Market Summaries

People's Republic of China

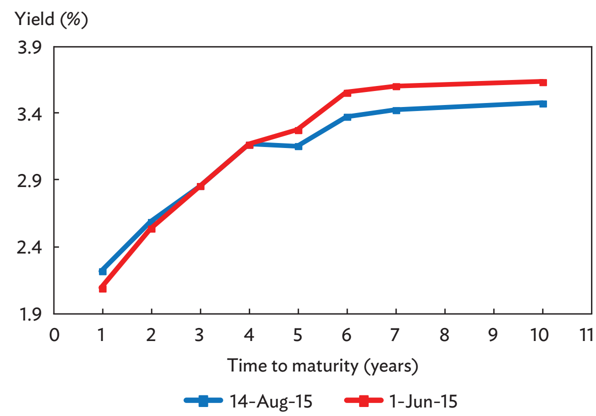
Yield Movements

Between 1 June and 14 August, the local currency (LCY) government bond yield curve in the People's Republic of China (PRC) shifted downward for tenors of 5 years or more, with yields falling between 12 basis points (bps) and 18 bps **(Figure 1)**. The 6-year and 7-year tenors both fell by 18 bps. For the 1-year tenor, yields rose 13 bps, and the 2-year tenor rose 5 bps. The 3-year and 4-year tenors remained unchanged. As a result of the yield curve's movements, the 2-year versus 10-year spread fell to 89 bps from 110 bps during the period under review.

The downward shift at the longer-end of the curve was mostly due to the continued slowdown of the PRC's economy. Gross domestic product growth remained unchanged in 2Q15 from 1Q15 at 7.0% year-on-year (y-o-y), compared with growth of 7.4% in full-year 2014. Other economic indicators also showed a slowdown. Industrial production growth fell to 6.0% y-o-y in July from 6.8% y-o-y in June. Growth in private investment in fixed assets also continued to decline, falling to 11.2% y-o-y in January–July from 11.4% in January–June.

The PRC's growth has also been hampered by lower external demand. Exports fell 8.3% y-o-y in July after rising 2.8% y-o-y in June, driven by lower demand from advanced economies. The slower growth outlook prompted the People's Bank of China (PBOC) to implement additional easing measures in 2Q15. In June, the PBOC implemented a targeted reduction in deposit-taking institutions' reserve requirement ratios (See Policy, Institutional, and Regulatory Developments at the end of this Market Summary for more details.) The central bank also reduced its policy rates by 25 bps, taking the 1-year lending rate to 4.85% and the 1-year deposit rate to 2.00%. In August, the PBOC again reduced policy rates by another 25 bps, resulting in a 1-year lending rate of 4.6% and a 1-year deposit rate of 1.75%. The PBOC also reduced reserve requirement ratios and revised the central parity exchange-rate-setting mechanism. While the PBOC said the goal was a more market-oriented exchange rate, the move resulted in a depreciation of

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



LCY = local currency.
Source: Bloomberg LP.

1.9% on the day it was first implemented and a 1.6% decline on the second day.

Despite the PBOC's easing measures, yields at the shorter-end of the curve rose, driven mostly by increased liquidity demands following the stock market crash in June. Between 1 June and 14 August, the Shanghai Stock Exchange Composite Index fell about 18%. The stock market crash also contributed to the fall in yields at the longer-end of the curve as investors flocked to the safety of bond market assets. However, the stock market crash increased the liquidity requirements of financial institutions amid investors' demand for cash, driving short-term rates upward.

Size and Composition

The amount of outstanding LCY bonds in the PRC reached CNY34.7 trillion (US$5.6 trillion) at end-June, an increase of 5.9% quarter-on-quarter (q-o-q) and 13.8% y-o-y, largely driven by growth in Treasury bonds and local corporate bonds **(Table 1)**.

Government Bonds. LCY government bonds outstanding grew 6.9% q-o-q and 13.9% y-o-y in 2Q15, driven by growth

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

	Outstanding Amount (billion)						Growth Rates (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	CNY	US$	CNY	US$	CNY	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**30,462**	**4,911**	**32,731**	**5,279**	**34,666**	**5,590**	**4.2**	**11.7**	**5.9**	**13.8**
Government	19,625	3,164	20,894	3,370	22,344	3,603	3.3	10.1	6.9	13.9
Treasury Bonds	9,461	1,525	10,263	1,655	11,284	1,820	3.6	12.1	9.9	19.3
Central Bank Bonds	489	79	428	69	428	69	(11.4)	(50.8)	0.0	(12.5)
Policy Bank Bonds	9,675	1,560	10,203	1,646	10,632	1,715	3.9	15.2	4.2	9.9
Corporate	10,837	1,747	11,837	1,909	12,322	1,987	5.9	14.6	4.1	13.7
Policy Bank Bonds										
China Development Bank	6,217	1,002	6,337	1,022	6,538	1,054	3.8	12.5	3.2	5.2
Export–Import Bank of China	1,480	239	1,694	273	1,797	290	1.5	16.7	6.1	21.4
Agricultural Devt. Bank of China	1,978	319	2,172	350	2,297	370	5.9	23.3	5.7	16.1

( ) = 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. 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*, *Wind*, and Bloomberg LP

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)				Growth Rate (%)				
					q-o-q				y-o-y
	3Q14	4Q14	1Q15	2Q15	3Q14	4Q14	1Q15	2Q15	2Q15
Commercial Bank Bonds and Tier 2 Notes	1,536	1,612	1,639	1,748	18.6	5.0	1.7	6.6	35.0
SOE Bonds	630	622	612	612	(0.1)	(1.2)	(1.5)	(0.1)	(2.9)
Local Corporate Bonds	2,231	2,306	2,377	2,456	31.1	3.4	3.1	3.3	44.3
Commercial Papers	1,768	1,738	1,866	2,038	19.5	(1.7)	7.3	9.2	37.7
Medium Term Notes	4,054	4,179	4,227	4,342	5.4	3.1	1.2	2.7	12.9

( ) = negative, q-o-q = quarter-on-quarter, SOE = state-owned enterprise, y-o-y = year-on-year.
Sources: *ChinaBond* and *Wind*.

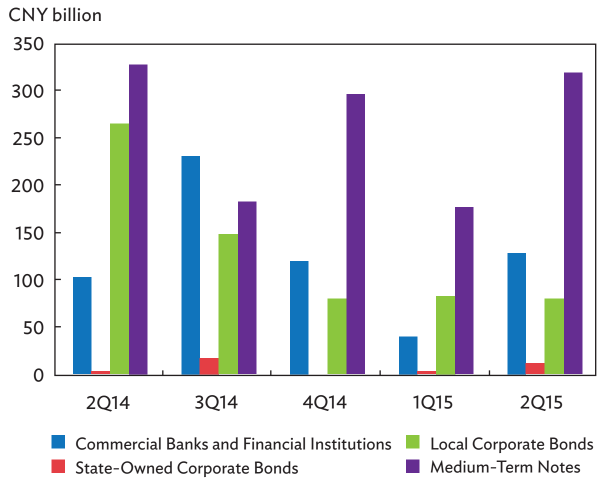
in policy bank bonds and Treasury bonds. The growth in Treasury bonds was dominated by a rapid increase in local government bonds. Local government bonds grew 61.0% q-o-q to CNY1.8 trillion. The rise in local government bonds was due to the central government's local government debt swap program, which sought to ease financing pressure as a large amount of local government debt was set to mature this year. Local government finances have also weakened this year, owing to lower revenue (due to lower property taxes) as well as increased government expenditures (e.g., shantytown renovations).

The amount of central bank bonds was steady on a q-o-q basis but fell on a y-o-y basis as the PBOC continued to opt to use other tools to manage liquidity, such as reverse repos, having not issued central bank bonds since December 2013.

Corporate Bonds. Corporate bonds outstanding grew 4.1% q-o-q and 13.7% y-o-y in 2Q15 to reach CNY12.3 trillion **(Table 2)**. Bonds with strong positive growth rates were those issued by banks and insurance companies, commercial paper, and local corporates. Commercial paper increased 9.2% q-o-q, while bonds issued by commercial banks and insurance companies rose 6.6% q-o-q. Local corporate bonds rose 3.3% q-o-q.

The rise in bonds issued by commercial bank bonds and insurance companies was due to a resurgence in the issuance of subordinated debt in 2Q15 versus 1Q15 as

Figure 2: Corporate Bond Issuance in Key Sectors



LCY = local currency.
Sources: *ChinaBond* and *Wind*.

financial companies sought to bolster their capital bases **(Figure 2)**. Of the major corporate bond categories, however, medium-term notes were the largest in terms of issuance in 2Q15, due to refinancing as a number of medium-term notes matured.

A relatively small number of issuers dominate the PRC's corporate bond market **(Table 3)**. At the end of 2Q15, the top 30 corporate bond issuers accounted for CNY5.0 trillion worth of corporate bonds outstanding, or about 41% of the market. The 10 largest issuers accounted for CNY3.3 trillion worth of bonds outstanding.

State-owned companies—defined as majority-owned by the government—continued to dominate the corporate bond market in 2Q15. Among the top 30 corporate issuers at end-June, 21 were state-owned. By industry, the top 30 list is dominated by banks, largely as a result of their capital-raising efforts under the PRC's implementation of Basel III.

Table 4 presents the most notable corporate bond issuances in 2Q15.

Investor Profile

Treasury Bonds and Policy Bank Bonds. Banks remained the investor category comprising the largest share of the PRC's Treasury bond market, which includes policy bank bonds, accounting for a slightly smaller share of the market at end-June (75.6%) than in the same period a year earlier (76.7%) **(Figure 3)**.

Corporate Bonds. Banks were also the largest holders of corporate bonds at the end of 2Q15, albeit with a comparatively smaller share than their holdings of Treasury bonds and policy bank bonds. Banks' share of corporate bonds fell to 25.6% at the end of 2Q15 from 28.9% a year earlier **(Figure 4)**. The second largest holders of corporate bonds were funds institutions, with a 26.0% share at end-June, up from a 22.9% share a year earlier.

Figure 5 presents investor profiles across corporate bond categories at end-June. Banks were the largest holders of medium-term notes with almost 50% of the total. Meanwhile, insurance companies were the largest holders of commercial bank bonds.

Liquidity

As a result of the uncertainty surrounding the timing of a US interest rate hike and slowing domestic economic growth, the use of interest rate swaps increased in 2Q15, with the total volume of swaps rising 16.8% q-o-q. The bulk of interest rate swaps involved the 7-day repo rate, which accounted for 89% of all volume traded **(Table 5)**.

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 Shanghai Interbank Offered Rate (SHIBOR) shock and a crackdown on illegal bond trades. However, 2Q15 showed a massive uptick in trading for all types of government bonds. The increased demand for government bonds was due to a flight to safety as the PRC's stock market experienced a significant decline in 2Q15.

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	1,133.5	182.79	Yes	No	Transportation
2.	State Grid Corporation of China	450.5	72.65	Yes	No	Public Utilities
3.	China National Petroleum	350.0	56.44	Yes	No	Energy
4.	Bank of China	298.9	48.20	Yes	Yes	Banking
5.	Industrial and Commercial Bank of China	260.0	41.93	Yes	Yes	Banking
6.	Agricultural Bank of China	260.0	41.93	Yes	Yes	Banking
7.	China Construction Bank	188.0	30.32	Yes	Yes	Banking
8.	China Minsheng Bank	136.5	22.01	No	Yes	Banking
9.	Petrochina	136.0	21.93	Yes	Yes	Energy
10.	Industrial Bank	136.0	21.93	No	Yes	Banking
11.	Shanghai Pudong Development Bank	124.2	20.03	No	Yes	Banking
12.	China Power Investment	121.4	19.58	Yes	No	Public Utilities
13.	Bank of Communications	119.0	19.19	No	Yes	Banking
14.	Central Huijin Investment	109.0	17.58	Yes	No	Diversified Financial
15.	Senhua Group	109.0	17.57	Yes	No	Energy
16.	China Citic Bank	103.5	16.69	No	Yes	Banking
17.	China Everbright Bank	88.9	14.34	Yes	Yes	Banking
18.	China Merchants Bank	79.0	12.74	No	Yes	Banking
19.	China Three Gorges Project	76.5	12.34	Yes	No	Public Utilities
20.	China Southern Power Grid	75.0	12.09	Yes	No	Public Utilities
21.	China Guodian	73.4	11.83	Yes	No	Public Utilities
22.	Haitong Securities	71.0	11.45	No	Yes	Financial Services
23.	Beijing State-owned Assets Operation & Management Center	70.5	11.37	Yes	No	Diversified Financial
24.	China Datang	69.2	11.16	Yes	No	Energy
25.	Shaanxi Coal and Chemical Industry Group	69.0	11.13	Yes	No	Energy
26.	China Petroleum and Chemical	68.5	11.05	Yes	Yes	Energy
27.	China Life	68.0	10.97	Yes	Yes	Insurance
28.	Tianjin Infrastructure Investment Group	67.9	10.95	Yes	No	Capital Goods
29.	Bank of Beijing	61.5	9.92	No	Yes	Banking
30.	CITIC Securities	58.3	9.40	No	Yes	Financial Services
Total Top 30 LCY Corporate Issuers		**5,032.13**	**811.50**			
Total LCY Corporate Bonds		**12,322.09**	**1,987.11**			
Top 30 as % of Total LCY Corporate Bonds		**40.8%**	**40.8%**			

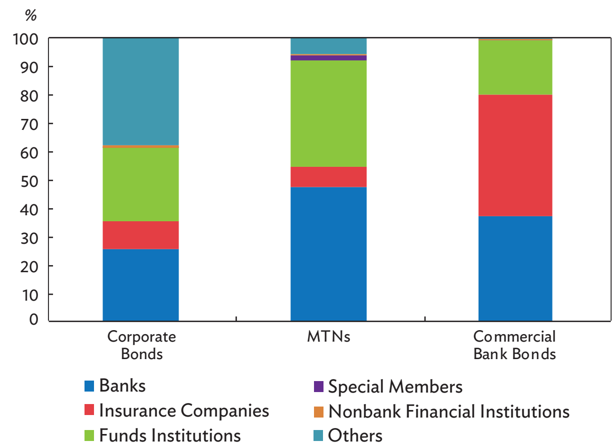
LCY = local currency.
Notes:
1. Data as of end-June 2015.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Table 4: Notable LCY Corporate Bond Issuance in 2Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China Railway Corp.		
10-year bond	4.28	15
10-year bond	4.3	15
10-year bond	4.24	10
Haitong Securities Co. Ltd.		
3-year bond	5.3	15
5-year bond	5.5	15
China Minsheng Bank		
10-year bond	5.4	20
Petrochina		
3-year bond	4.03	20
China Cinda Asset Management		
5-year bond	4.3	10
State Grid Corporation of China		
1-year bond	3.4	10

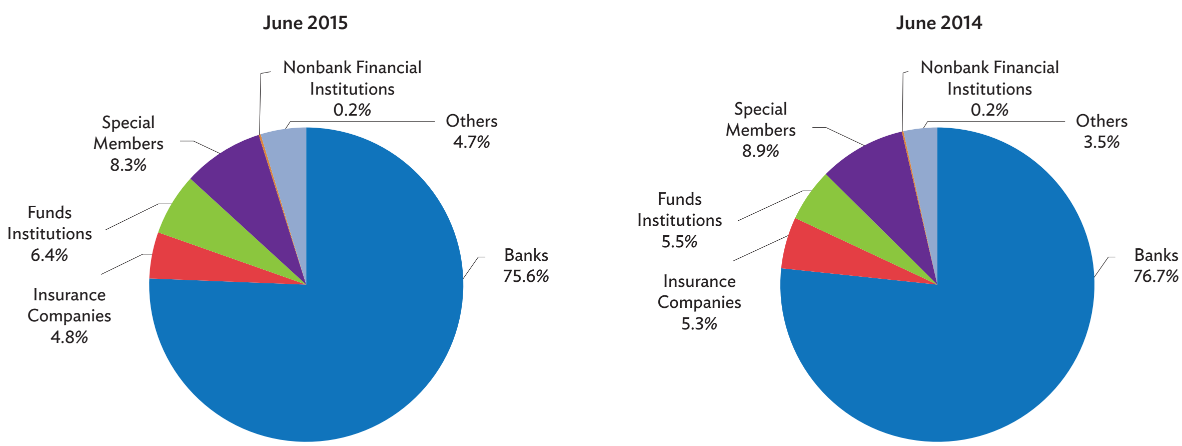
LCY = local currency.
Source: Bloomberg LP.

