

# Bond Market Developments in the Second Quarter of 2015

## Size and Composition

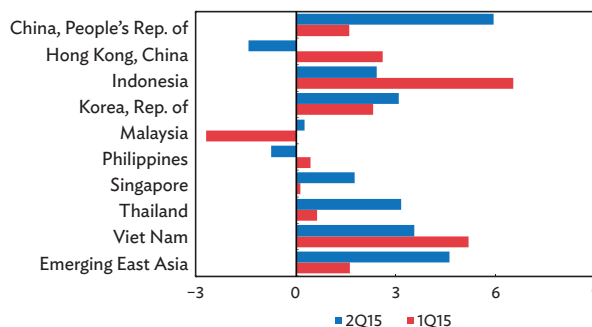
Emerging East Asia's local currency bonds outstanding climbed to US\$8,625 billion at the end of June.<sup>4</sup>

The amount of emerging East Asia's local currency (LCY) bonds outstanding rose to US\$8,625 billion at the end of June. Growth accelerated to 4.6% quarter-on-quarter (q-o-q) in 2Q15 from 1.6% q-o-q in 1Q15 (**Figure 1a**). Five out of the nine LCY bond markets in the region saw their q-o-q growth rates accelerate in 2Q15: the People's Republic of China (PRC), the Republic of Korea, Malaysia, Singapore, and Thailand. Markets in Indonesia and Viet Nam also expanded in 2Q15, albeit at a slower pace than in the previous quarter. The LCY bond markets of Hong Kong, China and the Philippines contracted on a q-o-q basis during the review period.

The largest LCY bond market in emerging East Asia in 2Q15 remained that of the PRC with outstanding bonds of US\$5,590 billion at end-June. The PRC further increased its share of the region's aggregate bond stock from 63.8% at end-March to 64.8% at end-June after recording the fastest growth rate in the region at 5.9% q-o-q in 2Q15, up from 1.6% q-o-q in 1Q15. The rapid growth was driven mostly by an increase in government bonds, which rose 6.9% q-o-q, while corporate bonds expanded 4.1% q-o-q. The increase in government bonds was mostly driven by an increase in local government bonds, as existing higher-yielding local government debt was swapped for lower-yielding bonds in order to ease financial pressures. Corporate bond growth was also strong, partly due to the additional capital-raising efforts of financial institutions. In contrast, the stock of central bank bonds continued to fall as the People's Bank of China (PBOC) has not issued bonds since December 2013.

At the end of June, the Republic of Korea's outstanding LCY bond stock stood at US\$1,756 billion, up 3.1% q-o-q. Growth was largely driven by an increase in the stock of corporate bonds, specifically, special public bonds, financial debentures, and private corporate

**Figure 1a: Growth of LCY Bond Markets in 1Q15 and 2Q15 (q-o-q, %)**



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

Notes:

1. Calculated using data from national sources.
2. Growth rates are calculated from LCY base and do not include currency effects.
3. Emerging East Asia growth figures are based on 30 June 2015 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Directorate General of Budget Financing and Risk Management Ministry of Finance, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP)

bonds. Government bonds also contributed to growth, particularly from the stock of central bank bonds and central government bonds.

The third largest bond market in the region was that of Malaysia at a size of US\$285 billion at end-June on marginal growth of 0.2% q-o-q in 2Q15. Its corporate bond market growth of 1.4% q-o-q was offset by a 0.7% q-o-q drop in the stock of government bonds. Government bonds continued to decline in 2Q15 as Bank Negara Malaysia (BNM) has not issued BNM monetary notes since the start of the year.

More than half of Malaysia's LCY bond market consists of *sukuk* (Islamic bonds). Not surprisingly, Malaysia remained the largest *sukuk* market in the region in 2Q15. *Sukuk* issues dominate Malaysia's corporate bond market and accounted for a 72.1% share of the aggregate corporate bond stock at end-June. The share of government *sukuk* relative to the total government

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

bond market, while much lower, remained significant at 39.6%.

In Thailand, LCY bonds outstanding stood at US\$284 billion at end-June on growth of 3.1% q-o-q. Growth was driven by increases in the stock of Treasury bonds and bills, central bank bonds, and corporate bonds. On the other hand, the stock of state-owned enterprise and other bonds contracted on a q-o-q basis.

At the end of June, the LCY bond market in Singapore stood at US\$241 billion, posting growth of 1.7% q-o-q in 2Q15 after expanding a marginal 0.1% q-o-q in 1Q15. Growth was buoyed by increases in the stock of Singapore Government Securities bills and bonds, which rose 5.3% q-o-q. The corporate bond market in Singapore grew a marginal 0.2% q-o-q in 2Q15.

Hong Kong, China's LCY bond market contracted in 2Q15 to US\$196 billion at end-June for a 1.5% q-o-q decline. The drop in bonds outstanding was due mainly to reduced issuances of Exchange Fund Notes, HKSAR bonds, and corporate bonds.

The LCY bond market in Indonesia reached a size of US\$125 billion in 2Q15, posting modest 2.4% q-o-q growth after gaining 6.5% q-o-q in 1Q15. Growth was driven by increases in the stock of central government bonds as the government continued its frontloading policy in 2Q15, targeting 59% of gross LCY bond issuance to be completed within the first 6 months of the year. Corporate bonds also contributed to growth on higher volume of new corporate debt issues.

On the other hand, the stock of central bank bills declined as Bank Indonesia temporarily ceased issuance of conventional *Sertifikat Bank Indonesia* (SBI) between April and July, choosing to only issue *shari'ah*-compliant SBI. Bank Indonesia focused on using monetary policy tools other than SBI, such as Bank Indonesia Deposit Certificates and reverse repo, to strengthen liquidity management in the banking system.

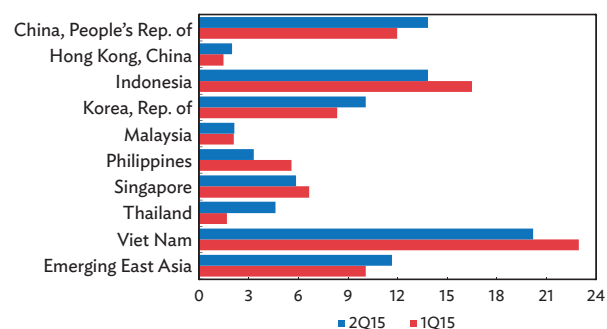
In the Philippines, the outstanding size of the LCY bond market declined to US\$103 billion at end-June, contracting 0.8% q-o-q. The stocks of government bonds and corporate bonds both declined in 2Q15. The drop in the stock of government bonds was due mainly to a decline in outstanding government-controlled issues, as PHP11.3 billion worth of bonds issued by the

Power Sector Assets and Liabilities Management matured during the review period. Also, the Bureau of the Treasury did not issue any special series bonds in 2Q15.

At the end of June, Viet Nam's LCY bond market climbed to a size of US\$43 billion, expanding at a much slower pace of 3.5% q-o-q in 2Q15 compared with 5.1% q-o-q growth in 1Q15. Both central bank bonds and Treasury bonds contributed to the growth. However, growth was much slower in 2Q15 for Treasury bonds, due to low demand from investors, resulting in auctions not meeting their target amid investor concerns about government finances. In 2015, the government only issued bonds with maturities of 5 years or more. Demand for long-dated tenors, however, was weak, resulting in higher bids during auctions that the government was not willing to accept. On the other hand, the stock of state-owned enterprise bonds and corporate bonds contracted during the review period.

On a year-on-year (y-o-y) basis, emerging East Asia's LCY bond market grew at a pace of 11.6% in 2Q15, up from 10.1% annual growth in 1Q15 (**Figure 1b**). All markets in the region recorded positive y-o-y growth rates in

**Figure 1b: Growth of LCY Bond Markets in 1Q15 and 2Q15 (y-o-y, %)**



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

Notes:

1. Calculated using data from national sources.
2. Growth rates are calculated from LCY base and do not include currency effects.
3. Emerging East Asia growth figures are based on 30 June 2015 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Directorate General of Budget Financing and Risk Management Ministry of Finance, and Indonesia Stock Exchange); Republic of Korea (*EDAILY BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

2Q15. The fastest growing markets on a y-o-y basis were Viet Nam (20.2%), and Indonesia and the PRC (13.8% each). All other emerging East Asian markets recorded y-o-y growth rates of between 2.0% and 10.0%.

Emerging East Asia's government bond market continued to dominate the LCY bond market, representing a share of 60.2% of the region's total bond stock at end-June (**Table 1**). The total government bond stock reached US\$5,194 billion in 2Q15, expanding 5.2% q-o-q and 12.3% y-o-y. The PRC had the largest government bond market in emerging East Asia at a size of US\$3,603 billion, equivalent to 69.4% of the region's total government bond stock. It was followed by the Republic of Korea (US\$722 billion) and Thailand (US\$216 billion). Except for the Republic of Korea, where the corporate bond segment comprised a 58.9% share of the total bond stock, all markets comprised a larger share of government bonds than corporate bonds at end-June.

