

Bond Market Developments in the Second Quarter of 2016

Size and Composition

Emerging East Asia's local currency bond market exceeded the USD10.0 trillion mark at the end of June.

The size of emerging East Asia's local currency (LCY) bond market climbed to USD10,034 billion at the end of June, up 6.0% quarter-on-quarter (q-o-q).⁶ Growth in the second quarter (Q2) of 2016 accelerated from the 3.8% q-o-q hike posted in the first quarter (Q1) of 2016 (**Figure 1a**). All individual emerging East Asian markets posted positive q-o-q growth during the review period, except for the Philippines where the bond market contracted.

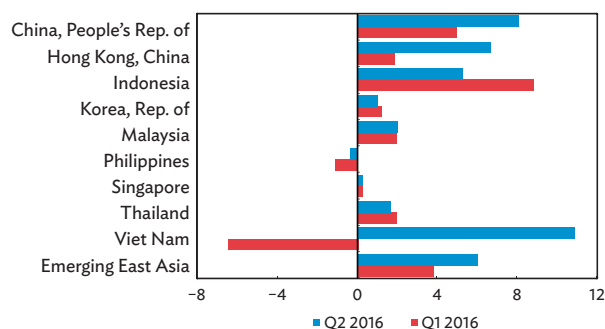
In terms of contribution to the q-o-q expansion, growth in emerging East Asia's bond market was largely driven by gains in the People's Republic of China (PRC). Growth in the LCY bond markets of the Republic of Korea and Hong Kong, China also contributed to the q-o-q expansion.

The PRC led the region with outstanding LCY bonds valued at USD6,904 billion at the end of June. Its share of emerging East Asia's total bond stock further increased to 68.8% in Q2 2016 from 68.0% in the previous quarter and 65.1% a year earlier. On a q-o-q basis, the PRC's LCY bond market posted 8.0% growth, driven by its government bond market, which recorded a 12.6% expansion in Q2 2016. On the other hand, the LCY corporate bond market contracted 0.6% q-o-q.

Growth in the PRC's LCY government bond market was largely due to increases in local government bonds as local government units continued to refinance existing debt and reduce borrowing costs by swapping debt for municipal bonds. Local governments also issued new bonds to help finance projects. The decline in LCY corporate bonds outstanding was mostly due to less issuance of commercial paper after several defaults and a scam that defrauded investors.

The Republic of Korea had the next largest amount of outstanding LCY bonds at USD1,792 billion at the end

Figure 1a: Growth of Local Currency Bond Markets in Q1 2016 and Q2 2016 (q-o-q, %)



q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second quarter.

Notes:

1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. Emerging East Asia growth figures are based on 30 June 2016 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

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

of June, which reflected a 1.0% q-o-q gain. Growth came largely from increases in Korean Treasury Bills and Korean Treasury Bonds. The stock of central bank bills was broadly unchanged and the stock of industrial finance debentures declined in Q2 2016. The corporate bond market, which accounts for a majority of the Republic of Korea's aggregate bond stock, grew marginally by 0.5% q-o-q in Q2 2016.

The LCY bond market in Thailand expanded to USD295 billion at the end of June, rising 1.6% q-o-q. Growth was largely driven by increases in the stock of government bonds, particularly central bank bonds and state-owned enterprise bonds. The increase in the stock of central bank bonds can be attributed to the Bank of Thailand's efforts to mop up liquidity to arrest the appreciation of the Thai baht. LCY corporate bonds also contributed to the q-o-q growth rate in Q2 2016.

⁶ Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

At the end of June, the LCY bond market in Malaysia reached USD289 billion on an expansion of 2.0% q-o-q. Much of this growth stemmed from an increase of 2.5% q-o-q in the government bond market that was led by Malaysian Government Securities and Government Investment Issues. The stock of central bank bills contracted during the quarter in review as Bank Negara Malaysia only resumed issuance of bills in June after its last issuance in October of last year. The corporate bond market segment also contributed to overall bond market growth, rising 1.4% q-o-q in Q2 2016.

Malaysia is home to the largest *sukuk* (Islamic bonds) market in emerging East Asia. It is also the only market in the region where *sukuk* account for a majority share of the LCY bond market at 54.6%. Among government bonds, 40.4% comprise *sukuk*, while the corporate bond market is dominated by *sukuk* with a 72.2% share.

In Singapore, the LCY bond market stood at USD233 billion at the end of June on marginal 0.2% q-o-q growth, the same pace as in the previous quarter. Growth stemmed solely from an increase in the stock of corporate bonds, which gained 2.0% q-o-q. On the other hand, the aggregate stock of Singapore Government Securities (SGS) bills and bonds declined as redemptions of maturing SGS bonds exceeded new issuance, while SGS bills recorded a marginal increase. The stock of Monetary Authority of Singapore bills slipped due to lower volume of issuance during the review period.

At the end of June, the outstanding size of LCY bonds in Hong Kong, China climbed to USD226 billion on strong 6.6% q-o-q growth. The government bond segment rose 5.8% q-o-q on account of increases in the stock of Exchange Fund Bills. LCY corporate bonds also increased during Q2 2016, expanding at a pace of 7.8% q-o-q as corporates took advantage of lower borrowing costs.

In Indonesia, the LCY bond market reached a size of USD152 billion at the end of June, posting growth of 5.2% q-o-q that stemmed largely from increases in the stock of central government bonds as the government awarded more than its targeted amount in 11 out of the 13 auctions held during the quarter. Following revisions to the 2016 revised state budget, the Government of Indonesia is now looking at funding a wider budget deficit estimated at IDR296.7 trillion, or the equivalent of 2.35%

of gross domestic product (GDP), from the original estimate of IDR273.2 trillion, or the equivalent of 2.15% of GDP. While the deficit is expected to be funded by increased collections resulting from the Tax Amnesty Law, the government will still need to issue more bonds to help finance the deficit. Central bank bills, known as *Sertifikat Bank Indonesia*, and corporate bonds also posted increases during the review period.

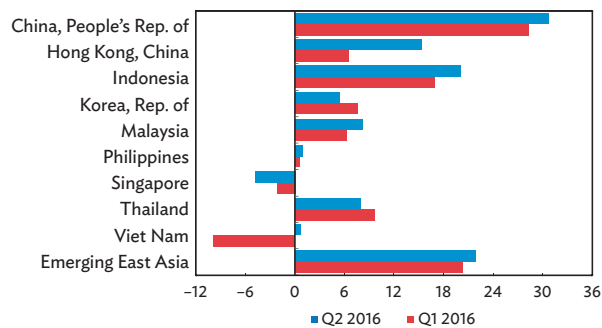
The only LCY bond market that contracted in Q2 2016 was that of the Philippines as the total bond stock fell to USD99 billion at the end of June on a 0.4% q-o-q decline. The drop was due to decreases in the stock of Treasury bonds and corporate bonds amid a lower volume of new issuance. On the other hand, the stock of Treasury bills rose while the stock of other government bonds, comprising the bonds of government agencies and corporations, was unchanged in Q2 2016.

Viet Nam's LCY bonds outstanding of USD43 billion at the end of June represented the smallest market in the region. However, its 10.8% q-o-q growth was the fastest in emerging East Asia in Q2 2016 even if this growth rate was impacted by a low base effect. The gains were led by increases in the stock of government bonds, particularly Treasury bonds and central bank bills. The corporate bond segment also contributed to the growth, supported by new debt issuance from three corporate firms. The stock of state-owned enterprise bonds contracted during the review period.

On a year-on-year (y-o-y) basis, overall growth in emerging East Asia's LCY bond market accelerated to 21.8% in Q2 2016 from 20.3% y-o-y in the previous quarter (**Figure 1b**). The fastest-growing bond markets in the region were those of the PRC; Indonesia; and Hong Kong, China; all of which posted double-digit y-o-y growth in Q2 2016. All other markets in the region recorded y-o-y growth rates of between 5.4% and 8.2% during the review period with the exception of the Philippines and Viet Nam, which each had growth rates of less than 1.0% y-o-y, and Singapore, whose LCY bond market contracted 4.9% y-o-y.

Government bonds continued to dominate emerging East Asia's LCY bond market, further increasing their share to 63.3% of the region's total bond stock at the end of June, up more than 2 percentage points from a 61.2% share at the end of March (**Table 1**). The outstanding

Figure 1b: Growth of Local Currency Bond Markets in Q1 2016 and Q2 2016 (y-o-y, %)



Q1 = first quarter, Q2 = second quarter, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. Emerging East Asia growth figures are based on 30 June 2016 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

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

size of government bonds in the region reached USD6,347 billion, up 9.7% q-o-q and 29.3% y-o-y in Q2 2016.