Figure 5: Investor Profile across Bond Categories



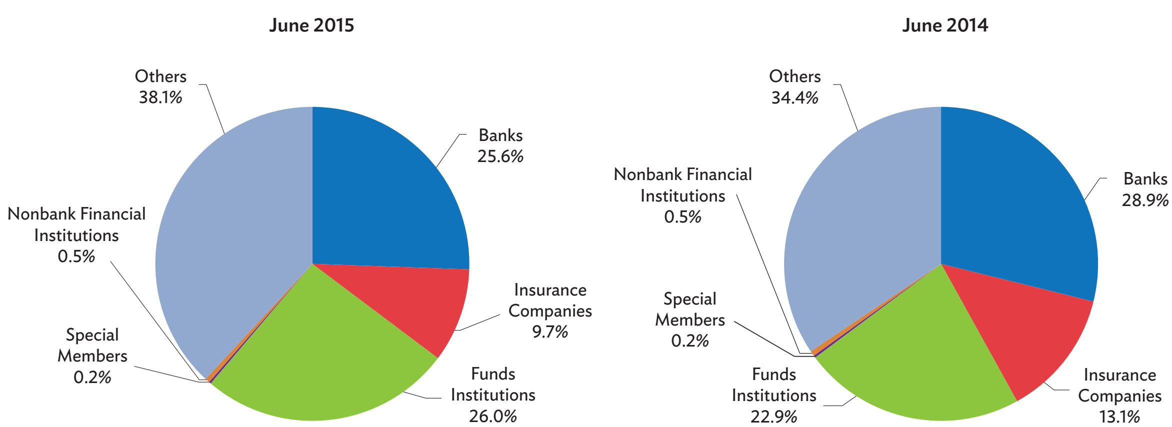
MTNs = medium-term notes.
Note: Data as of end-June 2015.
Source: *ChinaBond*.

Figure 3: LCY Treasury Bonds and Policy Bank Bonds Investor Profile



LCY = local currency.
Source: *ChinaBond*.

Figure 4: LCY Corporate Bonds Investor Profile



LCY = local currency.
Source: *ChinaBond*.

Table 5: Notional Values of the PRC's Interest Rate Swap Market in 2Q15

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	% of Total Notional Amount	Number of Transactions	Growth Rate (%) q-o-q
7-Day Repo Rate	1,727.5	89.1	15,569	13.2
Overnight SHIBOR	62.0	3.2	237	36.4
3-Month SHIBOR	136.6	7.0	1,270	92.5
1-Year Term Deposit Rate	5.1	0.3	34	(63.4)
LIBOR	0.0	0.0	0	0.0
1-Year Lending Rate	8.2	0.4	10	61.2
LPR1Y	0.0	0.0	0	0.0
3-Year Lending Rate	0.0	0.0	0	0.0
5-Year Lending Rate	0.0	0.0	0	0.0
Total	**1,939.3**	**100.0**	**17,120**	**16.8**

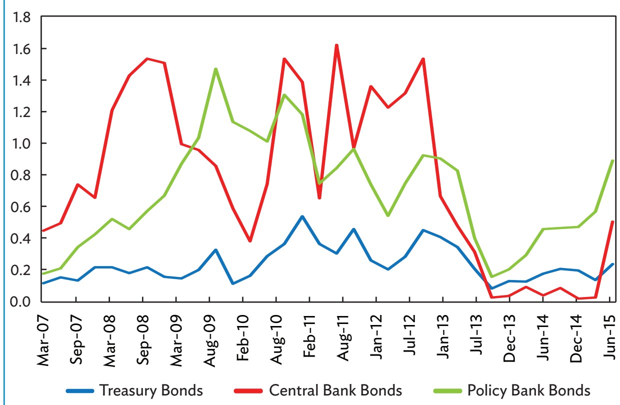
( ) = negative, PRC = People's Republic of China, LIBOR = London Interbank Offered Rate, q-o-q = quarter-on-quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.
Note: Growth rate computed based on notional amounts.
Sources: *ChinaMoney*.

Policy, Institutional, and Regulatory Developments

PBOC Reduces Reserve Requirement Ratios

On 28 June, the PBOC lowered the reserve requirement ratios of select financial institutions. City commercial banks and village and town commercial banks with a certain level of agricultural loans will be entitled to a 50-bps reduction in their reserve requirement ratios. Other banks—such as foreign banks and state-owned commercial banks that have met a certain level of loans to the agricultural sector or small enterprises—are entitled to a 50-bps reduction in their reserve requirement ratios. Finally, finance companies will have their reserve requirement ratios reduced by 300 bps.

Figure 6: Turnover Ratios for Government Bonds



Source: *ChinaBond*.

PBOC Removes Bond Quotas for Sovereign Wealth Funds and Central Banks

On 16 July, the PBOC removed investment bond quotas for foreign central banks, sovereign wealth funds, and certain international financial institutions, such as the World Bank, investing in the interbank bond market. In addition, the application process for these institutions was streamlined and now requires simply registering with the PBOC before investing.

PBOC Revises Exchange-Rate-Setting Mechanism

On 11 August, the PBOC revised its central parity exchange-rate-setting mechanism. The PBOC said that under the new guidelines, market makers should submit quotes based on the prior closing of the interbank foreign exchange market, along with current demand and supply conditions. The quote should also take into account exchange rate movements in other currencies. According to the PBOC, external factors such as a recovering economy in the United States, weaker growth in the European Union and Japan (among other economies), and a strong trade surplus have led to a disparity in market expectations in the renminbi exchange rate versus the current exchange rate being set. The new mechanism is designed to move the central parity exchange rate more in line with market expectations

Hong Kong, China

Yield Movements

Hong Kong, China's yield movements between 1 June and 14 August mostly tracked yield movements in the United States (US) **(Figure 1)**. Yields rose for most of Hong Kong, China's longer-dated tenors, despite only slightly better gross domestic product (GDP) growth in 2Q15 and benign inflation.

For tenors of 6 months or less, yield movements were unchanged. The 9-month and 1-year tenor fell 1 basis point (bp) and 4 bps, respectively. For the remaining tenors, yields rose between 2 bps and 18 bps.

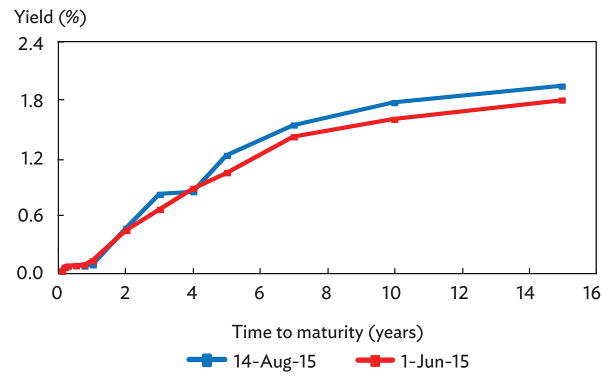
The largest movement came from the 5-year tenor, which rose 18 bps, followed by the 10-year, tenor which rose 17 bps. The 2-year-versus-10-year spread rose to 130 bps on 14 August from 115 bps on 1 June.

Hong Kong, China's yield curve movements closely follow those of the US due to Hong Kong, China's fixed exchange rate system. The US yield curve rose for nearly all tenors during the period under review, with the exception of the 30-year tenor, on increased prospects that the US Federal Reserve would raise interest rates following positive economic data.

Hong Kong, China's GDP grew 2.8% year-on-year (y-o-y) in 2Q15, up from revised 2.4% y-o-y growth in 1Q15. The faster GDP growth in 2Q15 was due to stronger household consumption, which rose 6.0% y-o-y compared with 5.3% y-o-y in the prior quarter. In addition, GDP growth was also helped by a decline in goods imports, which contracted 3.2% y-o-y in 2Q15 after rising 0.1% y-o-y in 1Q15. On the other hand, GDP growth was constrained by a weaker external environment, with exports of goods falling 3.6% y-o-y in 2Q15 after rising 0.4% in the previous quarter. Gross domestic capital formation expanded 6.5% y-o-y in 2Q15, after increasing 7.5% in 1Q15, while government expenditure growth slowed marginally to 3.3% y-o-y from 3.4%.

Inflation remained subdued between April and July. Consumer price inflation in Hong Kong, China slowed to 2.5% y-o-y in July from 3.1% y-o-y in June. In contrast,

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



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

average inflation for 1Q15 was 4.4% y-o-y. The government said that it expects inflation to remain subdued given weak growth in most developed economies.

Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market fell 1.5% quarter-on-quarter (q-o-q) but rose 2.0% y-o-y to reach HKD1,523 billion (US$196 billion) at end-June **(Table 1)**. The q-o-q decline was due to declines in both government and corporate bonds outstanding, while on a y-o-y basis, growth in corporate bonds managed to offset the decline in government bonds.

Exchange Fund Bills (EFBs) outstanding rose 0.4% q-o-q, due to increased issuance in 2Q15, which rose 43.0% q-o-q. The much smaller q-o-q rise in EFBs outstanding was due to the issuance of shorter-dated tenors leading to larger proportion of the bonds maturing.

Exchange Fund Notes (EFNs) continued to decline, falling 4.1% q-o-q and 5.9% y-o-y, as the Hong Kong Monetary Authority sought to align the EFN market with Hong Kong Special Administrative Region (HKSAR) bonds by replacing issuances of EFNs with tenors of 3 years or more with HKSAR bonds.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	HKD	US$	HKD	US$	HKD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,493**	**193**	**1,545**	**199**	**1,523**	**196**	**(1.9)**	**0.3**	**(1.5)**	**2.0**
Government	849	110	857	111	846	109	0.4	1.8	(1.3)	(0.4)
Exchange Fund Bills	684	88	686	89	689	89	0.1	0.4	0.4	0.7
Exchange Fund Notes	68	9	67	9	64	8	(0.4)	(0.9)	(4.1)	(5.9)
HKSAR Bonds	97	13	104	13	93	12	3.2	16.2	(11.3)	(4.5)
Corporate	644	83	688	89	677	87	(4.9)	(1.7)	(1.6)	5.1

( ) = 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.

Table 2: Notable LCY Corporate Bond Issuance in 2Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
The Hong Kong Mortgage Corporation		
1-year bond	0.44	2.00
2-year bond	0.44	0.50
3-year bond	1.34	0.40
China Energy Reserve and Chemicals Group Overseas		
7-year bond	6.30	2.00
Beijing Enterprises Water Capital Investment		
5-year bond	3.90	0.70
Swire Pacific		
7-year bond	2.50	0.40
HKCG (Finance)		
15-year bond	3.25	0.40
Hong Fat Ginseng Holdings		
3.5-year bond	6.00	0.13

LCY = local currency.
Source: Central Moneymarkets Unit, Hong Kong Monetary Authority.

In 2Q15, however, the amount outstanding of HKSAR bonds declined, falling 11.3% q-o-q and 4.5% y-o-y due to a decline in the issuance of HKSAR bonds. In 2Q15, a total of HKD4.7 billion worth of HKSAR bonds were issued, down from HKD7.9 billion in the prior quarter.

The five largest nonbank issuances in 2Q15 came from the Hong Kong Mortgage Corporation (HKD2.9 billion), China Energy Reserve and Chemicals Group Overseas (HKD2.0 billion), Beijing Water Capital Investment (HKD0.7 billion), Swire Pacific (HKD0.4 billion), and HKCG (Finance) (HKD0.4 billion) **(Table 2)**.

Total corporate bonds outstanding fell 1.6% q-o-q in 2Q15, with bond issuance falling 39.3% q-o-q. The decline in corporate bonds outstanding was due to continued uncertainty regarding the US Federal Reserve's rate hike as well as rising interest rates.

The top 30 nonbank issuers in Hong Kong, China had outstanding bonds amounting to HKD121.2 billion at end-June, representing 17.9% of total outstanding corporate bonds at end-June. The top 30 list of issuers was dominated by real estate firms **(Table 3)**. The Hong Kong Mortgage Corporation remained the top issuer in Hong Kong, China with outstanding bonds of HKD19.1 billion. Next was Sun Hung Kai Properties with HKD9.7 billion, followed by CLP Power Hong Kong Financing with HKD9.5 billion of bonds outstanding. Among the top 30, six were state-owned companies and 11 were Hong Kong Exchange-listed firms. Only one state-owned company, the MTR Corporation, was not listed on the Hong Kong Exchange.

Policy, Institutional, and Regulatory Developments

Hong Kong, China Issues US$-Denominated *Sukuk*

On 28 May, the Government of the Hong Kong Special Administrative Region of the People's Republic of China issued a US$1.0 billion 5-year *sukuk* (Islamic bond). This was the second *sukuk* issued by the government, with the first taking place in September 2014. The bond was priced at a rate of 1.894%. The government said that the *sukuk* is based on the *wakalah* structure, in which one-third of the assets are based on units in a Hong Kong, China building and the remainder are in *shari'ah*-compliant commodities.

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 Corporation	19.12	2.47	Yes	No	Finance
2.	Sun Hung Kai Properties (Capital Market)	9.71	1.25	No	No	Real Estate
3.	CLP Power Hong Kong Financing	9.46	1.22	No	No	Electric
4.	Wharf Finance	7.22	0.93	No	No	Diversified
5.	The Link Finance (Cayman) 2009	6.79	0.88	No	No	Finance
6.	HKCG (Finance)	6.42	0.83	No	No	Gas
7.	Swire Pacific	5.93	0.76	No	Yes	Diversified
8.	MTR Corporation (C.I.)	5.75	0.74	Yes	Yes	Transportation
9.	NWD (MTN)	5.05	0.65	No	Yes	Real Estate
10.	Hongkong Electric Finance	4.51	0.58	No	No	Electric
11.	Wheelock Finance	4.04	0.52	No	No	Diversified
12.	Kowloon-Canton Railway	3.40	0.44	Yes	No	Transportation
13.	Urban Renewal Authority	3.30	0.43	Yes	No	Real Estate
14.	Yue Xiu Enterprises (Holdings)	3.00	0.39	No	No	Diversified
15.	Airport Authority Hong Kong	2.80	0.36	Yes	No	Transportation
16.	Yue Xiu Property	2.30	0.30	No	No	Real Estate
17.	CK Hutchison Holdings	2.21	0.28	No	Yes	Real Estate
18.	Bohai International	2.00	0.26	No	No	Diversified
19.	China Energy Reserve and Chemicals Group Overseas	2.00	0.26	No	No	Oil
20.	Swire Properties MTN Financing	2.00	0.26	No	No	Real Estate
21.	Emperor International Holdings	1.95	0.25	No	Yes	Real Estate
22.	Hong Kong Science and Technology Parks	1.71	0.22	Yes	No	Real Estate
23.	Cathay Pacific MTN Financing	1.70	0.22	No	Yes	Airlines
24.	Cheung Kong Holdings	1.65	0.21	No	Yes	Real Estate
25.	Hysan (MTN)	1.50	0.19	No	Yes	Real Estate
26.	Nan Fung Treasury	1.31	0.17	No	No	Real Estate
27.	Tencent Holdings	1.20	0.15	No	Yes	Comunications
28.	Henderson Land MTN	1.19	0.15	No	Yes	Finance
29.	Dragon Drays	1.00	0.13	No	No	Diversified
30.	K. Wah International	1.00	0.13	No	Yes	Real Estate
Total Top 30 Nonbank LCY Corporate Issuers		**121.18**	**15.64**			
Total LCY Corporate Bonds		**677.09**	**87.36**			
Top 30 as % of Total LCY Corporate Bonds		**17.9%**	**17.9%**			

LCY = local currency.
Notes:
1. Data as of end-June 2015.
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

Between 1 June and 14 August, the local currency (LCY) government bond yield curve in Indonesia rose for all tenors except those at the very short-end **(Figure 1)**. Yields rose between 22 basis points (bps) and 68 bps from the 2-year maturity through the long-end of the curve. At the short-end, yields fell 10 bps for the 1-year maturity. The spread between the 2-year and 10-year maturities widened to 70 bps in mid-August from 38 bps in early June.

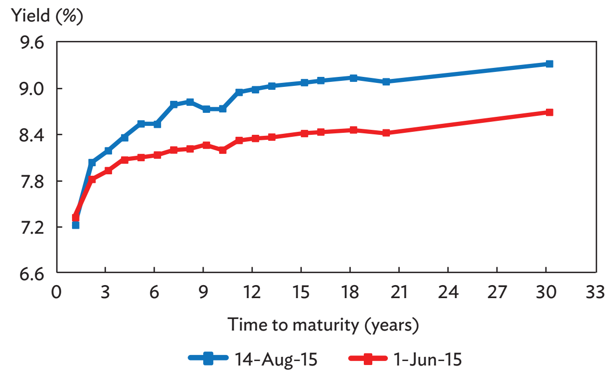
The uptick in yields was reflective of increasing expectations of an imminent rate hike by the United States (US) Federal Reserve. Overall sentiment in Indonesia's LCY bond market was further dragged down by higher inflationary expectations and the rupiah's depreciation. The unexpected devaluation of the Chinese renminbi in August also contributed to the yield uptick.

