bond issues had a maturity of 10 years, one issue of 12 years, and one issue was a perpetual bond. **Table 3** lists some of the largest corporate bond issues during the quarter.

Table 3: Notable LCY Corporate Bond Issuance in 2Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Housing and Development Board		
5-year bond	2.22	675
Singapore Air		
7-year bond	3.15	200
10-year bond	3.75	300
United Overseas Bank		
12-year Bond	3.50	500
Yanlord Land Group		
3-year bond	6.20	400
Gallant Venture		
2-year bond	5.95	175
3-year bond	5.90	150
Swiber Holdings		
2-year bond	5.13	130
2.5-year bond	5.55	100

LCY = local currency.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

MAS to Promote Renminbi Use in Singapore

On 13 June, MAS announced an initiative to promote renminbi transactions, including the provision of an overnight renminbi liquidity facility for financial institutions in Singapore beginning 1 July. The liquidity facility will provide up to CNY5 billion in overnight funds for borrowing by eligible counterparties. Singapore dollars, SGS bills and bonds, and MAS bills may be used as collateral for the overnight liquidity facility.

PBOC Allows Limited Cross-Border Transactions with Singapore

On 13 June, the Nanjing branch of the People's Bank of China (PBOC) announced it would allow eligible corporations, equity investment funds, and individuals in Suzhou Industrial Park (SIP) to conduct renminbi cross-border transactions with eligible participants in Singapore. The new regulation allows for the following transactions: (i) banks in Singapore can provide renminbi lending to corporates in SIP, (ii) corporates in SIP can issue renminbi bonds in Singapore, (iii) equity investment funds in SIP can directly invest in corporates in Singapore, and (iv) individuals in SIP can provide renminbi remittances to Singapore for the settlement of current account and direct investment transactions.

On 9 July, the Tianjin branch of the PBOC made a similar announcement allowing eligible corporations, equity investment funds, and individuals in Sino–Singapore Tianjin Eco-City to conduct renminbi cross-border transactions with eligible participants in Singapore.

Thailand

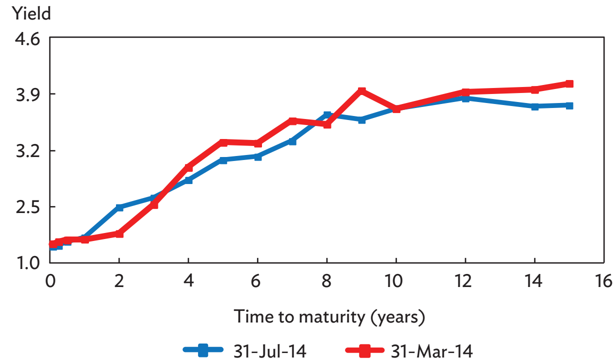
Yield Movements

Thailand's local currency (LCY) government bond yields fell for most tenors between end-March and end-July **(Figure 1)**. Yields fell for tenors of (i) less than 1 year; (ii) 4 years to 7 years; (iii) 9 years; and (iv) 12, 14, and 15 years. Yields rose for tenors of 1, 2, 3, 8, and 10 years. The yield curve flattened between end-March and end-July, as the yield spread between 2- and 10-year maturities narrowed by 32 basis points (bps).

The Bank of Thailand's (BOT) Monetary Policy Committee decided on 6 August to maintain the 1-day repurchase rate at 2.00%, marking the third consecutive time that the committee has kept the policy rate unchanged. The committee last cut the policy rate in April by 25 bps.

Thailand's real gross domestic product (GDP) rebounded in 2Q14, rising 0.4% year-on-year (y-o-y) after contracting 0.5% in 1Q14. On the expenditure side, positive growth in household consumption, government spending, and the trade surplus more than offset negative growth in domestic investment in 2Q14. On the production side, growth in the agricultural sector accelerated and output growth in non-agricultural sectors turned positive in 2Q14. In August, the Office of the National Economic and Social Development Board revised its 2014 real GDP growth forecast for Thailand to 1.5%–2.0% from 1.5%–2.5%.

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



LCY = local currency.
Source: Bloomberg LP.