The outstanding size of the region's corporate bond segment reached US\$3,430 billion at end-June, climbing 3.6% q-o-q and 10.7% y-o-y. The largest corporate bond markets in the region were those of the PRC (US\$1,987 billion) and the Republic of Korea (US\$1,033 billion), representing shares of 57.9% and 30.1% of the region's total, respectively. The remaining 11.9% share of the region's total corporate bond stock was accounted for by all other emerging East Asian markets.

The size of emerging East Asia's LCY bond market as a share of gross domestic product (GDP) climbed to 59.5% at end-June from 57.7% at end-March (**Table 2**). The share of government bonds to GDP rose to 35.8% at end-June from 34.6% at end-March. On the other hand, the share of corporate bonds to GDP was broadly unchanged at 23.7% in 2Q15 compared with 23.2% in 1Q15. As a share of GDP, the largest market was that of the Republic of Korea, which had a bond market-to-GDP share of 129.8%, followed by Malaysia (95.3%), Singapore (82.5%), and Thailand (72.3%).

### Foreign investor holdings in the region's LCY government bond markets remained stable in 2Q15.

Foreign demand for emerging East Asia's LCY government bonds remained robust in 2Q15, despite improving economic conditions in the United States (US) as well

as the depreciation of the region's currencies vis-à-vis the US dollar. At end-June, foreign investors were once again the largest investor group in the Indonesian and Malaysian LCY government bond markets, accounting for more than 30% of the total in both markets (**Figure 2**).

The share of foreign holdings in Indonesia's LCY government bond market continued to climb in 2Q15, rising to 39.6% at end-June from 38.6% at end-March. Foreign investors were still attracted to the relatively high yields of Indonesia's debt instruments, which are the highest among emerging East Asian markets.

In Malaysia, foreign holders increased their holdings of government bonds, with their share rising to 32.4% at end-June from 30.1% at end-March. The increase in demand for government bonds, however, may be attributed to a reallocation of investments due to the maturing of foreign investors' placements in central bank bonds; BNM ceased issuance of central bank bonds at the start of the year and only resumed issuance in August.

The share of foreign holdings in Thailand's government bond market declined to 16.5% at end-June from 17.3% at end-March, as investors were wary of the government's ability to stimulate its worsening economy. In the Republic of Korea, the share of foreign bond holdings in government bonds remained steady at 10.9% in 1Q15, the most recent quarter for which data are available.

In contrast to foreign holdings of government bonds, foreign investors hold significantly smaller amounts of corporate bonds in Indonesia and the Republic of Korea. In Indonesia, foreign investors' share of the LCY corporate bond market slipped to 9.5% at end-June after rising to 10.5% at end-March. In the Republic of Korea, foreign investors account for a negligible 0.2% of total corporate bond outstanding (**Figure 3**), despite the fact that the Republic of Korea's corporate bonds comprise a majority of its LCY bond market.

### Net foreign capital outflows from the region's LCY bond markets were recorded in July amid a looming interest rate hike by the US Federal Reserve.

Three out of the four emerging East Asian markets for which data are available recorded net capital outflows from their LCY bond markets in July (**Figure 4**). Sentiments in the LCY bond market were dragged down

Table 1: Size and Composition of LCY Bond Markets

	2Q14		1Q15		2Q15		Growth Rate (LCY-base %)				Growth Rate (US\$-base %)			
	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	2Q14		2Q15		2Q14		2Q15	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
<b>China, People's Rep. of</b>														
<b>Total</b>	4,911	100.0	5,279	100.0	5,590	100.0	4.2	11.7	5.9	13.8	4.4	10.5	5.9	13.8
Government	3,164	64.4	3,370	63.8	3,603	64.5	3.3	10.1	6.9	13.9	3.5	8.9	6.9	13.9
Corporate	1,747	35.6	1,909	36.2	1,987	35.5	5.9	14.6	4.1	13.7	6.2	13.4	4.1	13.7
<b>Hong Kong, China</b>														
<b>Total</b>	193	100.0	199	100.0	196	100.0	(1.9)	0.3	(1.5)	2.0	(1.9)	0.4	(1.4)	2.0
Government	110	56.9	111	55.5	109	55.5	0.4	1.8	(1.3)	(0.4)	0.5	1.9	(1.3)	(0.4)
Corporate	83	43.1	89	44.5	87	44.5	(4.9)	(1.7)	(1.6)	5.1	(4.8)	(1.6)	(1.6)	5.1
<b>Indonesia</b>														
<b>Total</b>	123	100.0	125	100.0	125	100.0	4.8	24.2	2.4	13.8	0.2	4.6	0.4	1.3
Government	105	85.2	107	86.0	107	85.7	5.6	28.0	2.0	14.5	1.1	7.9	(0.1)	1.9
Corporate	18	14.8	17	14.0	18	14.3	0.02	5.9	5.0	9.9	(4.3)	(10.8)	2.9	(2.1)
<b>Korea, Rep. of</b>														
<b>Total</b>	1,759	100.0	1,712	100.0	1,756	100.0	1.4	7.8	3.1	10.0	6.7	21.7	2.5	(0.2)
Government	692	39.4	712	41.6	722	41.1	3.5	9.9	2.0	15.0	9.0	24.1	1.5	4.3
Corporate	1,066	60.6	1,001	58.4	1,033	58.9	0.1	6.5	3.8	6.8	5.4	20.2	3.3	(3.1)
<b>Malaysia</b>														
<b>Total</b>	328	100.0	290	100.0	285	100.0	0.2	6.0	0.2	2.1	1.9	4.3	(1.6)	(13.1)
Government	191	58.1	165	57.0	161	56.5	(0.3)	4.1	(0.7)	(0.6)	1.4	2.5	(2.5)	(15.4)
Corporate	138	41.9	125	43.0	124	43.5	0.9	8.7	1.4	6.0	2.6	7.0	(0.5)	(9.8)
<b>Philippines</b>														
<b>Total</b>	103	100.0	105	100.0	103	100.0	1.4	8.9	(0.8)	3.3	4.1	7.7	(1.7)	(0.03)
Government	87	84.9	88	83.7	86	83.9	1.9	6.5	(0.5)	2.0	4.6	5.2	(1.4)	(1.3)
Corporate	16	15.1	17	16.3	17	16.1	(1.0)	25.4	(2.0)	10.5	1.6	23.9	(2.9)	6.9
<b>Singapore</b>														
<b>Total</b>	247	100.0	233	100.0	241	100.0	2.5	2.0	1.7	5.9	3.4	3.8	3.6	(2.1)
Government	152	61.6	140	60.1	147	60.7	3.3	1.1	2.8	4.2	4.2	2.8	4.7	(3.6)
Corporate	95	38.4	93	39.9	95	39.3	1.1	3.6	0.2	8.5	2.0	5.4	2.0	0.4
<b>Thailand</b>														
<b>Total</b>	283	100.0	286	100.0	284	100.0	0.2	3.4	3.1	4.6	0.2	(1.1)	(0.7)	0.4
Government	216	76.3	218	76.0	216	76.0	(0.3)	0.02	3.1	4.2	(0.4)	(4.3)	(0.7)	(0.04)
Corporate	67	23.7	69	24.0	68	24.0	2.1	15.9	3.2	6.2	2.1	10.9	(0.6)	1.9
<b>Viet Nam</b>														
<b>Total</b>	37	100.0	42	100.0	43	100.0	5.9	36.4	3.5	20.2	4.7	35.6	2.2	17.4
Government	36	98.4	42	98.5	43	98.7	6.0	38.3	3.7	20.5	4.8	37.5	2.4	17.7
Corporate	0.6	1.6	0.6	1.5	0.6	1.3	(1.2)	(27.5)	(8.5)	0.1	(2.3)	(27.9)	(9.7)	(2.2)
<b>Emerging East Asia</b>														
<b>Total</b>	7,983	100.0	8,272	100.0	8,625	100.0	3.1	9.9	4.6	11.6	4.4	11.5	4.3	8.0
Government	4,753	59.5	4,952	59.9	5,194	60.2	3.0	9.2	5.2	12.3	3.9	9.6	4.9	9.3
Corporate	3,230	40.5	3,320	40.1	3,430	39.8	3.3	11.0	3.6	10.7	5.1	14.4	3.3	6.2
<b>Japan</b>														
<b>Total</b>	10,493	100.0	9,000	100.0	8,877	100.0	0.7	3.0	0.6	2.3	2.6	0.8	(1.4)	(15.4)
Government	9,686	92.3	8,326	92.5	8,224	92.6	0.8	3.5	0.7	2.6	2.7	1.2	(1.2)	(15.1)
Corporate	807	7.7	674	7.5	653	7.4	(0.1)	(1.9)	(1.2)	(2.2)	1.7	(4.0)	(3.1)	(19.1)

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

Notes:

1. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

2. Corporate bonds include issues by financial institutions.

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

4. For LCY base, emerging East Asia growth figures based on 30 June 2015 currency exchange rates and do not include currency effects.