Inflation has remained elevated, largely due to the government's removal of fuel subsidies at the beginning of the year. Consumer prices were up 6.8% year-on-year (y-o-y) in April and 7.2% y-o-y in May. Inflation accelerated to 7.3% y-o-y in June and remained at that level in July, driven by a seasonal increase in consumer spending related to the Muslim celebration of Ramadan and Idul Fitri.

The continued weakness of the Indonesian rupiah vis-à-vis the US dollar has weighed down investor sentiment in the bond market. As of 14 August, the Indonesian rupiah had fallen 11.3% year-to-date. Much of this weakness stemmed from the lingering uncertainty over the timing of US monetary tightening, and more recently, the devaluation of the Chinese renminbi in August.

Given these developments, Bank Indonesia continued to hold to its tight monetary policy stance and has kept the benchmark interest rate steady at 7.50% since February. Bank Indonesia deems its policy supportive of steering inflation toward its target range of 3.0%–5.0%. The central bank also remains committed in ensuring rupiah stability by optimizing monetary operations. To boost growth, Bank Indonesia has instead chosen to relax macroprudential measures to promote credit growth.

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



LCY = local currency.
Source: Bloomberg LP.

(See Policy, Institutional, and Regulatory Developments at the end of this Market Summary for more details.)

While foreign investors continued to chase Indonesia's high yields, negative externalities have exposed its bond market to increasing risk of capital flight. At end-June, the share of foreign holdings in Indonesia's LCY bond market had risen to 39.6% from 38.6% at end-March. By end-July, however, foreign investor interest had weakened and the foreign holdings share dipped to 39.0%.

Economic growth in Indonesia slowed to 4.67% y-o-y in 2Q15 from 4.72% y-o-y in 1Q15. The slower economic growth was brought about by weak investment growth and moderating increases in both government consumption and household consumption. Bank Indonesia, however, expects the economy to recover in the second half of the year amid accelerated spending by the government on infrastructure projects. On a quarter-on-quarter (q-o-q) and nonseasonally adjusted basis, economic growth climbed to 3.78% in 2Q15 from –0.17% in 1Q15.

Size and Composition

The LCY bond market in Indonesia continued to grow in 2Q15, reaching a size of IDR1,668.2 trillion (US$125 billion) at end-June **(Table 1)**. Growth rates, however, moderated to 2.4% q-o-q and 13.8% y-o-y from 6.5% q-o-q and 16.5% y-o-y in 1Q15. Indonesia's LCY bond market was still dominated by conventional bonds,

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	IDR	US$	IDR	US$	IDR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,465,790**	**123**	**1,629,143**	**125**	**1,668,177**	**125**	**4.8**	**24.2**	**2.4**	**13.8**
Government	1,248,379	105	1,401,586	107	1,429,181	107	5.6	28.0	2.0	14.5
Central Govt. Bonds	1,131,630	95	1,305,486	100	1,356,434	102	5.5	27.4	3.9	19.9
of which: *Sukuk*	101,329	9	145,229	11	156,209	12	4.7	27.1	7.6	54.2
Central Bank Bills	116,749	10	96,100	7	72,748	5	7.2	34.9	(24.3)	(37.7)
of which: *Sukuk*	6,792	0.6	8,810	0.7	8,458	0.6	26.3	46.9	(4.0)	24.5
Corporate	217,412	18	227,557	17	238,996	18	0.02	5.9	5.0	9.9
of which: *Sukuk*	7,105	0.6	7,078	0.5	7,944	0.6	(1.2)	(4.2)	12.2	11.8

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources. 2Q15 *sukuk* data taken from Indonesia Stock Exchange.
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 IDR261.5 trillion.
Sources: Bank Indonesia, Directorate General of Budget Financing and Risk Management Ministry of Finance, Indonesia Stock Exchange, Otoritas Jasa Keuangan, and Bloomberg LP.

which represented 89.7% of the total bond stock at end-June. The remaining 10.3% were accounted for by *sukuk* (Islamic bonds).

Government Bonds. At end-June, the outstanding stock of government bonds climbed to IDR1,429.2 trillion on growth of 2.0% q-o-q and 14.5% y-o-y. Growth was mainly driven by an increase in the stock of central government bonds, which comprised conventional and Islamic Treasury bills and bonds issued by the Ministry of Finance. On the other hand, the outstanding amount of central bank bills, which are known as *Sertifikat* Bank Indonesia (SBI), continued to decline in 2Q15.

Central Government Bonds. The outstanding amount of central government bonds reached IDR1,356.4 trillion at end-June, up 3.9% q-o-q and 19.9% y-o-y. Growth came mainly from increases in the stock of conventional fixed-rate bonds and Treasury bills, and Islamic Treasury instruments, particularly Islamic Treasury bills, and project-based *sukuk*.

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. In 2Q15, a total of IDR89.0 trillion worth of Treasury bills and bonds were issued by the government through weekly auctions. Central government bond issuance volume, however, was lower on a q-o-q basis, but higher compared with the previous year. A few of the auctions fell below target as some auctions were met with weak demand.

Central Bank Bills. The outstanding size of central bank bills, or SBI, slipped to IDR72.7 trillion at end-June, down significantly on a q-o-q and y-o-y basis. Bank Indonesia issues SBI as one of its tools for liquidity management in the banking system. In 2Q15, Bank Indonesia temporarily ceased issuance of conventional SBI and instead only issued *shari'a*-compliant SBI carrying a 9-month maturity. Gross issuance volume of *shari'a*-compliant SBI reached IDR2.2 trillion in 2Q15, markedly lower on both a q-o-q and y-o-y basis.

Corporate Bonds. The outstanding stock of LCY corporate bonds in Indonesia climbed to IDR239.0 trillion at end-June, expanding by 5.0% q-o-q and 9.9% y-o-y. Indonesia's corporate bond sector only accounted for 14.3% of the aggregate LCY bond stock. This sector is mostly dominated by conventional bonds, with corporate sukuk comprising only a 3.3% share of the total corporate bond stock.

At end-June, the top 30 LCY corporate bond issuers in Indonesia accounted for total bonds outstanding of IDR179.2 trillion, representing a 75.0% share of the total LCY corporate bond market **(Table 2)**. More than half of the firms on the list were from the banking and financing sectors, with the rest coming from capital-intensive industries such as energy; telecommunications; and property, real estate, and building construction. A total of 11 state-owned firms were included among the top 30, five of which ranked within the top 10.

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.	Indonesia Eximbank	20,909	1.57	Yes	No	Banking
2.	PLN	14,073	1.06	Yes	No	Energy
3.	Indosat	10,742	0.81	No	Yes	Telecommunications
4.	Telekomunikasi Indonesia	10,000	0.75	Yes	Yes	Telecommunications
5.	Astra Sedaya Finance	8,890	0.67	No	No	Finance
6.	Bank Internasional Indonesia	8,360	0.63	No	Yes	Banking
7.	Perum Pegadaian	8,319	0.62	Yes	No	Finance
8.	Adira Dinamika Multifinance	8,293	0.62	No	Yes	Finance
9.	Bank Tabungan Negara	7,950	0.60	Yes	Yes	Banking
10.	Bank CIMB Niaga	7,750	0.58	No	Yes	Banking
11.	Bank Permata	6,482	0.49	No	Yes	Banking
12.	Bank Pan Indonesia	6,000	0.45	No	Yes	Banking
13.	Jasa Marga	5,900	0.44	Yes	Yes	Toll Roads
14.	Federal International Finance	5,435	0.41	No	No	Finance
15.	Bank OCBC NISP	5,378	0.40	No	Yes	Banking
16.	Sarana Multigriya Finansial	4,738	0.36	Yes	No	Finance
17.	Agung Podomoro Land	4,575	0.34	No	Yes	Property, Real Estate, and Building Construction
18.	Indofood Sukses Makmur	4,000	0.30	No	Yes	Food and Beverages
19.	Bank Tabungan Pensiunan Nasional	3,835	0.29	No	Yes	Banking
20.	Bank Mandiri	3,500	0.26	Yes	Yes	Banking
21.	Medco-Energi International	3,500	0.26	No	Yes	Petroleum and Natural Gas
22.	Antam	3,000	0.22	Yes	Yes	Petroleum and Natural Gas
23.	Bumi Serpong Damai	2,750	0.21	No	Yes	Property, Real Estate, and Building Construction
24.	BCA Finance	2,425	0.18	No	No	Finance
25.	Wahana Ottomitra Multiartha	2,400	0.18	No	Yes	Finance
26.	Garuda Indonesia	2,000	0.15	Yes	Yes	Transportation
27.	Permodalan Nasional Madani	2,000	0.15	Yes	No	Finance
28.	Sumber Alfaria Trijaya	2,000	0.15	No	Yes	Retail
29.	Summarecon Agung	2,000	0.15	No	Yes	Property, Real Estate, and Building Construction
30.	Indomobil Finance Indonesia	1,969	0.15	No	No	Finance
Total Top 30 LCY Corporate Issuers		**179,173**	**13.43**			
Total LCY Corporate Bonds		**238,996**	**17.92**			
Top 30 as % of Total LCY Corporate Bonds		**75.0%**	**75.0%**			

LCY = local currency.
Notes:
1. Data as of end-June 2015.
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.

State-owned Indonesia Eximbank was the largest corporate bond issuer in Indonesia with an outstanding bond stock of IDR20.9 trillion at end-June. Taking the second spot was another state-owned firm, PLN, with outstanding LCY bonds valued at IDR14.1 trillion. Climbing to the third spot was telecommunications firm Indosat, with an outstanding bond stock of IDR10.7 trillion.

In 2Q15, the volume of new corporate debt issues nearly doubled to IDR23.6 trillion from IDR12.3 trillion in the previous quarter. A total of 15 corporate firms raised funds through the bond market in 2Q15, most of which were from the banking and financial sectors. There were 40 new corporate bond series issued during the quarter, including seven *sukuk* bond series.

In terms of maturity structure, 26 bond series carried maturities of more than 1 year to 3 years, six bond series had maturities of more than 3 years to 5 years, and six bond series carried maturities of more than 5 years to 10 years. Two new bond series extended the maturity profile of Indonesia's corporate bonds beyond 10 years: Telekomunikasi Indonesia's 15-year and 30-year bonds.

The largest corporate bond issuance in 2Q15 came from telecommunications companies, including Telekomunikasi Indonesia's issuance worth IDR7.0 trillion in four tranches, and Indosat's issuance worth IDR3.1 trillion in five tranches each of conventional bonds and *sukuk*. The largest corporate bond issuances in 2Q15 are presented in **Table 3**.

Table 3: Notable LCY Corporate Bond Issuance in 2Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Telekomunikasi Indonesia		
7-year bond	9.925	2,200
10-year bond	10.25	2,100
15-year bond	10.60	1,200
30-year bond	11.00	1,500
Indosat		
370-day bond	8.55	554
370-day *sukuk ijarah*	8.55	55
3-year bond	9.25	782
3-year *sukuk ijarah*	9.25	76
5-year bond	10.00	584
5-year *sukuk ijarah*	10.00	67
7-year bond	10.25	337
7-year *sukuk ijarah*	10.25	43
10-year bond	10.40	427
10-year *sukuk ijarah*	10.40	175
Federal International Finance		
370-day bond	8.50	939
3-year bond	9.25	2,061
Toyota Astra Financial Services		
370-day bond	8.50	698
3-year bond	9.25	811
Bank UOB Indonesia		
370-day bond	8.60	400
3-year bond	9.40	600
5-year bond	9.60	500
Sumber Alfaria Trijaya		
3-year bond	9.70	600
5-year bond	10.00	400
Wahana Ottomitra Multiartha		
370-day bond	9.25	140
3-year bond	10.25	860

LCY = local currency, *sukuk ijarah* = Islamic bonds backed by a leasing agreement.
Source: Indonesia Stock Exchange.

Foreign Currency Bonds. The government continued to frontload its G3 issuance in 2015 in anticipation of a possible interest rate hike by the Federal Reserve. Following its issuance of US$4.0 billion via a dual-tranche sale in January and US$2.0 billion worth of *sukuk* in May, the Indonesian government returned to the G3 market with the sale of EUR-denominated and JPY-denominated bonds in July and August, respectively.

In July, the government priced EUR1.25 billion of 10-year bonds, marking Indonesia's second EUR-denominated bond issue. The bond carried a coupon rate of 3.375% and was priced to yield 3.555%. The bond sale was oversubscribed, with the order book reaching EUR2.4 billion. In terms of investor allocation, 37% went to investors from the US, 13% was allocated to Asian investors (excluding Indonesia), and 7% went to investors in Indonesia. Investors based in Europe were allocated an aggregate share of 43%. The bond was listed on both the Singapore Exchange and the Frankfurt Stock Exchange.

In August, the government sold a total of JPY100 billion of samurai bonds in three tranches. The bonds consisted of a JPY22.5 billion 3-year bond priced at a coupon rate of 1.08%, a JPY22.5 billion 5-year bond priced at a coupon rate of 1.38%, and a JPY55.0 billion 10-year bond priced at a coupon rate of 0.91%. Neither the 3-year nor 5-year bond has a guarantee, marking the first issuance of unguaranteed Indonesian bonds in Japan. On the other hand, the 10-year bond carries a guarantee from the Japan Bank for International Cooperation. The bonds were offered through private placement targeted for Japan-based qualified institutional investors.

Investor Profiles

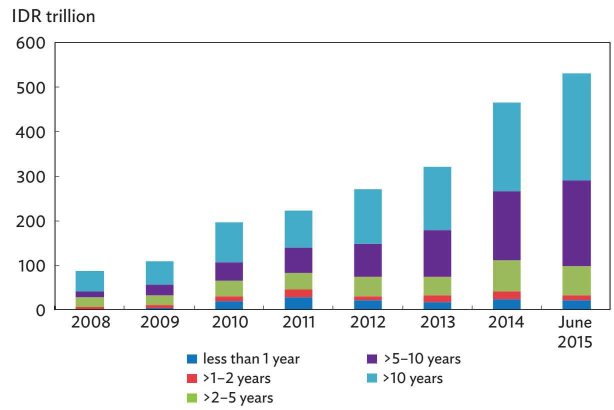
Central Government Bonds. Foreign investors remained the largest investor group in Indonesia's LCY government bond market in 2Q15. Foreign holdings' share of government bonds rose to 39.6% at end-June from 35.7% a year earlier **(Figure 2)**. In absolute terms, outstanding bonds held by foreign investors amounted to IDR537.5 trillion at end-June. Foreign investors remained attracted to Indonesia's LCY government bonds as they offer the highest yields among emerging East Asian markets.

In terms of maturity structure, foreign investors shored up their holdings of long-term maturities in the first half of 2015, with bonds with maturities of more than 10 years inching up to 45% of total foreign holdings by the end of June **(Figure 3)**. At the same time, foreign holdings of medium-dated bonds (more than 5 years to 10 years) rose to 36% of foreign investors' total holdings. In contrast, foreign holdings of bonds with maturities of 5 years or less declined as a share of total foreign holdings between end-December 2014 and end-June 2015.

At end-June, banking institutions comprised the second largest investor group in the central government bond market with a share of 27.2%. However, this was down from a share of 31.4% a year earlier. Insurance companies recorded a decline in its share of holdings of central government bonds at end-June compared with a year earlier.

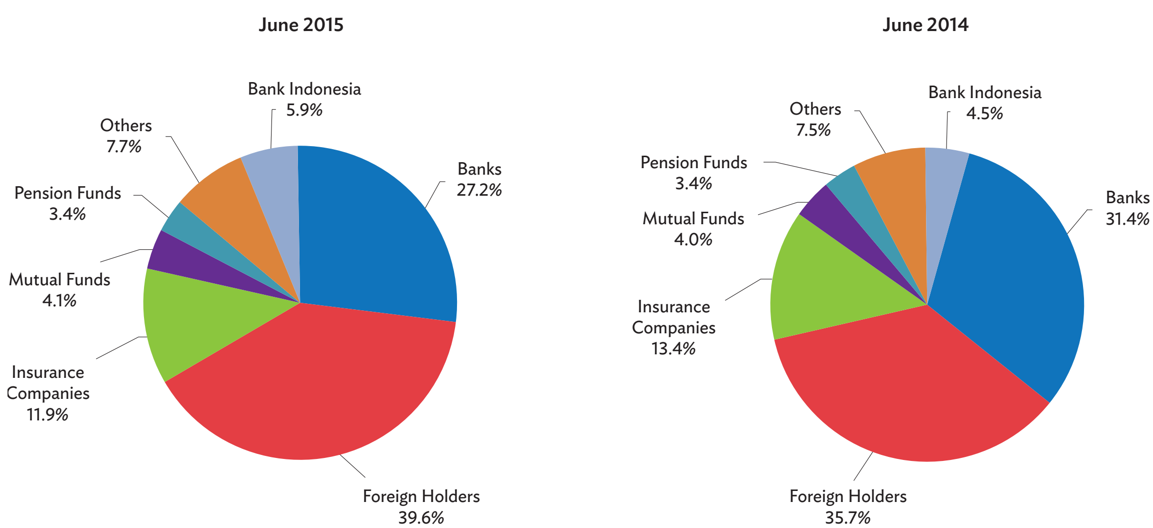
All other domestic investor groups recorded slight y-o-y increases in their share of holdings of central government bonds at end-June. Bank Indonesia increased its share to 5.9% as it intervened in the market to help stabilize bond prices. The share of holdings held by other investors increased to 7.7% at end-June, due mainly to purchases by individual (retail) investors. Mutual fund holdings of central government bonds

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



LCY = local currency.
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

Figure 2: LCY Central Government Bonds Investor Profile

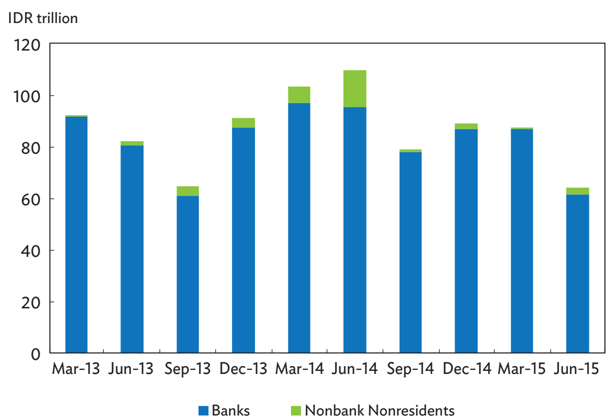


LCY = local currency.
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

rose marginally to a 4.1% share at end-June from 4.0% a year earlier.