The PRC's government bond market, the largest in the region at a size of USD4,706 billion, accounted for 74.1% of emerging East Asia's LCY government bond total at the end of June. The Republic of Korea followed with an LCY government bond market valued at USD741 billion. Next was Thailand at USD220 billion. All other LCY government bond markets in the region were valued at between USD131 billion and USD160 billion at the end of June. The only exceptions were the Philippines and Viet Nam whose LCY government bonds outstanding were less than USD100 billion.

The region's LCY corporate bond market totaled USD3,687 billion at the end of June on growth of 0.2% q-o-q and 10.8% y-o-y. The PRC also has the largest LCY corporate bond market in the region with outstanding bonds of USD2,198 billion at the end of June, accounting for nearly 60% of the region's total. The Republic of Korea's corporate bond stock of USD1,051 billion was the next largest at the end of June, representing a 28.5% share of the region's total. It is the

only market to have a larger share of corporate bonds than government bonds in its total bond stock.

As a share of GDP, the size of emerging East Asia's LCY bond market stood at the equivalent of 68.1% at the end of June, up from 65.3% at the end of March (**Table 2**). The increase was driven mainly by government bonds, which climbed to the equivalent of 43.1% of GDP in Q2 2016 from 39.9% in the previous quarter, while corporate bonds fell to 25.0% in Q2 2016 from 25.3% in Q1 2016. The Republic of Korea's LCY bond market led the region in terms of size relative to GDP at 129.5%. Malaysia was the next largest at 98.1%. In contrast, Indonesia (16.7%) and Viet Nam (22.6%) had the smallest LCY bond markets when measured as a percentage of GDP.

Emerging East Asia's LCY government bonds continued to attract foreign interest.

Foreign investors have turned to emerging market assets amid a relatively low interest rate environment in global financial markets. As monetary policies remain accommodative in most developed economies, foreign funds' search for yield has resulted in increased demand for emerging East Asia's LCY government bonds.

The share of LCY government bonds outstanding held by foreign investors climbed in most emerging East Asian markets for which data are available. At the end of June, foreign investor holdings of government bonds had risen on a q-o-q basis in Indonesia, Malaysia, and Thailand (**Figure 2**). Malaysia saw the largest increase as its share of foreign holdings rose 1.5 percentage points to 34.5% at the end of June.

In Indonesia, foreign investors continued to shore up their holdings of IDR-denominated government bonds, further increasing their share of the market to 39.1% at the end of June. Indonesia's foreign holdings' share is the largest among all of the region's LCY government bond markets. Foreign funds continue to invest in Indonesian government bonds as its yields are among the highest in emerging East Asia.

In both Indonesia and Malaysia, foreign investors were the largest investor group in Q2 2016. Capital inflows into these bond markets also supported the recovery of their respective currencies vis-à-vis the US dollar.

Table 1: Size and Composition of Local Currency Bond Markets

	Q2 2015		Q1 2016		Q2 2016		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q2 2015		Q2 2016		Q2 2015		Q2 2016	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of														
Total	5,666	100.0	6,583	100.0	6,904	100.0	6.0	15.4	8.0	30.6	6.0	15.4	4.9	21.8
Government	3,603	63.6	4,306	65.4	4,706	68.2	6.9	13.9	12.6	40.0	6.9	13.9	9.3	30.6
Corporate	2,063	36.4	2,277	34.6	2,198	31.8	4.4	18.1	(0.6)	14.2	4.4	18.1	(3.5)	6.5
Hong Kong, China														
Total	196	100.0	212	100.0	226	100.0	(1.5)	2.0	6.6	15.2	(1.4)	2.0	6.6	15.1
Government	109	55.5	123	58.2	131	57.7	(1.3)	(0.4)	5.8	19.8	(1.3)	(0.4)	5.8	19.7
Corporate	87	44.5	89	41.8	96	42.3	(1.6)	5.1	7.8	9.6	(1.6)	5.1	7.8	9.5
Indonesia														
Total	125	100.0	144	100.0	152	100.0	2.4	13.8	5.2	20.1	0.4	1.3	5.5	21.2
Government	107	85.7	125	86.7	131	86.5	2.0	14.5	5.0	21.3	(0.1)	1.9	5.3	22.4
Corporate	18	14.3	19	13.3	20	13.5	5.0	9.9	6.4	13.0	2.9	(2.1)	6.6	14.1
Korea, Rep. of														
Total	1,756	100.0	1,788	100.0	1,792	100.0	3.1	10.0	1.0	5.4	2.5	(0.2)	0.2	2.1
Government	722	41.1	734	41.1	741	41.3	2.0	15.0	1.6	5.9	1.5	4.3	0.9	2.5
Corporate	1,033	58.9	1,054	58.9	1,051	58.7	3.8	6.8	0.5	5.1	3.3	(3.1)	(0.2)	1.7
Malaysia														
Total	285	100.0	293	100.0	289	100.0	0.2	2.1	2.0	8.2	(1.6)	(13.1)	(1.3)	1.3
Government	161	56.5	161	55.1	160	55.4	(0.7)	(0.6)	2.5	5.9	(2.5)	(15.4)	(0.8)	(0.8)
Corporate	124	43.5	131	44.9	129	44.6	1.4	6.0	1.4	11.0	(0.5)	(9.8)	(1.9)	4.0
Philippines														
Total	103	100.0	102	100.0	99	100.0	(0.8)	3.3	(0.4)	0.9	(1.7)	(0.03)	(2.9)	(3.5)
Government	86	83.9	85	82.7	82	82.8	(0.5)	2.0	(0.3)	(0.4)	(1.4)	(1.3)	(2.9)	(4.8)
Corporate	17	16.1	18	17.3	17	17.2	(2.0)	10.5	(0.6)	7.9	(2.9)	6.9	(3.1)	3.2
Singapore														
Total	245	100.0	233	100.0	233	100.0	3.0	5.5	0.2	(4.9)	4.9	(2.4)	0.3	(4.8)
Government	147	59.8	136	58.6	135	57.8	2.8	4.2	(1.1)	(8.0)	4.7	(3.6)	(1.0)	(7.9)
Corporate	99	40.2	96	41.4	98	42.2	3.4	7.4	2.0	(0.3)	5.4	(0.6)	2.1	(0.3)
Thailand														
Total	284	100.0	291	100.0	295	100.0	3.1	4.6	1.6	8.0	(0.7)	0.4	1.6	3.9
Government	216	76.0	217	74.5	220	74.4	3.1	4.2	1.5	5.8	(0.7)	(0.04)	1.5	1.8
Corporate	68	24.0	74	25.5	75	25.6	3.2	6.2	2.0	14.9	(0.6)	1.9	2.0	10.6
Viet Nam														
Total	44	100.0	39	100.0	43	100.0	(0.8)	7.1	10.8	0.7	(2.0)	4.6	10.8	(1.4)
Government	43	97.5	38	95.8	42	95.9	(1.7)	6.3	11.0	(0.9)	(2.9)	3.8	10.9	(3.0)
Corporate	1	2.5	2	4.2	2	4.1	52.7	48.9	8.0	62.4	50.8	45.5	8.0	59.0
Emerging East Asia														
Total	8,705	100.0	9,684	100.0	10,034	100.0	4.6	12.5	6.0	21.8	4.4	8.9	3.6	15.3
Government	5,195	59.7	5,925	61.2	6,347	63.3	5.2	12.1	9.7	29.3	4.8	9.2	7.1	22.2
Corporate	3,510	40.3	3,760	38.8	3,687	36.7	3.9	13.0	0.2	10.8	3.6	8.5	(1.9)	5.0
Japan														
Total	8,877	100.0	9,841	100.0	10,812	100.0	0.6	2.3	0.7	2.6	(1.4)	(15.4)	9.9	21.8
Government	8,224	92.6	9,148	93.0	10,062	93.1	0.7	2.6	0.8	3.1	(1.2)	(15.1)	10.0	22.4
Corporate	653	7.4	693	7.0	749	6.9	(1.2)	(2.2)	(0.9)	(3.3)	(3.1)	(19.1)	8.1	14.8

(-) = negative, LCY = local currency, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:

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

2. Corporate bonds include issues by financial institutions.

3. Bloomberg LP end-of-period LCY—USD rates are used.

4. For LCY base, emerging East Asia growth figures based on 30 June 2016 currency exchange rates and do not include currency effects.