Consumer price inflation moderated to 2.1% y-o-y in August from 2.2% in July, led by slower gains in food and non-alcoholic beverage prices. Prices for food and non-alcoholic beverages rose 3.9% y-o-y in August, following a 4.2% hike in July, while nonfood and beverage prices climbed 1.1% in August, the same rate of increase in July.

Size and Composition

The outstanding size of the local currency (LCY) bond market in Thailand grew 0.1% quarter-on-quarter (q-o-q) and 3.2% y-o-y in 2Q14, both of which were down from 2Q13 **(Table 1)**. The slower growth can be attributed to

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q13		1Q14		2Q14		2Q13		2Q14	
	THB	US$	THB	US$	THB	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**8,882**	**286**	**9,158**	**282**	**9,169**	**283**	**3.0**	**10.6**	**0.1**	**3.2**
Government	7,007	226	7,031	217	7,007	216	3.4	8.7	(0.3)	0.01
Government Bonds and Treasury Bills	3,231	104	3,461	107	3,425	106	4.3	7.7	(1.0)	6.0
Central Bank Bonds	3,099	100	2,820	87	2,824	87	2.4	4.6	0.1	(8.9)
State-Owned Enterprise and Other Bonds	676	22	750	23	758	23	3.4	40.5	1.1	12.1
Corporate	1,875	60	2,127	66	2,162	67	1.8	18.5	1.6	15.3

( ) = negative, LCY = local currency, 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 an LCY base and do not include currency effects.
Source: Bank of Thailand.

Table 2: Top 30 Issuers of LCY Corporate Bonds in Thailand

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (THB billion)	LCY Bonds (US$ billion)			
1.	PTT	191.9	5.9	Yes	Yes	Energy and Utilities
2.	The Siam Cement	146.5	4.5	Yes	Yes	Construction Materials
3.	CP All	90.0	2.8	No	Yes	Commerce
4.	Charoen Pokphand Foods	69.3	2.1	No	Yes	Food and Beverage
5.	Bank of Ayudhya	60.1	1.9	No	Yes	Banking
6.	Krung Thai Bank	47.2	1.5	Yes	Yes	Banking
7.	Thai Airways International	43.6	1.3	Yes	Yes	Transportation and Logistics
8.	The Siam Commercial Bank	40.0	1.2	No	Yes	Banking
9.	True Corporation	39.0	1.2	No	Yes	Communications
10.	Thanachart Bank	37.9	1.2	No	No	Banking
11.	Ayudhya Capital Auto Lease	33.8	1.0	No	No	Financial
12.	Toyota Leasing Thailand	32.7	1.0	No	No	Finance and Securities
13.	PTT Exploration and Production Company	32.1	1.0	Yes	Yes	Energy and Utilities
14.	Kasikorn Bank	29.5	0.9	No	Yes	Banking
15.	Mitr Phol Sugar	29.3	0.9	No	No	Food and Beverage
16.	Thai Oil	28.0	0.9	Yes	Yes	Energy and Utilities
17.	IRPC	27.6	0.9	Yes	Yes	Energy and Utilities
18.	Indorama Ventures	27.6	0.8	No	Yes	Petrochemicals and Chemicals
19.	Banpu	27.4	0.8	No	Yes	Energy and Utilities
20.	TMB Bank	23.7	0.7	No	Yes	Banking
21.	ICBC Thai Leasing	23.4	0.7	No	No	Finance and Securities
22.	DAD SPV	22.5	0.7	Yes	No	Finance and Securities
23.	Krung Thai Card	22.4	0.7	Yes	Yes	Finance and Securities
24.	Kiatnakin Bank	22.0	0.7	No	Yes	Banking
25.	Bangkok Bank	20.0	0.6	No	Yes	Banking
26.	Bangkok Expressway	19.4	0.6	No	Yes	Transportation and Logistics
27.	Thanachart Capital	19.3	0.6	No	Yes	Finance and Securities
28.	Glow Energy	19.1	0.6	No	Yes	Energy and Utilities
29.	Minor International	18.9	0.6	No	Yes	Food and Beverage
30.	Quality Houses	18.0	0.6	No	Yes	Property Development
Total Top 30 LCY Corporate Issuers		1,262.0	38.9			
Total LCY Corporate Bonds		2,161.6	66.6			
Top 30 as % of Total LCY Corporate Bonds		58.4%	58.4%			

LCY = local currency.
Notes:
1. Data as of end-June 2014.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

the LCY government bond market, which contracted on a quarterly basis and was unchanged on an annual basis. The stock of government bonds and Treasury bills fell on a q-o-q basis, more than offsetting the positive growth in BOT bonds and state-owned enterprise (SOE) bonds. On a y-o-y basis, central government bonds and Treasury bills, and SOE bonds recorded positive growth, but this was offset by a contraction in the stock of central bank bonds.