Central Bank Bills. Banking institutions were the dominant holders of central bank bills, or SBI, in 2Q15 **(Figure 4)**. At end-June, bank holdings of SBI climbed to a share of 95.9% of the total from 86.9% a year earlier. The remaining 4.1% share of SBI holdings was accounted for by foreign nonbank investors, whose share of SBI holdings rose from end-March but fell when compared with a year earlier.

Figure 4: LCY Central Bank Bills Investor Profile



LCY = local currency.
Source: Bank Indonesia.

Policy, Institutional, and Regulatory Developments

Bank Indonesia Eases Macroprudential Measures to Spur Growth

In June, Bank Indonesia eased macroprudential measures by revising its policies for loan-to-value and financing-to-value ratios for property loans, and for automotive loan down payments. Bank Indonesia increased by 10 percentage points the loan-to-value ratio for property loans and the financing-to-value ratio for *shari'ah*–compliant property credit, which raised the maximum loanable amount for home buyers. Also, Bank Indonesia reduced by 5 percentage points the down payment requirement for automotive loans, bringing the new minimum down payment for two-wheelers to 20% and for passenger cars to 25%. The relaxation of these macroprudential policies aimed to support economic growth.

Mandatory Use of Rupiah for Domestic Transactions

In July, Bank Indonesia implemented a policy dictating the mandatory use of the Indonesian rupiah for domestic transactions. The ban on the use of foreign currencies for onshore transactions seeks to help ease the demand for foreign currency and manage the stability of the Indonesian rupiah. Certain exceptions to the regulation were granted, including transactions related to implementation of the state budget, international trade, international funding by parties where one party is located overseas, foreign currency transactions involving banks as allowed by the laws on banks and *shari'a*–compliant banks, transactions involving securities issued by the government in foreign currencies in the primary and secondary markets, and other foreign currency transactions as may be allowed by Bank Indonesia.

Bank Indonesia Revises Auction Process for Monetary Instruments and Expands Tenors for Reverse Repos

In August, Bank Indonesia revised its auction process for reverse repurchase agreements (reverse repo) for government bonds and SBI, as part of efforts to stabilize the rupiah. The central bank said that it will offer a fixed rate on the two instruments instead of a variable rate. Also, Bank Indonesia will offer longer tenors such as 3-month reverse repos, and increase issuances of 9-month and 12-month SBIs. The frequency of foreign exchange swaps was also reduced to a weekly basis.

Republic of Korea

Yield Movements

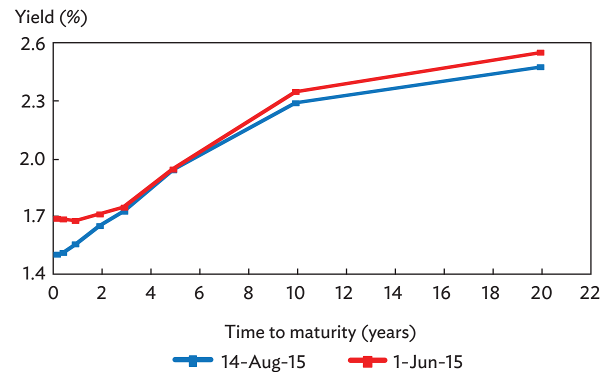
Local currency (LCY) government bond yields in the Republic of Korea fell for all tenors between 1 June and 14 August, with yields for shorter-term tenors registering the largest declines **(Figure 1)**. Expectations of a sluggish domestic economy and low inflationary pressures partly contributed to the decrease in yields. Meanwhile, the yield spread between the 2-year and 10-year tenors was broadly unchanged.

Real gross domestic product growth in the Republic of Korea decelerated in 2Q15—leveling off at 0.3% quarter-on-quarter (q-o-q) and 2.2% year-on-year (y-o-y) per the Bank of Korea's advance estimates released in July—down from 0.8% q-o-q and 2.5% y-o-y in 1Q15. The Bank of Korea also announced in July that it had lowered its 2H15 real gross domestic product growth forecast for the Republic of Korea to 2.8% y-o-y from a previous projection of 3.1% y-o-y reported in April.

The policy rate in the Republic of Korea was lowered once in 2Q15. On 11 June, the Bank of Korea's Monetary Policy Committee decided to reduce the base rate by 25 basis points (bps) to 1.50% amid a sluggish export performance and the adverse impacts of the Middle East Respiratory Syndrome on household consumption. On both 9 July and 13 August, the committee decided to keep steady the policy rate at its current level.

Inflationary pressures inched up throughout 2Q15, as consumer price inflation rose to 0.7% y-o-y in June from 0.5% y-o-y in May and 0.4% y-o-y in April, based on Statistics Korea data. In July, consumer price inflation remained at 0.7% y-o-y.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The Republic of Korea's LCY bond market exhibited relatively strong growth in 2Q15 as the outstanding amount of bonds expanded 3.1% q-o-q and 10.0% y-o-y, compared with growth of 2.3% q-o-q and 8.3% y-o-y in 1Q15 and 1.4% q-o-q and 7.8% y-o-y in 2Q14 **(Table 1)**. At end-June, Korean LCY bonds outstanding totaled KRW1,958.3 trillion (US$1,756 billion), of which 41.1% were government bonds and 58.9% were corporate bonds.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	KRW	US$	KRW	US$	KRW	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,779,533**	**1,759**	**1,900,194**	**1,712**	**1,958,273**	**1,756**	**1.4**	**7.8**	**3.1**	**10.0**
Government	700,464	692	789,741	712	805,593	722	3.5	9.9	2.0	15.0
Central Bank Bonds	174,000	172	184,940	167	188,310	169	1.9	5.2	1.8	8.2
Central Government Bonds	485,792	480	513,685	463	527,583	473	4.1	10.6	2.7	8.6
Industrial Finance Debentures	40,671	40	91,116	82	89,700	80	3.7	24.0	(1.6)	120.5
Corporate	1,079,069	1,066	1,110,453	1,001	1,152,680	1,033	0.1	6.5	3.8	6.8

( ) = 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.

LCY government bonds outstanding at end-June totaled KRW805.6 trillion, up 2.0% q-o-q and 15.0% y-o-y. A relatively large portion of this amount came from outstanding LCY central government bonds, which were at valued KRW527.6 trillion at end-June and exhibited growth rates of 2.7% q-o-q and 8.6% y-o-y, led by an increase in the existing stock of Korea Treasury Bonds. The outstanding amount of central bank bonds, or Monetary Stabilization Bonds, also rose in 2Q15—recording growth rates of 1.8% q-o-q and 8.2% y-o-y—to reach KRW188.3 trillion at end-June. Meanwhile, the stock of industrial finance debentures exhibited a mixed performance in 2Q15 with negative q-o-q and positive y-o-y growth to level off at KRW89.7 trillion at end-June.

Issuance of LCY government bonds exhibited a mixed performance in 2Q15, falling 3.1% q-o-q but rising 6.4% y-o-y. The q-o-q decline was largely due to decreased bond issuance by the central government, while the y-o-y increase was mostly a result of increased issuance of central bank bonds.

The outstanding amount of LCY corporate bonds expanded 3.8% q-o-q and 6.8% y-o-y in 2Q15, a faster clip compared with 1Q15's growth of 1.6% q-o-q and 3.0% y-o-y, and 2Q14's 0.1% q-o-q and 6.5% y-o-y. The q-o-q increase in 2Q15 stemmed from growth in the existing stock of special public bonds, financial debentures, and private corporate bonds. Meanwhile, the y-o-y expansion occurred on the back of positive growth in financial debentures and private corporate bonds.

At end-June, the combined LCY bonds outstanding of the top 30 corporate issuers in the Republic of Korea reached KRW724.6 trillion, which accounted for 62.9% of total LCY corporate bonds outstanding **(Table 2)**. The largest LCY corporate bond issuer continued to be Korea Housing Finance Corporation. Issuance of LCY corporate bonds was up 34.5% q-o-q and 118.2% y-o-y in 2Q15 amid positive growth in the issuance of special public bonds, financial debentures, and private corporate bonds. Of the five most notable LCY corporate bonds issued in 2Q15, three were from special public agencies and two were from a domestic bank **(Table 3)**.

Investor Profile

Insurance companies and pension funds remained the largest investor group in the Republic of Korea's LCY government bond market, comprising 31.3% of the total market at end-March **(Figure 2)**. Compared with end-March 2014, the share of insurance companies and pension funds was up 1.4 percentage points, while the share of banks slid 1.6 percentage points, the most of any investor group.

Insurance companies and pension funds were also the largest investor group in the LCY corporate bond market, with a 35.4% share at end-March **(Figure 3)**. Between end-March 2014 and end-March 2015, the share of LCY bonds held by insurance companies and pension funds climbed 1.8 percentage points, an increase second only to that of households and nonprofit institutions, which climbed 2.0 percentage points. On the other hand, the share of banks fell 3.0 percentage points during the same period, the largest y-o-y drop among all investor groups.

Net foreign investment in the Republic of Korea's LCY bond market reached KRW2,779 billion in 2Q15, up from 1Q15 and 2Q14 levels of KRW2,067 billion and KRW2,590 billion, respectively. On a monthly basis, net foreign bond investment stood at KRW143 billion in April and climbed to KRW3,197 billion in May; however, foreign investors sold Korean LCY bonds in June and July, generating net outflows of KRW561 billion and KRW2,618 billion, respectively, amid the Greek debt crisis and expectations of a policy rate hike in the United States **(Figure 4)**.

Ratings Update

Fitch Ratings (Fitch) in July affirmed the Republic of Korea's long-term foreign currency issuer default rating and long-term LCY issuer default rating at AA– and AA, respectively. The outlook for both ratings was stable. According to Fitch, the Republic of Korea's sovereign ratings are supported by a strong macroeconomic performance, sound external balances, and moderate government debt.

Rating and Investment Information (R&I) reported in July that it has affirmed the Republic of Korea's foreign currency issuer rating at A+ and domestic currency issuer rating at AA–. It also maintained a stable outlook for both ratings. According to R&I, its ratings are partly based on the economy's "prudent fiscal management" and low government debt.

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 Housing Finance Corp.	82,784	74.2	Yes	No	No	Financial
2.	Korea Land & Housing Corp.	55,415	49.7	Yes	No	No	Real Estate
3.	NH Investment & Securities	53,736	48.2	Yes	Yes	Yes	Securities
4.	KDB Daewoo Securities	49,440	44.3	Yes	Yes	No	Securities
5.	Korea Investment and Securities	44,782	40.1	No	No	No	Securities
6.	Korea Deposit Insurance Corp.	35,810	32.1	Yes	No	No	Insurance
7.	Industrial Bank of Korea	35,017	31.4	Yes	Yes	No	Bank
8.	Mirae Asset Securities	33,188	29.8	No	Yes	No	Securities
9.	Korea Electric Power Corp.	27,270	24.4	Yes	Yes	No	Utilities
10.	Hana Daetoo Securities	23,558	21.1	No	No	No	Securities
11.	Korea Expressway	22,100	19.8	Yes	No	No	Infrastructure
12.	Hyundai Securities	21,885	19.6	No	Yes	No	Securities
13.	Kookmin Bank	18,720	16.8	No	No	No	Bank
14.	Korea Rail Network Authority	18,220	16.3	Yes	No	No	Infrastructure
15.	Woori Bank	17,715	15.9	Yes	No	No	Bank
16.	Shinhan Bank	16,913	15.2	No	No	No	Bank
17.	Samsung Securities	15,486	13.9	No	Yes	No	Securities
18.	Korea Gas Corp.	15,449	13.8	Yes	Yes	No	Utilities
19.	Daishin Securities	14,997	13.4	No	Yes	No	Securities
20.	Small & Medium Business Corp.	14,555	13.0	Yes	No	No	Financial
21.	Standard Chartered First Bank Korea	12,140	10.9	No	No	No	Bank
22.	Korea Student Aid Foundation	11,810	10.6	Yes	No	No	Financial
23.	Shinhan Investment Corp.	11,803	10.6	No	No	No	Securities
24.	Korea Railroad Corp.	10,800	9.7	Yes	No	No	Infrastructure
25.	Hana Bank	10,710	9.6	No	No	No	Bank
26.	Korea Water Resources Corp.	10,676	9.6	Yes	Yes	No	Utilities
27.	Korea Eximbank	10,070	9.0	Yes	No	No	Bank
28.	Hyundai Capital Services	10,004	9.0	No	No	No	Financial
29.	Shinyoung Securities	9,957	8.9	No	Yes	Yes	Securities
30.	Shinhan Card	9,596	8.6	No	No	No	Financial
Total Top 30 LCY Corporate Issuers		**724,606.3**	**649.6**				
Total LCY Corporate Bonds		**1,152,680.0**	**1,033.3**				
Top 30 as % of Total LCY Corporate Bonds		**62.9%**	**62.9%**				

KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, LCY = local currency.
Notes:
1. Data as of end-June 2015.
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 2Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Korea Deposit Insurance Corporation		
3-year bond	1.86	900.0
5-year bond	2.12	680.0
Industrial Bank of Korea		
9-month bond	1.56	400.0
1-year bond	1.61	360.0
Korea Rural Community Corporation		
3-year bond	1.89	520.0

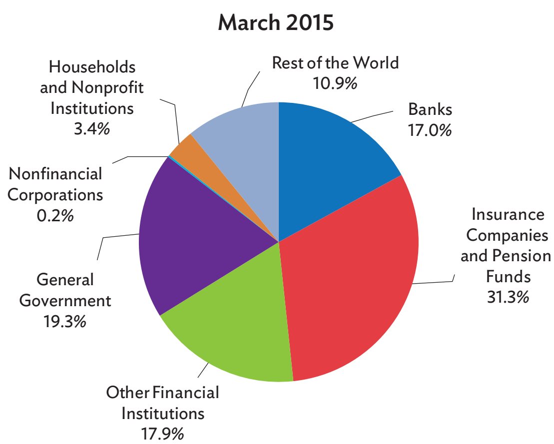
LCY = local currency.
Note: Coupon rates for 1-year bond of Woori Bank and 0.8-year bond of Industrial Bank of Korea are indicative yields as of 13 August 2015.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

MOSF Announces 2015 Supplementary Budget

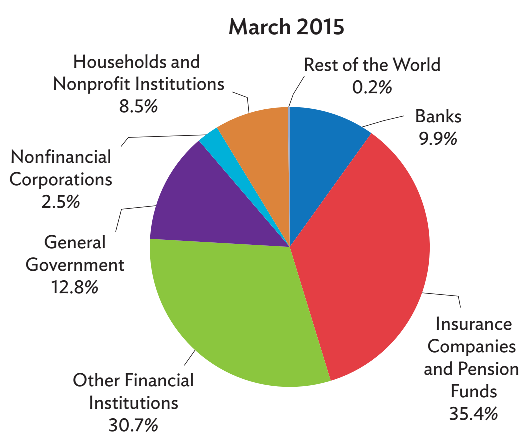
The Ministry of Strategy and Finance (MOSF) announced in July a supplementary budget for 2015. About KRW5.4 trillion will be used to finance the revenue shortfall in 2015, while KRW6.2 trillion will be utilized to augment budget expenditures—specifically for water resources management and support of the working class, and to deal with the adverse effects of

Figure 2: LCY Government Bonds Investor Profile



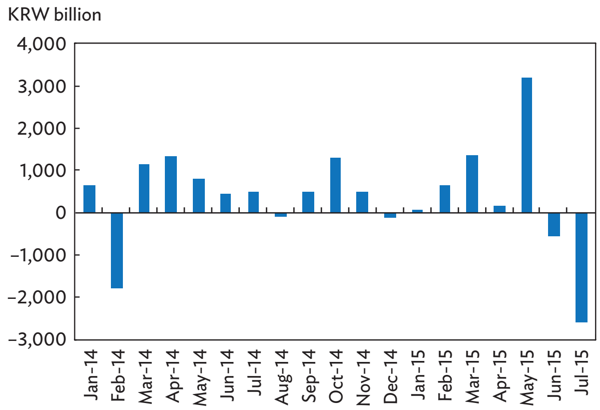
LCY = local currency.
Sources: *AsianBondsOnline* and The Bank of Korea.