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

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

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

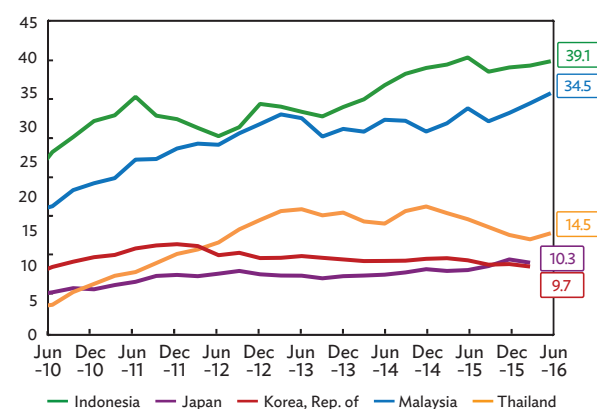
	Q2 2015	Q1 2016	Q2 2016
China, People's Rep. of			
Total	52.9	61.0	64.8
Government	33.6	39.9	44.2
Corporate	19.3	21.1	20.6
Hong Kong, China			
Total	65.2	68.2	72.0
Government	36.2	39.6	41.6
Corporate	29.0	28.5	30.5
Indonesia			
Total	15.1	16.2	16.7
Government	12.9	14.0	14.5
Corporate	2.2	2.2	2.3
Korea, Rep. of			
Total	128.9	129.8	129.5
Government	53.0	53.3	53.5
Corporate	75.9	76.5	76.0
Malaysia			
Total	95.3	97.4	98.1
Government	53.8	53.7	54.3
Corporate	41.4	43.8	43.8
Philippines			
Total	35.8	34.8	33.9
Government	30.0	28.8	28.1
Corporate	5.8	6.0	5.8
Singapore			
Total	83.0	78.0	78.3
Government	49.6	45.7	45.3
Corporate	33.4	32.3	33.0
Thailand			
Total	72.2	74.7	75.0
Government	54.8	55.7	55.8
Corporate	17.3	19.0	19.2
Viet Nam			
Total	23.8	20.7	22.6
Government	23.2	19.8	21.7
Corporate	0.6	0.9	0.9
Emerging East Asia			
Total	59.3	65.3	68.1
Government	35.4	39.9	43.1
Corporate	23.9	25.3	25.0
Japan			
Total	220.9	221.3	222.2
Government	204.7	205.7	206.8
Corporate	16.3	15.6	15.4

GDP = gross domestic product, Q1 = first quarter, Q2 = second quarter.

Notes:

1. Data for GDP are from CEIC.
2. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

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

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

LCY = local currency.

Note: Data as of end-June 2016 except for Japan and the Republic of Korea (end-March 2016).

Source: *AsianBondsOnline*.

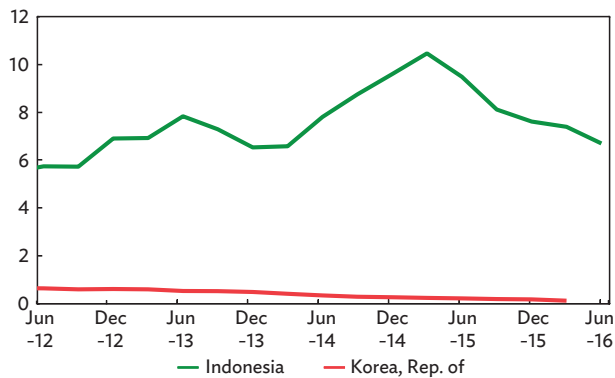
In Thailand, foreign holdings' share of the LCY government bond market climbed nearly 1 percentage point to 14.5% in Q2 2016. In contrast, foreign investors' holdings of LCY government bonds in the Republic of Korea slipped to a share of 9.7% at the end of March, the most recent quarter for which data are available, from a 10.1% share at the end of December.

Foreign investor interest in Indonesian LCY corporate bonds continued to moderate in Q2 2016. The share of foreign holdings in the Indonesian LCY corporate bond market has steadily declined since March 2015, falling to 6.7% at the end of June from 7.4% at the end of March (**Figure 3**). In the Republic of Korea, where the LCY bond market is dominated by corporate bonds, foreign investors hold an insignificant 0.1% share of the total LCY corporate bond stock at the end of March.

Net foreign capital flows into emerging East Asia's bond markets remained strong in Q2 2016.

Foreign investors remain interested in emerging East Asian bonds as evidenced by strong inflows in Q2 2016. All markets with available data, with the exception of the Republic of Korea, recorded positive foreign bond flows during the quarter (**Figure 4**).

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



Note: For Indonesia, data as of 1 July 2016. For the Republic of Korea, data as of end-March 2016.
Sources: Based on data from Otoritas Jasa Keuangan and the Bank of Korea.

Global interest rates remain low as most central banks have kept their monetary policies accommodative. Only in the United States (US) has there been an indication that monetary policy may tighten. The low-interest-rate environment has led to increased demand for riskier assets given the low returns in most developed economies.

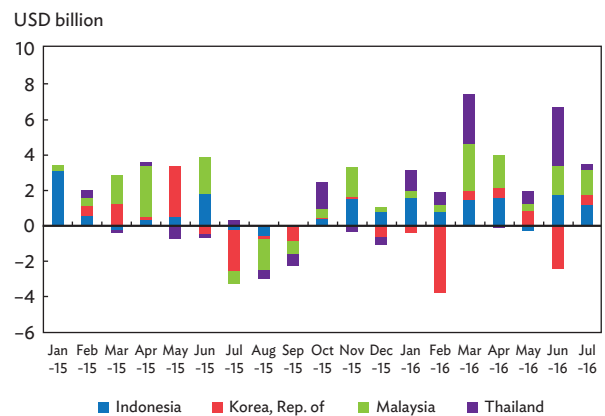
Malaysia recorded the largest net foreign capital flows into its LCY bond market in the region in Q2 2016, followed by Thailand. In Indonesia, net foreign capital inflows in Q2 2016, while still positive, were lower compared with Q1 2016 due to an outflow in May following the release of weak economic data. The Republic of Korea recorded net foreign capital outflows from its LCY bond market in Q2 2016 on account of a huge amount of bond redemptions in June.

Emerging East Asia's LCY bond issuance registers double-digit growth in Q2 2016.

LCY bond issuance in emerging East Asia amounted to USD1,323 billion in Q2 2016, posting double-digit growth that was largely driven by robust issuance in the PRC (Table 3).

The PRC's LCY bond issuance stood at USD894 billion (CNY5,944 billion) in Q2 2016, representing 67.6% of the regional total. On an LCY basis, this figure was up 43.8% q-o-q and 52.2% y-o-y, mainly as a result

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



Notes:

1. The Republic of Korea and Thailand provide data on bond flows. For Indonesia and Malaysia, month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.
2. Data provided as of July 2016.
3. Figures were computed based on 31 July 2016 exchange rates to avoid currency effects.

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

of relatively strong issuance of government bonds—specifically, local government bonds—that more than offset the fall in the issuance of corporate bonds.

In Hong Kong, China, LCY bond issues were valued at USD98 billion (HKD760 billion) on LCY-based growth of 6.9% q-o-q and 27.6% y-o-y that was buoyed by relatively large sales in both the government and corporate bond sectors. The government remained the dominant source of bonds, accounting for 83.7% of the market's total issuance. Government bond issuance was higher in Q2 2016 on both a q-o-q and y-o-y basis.

LCY bond issuance in the Republic of Korea was down in Q2 2016—both from the previous quarter and from the second quarter of the previous year—leveling off at USD154 billion (KRW177,348 billion). The negative q-o-q growth largely stemmed from less issuance of corporate bonds, while the negative y-o-y growth was brought about by lower bond sales by both the central bank and the corporate sector.