Issuance of LCY government bonds was up 8.1% q-o-q in 2Q14, induced by a 7.5% hike in the issuance of central government bonds and Treasury bills, and a 10.6% rise in BOT bonds. However, on a y-o-y basis, LCY government bond issuance was down 8.8%, amid declines in the bond offerings of the central bank and SOEs.

Thailand's LCY corporate bonds outstanding expanded 1.6% q-o-q and 15.3% y-o-y in 2Q14. Issuance was up 6.2% q-o-q, but down 17.2% y-o-y. The top 30 corporate issuers accounted for 58% of total corporate bonds outstanding at end-June, with PTT remaining the largest corporate bond issuer **(Table 2)**. The five largest LCY corporate bond issues in Thailand in 2Q14 were from a cement company, two banks, and an energy company **(Table 3)**.

Liquidity

Liquidity in Thailand's LCY bond market improved in the first half of 2014. The turnover ratio for LCY government bonds climbed to 0.71 in 2Q14 from 0.64 in 1Q14 and 0.60 in 4Q13. The turnover ratio for LCY corporate bonds stood at 0.07 in both 2Q14 and 1Q14, up from 0.05 in 4Q13 **(Figure 2)**. The quarterly hike in the turnover ratio for LCY government bonds is attributed to an increase in the trading values of central bank bonds and Treasury bills.

Investor Profile

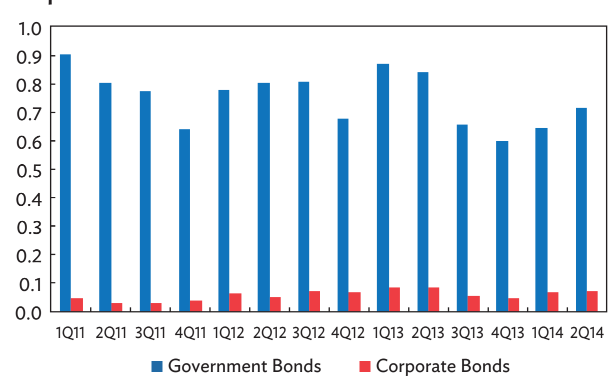
Contractual savings funds and insurance companies were the two largest investor groups in Thailand's LCY government bond market at end-June, with shares of 29% and 25% of the total, respectively **(Figure 3)**. Compared with end-June 2013, the government bond holdings of contractual savings funds, insurance companies, non-financial market mutual funds, and financial companies not classified elsewhere all climbed as a share of the total, while the shares of the central bank, commercial banks, and foreign investors declined.

Table 3: Notable LCY Corporate Bond Issuance in 2Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
PTT Exploration & Production		
5-year bond	3.91	8.20
10-year bond	4.82	11.40
Siam Cement		
4-year bond	4.00	15.00
Thanachart Bank		
10.5-year bond	6.00	13.00
Bank of Ayudhya		
2-year bond	3.00	6.50