Figure 3: LCY Corporate Bonds Investor Profile



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

Figure 4: Net Foreign Investment in LCY Bonds in the Republic of Korea



LCY = local currency.
Source: Financial Supervisory Service.

the Middle East Respiratory Syndrome. MOSF stated that the supplementary budget will be largely funded by government bonds.

FSC to Enhance KRX's Competitiveness

The Financial Services Commission (FSC) reported in July plans to improve the competitiveness of the Korea Exchange (KRX). Specifically, the FSC intends to establish a holding company for KRX, which will have as its subsidiaries the Korea Stock Price Index exchange, the Korean Securities Dealers Automated Quotations exchange, and the derivatives exchange. Revisions to the Financial Investment Services and Capital Markets Act are planned to allow for the creation of this holding company.

FSC Introduces Measures to Manage Household Debt

In July, the FSC launched a set of measures that will manage household debt in the Republic of Korea. According to the FSC, these measures are aimed at (i) accelerating the improvement of the quality of household loans, (ii) enhancing the assessment of borrowers' ability to repay, (iii) tightening the management of household debt in the nonbanking sector, and (iv) strengthening the ability of banks to respond to shocks.

Malaysia

Yield Movements

Between 1 June and 14 August, Malaysian local currency (LCY) government bond yields rose for all tenors as the market remained cautious over domestic and external developments **(Figure 1)**. Yields for tenors of less than 1 year increased between 14 basis points (bps) and 16 bps, while yields for tenors of 1 year to 20 years rose between 27 bps and 44 bps.

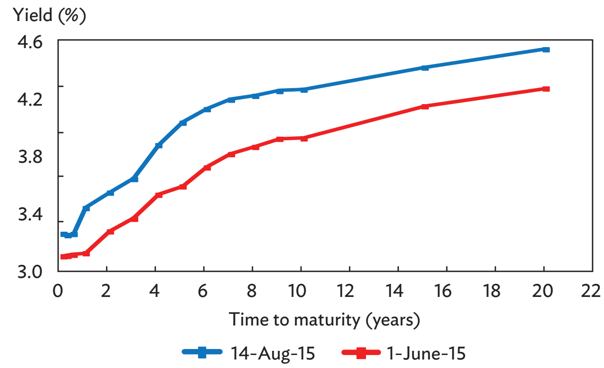
Yields rose as the market continued to monitor economic developments in the United States (US) that might signal the start of rate hikes by the US Federal Reserve. In August, concerns over the slowdown of the economy of the People's Republic of China and the devaluation of the Chinese renminbi further contributed to the rise in yields and the sharp depreciation of the Malaysian ringgit.

As of 14 August, the ringgit had depreciated 16.7% year-to-date. The weakness of the currency is a reflection of the market's bearish outlook on Malaysia's economic growth and fiscal condition amid the continued decline in global oil prices, and impact of the PRC's economic slowdown. In addition, the market has also taken note of the fall in Bank Negara Malaysia's (BNM) foreign reserves to below US$100 billion in July, an indication that BNM has been intervening to support the Malaysian ringgit. The decline in foreign reserves increases Malaysia's vulnerability to further capital outflows.

The continued depreciation of the Malaysian ringgit against the US dollar resulted in foreign investors selling off their holdings of local bonds. Data from BNM showed a decline in foreign holdings of central government debt securities to MYR177 billion in July from MYR180 billion in June, the largest recorded monthly outflow year-to-date.

Furthermore, inflation continues to be on an upward trend rising to 3.3% year-on-year (y-o-y) at end-July from 0.9% y-o-y at end-March raising speculations that the BNM may raise policy rates to abate inflation. The rise in inflation was primarily due to upward adjustments in domestic fuel prices and the effects of the Goods and Services Tax (GST).

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



LCY = local currency.
Source: Bloomberg LP.

In its policy meeting held on 9 July, BNM decided to maintain its overnight policy rate at 3.25% stating that Malaysia's economy is expected to continue to grow moderately with support from domestic demand. Private consumption is expected to be slower due to the effects of the implementation of the GST, but will continue to be supported by stable domestic labor market conditions. Inflation is expected to increase in the short-term, due to implementation of the GST and adjustments in fuel prices, before moderating in the second half of 2016.

Meanwhile, Malaysia's gross domestic product growth slowed to 4.9% y-o-y in 2Q15 from 5.6% y-o-y in 1Q15, due to weaker private final consumption expenditure and gross fixed capital formation, and a contraction in exports. Private final consumption expenditure posted an increase of 6.4% y-o-y in 2Q15, down from 8.8% in 1Q15, while gross fixed capital formation growth slowed to 0.5% y-o-y from 7.9% y-o-y. Exports contracted 3.7% y-o-y in 2Q15.

Size and Composition

The Malaysian LCY bond market barely moved in 2Q15, expanding a mere 0.2% quarter-on-quarter (q-o-q) to MYR1,076 billion (US$285 billion) at end-June **(Table 1)**. The increases in the stock of outstanding central government bonds, corporate bonds, and *Sukuk*

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	MYR	US$	MYR	US$	MYR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,053**	**328**	**1,073**	**290**	**1,076**	**285**	**0.2**	**6.0**	**0.2**	**2.1**
Government	612	191	612	165	608	161	(0.3)	4.1	(0.7)	(0.6)
Central Government Bonds	508	158	531	143	557	148	1.2	10.7	4.9	9.6
of which: *sukuk*	190	59	195	53	209	55	5.6	17.6	7.1	9.9
Central Bank Bills	88	28	57	15	23	6	(10.5)	(27.9)	(59.1)	(73.6)
of which: *sukuk*	35	11	19	5	4	1	(12.7)	(30.1)	(78.4)	(88.1)
Sukuk Perumahan Kerajaan	16	5	24	7	28	7	20.2	150.0	14.3	80.0
Corporate	442	138	461	125	468	124	0.9	8.7	1.4	6.0
of which: *sukuk*	302	94	328	89	337	89	1.4	11.1	2.7	11.8

( ) = negative, 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.

Perumahan Kerajaan were capped by the continued decrease in outstanding central bank bills.[7] There was still no issuance of BNM monetary notes in 2Q15. On a y-o-y basis, the LCY bond market grew 2.1% in 2Q15. Government bonds outstanding totaled MYR608 billion (US$161 billion), while corporate bonds summed to MYR468 billion (US$124 billion). *Sukuk* (Islamic bonds) continued to comprise the majority of the LCY bond market with a share of 54% of total bonds outstanding at end-June.

Government Bonds. LCY government bonds outstanding decreased 0.7% q-o-q and 0.6% y-o-y to close at MYR608 billion at end-June. This was due to the continued decline in outstanding BNM monetary notes, which contracted 59.1% q-o-q to MYR23 billion. The central bank ceased issuance of BNM monetary notes—a tool used to manage liquidity in the market—in the first half of 2015 amid easing inflation. Meanwhile, central government bonds—comprising Malaysian Government Securities, Government Investment Issues, and Treasury bills—increased 4.9% q-o-q to MYR557 billion.

Total government bond issuance increased 4.4% q-o-q to MYR32 billion, led by Government Investment Issues. Meanwhile, there was a lesser amount of Malaysian Government Securities and Treasury bills issued in 2Q15.

[7] *Sukuk Perumahan Kerajaan* are Islamic bonds issued by the government to refinance funding for housing loans to government employee and to extend new housing loans.

Corporate Bonds. LCY corporate bonds slightly increased 1.4% q-o-q, bringing total outstanding bonds to MYR468 billion at end-June. The ratio of corporate *sukuk* to total corporate bonds outstanding inched up to 72.1% at end-June from 71.2% at end-March.

Corporate bond issuance rose 60.6% q-o-q to MYR30 billion in 2Q15 (on a total of 53 new issues) from a low base of MYR19 billion in 1Q15. *Sukuk* accounted for the majority of total issuance for the quarter with a share of 64.2%, while conventional bonds registered a share of 35.8%. By type of instrument, Islamic Medium-Term Notes had the highest share of total issuance at 57.8%, next was conventional commercial paper with a share of 27.3%. **Table 2** lists notable corporate bond issuances in 2Q15.

The largest corporate issuers in 2Q15 were from the financial and transportation sectors, led by Danainfra Nasional, Danga Capital, Jambatan Kedua, and Jana Kapital. Danainfra Nasional, a state-owned company established to fund Malaysia's infrastructure projects, issued a multi-tranche *sukuk* comprising a MYR600 million 7-year tranche: MYR300 million each for the 10-year, 15-year, and 20-year tranches; and MYR1 billion each for the 25-year and 30-year tranches. The notes carried 4.15%, 4.33%, 4.61%, 4.79%, 4.95%, and 5.05% profit rates, respectively. Danga Capital issued MYR2 billion worth of 5-year *sukuk* with a profit rate of 4.1%. The bond was rated AAA by RAM Ratings.

Table 2: Notable LCY Corporate Bond Issuance in 2Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Danainfra Nasional		
7-year Islamic MTN	4.15	600
10-year Islamic MTN	4.33	300
15-year Islamic MTN	4.61	300
20-year Islamic MTN	4.79	300
25-year Islamic MTN	4.95	1,000
30-year Islamic MTN	5.05	1,000
Danga		
5-year Islamic MTN	4.10	2,000
Jambatan Kedua		
10-year Islamic MTN	4.30	1,300
15-year Islamic MTN	4.52	700
Jana Kapital		
1-year Islamic MTN	4.30	35
2-year Islamic MTN	4.40	100
3-year Islamic MTN	4.50	100
4-year Islamic MTN	4.60	95
5-year Islamic MTN	4.70	95
6-year Islamic MTN	4.80	100
7-year Islamic MTN	4.90	95
8-year Islamic MTN	5.00	95
9-year Islamic MTN	5.10	95
10-year Islamic MTN	5.20	90
Benih Restu		
10-year Islamic MTN	4.62	1,000
United Overseas Bank Malaysia		
10-year Islamic MTN	4.62	1,000

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

Table 3 provides a breakdown of the top 30 LCY corporate bond issuers in Malaysia, whose total LCY bonds outstanding stood at MYR253.9 billion at end-June, representing 54.3% of the LCY corporate bond market. Financial firms, including banks, comprised 15 of the 30 largest corporate bond issuers, with bonds outstanding worth MYR135.6 billion. Highway operator Project Lebuhraya Usahasama remained the largest issuer with outstanding bonds valued at MYR30.6 billion.

Investor Profile

At end-June, foreign investors held the largest share of government bonds at 33.8%, with a total value of MYR180.1 billion, compared to the same period in 2014 when financial institutions had the largest holdings. The share of government bonds held by financial institutions—including banks, development financial institutions, and nonbank financial institutions—declined to 32.3% from 34.0% at end-June 2014 **(Figure 2)**.

Meanwhile, the share of social security institutions inched up to 27.8% of the total market at end-June from 27.3% a year earlier. The share of insurance companies' government bond holdings fell to 5.7% at end-June from 6.5% a year earlier.

Domestic and foreign banks (commercial and Islamic) remained the largest investor group in LCY corporate bonds at end-June with shares of 47.5% and 5.8%, respectively **(Figure 3)**. Compared with a year earlier, the share of domestic banks increased 1.2 percentage points, while that of foreign banks decreased 1.0 percentage point. The share of life insurance companies increased slightly to 31.7% at end-June from 31.2% a year earlier. Meanwhile, the share of investment banks remained unchanged at 4.9%.

Ratings Update

In July, Fitch Ratings (Fitch) affirmed its A– long-term foreign currency issuer default rating and A long-term local currency issuer default rating for Malaysia. The outlook for both ratings was revised to stable from negative. Fitch cited Malaysia's improving fiscal position, strong real economic growth, and stable inflation as the reasons for its ratings decisions.

Also in July, Standard & Poor's (S&P) affirmed its A–/A-2 foreign currency issuer default rating and A/A-1 local currency issuer default rating for Malaysia, with a stable outlook for both ratings. S&P cited Malaysia's strong external position and monetary flexibility as the reasons for its ratings decisions. S&P also stated that the 1Malaysia Development corruption controversy will not affect the government's implementation of fiscal and economic reforms.

Policy, Institutional, and Regulatory Developments

BNM to Create Comprehensive Guidelines on Major Islamic Finance Contracts

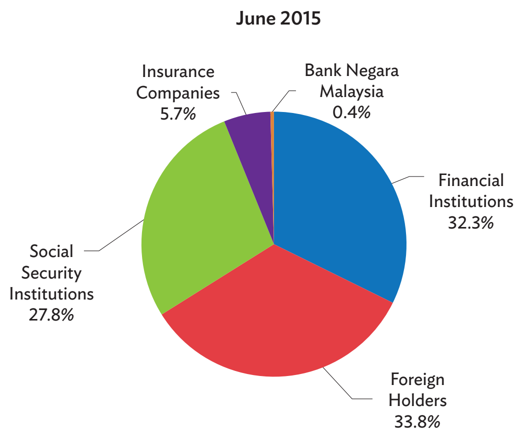
In June, BNM announced that it will create a comprehensive set of guidelines for all major Islamic finance contracts, including the finalization of operating

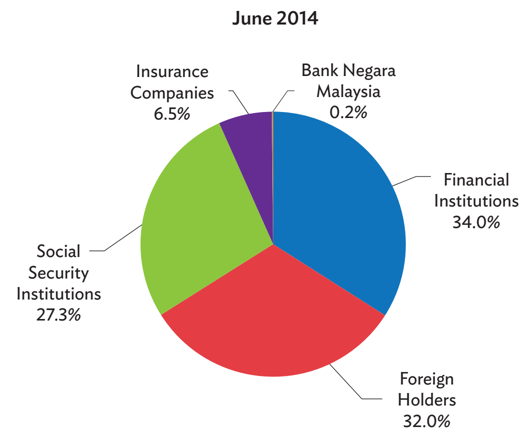
Table 3: Top 30 Issuers of LCY Corporate Bonds in Malaysia

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (MYR billion)	LCY Bonds (US$ billion)			
1.	Project Lebuhraya Usahasama	30.6	8.1	No	No	Transport, Storage, and Communications
2.	Cagamas	22.2	5.9	Yes	No	Finance
3.	Khazanah	20.0	5.3	Yes	No	Finance
4.	Danainfra Nasional	17.6	4.7	Yes	No	Finance
5.	Prasarana	15.6	4.1	Yes	No	Transport, Storage, and Communications
6.	Pengurusan Air	11.9	3.2	Yes	No	Energy, Gas, and Water
7.	Maybank	11.4	3.0	No	Yes	Banking
8.	Perbadanan Tabung Pendidikan Tinggi Nasional	11.0	2.9	Yes	No	Finance
9.	CIMB Bank	8.1	2.1	No	No	Banking
10.	Public Bank	7.6	2.0	No	No	Banking
11.	Sarawak Energy	7.0	1.9	Yes	No	Energy, Gas, and Water
12.	Aman Sukuk	6.7	1.8	Yes	No	Construction
13.	BGSM Management	6.0	1.6	No	No	Transport, Storage, and Communications
14.	RHB Bank	5.4	1.4	No	No	Banking
15.	Turus Pesawat	5.3	1.4	Yes	No	Transport, Storage, and Communications
16.	Cagamas MBS	5.0	1.3	Yes	No	Finance
17.	1Malaysia Development	5.0	1.3	Yes	No	Finance
18.	Celcom Networks	5.0	1.3	No	No	Transport, Storage, and Communications
19.	Malakoff Power	4.9	1.3	No	No	Energy, Gas, and Water
20.	Manjung Island Energy	4.9	1.3	No	No	Energy, Gas, and Water
21.	Rantau Abang	4.8	1.3	Yes	No	Finance
22.	YTL Power International	4.8	1.3	No	Yes	Energy, Gas, and Water
23.	Hong Leong Bank	4.7	1.2	No	Yes	Banking
24.	AM Bank	4.5	1.2	No	Yes	Banking
25.	Bank Pembangunan Malaysia	4.4	1.2	Yes	No	Banking
26.	Putrajaya Holdings	4.2	1.1	Yes	No	Property and Real Estate
27.	Tanjung Bin Power	4.0	1.1	No	No	Energy, Gas, and Water
28.	Danga Capital	4.0	1.1	Yes	No	Finance
29.	Telekom Malaysia	3.7	1.0	No	Yes	Transport, Storage, and Communications
30.	TNB Western Energy	3.7	1.0	Yes	No	Energy, Gas, and Water
Total Top 30 LCY Corporate Issuers		**253.9**	**67.3**			
Total LCY Corporate Bonds		**467.9**	**124.0**			
Top 30 as % of Total LCY Corporate Bonds		**54.3%**	**54.3%**			

LCY = local currency.
Notes:
1. Data as of end-June 2015.
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.