The combined LCY bond issuance in Q2 2016 in the region's six Southeast Asian economies—Indonesia, Malaysia, the Philippines, Singapore, Thailand, and

Table 3: Local-Currency-Denominated Bond Issuance (gross)

	Q2 2015		Q1 2016		Q2 2016		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q2 2016		Q2 2016	
							q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of										
Total	630	100.0	641	100.0	894	100.0	43.8	52.2	39.6	41.9
Government	370	58.8	360	56.2	685	76.6	96.1	98.3	90.4	85.0
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	370	58.8	360	56.2	685	76.6	96.1	98.3	90.4	85.0
Corporate	260	41.2	281	43.8	209	23.4	(23.3)	(13.6)	(25.5)	(19.4)
Hong Kong, China										
Total	77	100.0	92	100.0	98	100.0	6.9	27.6	6.9	27.5
Government	70	91.7	80	87.8	82	83.7	2.0	16.5	1.9	16.4
Central Bank	70	90.9	80	87.6	80	81.5	(0.4)	14.5	(0.5)	14.4
Treasury and Other Govt.	0.6	0.8	0.2	0.2	2	2.2	931.3	251.1	931.0	250.7
Corporate	6	8.3	11	12.2	16	16.3	42.6	149.8	42.6	149.6
Indonesia										
Total	9	100.0	16	100.0	14	100.0	(15.1)	56.8	(14.9)	58.3
Government	7	79.4	15	93.5	11	81.7	(25.8)	61.3	(25.6)	62.9
Central Bank	0.2	1.9	3	18.0	2	16.0	(24.4)	1203.3	(24.2)	1216.0
Treasury and Other Govt.	7	77.5	12	75.5	9	65.7	(26.1)	32.8	(26.0)	34.1
Corporate	2	20.6	1	6.5	2	18.3	139.2	39.5	139.7	40.9
Korea, Rep. of										
Total	201	100.0	159	100.0	154	100.0	(2.5)	(21.1)	(3.3)	(23.6)
Government	79	39.3	76	47.5	76	49.0	0.7	(1.6)	(0.0)	(4.7)
Central Bank	46	23.1	39	24.7	40	25.9	2.1	(11.5)	1.4	(14.3)
Treasury and Other Govt.	33	16.3	36	22.8	36	23.2	(0.8)	12.4	(1.6)	8.9
Corporate	122	60.7	84	52.5	78	51.0	(5.5)	(33.7)	(6.2)	(35.8)
Malaysia										
Total	16	100.0	16	100.0	15	100.0	0.6	0.7	(2.7)	(5.7)
Government	8	51.8	7	46.0	7	45.3	(0.9)	(11.8)	(4.1)	(17.4)
Central Bank	0	0.0	0	0.0	0	2.8	-	-	-	-
Treasury and Other Govt.	8	51.8	7	46.0	7	42.5	(7.0)	(17.3)	(10.0)	(22.5)
Corporate	8	48.2	9	54.0	8	54.7	1.8	14.2	(1.5)	7.0
Philippines										
Total	2	100.0	4	100.0	4	100.0	(4.0)	62.3	(6.4)	55.3
Government	2	80.6	4	93.4	4	96.2	(1.1)	93.8	(3.6)	85.3
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	2	80.6	4	100.0	4	96.2	(1.1)	93.8	(3.6)	85.3
Corporate	0.5	19.4	0.3	6.6	0.1	3.8	(44.0)	(67.9)	(45.4)	(69.3)
Singapore										
Total	77	100.0	58	100.0	63	100.0	8.0	(17.7)	8.1	(17.7)
Government	73	94.6	56	95.9	60	94.6	6.6	(17.7)	6.7	(17.7)
Central Bank	66	85.6	53	90.7	52	81.8	(2.5)	(21.3)	(2.4)	(21.3)
Treasury and Other Govt.	7	9.0	3	5.2	8	12.8	165.9	17.2	166.1	17.2
Corporate	4	5.4	2	4.1	3	5.4	41.3	(18.4)	41.4	(18.4)
Thailand										
Total	66	100.0	70	100.0	74	100.0	5.0	17.1	5.0	12.7
Government	54	81.6	60	85.0	63	85.4	5.4	22.5	5.4	17.9
Central Bank	41	62.8	54	77.0	54	73.5	0.2	36.9	0.2	31.8
Treasury and Other Govt.	12	18.8	6	8.1	9	11.9	54.3	(25.9)	54.3	(28.6)
Corporate	12	18.4	11	15.0	11	14.6	2.7	(6.9)	2.7	(10.4)

continued on next page

Table 3 continued

	Q2 2015		Q1 2016		Q2 2016		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q2 2016		Q2 2016	
							q-o-q	y-o-y	q-o-q	y-o-y
Viet Nam										
Total	10	100.0	14	100.0	7	100.0	(51.5)	(33.6)	(51.5)	(35.0)
Government	10	95.7	14	98.9	7	98.7	(51.6)	(31.6)	(51.6)	(33.0)
Central Bank	8	81.4	9	65.5	1	21.3	(84.3)	(82.6)	(84.3)	(83.0)
Treasury and Other Govt.	1	14.3	5	33.3	5	77.4	12.6	259.5	12.5	252.0
Corporate	0.4	4.3	0.2	1.1	0.1	1.3	(42.9)	(79.2)	(42.9)	(79.6)
Emerging East Asia										
Total	1,088	100.0	1,070	100.0	1,323	100.0	26.0	27.7	23.6	21.5
Government	673	61.9	671	62.7	994	75.1	50.6	54.5	48.0	47.6
Central Bank	232	21.3	239	22.3	230	17.4	(3.6)	0.5	(3.7)	(0.9)
Treasury and Other Govt.	441	40.6	433	40.4	764	57.8	81.2	84.3	76.5	73.1
Corporate	415	38.1	399	37.3	329	24.9	(15.6)	(16.2)	(17.5)	(20.7)
Japan										
Total	404	100.0	435	100.0	469	100.0	(1.2)	(2.3)	7.7	15.9
Government	379	93.7	412	94.8	440	94.0	(2.1)	(2.0)	6.8	16.3
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	379	93.7	412	94.8	440	94.0	(2.1)	(2.0)	6.8	16.3
Corporate	26	6.3	23	5.2	28	6.0	14.4	(7.0)	24.8	10.4

(-) = negative, - = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:

1. Corporate bonds include issues by financial institutions.

2. Bloomberg LP end-of-period LCY—USD rates are used.

3. For LCY base, emerging East Asia growth figures are based on 30 June 2016 currency exchange rates and do not include currency effects.

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

Viet Nam—totaled USD177 billion, which was down USD2 billion from Q1 2016 and USD3 billion from Q2 2015. The q-o-q drop was induced by lower bond sales in Indonesia, the Philippines, and Viet Nam, while the y-o-y decrease was the result of lower bond sales in Singapore and Viet Nam.

Indonesia's LCY bond issuance activity in Q2 2016 weakened when compared with the previous quarter but improved relative to the second quarter of the previous year, leveling off at USD14 billion (IDR180,081 billion). The q-o-q fall was due to lower government bond sales, while the y-o-y uptick stemmed from increases in both government and corporate bond issues.

In Malaysia, LCY bond sales in Q2 2016 totaled USD15 billion (MYR62 billion), which in LCY terms was marginally higher than in either Q1 2016 or Q2 2015.

The Philippines LCY bond issuance in Q2 2016 was marginally down from the previous quarter, but

substantially higher than in the second quarter of the previous year, mainly due to increased issuance of Treasury bills and Treasury bonds.

Issuance of LCY bonds in Singapore climbed on a q-o-q basis in Q2 2016 but slipped on a y-o-y basis, with total issuance at USD63 billion (SGD85 billion).

In Thailand, LCY bond sales rose on both a q-o-q and y-o-y basis to USD74 billion (THB2,596 billion) in Q2 2016, backed by stronger issuance of central bank bills and bonds.

Viet Nam's LCY bond sales fell precipitously in Q2 2016, mainly resulting from a substantial reduction in bond issuance by the central bank, to USD7 billion (VND149,031 billion).

Intra-emerging East Asian LCY bond issuance decreased 17.6% q-o-q and 49.3% y-o-y to USD1.7 billion in Q2 2016. Issuers from the PRC sold USD584 million

worth of bonds denominated in Hong Kong dollars and Malaysian ringgit. Four issuers from Hong Kong, China sold renminbi-denominated bonds and one issuer sold Singapore dollar-denominated bonds for a combined total that was equivalent to USD487 million. Three banks from the Republic of Korea issued USD221 million worth of bonds denominated in renminbi, Hong Kong dollars, and Singapore dollars. Two banks from Malaysia sold USD142 million worth of renminbi- and Hong Kong dollar-denominated bonds. Two Singaporean issuers raised the equivalent of USD271 million through the sale of Hong Kong dollar-denominated bonds.

Emerging East Asia's G3 currency bond issuance declined 2.5% y-o-y in January–July.

Emerging East Asia's G3 currency bond issuance amounted to USD119.2 billion in the first 7 months of 2016, accounting for 65.3% of the full-year 2015 total (**Table 4**).⁷ The January–July issuance was 2.5% less than during the same period a year earlier because of lower bond sales from the PRC, Malaysia, and the Philippines. The US dollar continued to be the dominant G3 currency of choice among issuers in the region, comprising an 86.7% share of January–July issuance, followed by the euro with 12%. By economy, the PRC's G3 currency bond issuance remained the largest in the region with a 54.6% share of the total.