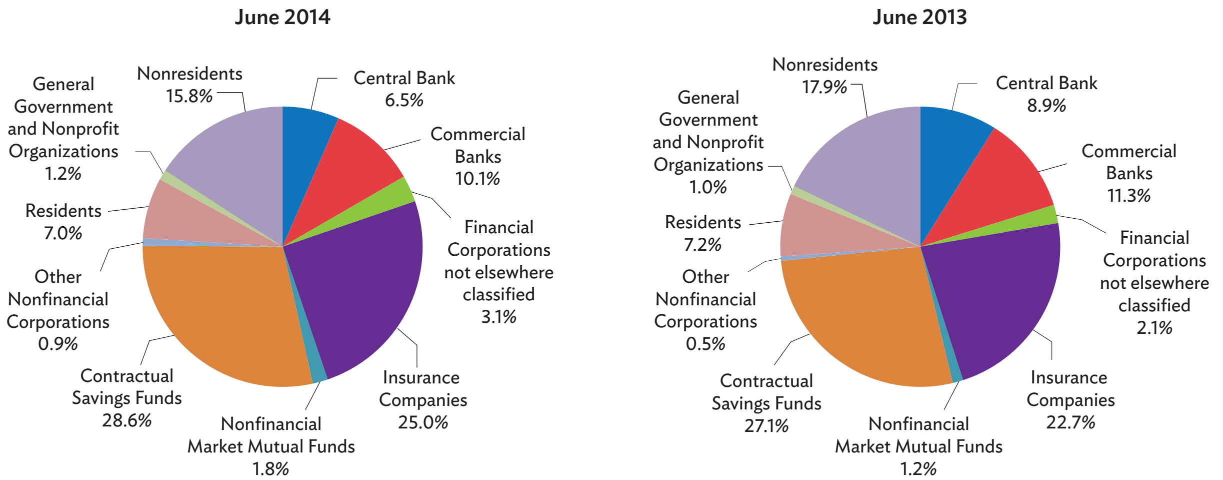
LCY = local currency.
Source: Bloomberg LP.

Figure 2: Turnover Ratios of Government and Corporate Bonds in Thailand



Sources: Bank of Thailand and ThaiBMA.

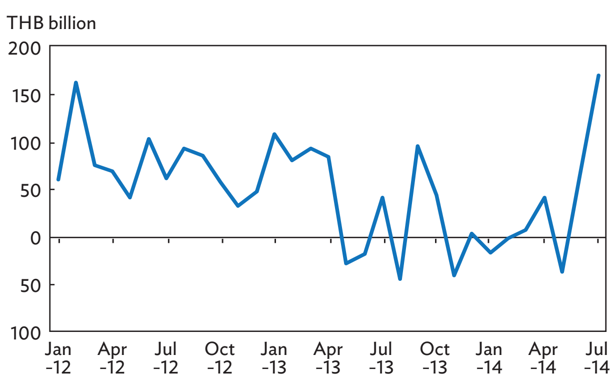
Figure 3: LCY Government Bonds Investor Profile



LCY = local currency.
Note: Government bonds exclude central bank bonds and state-owned enterprise bonds.
Sources: *AsianBondsOnline* and Bank of Thailand.

Foreign net purchases of Thai LCY bonds soared in June and July, reaching a record high in the latter month, amid sentiments of an improved economic outlook among foreign investors **(Figure 4)**. The net bond purchases in June and July were a reversal from net sales in 3 of the first 5 months of the year (January, February, and May).

Figure 4: Foreign Investors' Net Trading Value of LCY Bonds in Thailand



LCY = local currency.
Source: ThaiBMA.

Policy, Institutional, and Regulatory Developments

Structured Notes Regulations Streamlined

The Securities and Exchange Commission announced in August that the Capital Market Supervisory Board had approved the streamlining of regulations on structured notes. The new rules will allow the issuance of LCY- and foreign currency-denominated structured notes; harmonization of the types and classifications of issuers, both in initial public offerings and private placements; removal of the minimum face value of THB10 million in both cases; and removal of the minimum redemption value, which is 80% of the principal, for private placements only. These regulatory revisions will take effect in 4Q14.

New Regulations for Municipal Bond Issuance

The Securities and Exchange Commission reported in July that the Capital Market Supervisory Board approved regulations governing municipal bond issuances from municipalities, provincial administration organizations, public organizations, Bangkok Metropolitan Administration, Pattaya City, and any juristic person as defined by specific law. These regulations, which cover LCY- and foreign currency-denominated municipal bonds offered in onshore and offshore markets, will take effect on 1 January 2015.