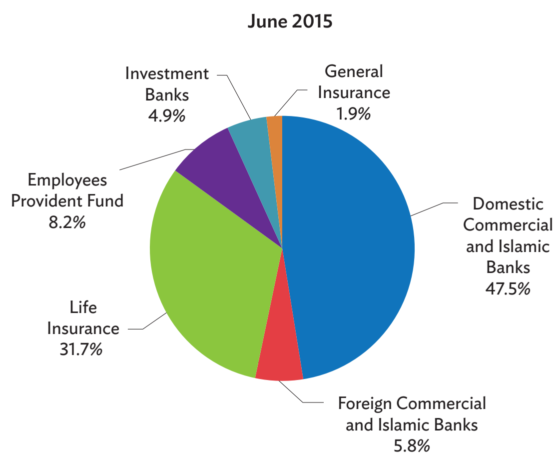
Figure 2: LCY Government Bonds Investor Profile

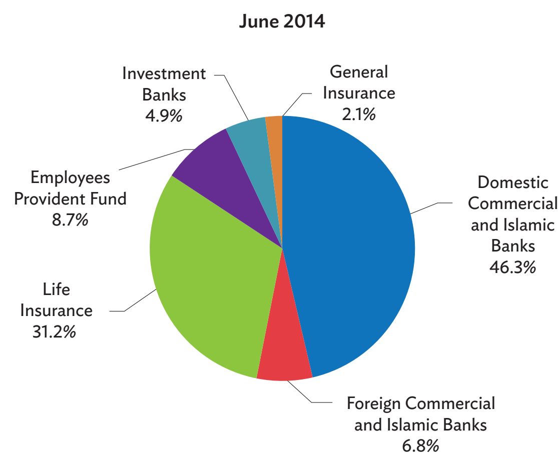




LCY = local currency.
Source: Bank Negara Malaysia.

Figure 3: LCY Corporate Bonds Investor Profile





LCY = local currency.
Note: The Employees Provident Fund's (EPF) bond holdings data is as of end-December 2014, as data is based on the EPF's annual report.
Source: Bank Negara Malaysia.

standards, by the end of the year. The guidelines will address inconsistencies in the use and interpretation of Islamic contracts, and will complement the existing *shari'ah* guidelines already issued by BNM.

SC Implements Lodge and Launch Framework for Wholesale Products

On 15 June, the Securities Commission Malaysia (SC) implemented the Lodge and Launch Framework for wholesale products, which incorporate the Guidelines on Unlisted Capital Market Products issued on 29 March. This initiative is expected to significantly reduce the time-to-market for wholesale products from the current approval timeframe of 14–21 days. The Lodge and Launch Framework enables wholesale products to be launched to the market once all required information is submitted via the SC's online system. The wholesale products covered under this initiative include wholesale funds, structured products, bonds, *sukuk*, and asset-backed securities.

Philippines

Yield Movements

Between 1 June and 14 August, Philippine local currency (LCY) government bond yields fell for most tenors **(Figure 1)**. Yields for tenors of 2 years and below fell between 15 basis points (bps) and 40 bps. Yields for tenors of between 4 years and 20 years, with the exception of the 7-year maturity, fell between 6 bps and 30 bps. Yields fell amid easing inflation, giving room for the Bangko Sentral ng Pilipinas (BSP) to maintain its policy rates. Moreover, the decrease in yields was most notable at the shorter-end of the curve as the market remained risk-averse in anticipation of an interest rate hike by the United States (US) Federal Reserve.

Inflation continued to decelerate in 2Q15 to 1.2% year-on-year (y-o-y) in June, and further to 0.8% y-o-y in July. A sufficient supply of food items, the downward adjustments in utility rates, and lower fuel prices contributed to lower inflation.

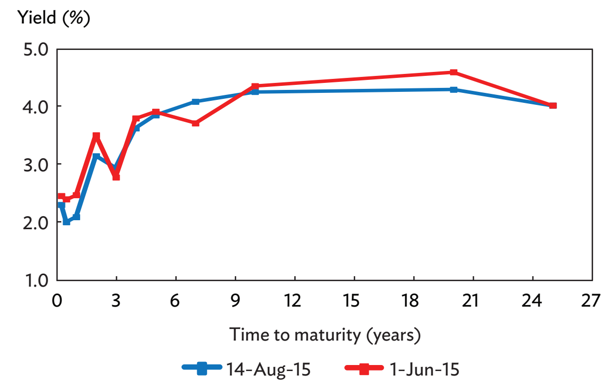
The BSP, at its 13 August monetary policy meeting, decided to keep its policy rates—the overnight borrowing rate and the overnight lending rate—unchanged at 4.00% and 6.00%, respectively. The BSP stated that benign inflation was a result of temporary favorable supply-side conditions, and that inflation is expected to rise gradually and settle within the lower end of the BSP target range of 2.0%–4.0%. The BSP will continue to monitor the upside risks to inflation along with both domestic and external developments.

Meanwhile, the Philippines' economic growth picked up in 2Q15 to 5.6% y-o-y from 5.0% y-o-y in 1Q15. The expansion in 2Q15 was supported by sustained growth in both private and public consumption, which increased 6.2% y-o-y and 3.9% y-o-y, respectively, as well as a boost in capital formation, which rose 17.4% y-o-y. For the first half of 2015, real GDP expanded 5.3% y-o-y, which was less than the 6.1% y-o-y growth posted in the same period in 2014.

Size and Composition

The Philippine LCY bond market contracted 0.8% quarter on quarter (q-o-q) to PHP4,645 billion (US$103 billion) at end-June **(Table 1)**. Government securities accounted for the majority of bonds outstanding, totaling PHP3,896 billion, while corporate bonds summed to PHP749 billion. On a y-o-y basis, the LCY bond market grew 3.3% in 2Q15.

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



LCY = local currency.
Source: Bloomberg LP.

Government Bonds. Outstanding fixed-income instruments issued by the Philippine government and government-controlled companies declined 0.5% q-o-q to PHP3,896 billion at end-June. The decline was most notable among outstanding government-controlled issues, which fell 12.4% q-o-q due to the maturation of Power Sector Assets and Liabilities Management bonds worth PHP11.3 billion. A similar downtrend was noted for outstanding Treasury bills, which decreased 1.1% q-o-q to PHP275 billion, while outstanding Treasury bonds fell 0.2% q-o-q to PHP3,541 billion.

In terms of issuance, 2Q15 saw a lower volume of PHP90 billion compared with PHP135 billion in 1Q15 as the Bureau of Treasury (BTr) issued no special series bills in 2Q15. In terms of maturity profile, the BTr focused on the issuance of shorter tenors for Treasury bonds in 2Q15, with a 3-year and 5-year re-issue worth PHP25.0 billion and PHP22.4 billion, respectively, compared with a 6-year and an 18-year issuance in 1Q15.

Corporate Bonds. Total outstanding LCY corporate bonds decreased 2.0% q-o-q to PHP749 billion. Only three

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	PHP	US$	PHP	US$	PHP	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**4,497**	**103**	**4,681**	**105**	**4,645**	**103**	**1.4**	**8.9**	**(0.8)**	**3.3**
Government	3,819	87	3,917	88	3,896	86	1.9	6.5	(0.5)	2.0
Treasury Bills	288	7	278	6	275	6	(1.6)	(6.4)	(1.1)	(4.6)
Treasury Bonds	3,415	78	3,547	79	3,541	79	2.2	7.9	(0.2)	3.7
Others	116	3	91	2	80	2	–	2.1	(12.4)	(30.9)
Corporate	678	16	765	17	749	17	(1.0)	25.4	(2.0)	10.5

( ) = 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 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 2015, the Government of the Philippines and Petron Corporation had PHP129.7 billion and PHP20.0 billion of outstanding Peso Global Bonds, respectively.
Sources: Bloomberg LP and Bureau of the Treasury.

companies tapped the domestic bond market in 2Q15. BDO Unibank issued a 5-year Long-Term Negotiable Certificate of Deposit; South Luzon Tollway had a triple-tranche issue comprising a 5-, 7-, and 10-year bond; while Ayala Land issued a 7-year bond for an aggregate issuance worth PHP21.8 billion in 2Q15 **(Table 2)**.

Only 51 companies are actively tapping the bond market in the Philippines. The top 30 issuers accounted for 89.9% of the total amount of LCY corporate bonds outstanding at end-June **(Table 3)**. Most of the companies are listed in the Philippine Stock Exchange, with eight firms having privately held shares. Real estate firm Ayala Land topped the list with total outstanding bonds worth PHP64.9 billion. Metrobank and holding company Ayala Corporation were second and third with outstanding amounts of PHP46.8 billion and PHP40.0 billion, respectively.

Table 2: Notable LCY Corporate Bond Issuance in 2Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
BDO Unibank		
5-year LTNCD	3.75	7.50
South Luzon Tollway		
5-year bond	4.99	2.40
7-year bond	5.58	2.40
10-year bond	6.49	2.50
Ayala Land		
7-year bond	4.50	7.00

LCY = local currency.
Source: Bloomberg LP.

Local corporate debt issuers came from a diverse industry mix in 2Q15. Banks and financial firms were the majority of issuers, increasing their collective share to 32.6% of the total at end-June 2015 from 25.7% at end-June 2014 **(Figure 2)**. Real estate firms and holding companies took the second and third spots in 2Q15, leaving the top three corporate bond-issuing industries the same as 2Q14. Issuers involved in electricity generation and distribution accounted for 5.9% of total bonds outstanding in 2Q15, 5.7% of the total came from issuers in the thoroughfares and tollways industry, 5.0% from the brewery and alcoholic beverages industry, and 4.3% from the telecommunications industry.

Investor Profile

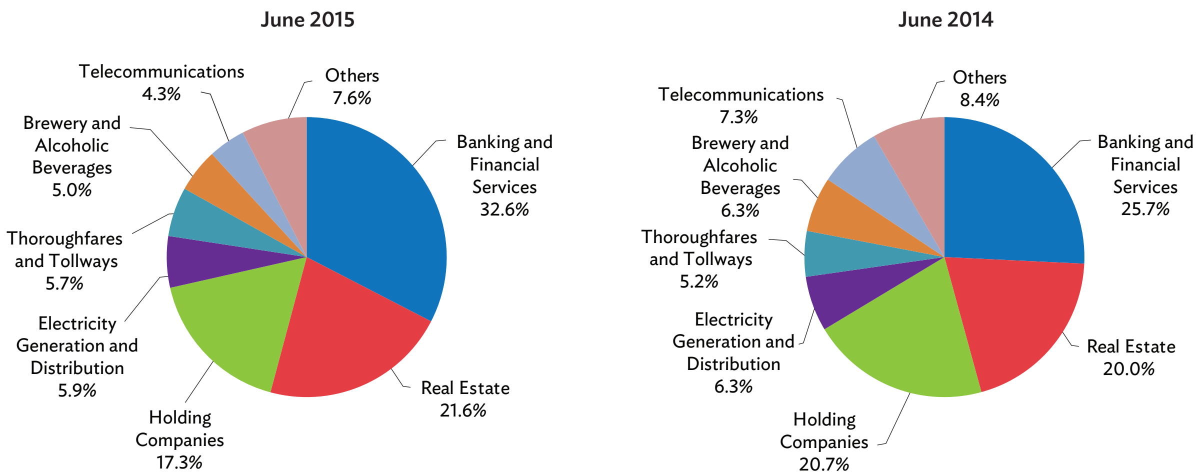
Banks and financial institutions remained the largest holder of government securities at end-June, with a share of the total that increased to 37.2% from 35.0% a year earlier **(Figure 3)**. The share of other investors was up slightly to 7.6% at end-June from 6.7% a year earlier. Contractual savings institutions—including the Social Security System, Government Service Insurance System, Pag-IBIG, and tax exempt institutions—held 28.9% of total government bonds at end-June, similar to the group's share a year earlier. Meanwhile, holdings of government securities among custodians fell to 8.9% from 10.1%, and funds managed by the BTr slightly declined to 16.6% from 18.7% over the same period.

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	64.9	1.4	No	Yes	Real Estate
2.	Metrobank	46.8	1.0	No	Yes	Banking
3.	Ayala Corporation	40.0	0.9	No	Yes	Diversified Operations
4.	San Miguel Brewery	37.8	0.8	No	No	Brewery
5.	BDO Unibank	37.5	0.8	No	Yes	Banking
6.	Philippine National Bank	34.6	0.8	No	Yes	Banking
7.	JG Summit Holdings	30.0	0.7	No	Yes	Diversified Operations
8.	SM Investments	28.3	0.6	No	Yes	Diversified Operations
9.	RCBC	27.1	0.6	No	Yes	Banking
10.	SM Prime	25.0	0.6	No	Yes	Real Estate
11.	Filinvest Land	24.0	0.5	No	Yes	Real Estate
12.	Meralco	23.5	0.5	No	Yes	Electricity Distribution
13.	Security Bank	23.0	0.5	No	Yes	Banking
14.	GT Capital Holdings	22.0	0.5	No	Yes	Investment Companies
15.	South Luzon Tollway	18.3	0.4	No	No	Transport Services
16.	Globe Telecom	17.0	0.4	No	Yes	Telecommunications
17.	East West Bank	16.8	0.4	No	Yes	Banking
18.	Maynilad Water Services	16.4	0.4	No	No	Water
19.	MCE Leisure Philippines	15.0	0.3	No	No	Casino Services
20.	Philippine Long Distance Telephone	15.0	0.3	No	Yes	Telecommunications
21.	Union Bank of the Philippines	14.0	0.3	No	Yes	Banking
22.	Manila North Tollways	13.0	0.3	No	No	Transport Services
23.	First Metro Investment	12.0	0.3	No	No	Investment Banking
24.	Robinsons Land	12.0	0.3	No	Yes	Real Estate
25.	MTD Manila Expressway	11.5	0.3	No	No	Transport Services
26.	Aboitiz Power	10.5	0.2	No	Yes	Electricity Generation
27.	Energy Development	10.5	0.2	No	Yes	Electricity Generation
28.	United Coconut Planters Bank	9.5	0.2	No	No	Banking
29.	Filinvest Development	8.8	0.2	No	Yes	Real Estate
30	Petron	8.4	0.2	No	Yes	Oil Refining and Marketing
Total Top 30 LCY Corporate Issuers		**673.2**	**14.9**			
Total LCY Corporate Bonds		**749.0**	**16.6**			
Top 30 as % of Total LCY Corporate Bonds		**89.9%**	**89.9%**			

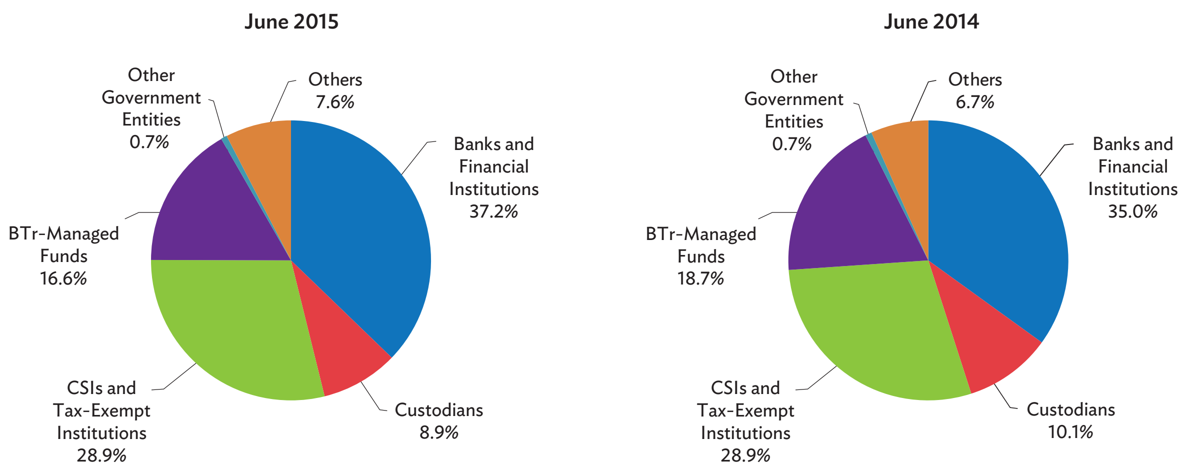
LCY = local currency.
Notes:
1. Data as of end-June 2015.
2. Petron has PHP20 billion of Global Peso Bonds outstanding that were not included in this table.
3. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Figure 2: LCY Corporate Bond Issuers by Industry



LCY = local currency.
Source: Bloomberg LP.