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

Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Directorate General of Budget Financing and Risk Management Ministry of Finance, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

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

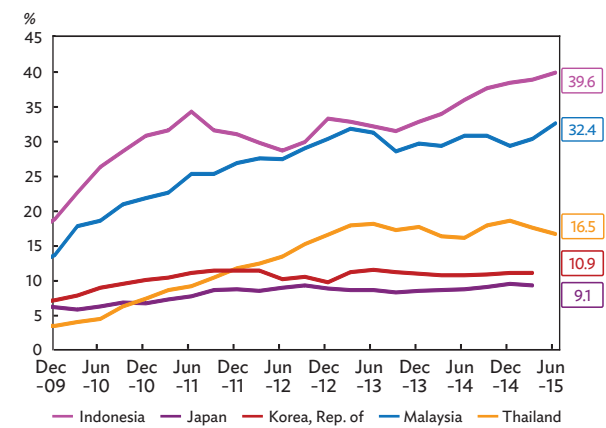
	2Q14	1Q15	2Q15
<b>China, People's Rep. of</b>			
Total	50.0	50.8	53.0
Government	32.2	32.4	34.1
Corporate	17.8	18.4	18.8
<b>Hong Kong, China</b>			
Total	67.9	67.4	65.3
Government	38.6	37.4	36.2
Corporate	29.3	30.0	29.0
<b>Indonesia</b>			
Total	14.6	15.1	15.1
Government	12.4	13.0	13.0
Corporate	2.2	2.1	2.2
<b>Korea, Rep. of</b>			
Total	121.9	126.6	129.8
Government	48.0	52.6	53.4
Corporate	73.9	74.0	76.4
<b>Malaysia</b>			
Total	98.4	96.0	95.3
Government	57.2	54.8	53.9
Corporate	41.3	41.3	41.5
<b>Philippines</b>			
Total	37.2	36.6	35.8
Government	31.6	30.6	30.1
Corporate	5.6	6.0	5.8
<b>Singapore</b>			
Total	79.7	81.4	82.5
Government	49.1	48.9	50.0
Corporate	30.6	32.5	32.4
<b>Thailand</b>			
Total	70.5	70.4	72.3
Government	53.8	53.5	54.9
Corporate	16.7	16.9	17.4
<b>Viet Nam</b>			
Total	21.1	22.9	23.4
Government	20.8	22.6	23.1
Corporate	0.3	0.3	0.3
<b>Emerging East Asia</b>			
Total	57.4	57.7	59.5
Government	34.2	34.6	35.8
Corporate	23.2	23.2	23.7
<b>Japan</b>			
Total	219.2	220.3	220.4
Government	202.3	203.8	204.2
Corporate	16.9	16.5	16.2

GDP = gross domestic product, LCY = local currency.

Notes:

1. Data for GDP is from CEIC. 2Q15 GDP figure for the Republic of Korea carried over from 1Q15.
2. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

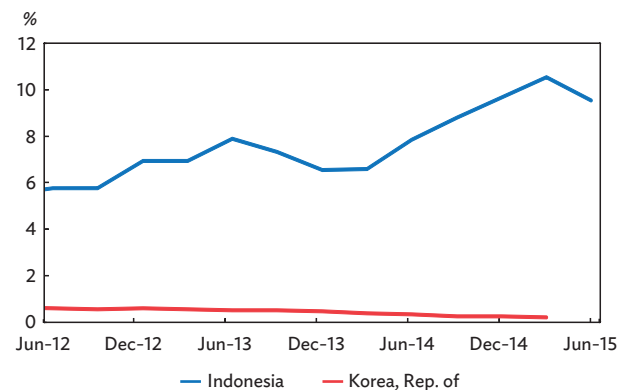
Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Directorate General of Budget Financing and Risk Management Ministry of Finance, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

**Figure 2: Foreign Holdings of LCY Government Bonds in Select Asian Economies (% of total)**

LCY = local currency.

Note: Data as of end-June 2015 except for Japan and the Republic of Korea (end-March 2015).

Source: *AsianBondsOnline*.

**Figure 3: Foreign Holdings of LCY Corporate Bonds in Indonesia and the Republic of Korea (% of total)**

LCY = local currency.

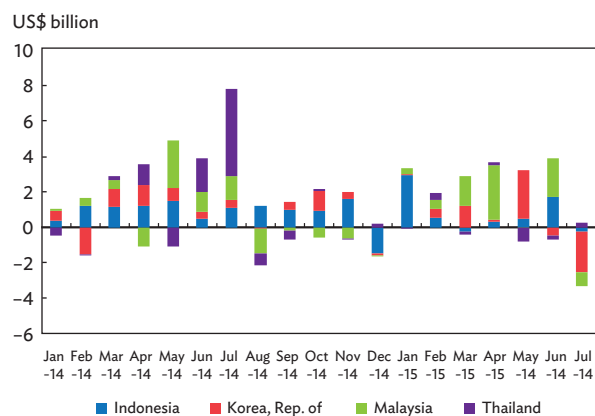
Note: For Indonesia, data as of 26 June 2015. For the Republic of Korea, data as of end-March 2015.

Source: Based on data from Otoritas Jasa Keuangan and The Bank of Korea.

by renewed concerns over the timing of the US Federal Reserve's rate hike as conditions in the US point to a more stable economic situation. Most local currencies in the region also weakened vis-à-vis the US dollar during the review period.

The Republic of Korea recorded the largest outflow among the four markets providing data on capital flows. A total of US\$2.2 billion in net foreign outflows from its bond market was recorded in July, the largest

**Figure 4: Foreign Bond Flows in Select Emerging East Asian Markets**



**Notes:**

1. The Republic of Korea and Thailand provide data on bond flows. For Indonesia and Malaysia, month-on-month changes in foreign holdings of LCY government bonds were used as a proxy for bond flows.
2. Data provided as of end-July 2015.
3. Figures were computed based on 31 July 2015 exchange rates to avoid currency effects.

Sources: Directorate General of Budget Financing and Risk Management Ministry of Finance, Financial Supervisory Service, Bank Negara Malaysia, and Thai Bond Market Association.

sell-off in the Republic of Korea's debt market since December 2011. The largest net bond outflows from the Korean LCY bond market were generated by investors in Thailand, the US, and Malaysia.

In Malaysia, net foreign bond outflows in July totaled US\$0.8 billion amid concerns over a number of domestic issues such as the depreciation of its local currency, slower economic growth, and falling oil prices. In Indonesia, foreign investors withdrew about US\$0.3 billion from the LCY bond market in July.

Thailand recorded US\$0.3 billion in net foreign capital inflows into its bond market in July. Thailand's bond market has seen volatile movement in foreign capital flows since the start of the year, with net outflows of foreign capital in January–July.

### Emerging East Asia's LCY bond issuance rose in 2Q15.

LCY bond issuance in emerging East Asia climbed to US\$1,423 billion in 2Q15 from US\$958 billion in 1Q15 and US\$1,106 billion in 2Q14, buoyed by greater bond issuance activity in the PRC; Hong Kong, China; and the Republic of Korea (Table 3).

The PRC's LCY bond issuance in 2Q15 amounted to CNY3,729 billion (US\$601 billion), which comprised 42.3% of the regional total. Growth came largely from increased local government bond issuance following the Ministry of Finance's implementation of its debt swap program for local governments. Meanwhile, the PRC's LCY corporate bond issuance exhibited mixed growth in 2Q15, rising from 1Q15's issuance level but declining from 2Q14's.

In Hong Kong, China, sales of LCY bonds reached HKD3,416 billion (US\$441 billion) in 2Q15, up from issuance levels in 1Q15 and 2Q14, mainly due to the Hong Kong Monetary Authority issuing more Exchange Fund Bills. In contrast, LCY corporate bond issuance was lower on both a q-o-q and y-o-y basis in 2Q15.

The Republic of Korea's LCY bond market showcased an increase in issuance activity in 2Q15, levelling off at KRW224,668 billion (US\$201 billion) on the back of growth in corporate bond issuance. Meanwhile, bond issuance in the government sector declined on a q-o-q basis in 2Q15, mainly due to decreased issuance of Korea Treasury Bonds and industrial finance debentures. On a y-o-y basis, however, government issuance increased in 2Q15.

The six member economies of the Association of Southeast Asian Nations (ASEAN)—Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam—accounted for a combined LCY bond issuance amount equivalent to US\$180 billion, up from US\$169 billion in 1Q15 but down from US\$215 billion in 2Q14.

LCY bond sales in Indonesia reached IDR114,837 billion (US\$9 billion) in 2Q15, down from 1Q15 as Bank Indonesia did not issue conventional SBI during the quarter under review, instead issuing only *shari'ah*-compliant SBI. Issuance of Treasury instruments also declined as the government programmed a much larger volume of bonds for auction in 1Q15 compared with 2Q15. Conversely, issuance of Indonesian LCY bonds on a y-o-y basis was marginally higher due mainly to larger corporate bond sales than in 2Q14.