Viet Nam

Yield Movements

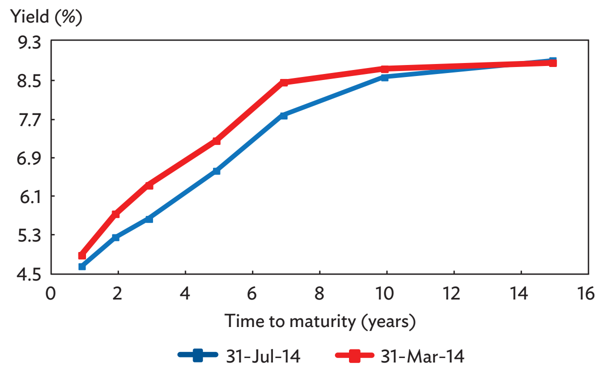
Viet Nam's local currency (LCY) government bond yields plunged for all tenors, except the 15-year, between end-March and end-July **(Figure 1)**. Yields for securities with 3- to 7-year tenors fell the most, dropping 69 basis points (bps) for 3-year bonds and 68 bps for 7-year bonds. Meanwhile, the yield for the 2-year tenor slid more than that of the 10-year tenor, widening the spread between the two to 328 bps at end-July from 298 bps at end-March.

The drop in yields could be attributed to two major drivers: record low interest rates and strong demand from banks. Yields of instruments with maturities of 2, 3, and 5 years reached an all-time low at end-July as a result of moderating inflation. On 18 March, the State Bank of Vietnam (SBV) reduced its key policy rates by 50 bps. The refinance rate, discount rate, and overnight inter-bank lending rate were cut 50 bps each to 6.50%, 4.50%, and 7.50%, respectively.

Rising demand for bonds among banks is underpinned by (i) weak credit growth, (ii) low inflation, and (iii) stable exchange rate expectations. Lending growth has been weak due to bad debts, which continue to weigh on banks' willingness to lend. As of end-June, SBV reported modest credit growth of 3.5% for the first half of the year, which is well outside the annual target range of 12%–14%. Meanwhile, inflation remained benign in the first 7 months of the year, with July's figure coming in at 4.9% year-on-year (y-o-y), compared with SBV's full-year target of about 7.0%. The exchange rate is also expected to stabilize following the downward adjustment of the average inter-bank VND–US$ exchange rate by 1% in June.

Viet Nam's real gross domestic product (GDP) expanded 5.3% y-o-y in 2Q14, following revised growth of 5.1% in 1Q14. For the first half of 2014, the country's GDP growth stood at 5.2% on an annualized basis. The services sector remained the growth driver in 2Q14, with a 6.0% y-o-y gain and a contribution of 43% of total GDP.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

Total LCY bonds outstanding in Viet Nam surged on both a quarterly and annual basis in 2Q14 to reach VND788.3 trillion (US$37.0 billion), led by a rapid rise in the government sector **(Table 1)**.

Government Bonds. LCY government bonds outstanding amounted to VND775.9 trillion (US$36.4 billion) at end-June, up 38.3% y-o-y and 6.0% quarter-on-quarter (q-o-q), primarily on increased issuance of central bank bills and Treasury bonds.

Government issuance amounted to VND193.7 trillion in 2Q14, with SBV issuance comprising almost 80% of the total. The most common issue in 2Q14 was the 91-day zero-coupon SBV bill, which represented 91% of SBV issuance and over 70% of all government issuance.

In 3Q14, the State Treasury plans to issue VND50 trillion worth of government bonds: VND7 trillion of bonds with tenors of less than 1 year, VND6 trillion of 2-year bonds, VND16 trillion of 3-year bonds, VND16 trillion of 5-year bonds, and VND5 trillion of bonds with tenors of 10–15 years.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q13		1Q14		2Q14		2Q13		2Q14	
	VND	US$	VND	US$	VND	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**577,997**	**27**	**744,589**	**35**	**788,313**	**37**	**(8.6)**	**26.8**	**5.9**	**36.4**
Government	560,938	26	732,069	35	775,943	36	(8.1)	34.3	6.0	38.3
Treasury Bonds	324,054	15	373,960	18	412,263	19	4.4	74.8	10.2	27.2
Central Bank Bills	43,586	2	147,004	7	153,926	7	(61.4)	(25.0)	4.7	253.2
State-Owned Enterprise Bonds	193,298	9	211,104	10	209,754	10	3.4	11.1	(0.6)	8.5
Corporate	17,059	1	12,520	0.6	12,370	0.6	(22.5)	(55.5)	(1.2)	(27.5)

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Bloomberg LP end-of-period LCY–US$ rates are used.
2. Growth rates are calculated from LCY base and do not include currency effects.
Source: Bloomberg LP.