The PRC recorded USD65.1 billion worth of G3 currency bond issuance in the January–July period, down 5.2% compared with the first 7 months of the previous year. The single largest issuance during the review period was Proven Honour Capital's USD2 billion 10-year bond guaranteed by Huawei Investment & Holding Company that was sold in May at a 4.125% coupon. The largest issuer was China Development Bank, which raised a total of USD6.4 billion from selling five USD-denominated bonds and two EUR-denominated bonds.

G3 currency bond issuance in the Republic of Korea was valued at USD16.7 billion in the January–July period, which was second only to the PRC and 21.3% larger compared with the same period a year earlier. Korea Eximbank issued the largest amount of G3 currency bonds during the review period among all Korean issuers at USD4.5 billion.

Aggregate G3 currency bond issuance from Hong Kong, China reached USD14.0 billion in January–July, the third most among individual markets in the region. CK Hutchison accounted for the most G3 bond issuance with the equivalent of USD2.2 billion in EUR-denominated bonds, which consisted of a 7-year bond worth EUR1.35 billion and a 12-year bond worth EUR650 million. The bonds carried coupon rates of 1.25% and 2.0%, respectively.

In Southeast Asia, total G3 currency bond issues were valued at USD23.3 billion over the January–July period, down 15.1% from the same period in the previous year. Indonesia posted USD11.1 billion worth of G3 issuance, of which about 63% comprised sovereign G3 currency bond sales and about 32% was USD-denominated foreign exchange bills issued by the central bank. Malaysia's issuance of USD3.8 billion, reflecting a 51.0% y-o-y decline, largely came from the USD1.5 billion dual-tranche, USD-denominated *sukuk* sale of the central government in April and USD897 billion worth of bonds from Maybank. The Philippines' G3 currency issuance during the review period comprised a USD2 billion 25-year sovereign bond issued in March with a 3.7% coupon. The USD6.1 billion of G3 currency bond issuance in Singapore in January–July was up 6.8% y-o-y and mostly came from financial institutions United Overseas Bank, Temasek Financial, and DBS Bank. G3 currency bond sales in Thailand were generated entirely from two corporate issuers whose bonds combined to total USD375 million.

On a monthly basis, G3 currency issuance from emerging East Asian issuers exhibited an upward trend over the course of Q2 2016, starting at USD18.0 billion in April and reaching USD22.1 billion in June. In July, G3 currency bond issuance slipped to USD19.9 billion (**Figure 5**).

Most emerging East Asian government bond yield curves fell due to monetary easing in a number of markets and increased demand for higher-yielding assets.

Globally, the economic environment remains weak, particularly among the major advanced economies. The European Union's (EU) GDP growth fell to 0.3% q-o-q in Q2 2016 from 0.5% q-o-q in Q1 2016. On a y-o-y basis, growth in the EU slowed to 1.6% in Q2 2016 from 1.7%

⁷ G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.

Table 4: G3 Currency Bond Issuance

2015			1 January–31 July 2016		
Issuer	Amount (USD million)	Issue Date	Issuer	Amount (USD million)	Issue Date
China, People's Rep. of	103,527		China, People's Rep. of	65,140	
China Construction Bank 4.65% Perpetual	3,050	16-Dec-15	Proven Honour Capital 4.125% 2026	2,000	6-May-16
Sinopec 2.5% 2020	2,500	28-Apr-15	Export-Import Bank of China 2% 2021	1,250	26-Apr-16
Bank of Communications 5% Perpetual	2,450	29-Jul-15	China Development Bank 0.5% 2021	1,117	1-Jun-16
China Construction Bank 3.875% 2025	2,000	13-May-15	China Development Bank 0.875% 2018	1,117	3-Feb-16
CNOOC Finance 3.5% 2025	2,000	5-May-15	Export-Import Bank of China 2.875% 2026	1,000	26-Apr-16
ICBC 4.875% 2025	2,000	21-Sep-15	Sinopec 2.125% 2019	1,000	3-May-16
China Cinda Finance (2015) 4.25% 2025	1,700	23-Apr-15	Three Gorges Finance 3.15% 2026	1,000	2-Jun-16
Evergrande Real Estate Group 9% Perpetual	1,500	29-Dec-15	Bank of China (Luxembourg) 2.25% 2021	1,000	12-Jul-16
Others	86,327		Others	55,656	
Hong Kong, China	18,702		Hong Kong, China	14,032	
Shimao Property 8.375% 2022	1,100	10-Feb-15	CK Hutchison 1.25% 2023	1,508	8-Apr-16
Hong Kong, China (Sovereign) Sukuk 1.894% 2020	1,000	3-Jun-15	China Overseas Finance 0% 2023	1,500	5-Jan-16
Others	16,602		Others	11,024	
Indonesia	15,572		Indonesia	11,082	
Indonesia (Sovereign) 4.75% 2026	2,250	8-Dec-15	Perusahaan Penerbit SBSN Sukuk 4.55% 2026	1,750	29-Mar-16
Indonesia (Sovereign) 4.125% 2025	2,000	15-Jan-15	Indonesia (Sovereign) 2.625% 2023	1,676	14-Jun-16
Indonesia (Sovereign) 5.125% 2045	2,000	15-Jan-15	Indonesia (Sovereign) 3.75% 2028	1,676	14-Jun-16
Perusahaan Penerbit SBSN Sukuk 4.325% 2025	2,000	28-May-15	Perusahaan Penerbit SBSN Sukuk 3.4% 2021	750	29-Mar-16
Indonesia (Sovereign) 3.375% 2025	1,397	30-Jul-15	Bank Indonesia 0% 2016	500	22-Jan-16
Others	5,925		Others	4,730	
Korea, Rep. of	23,348		Korea, Rep. of	16,689	
Korea Eximbank 2.875% 2025	1,250	21-Jan-15	Korea Development Bank 3% 2026	1,000	13-Jan-16
Korea Eximbank 2.25% 2020	1,000	21-Jan-15	Korea Eximbank 1.75% 2019	1,000	26-May-16
Korea Eximbank 3.25% 2025	1,000	10-Nov-15	Korea Eximbank 2.625% 2026	1,000	26-May-16
Others	20,098		Korea Eximbank 0.375% 2019	859	15-Mar-16
Lao People's Dem. Rep.	182		Hyundai Capital America 2.5% 2019	600	18-Mar-16
Malaysia	8,496		Others	12,230	
Petronas Capital 3.5% 2025	1,500	18-Mar-15	Malaysia	3,751	
Petronas Capital 4.5% 2045	1,500	18-Mar-15	Malaysia (Sovereign) Sukuk 3.179% 2026	1,000	27-Apr-16
Petronas Global Sukuk 2.707% 2020	1,250	18-Mar-15	Danga Capital 3.035% 2021	750	1-Mar-16
Others	4,246		Maybank 3.905% 2026	500	29-Apr-16
Philippines	4,256		Others	1,501	
Philippines (Sovereign) 3.95% 2040	2,000	20-Jan-15	Philippines	2,000	
Royal Capital BV 5.5% Perpetual	450	26-Aug-15	Philippines (Sovereign) 3.7% 2041	2,000	1-Mar-16
Others	1,806		Singapore	6,128	
Singapore	8,346		BOC Aviation 3.875% 2026	750	27-Apr-16
Global Logistics Properties 3.875% 2025	1,000	4-Jun-15	United Overseas Bank 3.5% 2026	700	16-Mar-16
DBS Bank 1.625% 2018	1,000	6-Aug-15	Temasek Financial 0.5% 2022	670	1-Mar-16
BOC Aviation 3% 2020	750	30-Mar-15	United Overseas Bank 0.25% 2021	559	9-Mar-16
Others	5,596		Temasek Financial 1.5% 2028	559	1-Mar-16
Thailand	176		Others	2,890	
Emerging East Asia Total	182,605		Thailand	375	
Memo Items:			Emerging East Asia Total	119,198	
India	10,919		Memo Items:		
Bharti Airtel 4.375% 2025	1,000	10-Jun-15	India	4,079	
Others	8,919		ICICI Bank 4% 2026	700	18-Mar-16
Sri Lanka	3,649		Others	3,379	
			Sri Lanka	2,916	

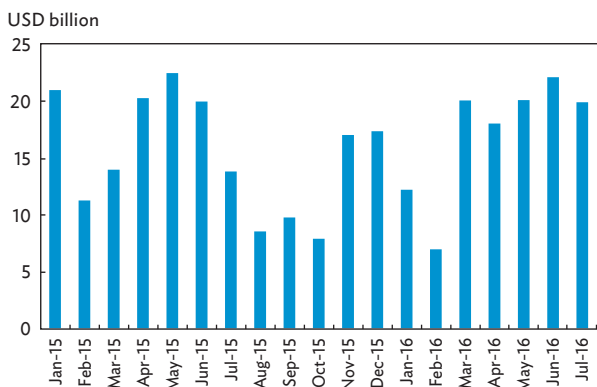
USD = United States dollar.