In Malaysia, 2Q15 LCY bond issuance was valued at MYR62 billion (US\$16 billion), up on a q-o-q basis but lower on a y-o-y basis. The quarterly growth was led by increased issuance of Government Investment Issues and corporate bonds. On the other hand, issuance of

Table 3: LCY-Denominated Bond Issuance (gross)

	2Q14		1Q15		2Q15		Growth Rate (LCY-base %)		Growth Rate (US\$-base %)	
	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	2Q15		2Q15	
							q-o-q	y-o-y	q-o-q	y-o-y
<b>China, People's Rep. of</b>										
<b>Total</b>	456	100.0	300	100.0	601	100.0	100.5	31.9	100.4	32.0
Government	209	46.0	144	47.9	370	61.6	157.7	76.7	157.6	76.8
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	209	46.0	144	47.9	370	61.6	157.7	76.7	157.6	76.8
Corporate	246	54.0	156	52.1	231	38.4	47.8	(6.2)	47.8	(6.1)
<b>Hong Kong, China</b>										
<b>Total</b>	292	100.0	315	100.0	441	100.0	39.8	51.0	39.9	51.0
Government	285	97.6	305	96.7	434	98.6	42.6	52.5	42.6	52.5
Central Bank	284	97.4	304	96.3	434	98.4	42.9	52.5	42.9	52.5
Treasury and Other Govt.	0.5	0.2	1.0	0.3	0.6	0.1	(40.5)	23.7	(40.5)	23.7
Corporate	7	2.4	11	3.3	6	1.4	(39.3)	(8.8)	(39.3)	(8.9)
<b>Indonesia</b>										
<b>Total</b>	10	100.0	12	100.0	9	100.0	(25.2)	0.3	(26.7)	(10.7)
Government	8	85.3	11	92.0	7	79.4	(35.4)	(6.6)	(36.7)	(16.9)
Central Bank	2	24.6	2	17.7	0.2	1.9	(91.9)	(92.1)	(92.0)	(93.0)
Treasury and Other Govt.	6	60.7	9	74.3	7	77.5	(22.0)	28.0	(23.5)	13.9
Corporate	1	14.7	0.9	8.0	2	20.6	92.3	40.5	88.5	25.0
<b>Korea, Rep. of</b>										
<b>Total</b>	144	100.0	174	100.0	201	100.0	16.6	54.3	16.0	40.0
Government	82	57.1	82	47.4	79	39.3	(3.1)	6.4	(3.7)	(3.5)
Central Bank	47	32.6	45	26.0	46	23.1	3.5	9.2	3.0	(0.9)
Treasury and Other Govt.	35	24.5	37	21.4	33	16.3	(11.3)	2.6	(11.7)	(7.0)
Corporate	62	42.9	91	52.6	122	60.7	34.5	118.2	33.8	97.9
<b>Malaysia</b>										
<b>Total</b>	37	100.0	13	100.0	16	100.0	25.6	(48.0)	23.3	(55.7)
Government	29	77.7	8	62.3	8	51.8	4.4	(65.3)	2.4	(70.5)
Central Bank	19	52.2	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	9	25.5	8	62.3	8	51.8	4.4	5.7	2.4	(10.1)
Corporate	8	22.3	5	37.7	8	48.2	60.6	12.5	57.7	(4.3)
<b>Philippines</b>										
<b>Total</b>	5	100.0	3	100.0	2	100.0	(23.7)	(52.2)	(24.6)	(53.9)
Government	4	75.3	3	91.8	2	80.6	(33.1)	(48.9)	(33.8)	(50.6)
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	4	75.3	3	100.0	2	80.6	(33.1)	(48.9)	(33.8)	(50.6)
Corporate	1	24.7	0.3	8.2	0.5	19.4	81.7	(62.4)	78.8	(63.9)
<b>Singapore</b>										
<b>Total</b>	86	100.0	72	100.0	77	100.0	5.4	(3.8)	7.3	(11.0)
Government	83	96.0	70	98.0	73	94.6	1.7	(5.2)	3.5	(12.3)
Central Bank	75	87.4	67	93.1	66	85.6	(3.2)	(5.7)	(1.4)	(12.8)
Treasury and Other Govt.	7	8.6	3	4.9	7	9.0	93.8	0.0	97.3	(7.5)
Corporate	3	4.0	1	2.0	4	5.4	188.7	30.5	194.0	20.8
<b>Thailand</b>										
<b>Total</b>	65	100.0	58	100.0	66	100.0	18.4	5.8	14.0	1.5
Government	50	77.5	50	86.8	54	81.6	11.3	11.4	7.2	6.9
Central Bank	39	60.5	36	62.8	41	62.8	18.5	9.9	14.1	5.5
Treasury and Other Govt.	11	17.1	14	24.0	12	18.8	(7.3)	16.4	(10.7)	11.7
Corporate	15	22.5	8	13.2	12	18.4	64.8	(13.4)	58.7	(16.8)

continued on next page

Table 3 continued

	2Q14		1Q15		2Q15		Growth Rate (LCY-base %)		Growth Rate (US\$-base %)	
	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	Amount (US\$ billion)	% share	2Q15		2Q15	
							q-o-q	y-o-y	q-o-q	y-o-y
<b>Viet Nam</b>										
<b>Total</b>	12	100.0	11	100.0	10	100.0	(13.7)	(16.2)	(14.8)	(18.2)
Government	12	99.2	11	100.0	10	100.0	(13.7)	(15.5)	(14.8)	(17.5)
Central Bank	9	76.4	8	68.2	8	86.3	9.2	(5.4)	7.8	(7.6)
Treasury and Other Govt.	3	22.8	4	31.8	1	13.7	(62.9)	(49.7)	(63.4)	(50.9)
Corporate	0.1	0.8	0	0.0	0	0.0	-	-	-	-
<b>Emerging East Asia</b>										
<b>Total</b>	1,106	100.0	958	100.0	1,423	100.0	49.0	32.2	48.6	28.6
Government	762	68.9	684	71.4	1,037	72.9	51.9	40.0	51.6	36.1
Central Bank	477	43.1	461	48.2	596	41.9	29.3	29.1	29.1	25.0
Treasury and Other Govt.	286	25.8	223	23.3	441	31.0	99.1	58.0	98.1	54.5
Corporate	344	31.1	273	28.6	386	27.1	41.6	14.9	41.2	12.2
<b>Japan</b>										
<b>Total</b>	522	100.0	414	100.0	404	100.0	(0.5)	(6.3)	(2.4)	(22.5)
Government	480	91.9	392	94.7	379	93.7	(1.6)	(4.6)	(3.5)	(21.1)
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	480	91.9	392	94.7	379	93.7	(1.6)	(4.6)	(3.5)	(21.1)
Corporate	42	8.1	22	5.3	26	6.3	18.8	(26.4)	16.5	(39.1)

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

Notes:

1. Corporate bonds include issues by financial institutions.

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

3. For LCY base, emerging East Asia growth figures are based on 30 June 2015 currency exchange rates and do not include currency effects.

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

Malaysian Government Securities and Treasury bills declined q-o-q. On a y-o-y basis, Malaysia's overall issuance volume declined as BNM monetary notes have not been issued since the start of the year.

The amount of LCY bonds sold in the Philippines during 2Q15 totaled PHP112 billion (US\$2 billion), which was less than in both 1Q15 and 2Q14. This decline was largely due to fewer issuances of Treasury and other government bonds as no issuances of special series bills were made by the Bureau of the Treasury in 2Q15.

Singapore's LCY bond issuance in 2Q15, which amounted to SGD104 billion (US\$77 billion), exhibited a mixed performance, rising from 1Q15 but declining from 2Q14. The quarterly increase was on the back of higher issuance of Singapore Government Securities bills and bonds, and corporate notes, while the negative y-o-y growth was mainly a result of lower issuance of Monetary Authority of Singapore bills.

Thailand's LCY bond sales stood at THB2,217 billion (US\$66 billion) in 2Q15, recording positive q-o-q and y-o-y growth rates. The impetus for quarterly growth was the corporate sector, while for y-o-y growth it was both the central government and the central bank being more active bond issuers.

In Viet Nam, LCY bond sales slowed to VND211,674 billion (US\$10 billion) in 2Q15, down on both a q-o-q and y-o-y basis, largely due to lower Treasury and other government bond issues. Most auctions in 2Q15 fell short of the government's target as investors were bidding for higher yields.

Intra-emerging East Asian bond issuance in 2Q15 totaled US\$3.4 billion, up 16.4% q-o-q but down 44.2% y-o-y, largely due to the PRC and Hong Kong, China. PRC issuers raised a combined US\$1.0 billion worth of bonds denominated in Hong Kong dollars, Korean won, Malaysian ringgit, and Singapore dollars.