Figure 3: LCY Government Bonds Investor Profile



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

Ratings Update

In April, Standard and Poor's (S&P) affirmed the Philippines' long-term foreign currency rating of BBB, along with a stable outlook. The ratings agency cited the country's robust external position due to rising foreign exchange reserves and low external debt. In maintaining its stance, S&P mentioned factors such as the Philippines' stable financial system, prudent fiscal management, within-range inflation, young labor market, and strong domestic consumption.

In July, Japanese ratings agency Rating and Investment (R&I) maintained its BBB foreign currency rating of the Philippine sovereign credit, along with a stable outlook. R&I took note of the country's sustained economic growth, robust private consumption, and declining debt-to-GDP ratio in affirming the credit grade. Furthermore, R&I is confident that the Philippines will be able to withstand economic shocks, given the continuous inflow of remittances from overseas Filipino workers and a current account surplus.

Policy, Institutional, and Regulatory Developments

Department of Finance Issues Guidelines on Government Depository Banks

Consistent with its mandate to ensure effective management of government resources, on 4 July, the Department of Finance issued revised guidelines on the application of the Treasury Single Account, which involves the automation and integration of the government's Public Financial Management System. The Treasury Single Account, which consolidates all government bank accounts, allows the National Treasury to determine its available resources in a speedy manner, reducing costs in the process. The new set of guidelines also highlight the roles of government offices and agencies in prudent fiscal management.

BSP Issues Segregation Guidelines on Client Assets

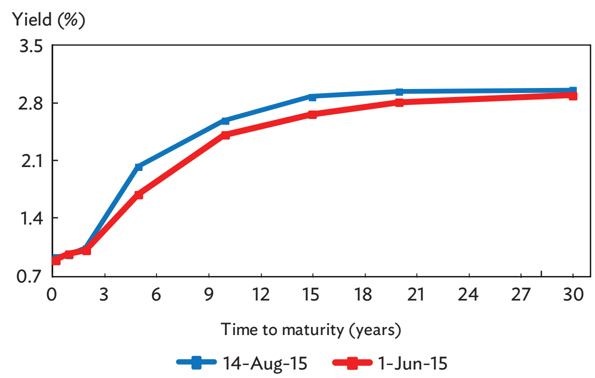
In August, the BSP approved a new set of guidelines for banks on the segregation of deposit funds from money received in a securities brokering agreement. Securities brokering is distinguished from deposit taking, wherein the bank acts as an agent of the customer in the buying and selling of securities. Previously, banks would book money received from customers for the purchase of securities as deposits. Under the new guidelines, the BSP introduced a new account in the bank books, referred to as broker customer account, to distinguish money received from customers for securities brokering purposes. The broker customer account will be exempt from reserve requirements and will not be covered by the Philippine Deposit Insurance Corporation. Consistent with the aim to segregate banking activities from other business activities, the BSP amended the Financial Reporting Package to include reports on securities brokering transactions of its supervised financial institutions. Included in the new guidelines is the monthly report indicating the weekly balances of securities and cash received from customers. The guidelines are consistent with the BSP's move to align with international standards of reporting and to protect customer welfare.

Singapore

Yield Movements

Local currency (LCY) government bond yields in Singapore rose for all tenors except the 1-year maturity, which dipped 1 basis point (bp) between 1 June and 14 August **(Figure 1)**. Yields for Singapore Government Securities (SGS) bonds with maturities of 5-, 10-, and 15-years gained the most, rising 34, 17, and 21 bps, respectively. At the short-end of the curve, yields rose between 3 bps and 4 bps, while at the long-end, yields climbed between 7 bps and 13 bps. As a result, the spread between the 2-year and 10-year maturities widened to 154 bps in mid-August from 140 bps in early June.

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



LCY = local currency.
Source: Bloomberg LP.

The movement in SGS bond yields mirrored that of United States (US) yields, owing to Singapore's developed market status. The rise in yields was reflective of reinforced expectations, on a slew of positive economic developments in the US, that the Federal Reserve will raise interest rates soon. In addition, increased volatility surrounding the unexpected devaluation of the Chinese renminbi provided further impetus for SGS yields to rise.

In its monetary policy statement in April, the Monetary Authority of Singapore (MAS) announced it would maintain its policy of modest and gradual appreciation of the Singapore dollar nominal effective exchange rate (S$NEER) policy band. MAS held constant the width, slope, and the level at which the S$NEER policy band is centered. In August, amid increased volatility in the foreign exchange market, MAS again maintained that its policy stance remained appropriate.

Meanwhile, Singapore's economic growth eased to 1.8% year-on-year (y-o-y) in 2Q15 from 2.8% in 1Q15. The slower growth in in the country's gross domestic product was largely due to a contraction of 4.9% y-o-y in the manufacturing sector. On a seasonally adjusted and quarterly basis, Singapore's economy contracted 4.0% in 2Q15. The Ministry of Trade and Industry revised downward its 2015 economic growth forecast to 2.0%–2.5% from 2.0%–4.0% as earlier projected.

Singapore recorded deflation for the ninth consecutive month in July as consumer prices fell 0.4% y-o-y. Five out of 10 items in the consumer price index (CPI) declined in July. Between June and July, the CPI fell 0.4%.

Size and Composition

The LCY bond market of Singapore expanded 1.7% quarter-on-quarter (q-o-q) in 2Q15 to SGD325.4 billion (US$241 billion) at end-June. Compared with quarterly growth, the LCY bond market's annual expansion was more robust at 5.9% **(Table 1)**.

Government Bonds. The stock of LCY government bonds in Singapore rose 2.8% q-o-q in June to SGD197.4 billion, driven mainly by an increase in outstanding SGS bonds and bills. By end-June, SGS bonds and bills had grown 5.3% q-o-q to reach SGD105.3 billion. New issuances of SGS bonds and bills jumped 93.8% q-o-q to SGD9.3 billion in 2Q15 from SGD4.8 billion in the previous quarter, due to the resumption of Treasury bill issuance for the first time since November 2014.

In contrast, the amount of outstanding MAS bills in 2Q15 versus 1Q15 was unchanged at SGD92.1 billion. However, on a y-o-y basis, the stock of MAS bills increased 3.3% in 2Q15 from SGD89.2 billion a year earlier. The issuance of MAS bills declined 3.2% q-o-q from SGD91.5 billion in 1Q15 to SGD88.6 billion in 2Q15. Compared with the previous quarter, the share of MAS bills issued per tenor

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	SGD	US$	SGD	US$	SGD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**307**	**247**	**320**	**233**	**325**	**241**	**2.5**	**2.0**	**1.7**	**5.9**
Government	189	152	192	140	197	147	3.3	1.1	2.8	4.2
SGS Bills and Bonds	100	80	100	73	105	78	(8.0)	(27.3)	5.3	5.1
MAS Bills	89	72	92	67	92	68	19.9	79.8	0.0	3.3
Corporate	118	95	128	93	128	95	1.1	3.6	0.2	8.5

( ) = 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.

hardly varied, with about 73% of MAS bills issued carrying a 4-week maturity and about 20% carrying a 24-week maturity.

Corporate Bonds. Singapore's stock of LCY corporate bonds grew marginally by 0.2% q-o-q to SGD128.0 billion at end-June. The increase in outstanding LCY corporate bonds, however, was more pronounced on a y-o-y basis at 8.5%.

The 31 biggest corporate issuers in 2Q15 comprised 51.3% of total LCY corporate bonds outstanding. The Housing and Development Board led the group of top issuers with bonds outstanding worth SGD20.0 billion. The second and third spots were taken by financial firms United Overseas Bank and Temasek Financial with bonds outstanding of SGD4.1 billion and SGD3.6 billion, respectively. The top 31 corporate bond issuers for the quarter are shown in **Table 2**.

New corporate debt issued in 2Q15 reached SGD5.6 billion. There were 31 new bond series from 30 corporate entities. Seventeen of these corporate issuers were real estate companies. Meanwhile, the seven largest new corporate bond issues in 2Q15 accounted for 53.6% of the total corporate bond issuance during the quarter. The new bonds issued had tenors that ranged from 2 years to 10 years. In 2Q15, the two largest issuances were a 10-year bond worth SGD650 million from real estate firm Capitaland, and a perpetual bond worth SGD600 million from financial firm Sembcorp Financial Services. The largest corporate bonds issued in 2Q15 are shown in **Table 3**.

Three state-owned firms accounted for 18% of total LCY corporate bonds outstanding at end-June: the Housing and Development Board, Land Transport Authority, and Public Utilities Board. The Public Utilities Board had total outstanding bonds worth SGD1.75 billion, while the Land Transport Authority had aggregate bonds worth SGD1.48 billion.

Ratings Update

In April, Standard and Poor (S&P) affirmed Singapore's AAA sovereign credit rating. The outlook on the rating was stable. The country's prudent fiscal management, sound governmental policies, and political stability all contributed to S&P's stance. The ratings agency based its opinion on Singapore's ability to sustain its budget surplus and tackle issues related to its ageing population. S&P was confident that the rating would remain in place over the next 2 years, taking into account the Singapore government's ability to respond in a forward-looking manner, as well as its sufficient reserves.

Policy, Institutional, and Regulatory Developments

MAS Publishes Guidelines for D-SIBS

In April, MAS published guidelines for the identification and supervision of domestically important banks (D-SIBS), which are banks with a major role in Singapore's economy. To earn the D-SIBS distinction, a bank's interconnectedness, size, substitutability, and complexity will be considered. The identification of D-SIBS will utilize

Table 2: Top 31 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	20.04	14.9	Yes	No	Real Estate
2.	United Overseas Bank	4.05	3.0	No	Yes	Banking
3.	Temasek Financial I	3.60	2.7	No	No	Financing
4.	DBS Bank	3.30	2.4	No	Yes	Banking
5.	Capitaland	2.97	2.2	No	Yes	Real Estate
6.	SP PowerAssets	2.20	1.6	No	No	Utilities
7.	FCL Treasury	2.13	1.6	No	No	Real Estate
8.	Public Utilities Board	1.75	1.3	Yes	No	Utilities
9.	City Developments	1.74	1.3	No	Yes	Real Estate
10.	Olam International	1.72	1.3	No	Yes	Consumer Goods
11.	Keppel Corp	1.50	1.1	No	Yes	Diversified
12.	Land Transport Authority	1.48	1.1	Yes	No	Transportation
13.	GLL IHT	1.47	1.1	No	No	Financing
14.	Singapore Airlines	1.30	1.0	No	No	Transportation
15.	Hyflux	1.30	1.0	No	Yes	Utilities
16.	Neptune Orient Lines	1.28	0.9	No	Yes	Logistics
17.	Capitaland Treasury	1.15	0.9	No	No	Financing
18.	Singtel Group Treasury	1.15	0.9	No	Yes	Telecommunications
19.	Keppel Land	1.08	0.8	No	Yes	Real Estate
20.	CapitaMalls Asia Treasury	1.00	0.7	No	No	Financing
21.	Overseas Union Enterprise	1.00	0.7	No	Yes	Real Estate
22.	Oversea-Chinese Banking	1.00	0.7	No	Yes	Banking
23.	PSA	0.95	0.7	No	No	Port Operator
24.	Sembcorp Financial Services	0.94	0.7	No	No	Financing
25.	Mapletree Treasury Service	0.90	0.7	No	No	Financing
26.	National University of Singapore	0.81	0.6	No	Yes	Education
27.	DBS Group	0.80	0.6	No	Yes	Banking
28.	CMT MTN	0.80	0.6	No	No	Financing
29.	Sembcorp Industries	0.75	0.6	No	Yes	Shipbuilding
30.	Global Logistic Properties	0.75	0.6	No	Yes	Real Estate
31.	SMRT Capital	0.75	0.6	No	No	Transportation
Total Top 31 LCY Corporate Issuers		**65.63**	**48.7**			
Total LCY Corporate Bonds		**128.0**	**95.0**			
Top 31 as % of Total LCY Corporate Bonds		**51.3%**	**51.3%**			

LCY = local currency.
Notes:
1. Data as of end-June 2015.
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.

Table 3: Notable LCY Corporate Bond Issuance in 2Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Capitaland		
10-year bond	2.80	650
Sembcorp Financial Services		
Perpetual bond	4.75	600
FCL Treasury		
7-year bond	3.65	500
National University of Singapore		
5-year bond	2.20	400
China Jingye Construction		
2-year bond	2.95	300
Overseas Union Enterprise		
5-year bond	3.80	300
Ascott Residence		
Perpetual bond	4.68	250

LCY = local currency.
Source: Bloomberg LP.

a methodology based on existing guidelines set by MAS that take into account the principles set by the Basel Committee on Banking Supervision. Banks classified as domestically incorporated D-SIBS will have higher capital ratios, while banks tagged as having an extensive retail presence will be mandated to domestically incorporate their retail business.

Singapore Signs Third Bilateral Swap Agreement with Japan

The third bilateral swap agreement between Japan and Singapore was signed on 21 May by the Bank of Japan and MAS. The agreement aims to enhance bilateral financial cooperation, strengthen trade ties, and contribute to economic growth between the two countries by enabling authorities to exchange their local currencies for US dollars. The facility will allow Japan to swap Japanese yen worth up to US$1 billion while Singapore can exchange Singapore dollars up to US$3 billion.

MAS Launches Singapore Savings Bond

In July, MAS launched the Singapore Savings Bond, a capital-protected government bond that will be made available only to retail investors. The Singapore Savings Bond will pay tax-exempt, semi-annual interest with a step-up feature, at a rate based on the average yield of benchmark Singapore Government Securities the month prior to issuance. The 10-year bond, which will have a denomination of SGD500 and a limit of SGD100,000 for each holder, will first be issued on 1 October. MAS plans to issue a total of SGD2.4 billion of savings bonds this year.

Thailand

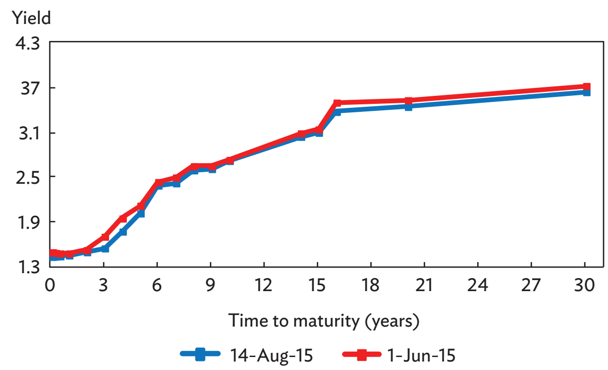
Yield Movements

Thailand's local currency (LCY) government bond yields fell for all tenors between 1 June and 14 August—with declines ranging from 1 basis point (bp) for the 10-year tenor to 18 bps for the 4-year tenor—amid expectations of a sluggish economic performance and weak inflationary pressures **(Figure 1)**. In the same period, the yield spread between the 2-year and 10-year tenors widened 1 bp.

The Bank of Thailand's Monetary Policy Committee decided on 5 August to keep the policy interest rate steady at 1.50%. This was the second consecutive time that the committee decided not to change the policy rate. In its 5 August monetary policy decision, the committee underscored the importance of an accommodative monetary policy stance in light of Thailand's gradual economic recovery and its headline inflation remaining negative.

Thailand's real gross domestic product (GDP) growth eased to 2.8% year-on-year (y-o-y) in 2Q15 from 3.0% y-o-y in 1Q15 amid slower growth in private consumption, domestic investment, and nonagricultural production, as well as negative growth in agricultural output, according to data from the Office of the National Economic and Social Development Board. On a seasonally adjusted and quarter-on-quarter (q-o-q) basis, real GDP growth inched up to 0.4% in 2Q15 from 0.3% in 1Q15. Meanwhile, Thailand's Consumer Price Index fell 1.0% y-o-y in July, marking the seventh consecutive month of a y-o-y decrease in overall consumer prices, led by declining energy prices and transport costs.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

LCY bonds outstanding in Thailand rose 3.1% quarter-on-quarter (q-o-q) and 4.6% y-o-y in 2Q15, a relatively faster pace of expansion than 1Q15's growth of 0.6% q-o-q and 1.7% y-o-y, and 2Q14's growth of 0.2% q-o-q and 3.4% y-o-y **(Table 1)**. The expansion of the Thai LCY bond market in 2Q15 was largely driven by increases in the stocks of LCY government bonds and LCY corporate bonds: LCY government bonds outstanding climbed 3.1% q-o-q and 4.2% y-o-y—led by increases in central bank bonds, central

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	THB	US$	THB	US$	THB	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**9,180**	**283**	**9,314**	**286**	**9,606**	**284**	**0.2**	**3.4**	**3.1**	**4.6**
Government	7,008	216	7,079	218	7,299	216	(0.3)	0.02	3.1	4.2
Government Bonds and Treasury Bills	3,425	106	3,578	110	3,602	107	(1.0)	6.0	0.7	5.2
Central Bank Bonds	2,824	87	2,682	82	2,910	86	0.1	(8.9)	8.5	3.0
State-Owned Enterprise and Other Bonds	759	23	819	25	787	23	1.2	12.2	(3.8)	3.7
Corporate	2,173	67	2,235	69	2,307	68	2.1	15.9	3.2	6.2

( ) = 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.
Sources: Bank of Thailand and Bloomberg LP.

government bonds, and Treasury bills—while the stock of LCY corporate bonds grew 3.2% q-o-q and 6.2% y-o-y. At end-June, Thai LCY bonds outstanding amounted to THB9.6 trillion (US$284 billion), of which 76% were government bonds and 24% were corporate bonds.