Notes:

1. Data exclude certificates of deposit.

2. G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.

Source: AsianBondsOnline calculations based on data from Bloomberg LP.

Figure 5: G3 Currency Bond Issuance

USD = United States dollar.

Note: G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.

Source: AsianBondsOnline calculations based on Bloomberg LP data.

in the prior quarter. In Japan, GDP growth slowed to an annualized rate of 0.7% in Q2 2016 from 2.1% in Q1 2016.

Markets have shown resilience after an initial bout of volatility following the United Kingdom's (UK) referendum on leaving the EU, suggesting that the economic impact outside of the UK is likely to be minimal. At the same time, the European Central Bank (ECB) left its existing monetary easing measures unchanged in its July meeting as the outlook for global economic growth for the rest of the year had not significantly improved. The ECB noted that economic risks remained tilted to the downside.

In Japan, the central bank expanded its quantitative easing operations, doubling the targeted amount of annual exchange-traded fund purchases to JPY6 trillion, increasing its US dollar lending program, and allowing financial institutions to use Japanese Government Bonds as collateral for US dollar borrowing.

Global inflation has thus far been benign in 2016. Japan moved into deflationary territory in April and continued to report negative inflation of -0.4% y-o-y in July. In the EU, inflation has firmed up somewhat in recent months, with July inflation coming in at 0.2% y-o-y, up from 0.1% y-o-y in June, due to higher energy prices. However, the ECB has noted that inflation is likely to remain subdued.

Oil prices have been rising in 2016, while peaking in June, which has helped to stabilize inflation. However, prices

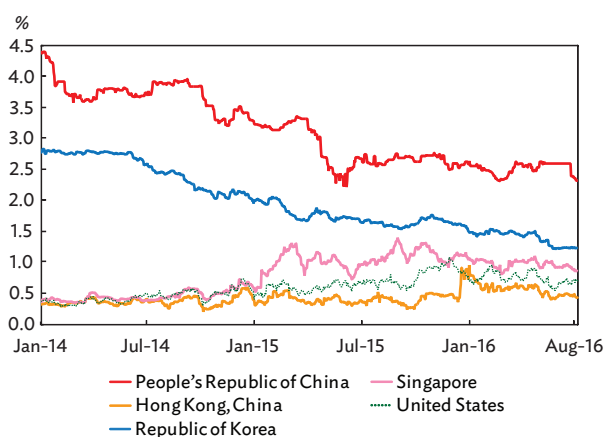
remain low overall. There was a temporary spike in oil prices in August, which has since leveled off, following news that the Organization of the Petroleum Exporting Countries would freeze production. It is unlikely that oil prices will provide a significant boost to inflation given low global growth reducing demand at the same time that oil inventories remain high.

US monetary policy is increasingly diverging from the policies of other advanced economies due to its economic recovery. While the US is the most likely to raise policy rates among developed markets, there is still uncertainty regarding the timing. Recent language from the Federal Reserve raised the likelihood of a policy rate hike this year but the disappointing nonfarm payroll data for August decrease the probability.

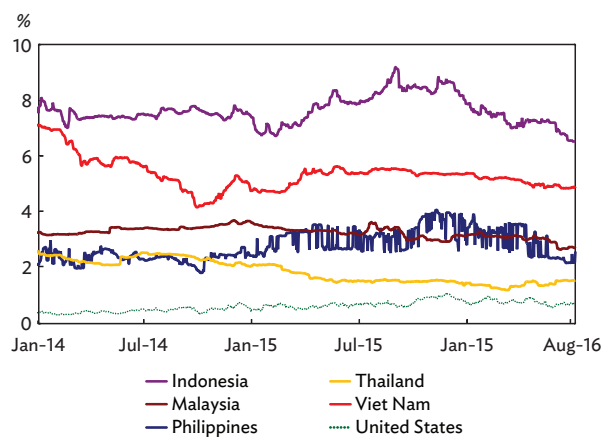
Due to weakness in global economic growth and the inflation outlook, low global yields have persisted, making bond yields in emerging East Asia relatively attractive. This has led to bond yields falling in most markets in emerging East Asia. The 2-year rate has steadily declined since 1 June in all regional bond markets with the exception of Thailand. The 2-year yield in a number of markets that closely track US yields—including Hong Kong, China, the Republic of Korea, and Singapore—showed a spike toward the end of May before declining. The rise in yields at the end of May followed the release of the minutes of the April Federal Reserve meeting, which said that markets were underestimating the likelihood of a rate hike (**Figures 6a and 6b**).

The 10-year yield in most emerging East Asian markets showed a decline from 1 June, with the exception of Viet Nam, where the 10-year yield remained broadly stable (**Figures 7a and 7b**).

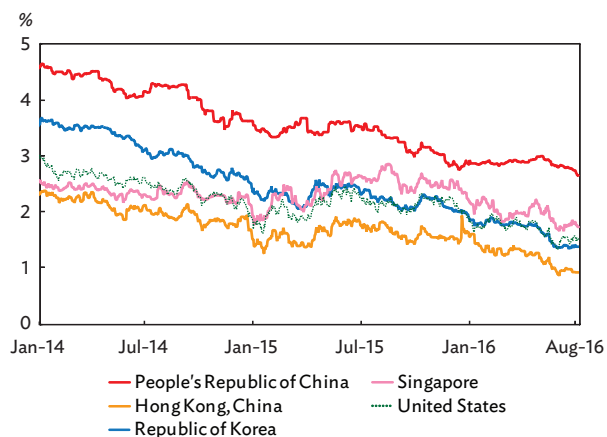
Economic growth has firmed in emerging East Asian economies as most have shown stable or slight improvement in GDP growth except for Malaysia. The PRC's Q2 2016 GDP growth was unchanged at 6.7% y-o-y from the prior quarter, while Hong Kong, China's GDP growth rose to 1.7% y-o-y in Q2 2016 from 0.8% y-o-y in Q1 2016. Over the same period, Indonesia's GDP growth improved to 5.2% y-o-y from 4.9% y-o-y, growth in the Republic of Korea improved to 3.3% y-o-y from 2.8% y-o-y, the Philippines' GDP growth accelerated to 7.0% y-o-y from 6.8% y-o-y, Singapore's GDP growth remained unchanged at 2.1% y-o-y, growth in Thailand

Figure 6a: 2-Year Local Currency Government Bond Yields

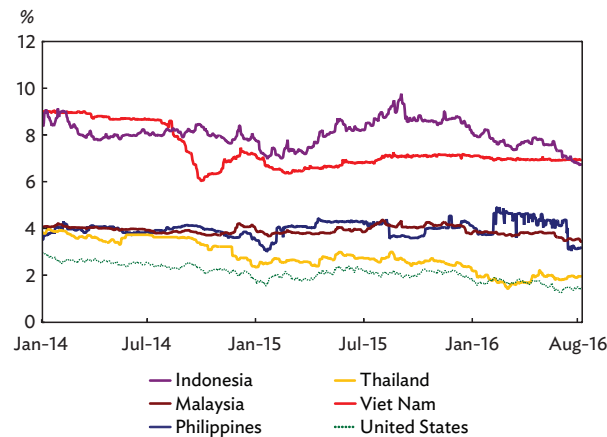
Note: Data as of 15 August 2016.
Source: Based on data from Bloomberg LP.

Figure 6b: 2-Year Local Currency Government Bond Yields

Note: Data as of 15 August 2016.
Source: Based on data from Bloomberg LP.

Figure 7a: 10-Year Local Currency Government Bond Yields

Note: Data as of 15 August 2016.
Source: Based on data from Bloomberg LP.

Figure 7b: 10-Year Local Currency Government Bond Yields

Note: Data as of 15 August 2016.
Source: Based on data from Bloomberg LP.