Issuers from Hong Kong, China sold US\$1.1 billion worth of bonds in Chinese renminbi, Korean won, and Singapore dollars. Both of these issuance amounts were higher on a q-o-q basis but lower on a y-o-y basis.

In the Republic of Korea, three domestic banks—Korea Development Bank, Korea Eximbank, and Kookmin Bank—issued a combined US\$636 million worth of multiple-tranche bonds denominated in Chinese renminbi, Hong Kong dollars, and Singapore dollars during 2Q15. The issuance amount in 2Q15 was lower q-o-q but higher on a y-o-y basis.

ASEAN issuers raised a combined US\$601 million worth of bonds denominated in emerging East Asian currencies other than their home currency in 2Q15, which was down 5.1% q-o-q but up 156.2% y-o-y. Indonesia's Medco Energi issued a SGD100 million 3-year bond with a 5.9% coupon in May. The Lao People's Democratic Republic raised THB12 billion from a triple-tranche bond sale in June. The bond issuance comprised a THB1 billion 3-year bond at a 3.56% coupon, a THB5 billion 5-year bond at 4.32%, and a THB6 billion 10-year bond at 5.0%. Malaysia's CIMB Bank and Maybank sold SGD-denominated bonds in 2Q15. CIMB Bank's SGD100 million 3-year bond issued in June carried a 2.12% coupon, while Maybank's SGD50 million 2-year bond issued in April and SGD54 million 3-year bond sold in June had coupon rates of 1.85% and 2.08%, respectively. Thailand's Mitr Phol Sugar issued CNY126 million worth of 3-year bonds at a 5.15% coupon in June.

### Emerging East Asia sustained robust G3 currency bond issuance in January–July.<sup>5</sup>

Emerging East Asia sustained a robust level of G3 currency bond issuance in the first 7 months of 2015, accumulating US\$122.3 billion worth of bond sales denominated in US dollars, euros, and Japanese yen. This amount was equal to 61.6% of full-year 2014's issuance total and was about 1% larger than in January–July 2014 (**Table 4**). Among the G3 currencies, US dollar issuance comprised 90% of the regional total, followed by the euro (9%) and Japanese yen (1%).

The PRC was the largest source of G3 currency bonds in the region, accounting for US\$68.7 billion, or 56.2% of the regional total in January–July, with almost half of this amount coming from financial institutions. The largest PRC-based G3 currency bond issuer was Sinopec, which raised US\$6.5 billion from a multiple-tranche G3 bond sale in April.

The Republic of Korea accounted for the region's second largest G3 currency bond issuance in January–July at US\$13.8 billion. Financial institutions were the largest issuer group, led by Korea Eximbank, the largest Korean issuer of G3 currency bonds with total bond sales of US\$4.5 billion. Hong Kong, China followed suit with US\$12.3 billion worth of G3 currency bond sales that were spearheaded by financial institutions; however, one of its notable issues was the government's US\$1 billion 5-year *sukuk* sold in June at 1.894%.

ASEAN's G3 currency bond issuance in January–July reached US\$27.5 billion, which represented 81.1% of its 2014 total. Indonesia led the subregion with US\$10.8 billion, 69% of which was issued by the government in the form of three US\$-denominated bonds totaling US\$6 billion and one EUR-denominated bond worth EUR1.25 billion. Malaysia's G3 currency bonds were valued at US\$7.7 billion—the second highest total in ASEAN—led by Petronas, which raised US\$5 billion from selling three US\$-denominated conventional bonds worth a combined US\$3.75 billion and one US\$-denominated *sukuk* worth US\$1.25 billion in March. Philippine G3 currency bonds amounted to US\$3.2 billion, led by a US\$2 billion 25-year sovereign bond. Singapore's US\$5.7 billion worth of G3 currency bond sales were mostly raised by financial institutions (68% of total), while Thailand's US\$150 million in G3 currency issuance came entirely from a 5-year bond issued by the Export–Import Bank of Thailand.

On a monthly basis, emerging East Asia's G3 currency bond issuance reached its peak in May at US\$22.4 billion before falling to US\$19.9 billion in June, and further declining to US\$13.8 billion in July amid financial market volatility induced by the debt crisis in Greece and market expectations of a looming US policy rate hike in September (**Figure 5**).

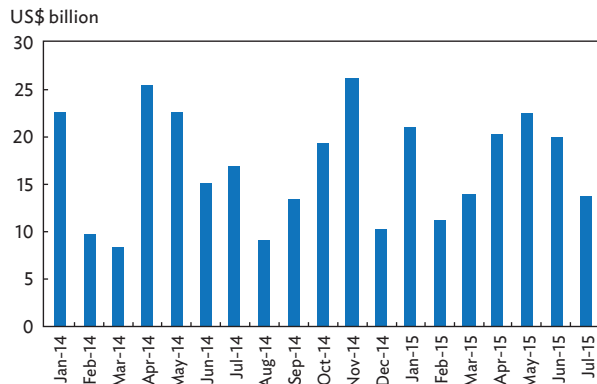
<sup>5</sup> G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.

Table 4: G3 Currency Bond Issuance

2014			1 January–31 July 2015		
Issuer	Amount (US\$ million)	Issue Date	Issuer	Amount (US\$ million)	Issue Date
<b>China, People's Rep. of</b>	<b>98,227</b>		<b>China, People's Rep. of</b>	<b>68,703</b>	
Bank of China 5% 2024	3,000	13-Nov-14	Sinopec 2.5% 2020	2,500	28-Apr-15
ICBC 6% Perpetual	2,940	10-Dec-14	Bank of Communications 5% Perpetual	2,450	29-Jul-15
Alibaba 2.5% 2019	2,250	28-Nov-14	China Construction Bank 3.875% 2025	2,000	13-May-15
Alibaba 3.6% 2024	2,250	28-Nov-14	CNOOC Finance 3.5% 2025	2,000	5-May-15
CNOOC Finance 4.25% 2024	2,250	30-Apr-14	China Cinda Finance (2015) 4.25% 2025	1,700	23-Apr-15
Tencent Holdings 3.375% 2019	2,000	29-Apr-14	Sinopec 3.25% 2025	1,500	28-Apr-15
Sinopec 1.0136% 2017	1,800	10-Apr-14	Huarong Finance II 5.5% 2025	1,400	16-Jan-15
State Grid Overseas Investment 4.125% 2024	1,600	7-May-14	China Cinda Finance (2015) 3.125% 2020	1,300	23-Apr-15
Others	80,137		Others	53,853	
<b>Hong Kong, China</b>	<b>34,530</b>		<b>Hong Kong, China</b>	<b>12,341</b>	
Hutchison Whampoa 1.625% 2017	2,000	31-Oct-14	Shimao Property 8.375% 2022	1,100	10-Feb-15
Hutchison Whampoa 1.375% 2021	1,815	31-Oct-14	Hong Kong, China (Sovereign) Sukuk 1.894% 2020	1,000	3-Jun-15
Others	30,715		Others	10,241	
<b>Indonesia</b>	<b>11,423</b>		<b>Indonesia</b>	<b>10,756</b>	
Indonesia (Sovereign) 5.875% 2024	2,000	15-Jan-14	Indonesia (Sovereign) 4.125% 2025	2,000	15-Jan-15
Indonesia (Sovereign) 6.75% 2044	2,000	15-Jan-14	Indonesia (Sovereign) 5.125% 2045	2,000	15-Jan-15
Pertamina 6.45% 2044	1,500	30-May-14	Pelabuhan Indonesia 4.25% 2025	1,100	5-May-15
Indonesia (Sovereign) 4.35% 2024	1,350	10-Sep-14	Garuda Indonesia Sukuk 5.95% 2020	500	3-Jun-15
Perusahaan Gas Negara (PGN) 5.125% 2024	1,350	16-May-14	Pelabuhan Indonesia 5.375% 2045	500	5-May-15
Others	3,223		Others	4,656	
<b>Korea, Rep. of</b>	<b>31,714</b>		<b>Korea, Rep. of</b>	<b>13,759</b>	
Republic of Korea (Sovereign) 4.125% 2044	1,000	10-Jun-14	Korea Eximbank 2.875% 2025	1,250	21-Jan-15
Woori Bank 4.75% 2024	1,000	30-Apr-14	Korea Eximbank 2.25% 2020	1,000	21-Jan-15
Republic of Korea (Sovereign) 2.125% 2024	947	10-Jun-14	Industrial Bank of Korea 2% 2020	700	23-Apr-15
Others	28,766		Others	10,809	
<b>Malaysia</b>	<b>3,567</b>		<b>Malaysia</b>	<b>7,655</b>	
Cahaya Capital 0.162% 2021	500	18-Sep-14	Petronas Capital 3.5% 2025	1,500	18-Mar-15
AmBank 3.125% 2019	400	3-Jul-14	Petronas Capital 4.5% 2045	1,500	18-Mar-15
EXIM Sukuk Malaysia 2.874% 2019	300	19-Feb-14	Petronas Global Sukuk 2.707% 2020	1,250	18-Mar-15
Others	2,367		Others	3,405	
<b>Philippines</b>	<b>2,675</b>		<b>Philippines</b>	<b>3,186</b>	
Philippines (Sovereign) 4.2% 2024	1,500	21-Jan-14	Philippines (Sovereign) 3.95% 2040	2,000	20-Jan-15
SM Investments 4.875% 2024	350	10-Jun-14	Security Bank 3.95% 2020	300	3-Feb-15
SMC Global Power 7.5% Perpetual	350	7-May-14	Vista Land & Landscapes 7.375% 2022	300	18-Jun-15
Others	475		Others	586	
<b>Singapore</b>	<b>11,661</b>		<b>Singapore</b>	<b>5,739</b>	
OCBC Bank 4% 2024	1,000	15-Apr-14	Global Logistics Properties 3.875% 2025	1,000	4-Jun-15
OCBC Bank 4.25% 2024	1,000	19-Jun-14	BOC Aviation 3% 2020	750	30-Mar-15
Avago Technologies 2% 2021	1,000	6-May-14	HPHT Finance (15) 2.875% 2020	500	17-Mar-15
Others	8,661		Others	3,489	
<b>Thailand</b>	<b>3,565</b>		<b>Thailand</b>	<b>150</b>	
<b>Viet Nam</b>	<b>1,000</b>		<b>Viet Nam</b>	<b>0</b>	
<b>Emerging East Asia Total</b>	<b>198,362</b>		<b>Emerging East Asia Total</b>	<b>122,289</b>	
<b>Memo Items:</b>			<b>Memo Items:</b>		
<b>India</b>	<b>18,323</b>		<b>India</b>	<b>9,489</b>	
Bharti Airtel 5.35% 2024	1,000	20-May-14	Bharti Airtel 4.375% 2025	1,000	10-Jun-15
Abja Investment 5.95% 2024	1,000	31-Jul-14	Reliance Industries 4.125% 2025	1,000	28-Jan-15
Others	16,323		Others	7,489	
<b>Sri Lanka</b>	<b>2,165</b>		<b>Sri Lanka</b>	<b>1,534</b>	