Issuance of Thai LCY government bonds in 2Q15 amounted to THB1.8 trillion, up 11.3% q-o-q and 11.4% y-o-y. Meanwhile, 2Q15 corporate bond issuance totaled THB0.4 trillion, up 64.8% q-o-q but down 13.4% y-o-y.

At end-June, the combined LCY bonds outstanding of the top 30 Thai corporate issuers were valued at THB1,365.4 billion, comprising 59.2% of the overall LCY corporate bond market in Thailand **(Table 2)**. The

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	179.9	5.3	Yes	Yes	Energy and Utilities
2.	CP All	169.5	5.0	No	Yes	Commerce
3.	The Siam Cement	166.5	4.9	Yes	Yes	Construction Materials
4.	Charoen Pokphand Foods	73.1	2.2	No	Yes	Food and Beverage
5.	Thai Airways International	48.6	1.4	Yes	Yes	Transportation and Logistics
6.	Kasikorn Bank	43.5	1.3	No	Yes	Banking
7.	Indorama Ventures	42.6	1.3	No	Yes	Petrochemicals and Chemicals
8.	The Siam Commercial Bank	40.0	1.2	No	Yes	Banking
9.	Toyota Leasing Thailand	37.2	1.1	No	No	Finance and Securities
10.	True Corporation	36.5	1.1	No	Yes	Communications
11.	Bank of Ayudhya	35.8	1.1	No	Yes	Banking
12.	Banpu	35.4	1.0	No	Yes	Energy and Utilities
13.	Thanachart Bank	32.5	1.0	No	No	Banking
14.	PTT Exploration and Production Company	32.1	0.9	Yes	Yes	Energy and Utilities
15.	Phatra Securities	31.7	0.9	No	No	Finance and Securities
16.	Mitr Phol Sugar	31.3	0.9	No	No	Food and Beverage
17.	Thai Oil	28.0	0.8	Yes	Yes	Energy and Utilities
18.	Quality Houses	27.9	0.8	No	Yes	Property and Construction
19.	IRPC	27.6	0.8	Yes	Yes	Energy and Utilities
20.	TMB Bank	25.4	0.8	No	Yes	Banking
21.	ICBC Thai Leasing	24.7	0.7	No	No	Finance and Securities
22.	Krung Thai Card	24.2	0.7	Yes	Yes	Finance and Securities
23.	Krung Thai Bank	23.8	0.7	Yes	Yes	Banking
24.	DAD SPV	22.5	0.7	Yes	No	Finance and Securities
25.	Minor International	22.3	0.7	No	Yes	Food and Beverage
26.	Pruksa Real Estate	22.0	0.7	No	Yes	Property and Construction
27.	Bangkok Dusit Medical Services	20.6	0.6	No	Yes	Health Care Services
28.	PTT Global Chemical	20.3	0.6	No	Yes	Petrochemicals and Chemicals
29.	Bangkok Bank	20.0	0.6	No	Yes	Banking
30.	CH. Karnchang	20.0	0.6	No	Yes	Property and Construction
Total Top 30 LCY Corporate Issuers		**1,365.4**	**40.4**			
Total LCY Corporate Bonds		**2,306.8**	**68.2**			
Top 30 as % of Total LCY Corporate Bonds		**59.2%**	**59.2%**			

LCY = local currency.
Notes:
1. Data as of end-June 2015.
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.

five largest LCY bond issuances in Thailand in 2Q15 were (i) Siam Cement's 3-year and 4-year bonds at THB15 billion each and carrying coupon rates of 3.75% and 3.90%, respectively; (ii) Land & Houses' THB7 billion 3-year bond carrying a 2.81% coupon; (iii) Thanachart Bank's THB7 billion 10.5-year bond with a 4.65% coupon; and (iv) Charoen Pokphand Food's THB6.5 billion 5-year bond with a 3.21% coupon **(Table 3)**.

Table 3: Notable LCY Corporate Bond Issuance in 2Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
Siam Cement		
3-year bond	3.75	15.00
4-year bond	3.90	15.00
Land & Houses		
3-year bond	2.81	7.00
Thanachart Bank		
10.5-year bond	4.65	7.00
Charoen Pokphand Foods		
5-year bond	3.21	6.50

LCY = local currency.
Source: Bloomberg LP.

Investor Profile

Contractual savings funds and insurance companies remained the two largest investor groups in Thailand's LCY government bond market in 2Q15, with their holdings of THB-denominated government bonds at the end of June representing 27.9% and 25.8% of the total, respectively **(Figure 2)**. Compared with a year earlier, the share of commercial banks in LCY government bonds increased the most, gaining 2 percentage points, while the share of individual resident investors incurred the biggest decline at 3 percentage points.

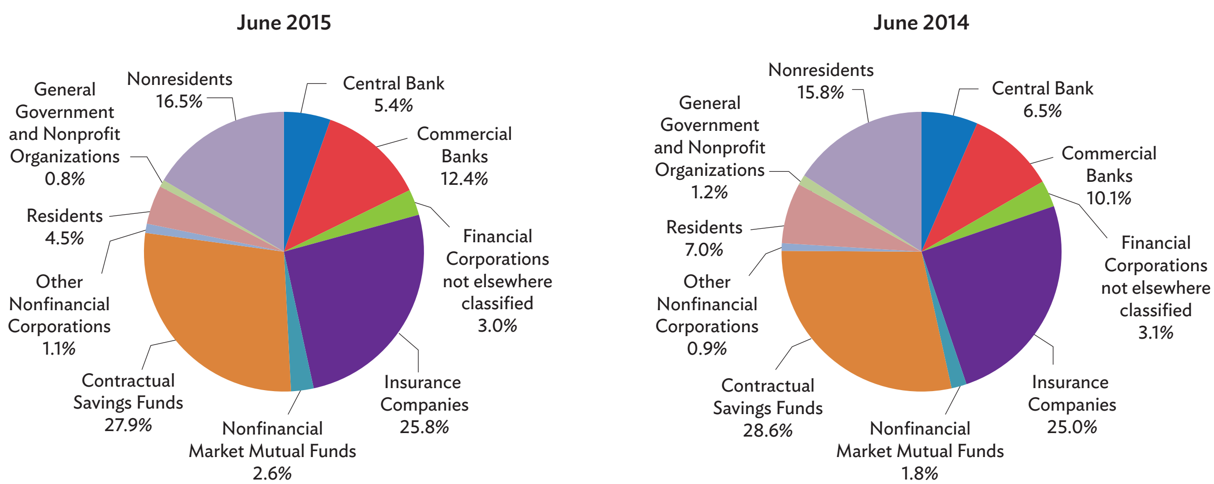
Foreign investors in the Thai LCY bond market recorded net bond sales of THB26.4 billion in 2Q15, a reversal from their net bond purchases of THB7.3 billion in 1Q15. The last 2 months of the second quarter saw foreign investors engaging in net sales of Thai LCY bonds amid external pressures, specifically the looming interest rate hike in the United States and the debt crisis in Greece. However, in July, the market recorded net purchases from foreign investors amounting to THB9.4 billion **(Figure 3)**.

Policy, Institutional, and Regulatory Developments

SEC Eases its Facilitation of Debt Securities Offerings

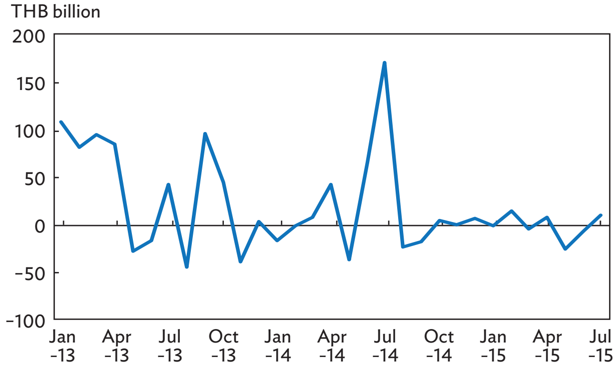
The Securities and Exchange Commission, Thailand (SEC) reported in July that it had eased the process by which it facilitates debt securities offerings via the Capital Market Supervisory Board's approval of revisions to existing regulations. Under the revised rules, which according to the SEC will take effect in 3Q15, an issuer

Figure 2: 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.

Figure 3: Foreign Investor Net Trading of LCY Bonds in Thailand



LCY = local currency.
Source: ThaiBMA.

can be given a 2-year program allowing for multiple debt securities offerings within the prescribed period. The SEC stated that this will help promote issuance of corporate bonds.

SEC Revises Regulations on Cross-Border Offerings of Debt Securities and Collective Investment Schemes

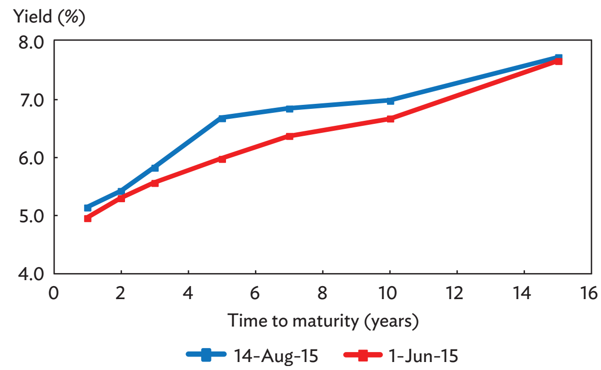
The SEC announced in May that the Capital Market Supervisory Board had revised regulations governing cross-border offerings of debt securities and collective investment schemes. One of the revisions will allow nonresident issuers to sell *sukuk* in Thailand. The revised regulations, according to the SEC, will take effect in 3Q15.

Viet Nam

Yield Movements

Local currency (LCY) government bond yields in Viet Nam rose for all tenors between 1 June and 14 August, resulting in the entire yield curve shifting upward **(Figure 1)**. Bond yields rose between 12 basis points (bps) and 26 bps from the short-end of the curve through the 3-year maturity. Yields rose the most for the 5-year maturity, gaining 70 bps in mid-August, while gaining the least for the 15-year maturity, which rose 7 bps. The yield spread between the 2-year and 10-year maturities widened to 155 bps on 14 August from 137 bps on 1 June.

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



LCY = local currency.
Source: Bloomberg LP.

The rise in yields across the length of curve was due to the market's reaction to the unexpected devaluation of the Chinese renminbi in August and rising concerns over the possibility of an interest rate hike by the United States (US) Federal Reserve. In response, the State Bank of Viet Nam (SBV) widened the exchange rate trading band for the Vietnamese dong twice in a span of 1 week in mid-August to support export performance and economic growth. (See Policy, Institutional, and Regulatory Developments at the end of this Market Summary for more details.) The State Bank of Viet Nam also devalued the Vietnamese dong for the third time this year on 19 August in an attempt to further shield the economy and calm markets in the light of recent global developments.

Demand for government bonds remained weak during the period under review due to budget concerns, further contributing to the yield pick-up. Banking institutions, which remain the largest holder of government bonds, also took advantage of increasing credit demand and shifted most of their funds in support of lending activities. As most government bond auctions fell short of their target between April and mid-August, the government had to accept higher bids as it needed funds for its budget requirements.

Inflation remained tame in January–July, averaging less than 1.0% year-on-year (y-o-y). Gross domestic product growth rose to 6.4% y-o-y in 2Q15 from 6.1% y-o-y in 1Q15. This brought growth for the first 6 months of the year to 6.3% y-o-y, compared with 5.2% y-o-y over the same 6-month period in 2014. Final consumption grew 8.7% y-o-y and accumulated assets climbed 6.9% y-o-y in January–June.

Size and Composition

Viet Nam's LCY bond market reached a size of VND947.3 trillion at end-June, expanding 3.5% quarter-on-quarter (q-o-q) and 20.2% y-o-y **(Table 1)**. Growth was driven by government bonds, with corporate bonds contracting in 2Q15. Government bonds accounted for a 98.7% share of the total outstanding bond stock and corporate bonds accounted for the remaining 1.3%.

Government Bonds. At end-June, outstanding government bonds climbed to VND934.9 trillion on growth of 3.7% q-o-q and 20.5% y-o-y. Both Treasury bonds and central bank bonds contributed to the growth. On the other hand, the stock of state-owned enterprise bonds contracted during 2Q15, falling 9.8% q-o-q and 8.2% y-o-y.

In 2Q15, total government bond issuance reached VND211.7 trillion, lower on both a q-o-q and y-o-y basis, as the issuance volume for Treasury bonds dropped significantly. Most auctions during the review period fell short of their target due to lack of demand from investors. Beginning in 2015, government bond issuance was limited to maturities of 5 years or more for the purpose of budget financing. This regulation resulted in a number of failed

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	VND	US$	VND	US$	VND	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**788,313**	**37**	**915,061**	**42**	**947,259**	**43**	**5.9**	**36.4**	**3.5**	**20.2**
Government	775,943	36	901,529	42	934,877	43	6.0	38.3	3.7	20.5
Treasury Bonds	412,263	19	529,769	25	542,021	25	10.2	27.2	2.3	31.5
Central Bank Bonds	153,926	7	158,357	7	200,308	9	4.7	253.2	26.5	30.1
State-Owned Enterprise Bonds	209,754	10	213,404	10	192,549	9	(0.6)	8.5	(9.8)	(8.2)
Corporate	12,370	0.6	13,532	0.6	12,382	0.6	(1.2)	(27.5)	(8.5)	0.1

( ) = 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.

auctions as most investors had no interest in longer-dated maturities.

SBV bills accounted for an 86.3% share of the total issuance volume in 2Q15. The remaining 13.7% was accounted for by Treasury bonds and other government bond issues.

Corporate Bonds. The outstanding amount of LCY corporate bonds stood at VND12.4 trillion at end-June, lower on a q-o-q basis but marginally higher on a y-o-y basis. The outstanding stock of corporate bonds has steadily declined since the start of the year due to the absence of new issues in 2015. Most firms have shied away from bond financing and instead chosen to take out loans. However, a number of corporate firms have been issuing debt via private placements to institutional investors.

At end-June, nine corporate firms comprised Viet Nam's entire corporate bond market **(Table 2)**. Leading the list were Asia Commercial Joint Stock Bank and Techcom Bank, with outstanding bond stocks of VND3.0 trillion each. Diversified firm Masan Consumer Holdings was the next largest issuer with an aggregate bond stock of VND2.1 trillion.

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 Bank	3,000.00	0.14	No	Yes	Finance
2. Techcom Bank	3,000.00	0.14	No	No	Banking
3. Masan Consumer Holdings	2,100.00	0.10	No	No	Diversified Operations
4. HAGL JSC	1,980.00	0.09	No	Yes	Real Estate
5. Ho Chi Minh City Infrastructure	1,081.85	0.05	No	Yes	Infrastructure
6. Ocean Group	980.00	0.04	No	Yes	Consulting Services
7. Tan Tao Investment	130.00	0.01	No	No	Real Estate
8. Ho Chi Minh City Securities	110.00	0.01	No	No	Finance
Total LCY Corporate Issuers	**12,381.8**	**0.57**			

LCY = local currency.
Notes:
1. Data as of end-June 2015.
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

SBV Widens Exchange Rate Trading Band

On 12 August, the SBV widened the exchange rate trading band for the Vietnamese dong to ±2% from ±1%. The decision to adjust the exchange rate trading band was made to minimize the effect of the unexpected devaluation of the Chinese renminbi on 11 August. On 19 August, the SBV further widened the exchange rate trading band to ±3%. As a result, the new VND–US$ exchange ceiling rate was set at VND22,547 per dollar and the floor exchange rate at VND21,333 per dollar.

SBV Devalues the Vietnamese Dong for the Third Time in 2015

On 19 August, the SBV weakened the Vietnamese dong by 1% to a reference rate of VND21,890 per dollar. This marked the third time since the beginning of the year that the reference rate has been adjusted. The move was made to mitigate the effects of the Chinese renminbi's depreciation, as well as in response to concerns over a possible rate hike by the US Federal Reserve.