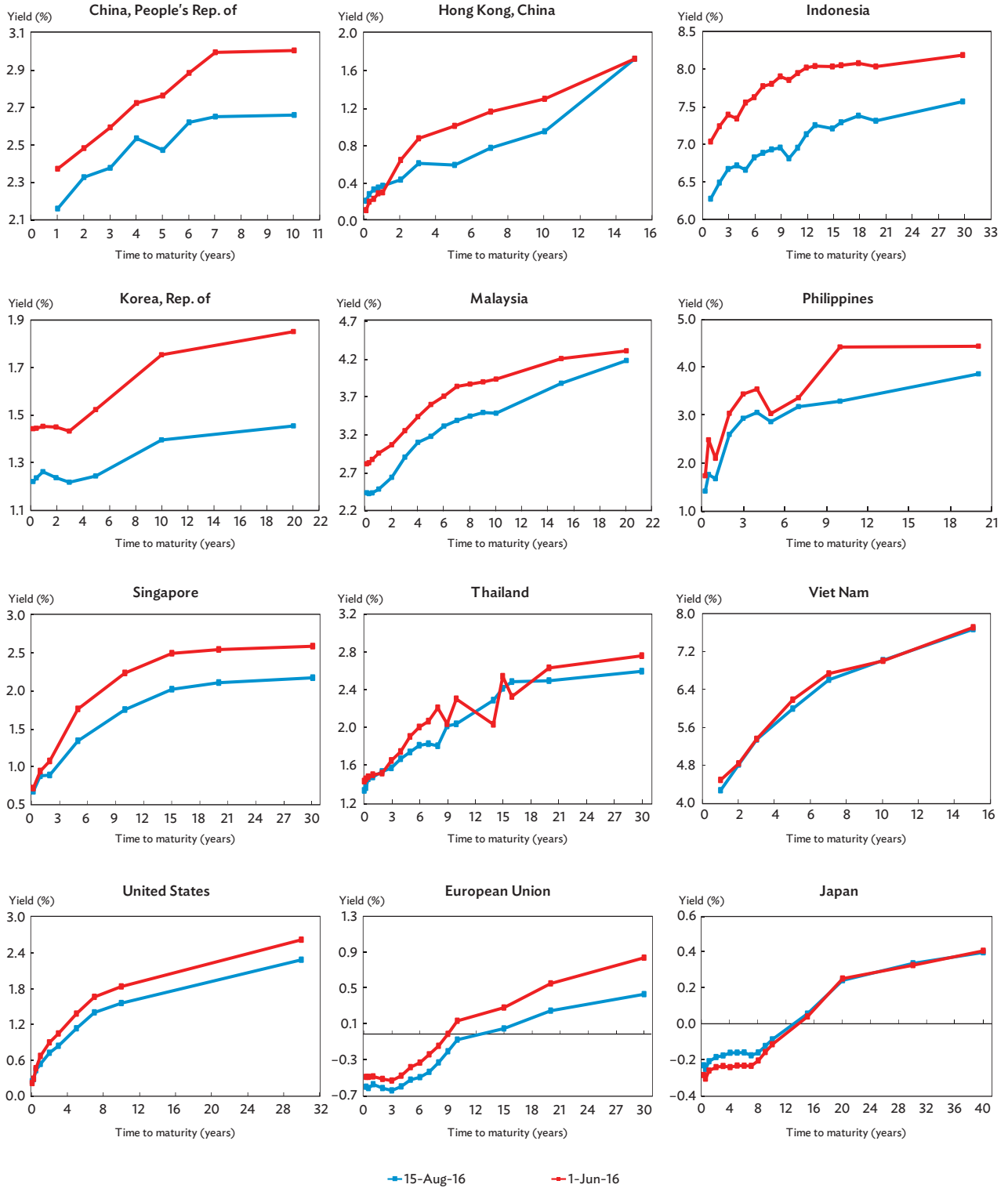
rose to 3.5% y-o-y from 3.2% y-o-y, and Viet Nam's GDP growth rose to 5.5% y-o-y in the first half of the year, unchanged from the first 3 months of the year. In contrast, Malaysia's GDP growth fell to 4.0% y-o-y in Q2 2016 from 4.2% y-o-y in Q1 2016.

Given stronger GDP growth than in most developed economies, yields generally fell for all emerging East Asian markets between 1 June and 15 August due to strong demand. In fact, the entire yield curve shifted downward during the review period in all regional markets except

Hong Kong, China, Thailand, and Viet Nam (**Figure 8**).

While oil prices have improved in 2016, overall inflation rates in most emerging East Asian economies have trended downward. Viet Nam is one exception as inflation has been trending upward since the start of the year. While Thailand has moved out of deflation, July saw a dip in inflation to 0.1% y-o-y (**Figure 9a**). Inflation in the Philippines has also been rising in 2016, partly due to spending related to the election held in May (**Figure 9b**).

Figure 8: Benchmark Yield Curves—Local Currency Government Bonds

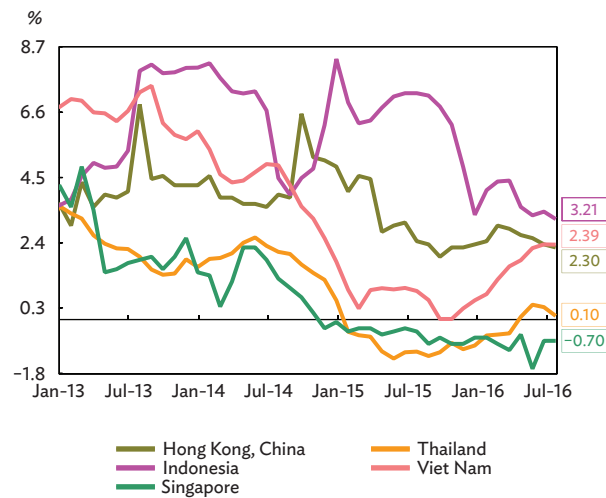


Source: Based on data from Bloomberg LP.

With declining inflation and improving but generally subdued economic growth, emerging East Asian yields also fell partly as the result of additional monetary easing in some markets. The Republic of Korea reduced its policy rate by 25 basis points in June and Malaysia reduced its policy rate in July, citing preemptive easing in order to arrest potential fallout from the UK's decision to leave

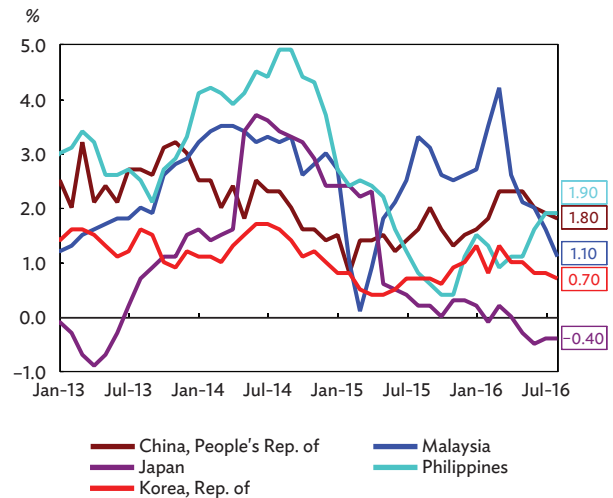
the EU (Figures 10a and 10b). Indonesia also reduced its policy rate in June. However, in August, the central bank adopted a new policy rate benchmark, switching to the 7-day repurchase rate. While the PRC last reduced its reserve requirement ratios in February, the market has been expecting the PRC to engage in monetary easing, further contributing to the fall in yields.

Figure 9a: Headline Inflation Rates



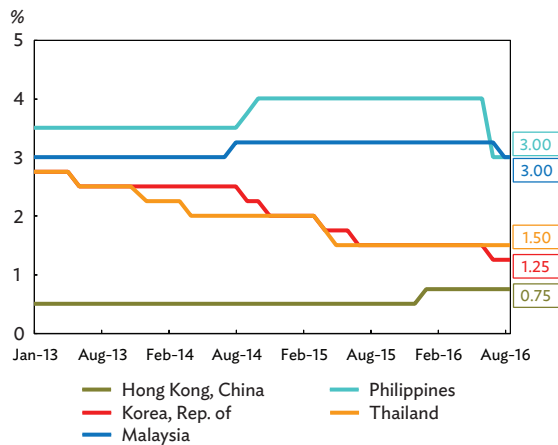
Note: Data as of July 2016.
Source: Based on data from Bloomberg LP.