Note: Data exclude certificates of deposit.

Source: AsianBondsOnline calculations based on data from Bloomberg LP.

**Figure 5: G3 Currency Bond Issuance**

Source: AsianBondsOnline calculations based on Bloomberg LP data.

### Government bond yields rose between 1 June and 14 August for most tenors in most markets in emerging East Asia on heightened expectations that the Federal Reserve would hike interest rates.

Recent economic data in 2Q15 for the US bolstered the case that the Federal Reserve may soon hike interest rates. GDP growth in the US accelerated to an annual rate of 3.7% in 2Q15 from a revised 0.6% in 1Q15. In addition, the preliminary measure of industrial production jumped in July by 0.6% month-on-month (m-o-m), up from 0.1% m-o-m in June, the fastest pace in 8 months. US nonfarm payroll employment grew 173,000 in August. The unemployment rate fell to 5.1% in August from 5.3% in July. Lastly, housing starts rose to an 8-year high of 1.21 million units in July, up 0.2% m-o-m.

Yields on 2-year bonds rose for the majority of emerging East Asian markets between 1 June and 14 August (**Figures 6a and 6b**). The exceptions were for markets whose central banks were easing monetary policy (the Republic of Korea and Thailand) or have indicated the potential to ease policy given low inflation (the Philippines). Yields on 10-year bonds also mirrored movements in the 2-year yields, except for the PRC, whose 10-year yield fell (**Figures 7a and 7b**).

In terms of the overall yield curve, yields in Hong Kong, China and Singapore rose for most tenors, as both economies typically track US market movements owing to the nature of their monetary policies (**Figure 8**).

In Malaysia and Indonesia, yield movements were exacerbated by other external and domestic factors. While US economic growth appears to be improving, weaknesses in other markets have lowered the expected growth rate of the global economy. The eurozone reported GDP growth of 0.3% q-o-q in 2Q15, down from 0.4% q-o-q in 1Q15. Japan's GDP contracted at an annual rate of 1.6% in 2Q15. The PRC's GDP grew 7.0% y-o-y in 2Q15 compared with 7.4% in full-year 2014.

While slower economic growth in Malaysia should have eased yield pressures, lower oil prices have led to the depreciation of the ringgit, thereby increasing risk premiums. In addition, a reduction in fuel subsidies and the imposition of a Goods and Services Tax have caused inflation in Malaysia to spike (**Figure 9a**). This has led Malaysia's entire yield curve to rise by an average of 29 basis points (bps), with the 5-year tenor rising the most at 44 bps.

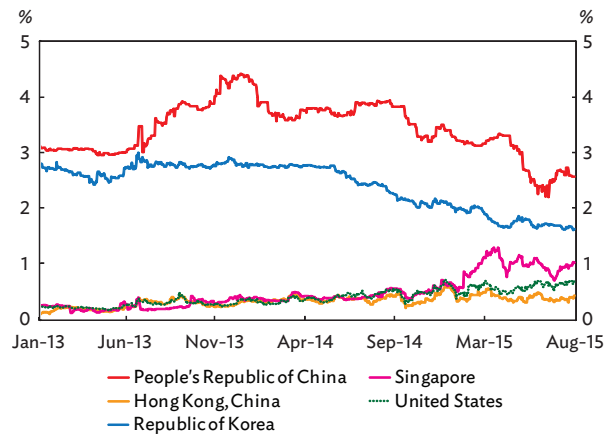
Indonesia also faced a similar story during the period under review. Rising inflation due to the removal of fuel subsidies and depreciation of the rupiah resulted in increased yields for all tenors except the 1-year (**Figure 9b**). If the 1-year tenor is excluded, yields rose by an average of 53 bps.

In Viet Nam, the upward yield curve movement was driven by a mix of external and domestic factors. The entire yield curve shifted upward on rising expectations of a US policy rate hike. Yields were also facing upward pressure due to the government's drive to increase credit growth and a lack of investor demand for government bonds.

In other emerging East Asian markets, yields fell on a lowered growth outlook as governments sought to boost growth by easing monetary policy. The entire yield curve of the Republic of Korea and Thailand shifted downward. The Republic of Korea reduced its policy rates by 25 bps in June to 1.50% due to weakening exports amid reduced global demand (**Figure 10a**). In Thailand, policy rates were kept unchanged in June and August, though the Bank of Thailand had earlier reduced policy rates in April. In August, the central bank emphasized the need to keep monetary policy accommodative to spur demand and escape deflation.

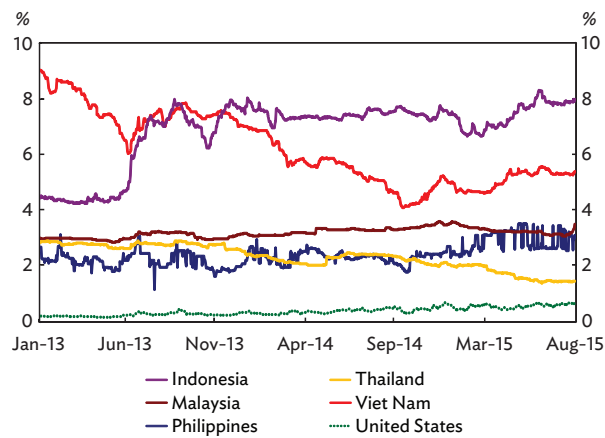
In the PRC, yields fell at the longer-end but rose at the shorter-end of the curve. The fall in yields at the longer-

Figure 6a: 2-Year LCY Government Bond Yields



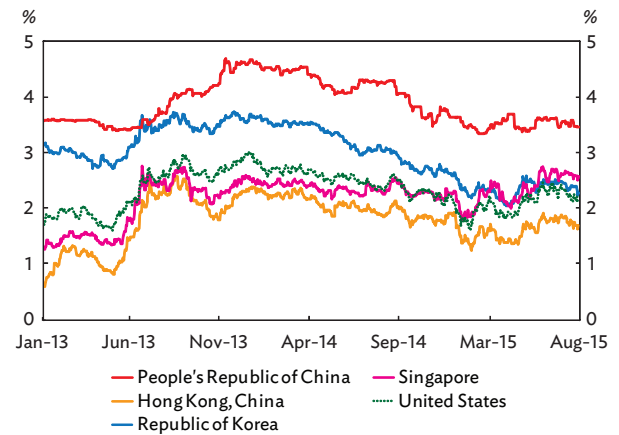
LCY = local currency.  
 Note: Data as of 14 August 2015.  
 Source: Based on data from Bloomberg LP.