Corporate Bonds. LCY corporate bonds outstanding fell to VND12.4 trillion (US$0.6 billion) at end-June, down 27.5% y-o-y and 1.2% q-o-q. A total of 13 issuers comprised the entire corporate bond sector, with cumulative bonds outstanding amounting to VND12.4 trillion **(Table 2)**.

Rating Changes

In July, Moody's raised Viet Nam's credit rating, citing an improving balance of payments and rising foreign reserves. The rating agency upgraded Viet Nam's (i) sovereign bond rating to B1 from B2, giving it a stable outlook; (ii) long-term foreign currency bond ceiling to Ba2 from B1; and (iii) long-term foreign currency deposit ceiling to B2 from B3. Viet Nam's LCY country risk ceiling was also upgraded to Ba1 from Ba2. The upgrade hinged on Viet Nam's emerging track record of macroeconomic stability demonstrated by 3 consecutive years of price stability, and strengthening balance of payments and external payments positions supported by a diversified export structure.

Table 2: Corporate Issuers of LCY Corporate Bonds in Viet Nam

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (VND billion)	LCY Bonds (US$ billion)			
1.	Asia Commercial Joint Stock	3,000.00	0.14	No	Yes	Finance
2.	Techcom Bank	3,000.00	0.14	No	No	Finance
3.	HAGL JSC	2,480.00	0.12	No	Yes	Real Estate
4.	Vincom	1,000.00	0.05	No	Yes	Real Estate
5.	Vinpearl	1,000.00	0.05	No	Yes	Resorts and Theme Parks
6.	Kinh Bac City Development	500.00	0.02	No	Yes	Real Estate
7.	Development Investment	350.00	0.02	No	No	Building and Construction
8.	Saigon Telecommunication	300.00	0.01	No	No	Computer Services
9.	Binh Chanh Construction	300.00	0.01	No	Yes	Building and Construction
10.	Lam Son Sugar	150.00	0.01	No	No	Diversified
11.	Tan Tao Investment	130.00	0.01	No	No	Real Estate
12.	Ho Chi Minh City Securities	110.00	0.01	No	No	Finance
13.	Phu Hoang Anh	50.00	0.002	No	No	Real Estate
Total LCY Corporate Issuers		**12,370.00**	**0.58**			
Total LCY Corporate Bonds		**12,370.00**	**0.58**			
% of Total LCY Corporate Bonds		**100.0%**	**100.0%**			

LCY = local currency.
Notes:
1. Data as of end-June 2014.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Policy, Institutional, and Regulatory Developments

Decree on State Foreign Exchange Reserves Issued

On 20 May, Decree No. 50/2014/ND-CP was issued to manage foreign exchange reserves, which are defined as foreign currencies in cash and deposits abroad, securities and other valuable papers issued by the government and foreign and international institutions, Special Drawing Rights reserved at the International Monetary Fund (IMF), gold managed by SBV, and other foreign currencies of the government. The decree identifies five sources of foreign reserves: (i) the state budget and foreign exchange market, (ii) loans from banks and international financial institutions, (iii) the State Treasury and credit institutions, (iv) profits from official foreign exchange reserve investments, and (v) other sources. The decree further states that SBV will manage the state foreign exchange reserves and stipulate the structure, criteria, and limits of investments, which will be approved by the SBV Governor and reported to the Prime Minister on a semi-annual basis. SBV will determine the investment structure of the Foreign Exchange Reserve Fund based on global trends in exchange rate fluctuations, interest rates, and gold prices; and the status of the international reserves (foreign currency and gold) of other countries, as compiled by the IMF. SBV will also stipulate the investment structure of the Exchange Rate Stabilization and Gold Market Management Fund.

The decree supersedes Decree No.86/1999/ND-CP, dated 30 August 1999, and takes effect on 15 July.

Viet Nam Dong Devalued

On 19 June, SBV devalued the Vietnamese dong by 1% against the United States (US) dollar for the first time in 12 months in a move to boost exports. SBV re-set its exchange rate for the US currency to VND21,246 per dollar from VND21,036. The change also allows the Vietnamese dong to fluctuate by 1% above or below the central bank's rate.