Figure 9b: Headline Inflation Rates



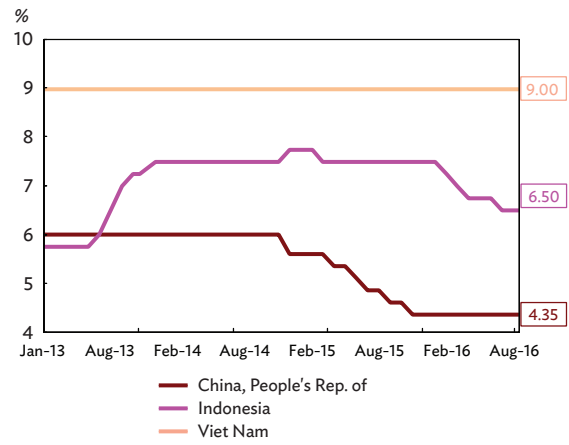
Note: Data as of July 2016.
Source: Based on data from Bloomberg LP.

Figure 10a: Policy Rates



Notes:
1. Data as of 15 August 2016.
2. The policy rate of the Philippines was adjusted to 3.0% from 4.0% in June following the shift in the Bangko Sentral ng Pilipinas' monetary operations to an interest rate corridor system.
Source: Based on data from Bloomberg LP.

Figure 10b: Policy Rates



Note: Data as of 15 August 2016.
Source: Based on data from Bloomberg LP.

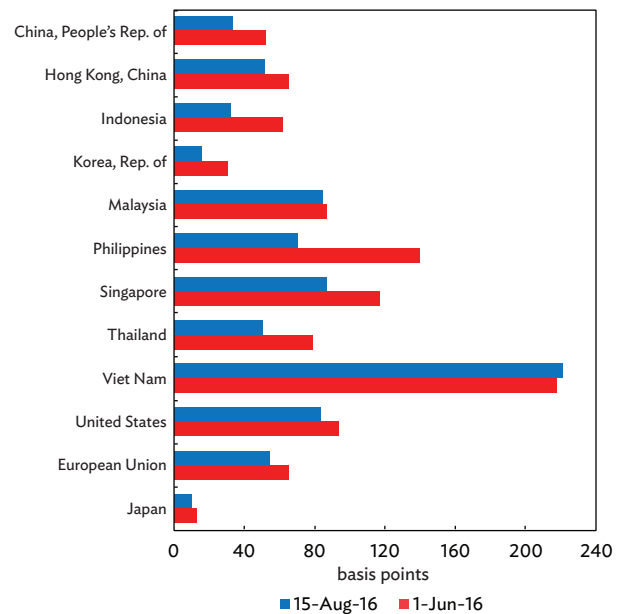
With economic growth remaining subdued and inflation declining, the 2-year versus 10-year yield spread fell between 1 June and 15 August for all markets in emerging East Asia except Viet Nam (Figure 11).

The AAA-rated corporate yield versus government yield spread fell in the PRC and the Republic of Korea but rose in Malaysia.

Credit spreads between AAA-rated corporate bonds and government bonds fell for all tenors in the PRC and the Republic of Korea between 1 June and 15 August (Figure 12a). In Malaysia, credit spreads rose for all tenors during the review period.

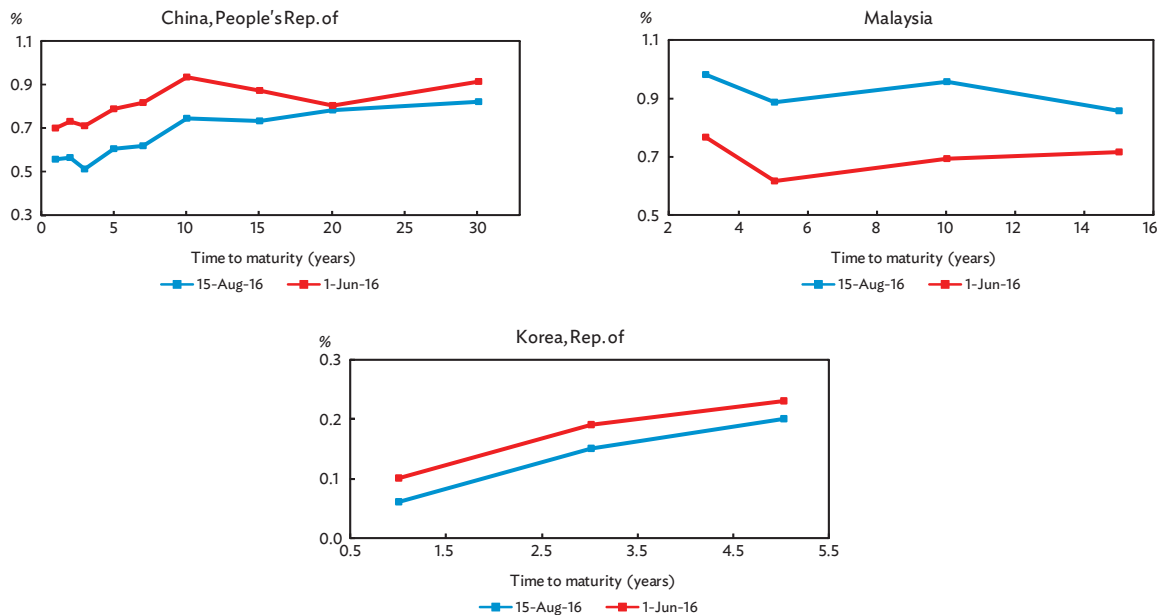
Lower-rated credit spreads also fell in the PRC during the review period, while rising in the Republic of Korea and Malaysia (Figure 12b).

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



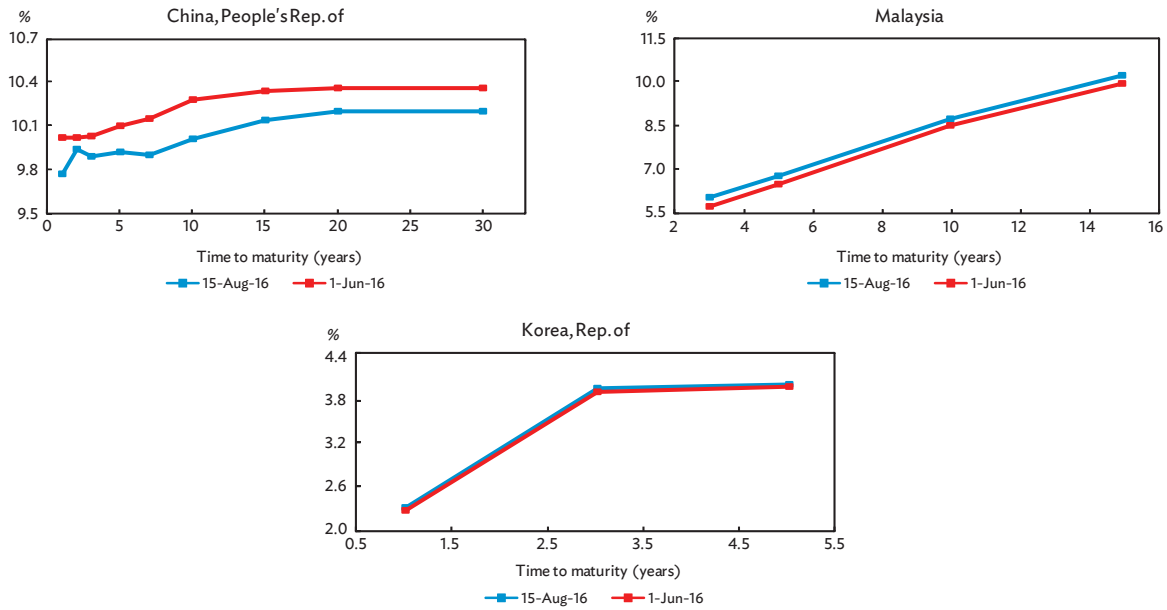
Source: Based on data from Bloomberg LP.

Figure 12a: Credit Spreads—Local Currency Corporates Rated AAA vs. Government Bonds



Notes:
 1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
 2. For Malaysia, data on corporate bond yields are as of 31 May 2016 and 12 August 2016.
 3. For the Republic of Korea, latest credit spread data are as of 12 August 2016.
 Sources: People's Republic of China (*Wind Info*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (*Bank Negara Malaysia*).

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



Notes:

1. For the People's Republic of China and the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB+.
 2. For Malaysia, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB.
 3. For Malaysia, data on corporate bond yields are as of 31 May 2016 and 12 August 2016.
 4. For the Republic of Korea, latest credit spread data are as of 12 August 2016.
- Sources: People's Republic of China (*Wind Info*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (*Bank Negara Malaysia*).