Figure 6b: 2-Year LCY Government Bond Yields



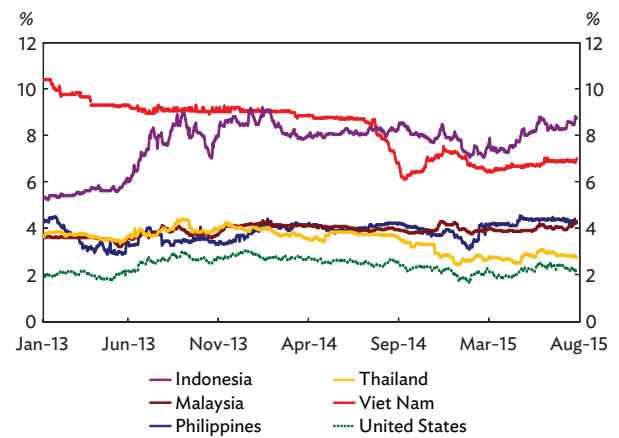
LCY = local currency.  
 Note: Data as of 14 August 2015.  
 Source: Based on data from Bloomberg LP.

Figure 7a: 10-Year LCY Government Bond Yields



LCY = local currency.  
 Note: Data as of 14 August 2015.  
 Source: Based on data from Bloomberg LP.

Figure 7b: 10-Year LCY Government Bond Yields



LCY = local currency.  
 Note: Data as of 14 August 2015.  
 Source: Based on data from Bloomberg LP.

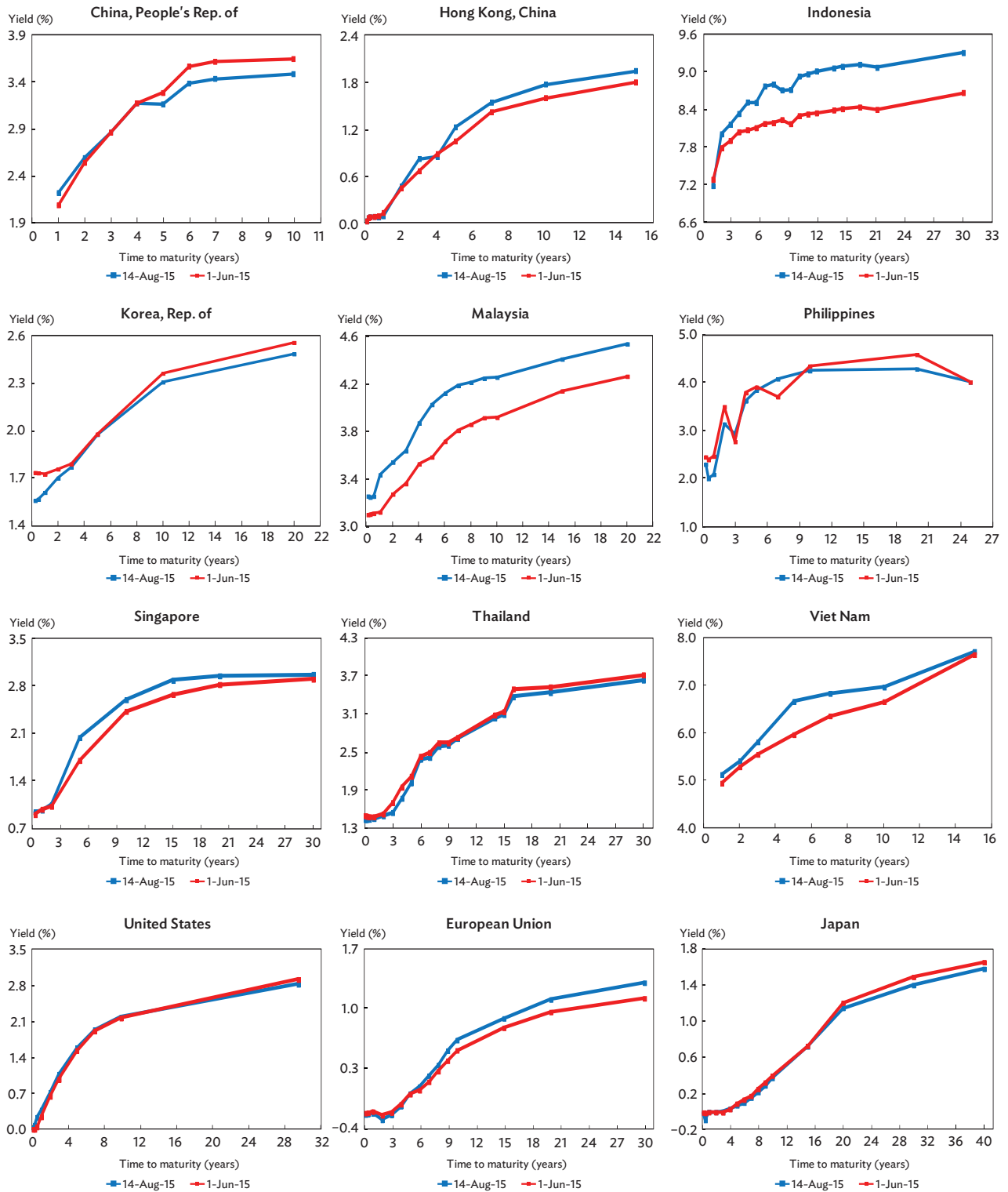
end was due to slower GDP growth, forcing the PBOC to implement a number of easing measures. In June, reserve requirement ratios were reduced for certain financial institutions and policy rates were reduced by 25 bps, taking the 1-year lending rate to 4.85% and the 1-year deposit rate to 2.0% (Figure 10b). In August, the PBOC again lowered policy rates by another 25 bps, setting the 1-year lending rate to 4.6% and the 1-year deposit rate to 1.75%. The central bank also cut the reserve requirement ratio by 50 bps for all financial institutions, while qualifying financial institutions were granted additional reserve requirement ratio cuts. The rise in yields at the lower-end of the curve was driven by

increased demand for bonds as the slower growth outlook led to a significant decline in the PRC's stock market in June.

In the Philippines, yields fell for most tenors on the back of easing inflation. The central bank kept policy rates unchanged in August, citing a benign inflation outlook in the short-term.

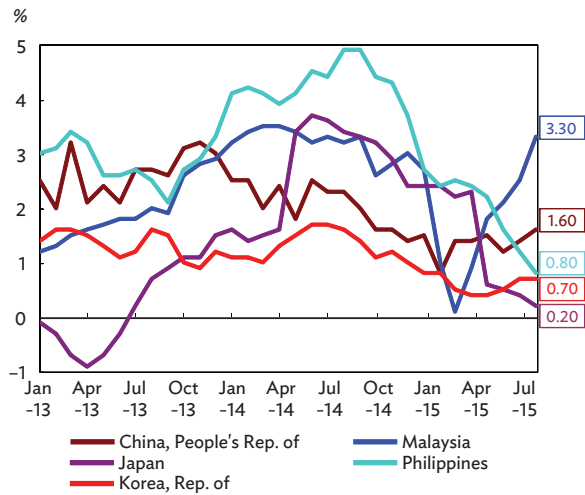
The 2-year versus 10-year spread rose in almost all markets in line with concerns regarding the timing of a Federal Reserve rate hike (Figure 11). The spread fell in the PRC and was unchanged in the Republic of Korea.

Figure 8: Benchmark Yield Curves—LCY Government Bonds



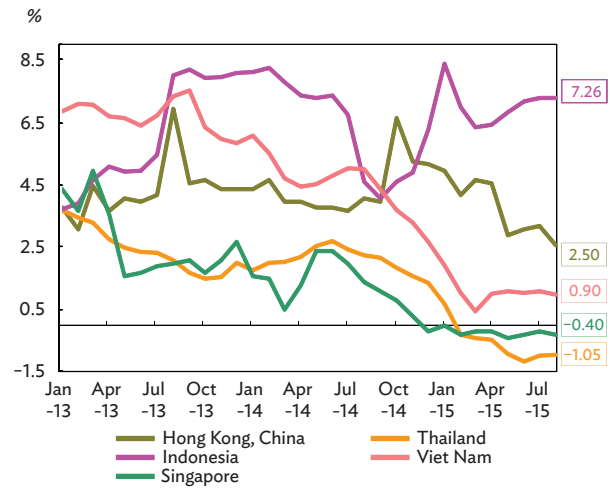
LCY = local currency.  
Source: Based on data from Bloomberg LP.

Figure 9a: Headline Inflation Rates



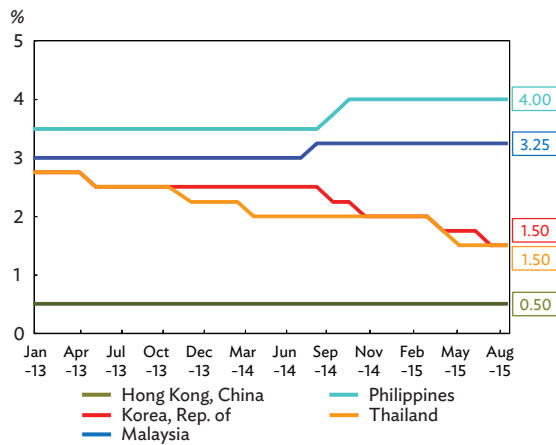
Note: Data as of July 2015.  
Source: Based on data from Bloomberg LP.

Figure 9b: Headline Inflation Rates



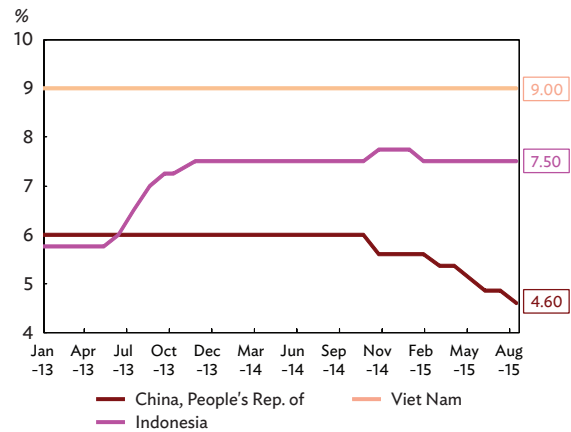
Note: Data as of July 2015.  
Source: Based on data from Bloomberg LP.

Figure 10a: Policy Rates



Note: Data as of end-August 2015.  
Source: Based on data from Bloomberg LP.

Figure 10b: Policy Rates



Notes:  
1. Data as of end-August 2015.  
2. For Viet Nam base interest rate was used.  
Source: Based on data from Bloomberg LP.

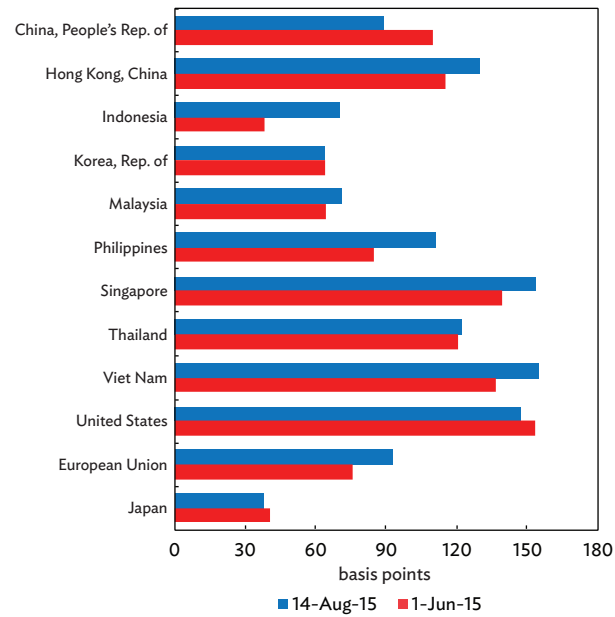
### AAA-rated corporate yields in the PRC and Malaysia fell versus government yields.

Credit spreads between AAA-rated corporate bonds and government bonds narrowed in the PRC and Malaysia between 1 June and 14 August. The narrowing spread in the PRC was mostly due to increased demand for corporate bonds amid monetary easing conducted by the PBOC. In Malaysia, the narrowing was driven

mostly by the large uptick in government bond yields. In the Republic of Korea, credit spreads were roughly unchanged (Figure 12a).

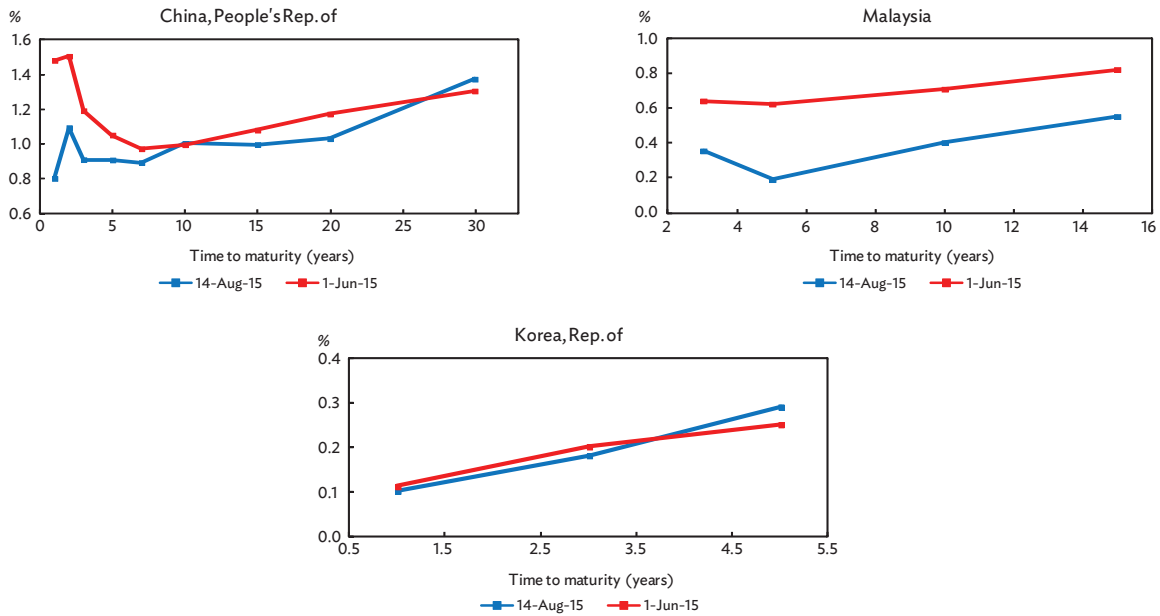
Between 1 June and 14 August, the credit spreads between lower-rated corporate bonds and AAA-rated bonds were roughly unchanged in all three markets for which data are available (Figure 12b).

**Figure 11: Yield Spreads Between 2- and 10-Year Government Bonds**



Source: Based on data from Bloomberg LP.

**Figure 12a: Credit Spreads—LCY Corporates Rated AAA vs. Government Bonds**



LCY = local currency.

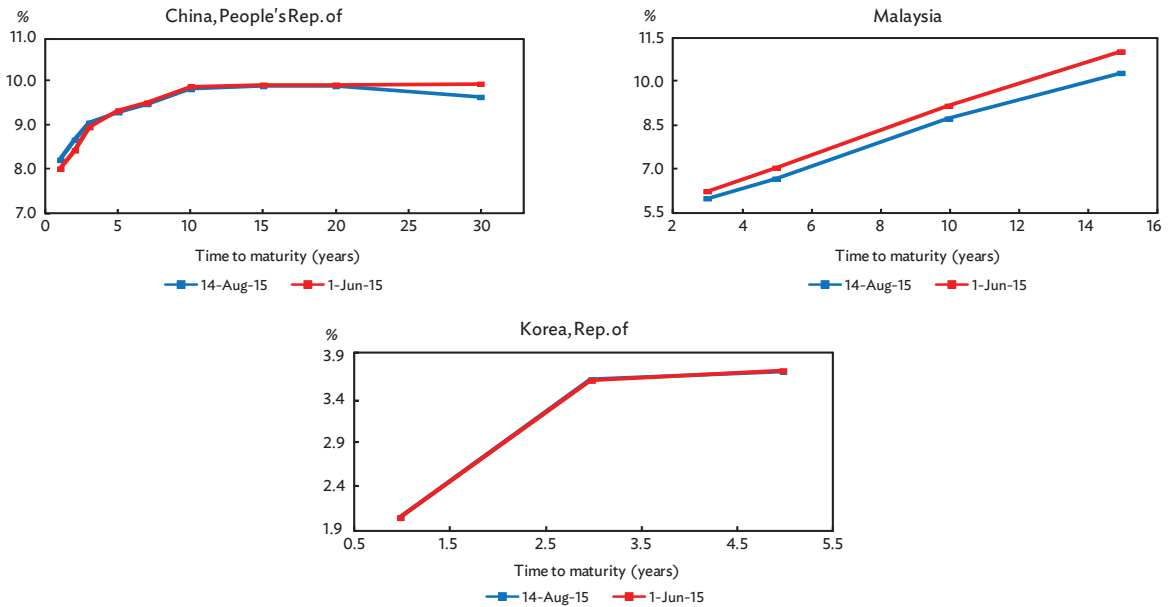
Notes:

1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.

2. For Malaysia, data on corporate bond yields are as of 29 May 2015 and 14 August 2015.

Sources: People's Republic of China (*ChinaBond*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (*Bank Negara Malaysia*).

Figure 12b: Credit Spreads—Lower-Rated LCY Corporates vs. AAA



LCY = local currency.

Notes:

1. For the People's Republic of China and the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB+.
2. For Malaysia, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB.
3. For Malaysia, data on corporate bond yields are as of 29 May 2015 and 14 August 2015.

Sources: People's Republic of China (*ChinaBond*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (*Bank Negara Malaysia*).