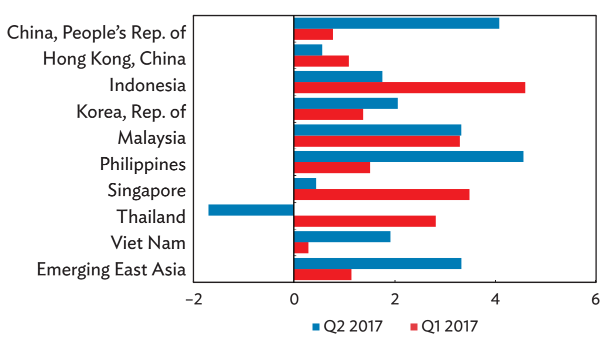
Bond Market Developments in the Second Quarter of 2017

Size and Composition

The second quarter of 2017 saw further expansion in emerging East Asia's local currency bond market, with bonds outstanding hitting nearly USD11.0 trillion.

The local currency (LCY) bond market in emerging East Asia continued to expand in the second quarter (Q2) of 2017.[11] The outstanding size of the region's LCY bond market climbed to nearly USD11.0 trillion at the end of June. Growth rose to 3.3% quarter-on-quarter (q-o-q) in Q2 2017 from 1.1% q-o-q in the prior quarter (**Figure 1a**). Much of the growth was driven by a strong rebound in the People's Republic of China's (PRC) bond market. The q-o-q growth rates in Q2 2017 were positive for all markets except Thailand, with five of the expanding markets posting larger increases than in the previous quarter.

Figure 1a: Growth of Local Currency Bond Markets in the First and Second Quarters of 2017 (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 2017 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond* and *Wind Information*); 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).

The PRC's bond market continued to lead the region with outstanding bonds of USD7,658 billion at the end of June. Relative to the region's total LCY bonds outstanding, the PRC's bond market accounted for a 69.9% share at the end of June, up 1 percentage point from a share of 68.9% at the end of March. The PRC's bond market rebounded strongly in Q2 2017, with growth accelerating to 4.1% q-o-q from 0.8% in the first quarter (Q1) of 2017. Growth was supported by gains in government bonds, particularly local government bonds.

Government bonds in the PRC rose 5.8% q-o-q in Q2 2017 from 1.6% q-o-q in Q1 2017. The rise was driven mostly by increases in the PRC's stock of local government bonds, which rose 13.0% q-o-q in Q2 2017 versus 3.6% q-o-q in the previous quarter. The growth in local government bonds outstanding reflects the increased issuance quotas given to local governments in 2017 as they continue to refinance debt. However, tighter liquidity conditions in 2017 reduced this issuance somewhat as outstanding local government bonds grew 50.0% year-on-year (y-o-y) in Q2 2017, down from 93.2% y-o-y in the previous quarter.

The next largest LCY bond market at the end of June was the Republic of Korea's, which had outstanding bonds valued at USD1,869 billion on growth that rose to 2.1% q-o-q in Q2 2017 from 1.4% q-o-q in Q1 2017. Both government and corporate bonds contributed to the growth during the review period. The government's bond issuance plan in Q2 2017 was broadly at par with issuance in the previous quarter. The government continued to frontload bond issuance to boost economic growth and generate employment through public spending. Corporate bonds also picked up during the review period as firms rushed to take advantage of low borrowing costs amid expectations that the Bank of Korea may soon raise its policy rate. In contrast, the stock of central bank bonds declined during the review period due to an increase in maturing bonds.

[11] 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, Thailand's LCY bond market fell to a size of USD323 billion. It was the sole market in emerging East Asia that posted a q-o-q contraction. Overall, the outstanding size declined 1.7% q-o-q in Q2 2017. Government bonds declined due largely to q-o-q decreases in the stock of government bonds, Treasury bills, and central bank bills during the review period. In April, the Bank of Thailand reduced its issuance of short-dated tenors to help abate capital inflows amid the Thai baht's appreciation. In contrast, the corporate bond segment grew 3.3% q-o-q, buoyed by hefty issuance in Q2 2017.

The LCY bond market in Malaysia expanded to a size of USD290 billion at the end of June, up 3.3% q-o-q in Q2 2017. Growth stemmed from increases in the stock of central government bonds and corporate bonds. On the other hand, the outstanding stock of central bank bonds declined 23.4% q-o-q.

Malaysia continued to have the largest *sukuk* (Islamic bond) market in the region at the end of June, with more than half of its outstanding bonds structured as Islamic debt. Its corporate bond segment is largely dominated by *sukuk* issues, while 43.5% of the government bond segment comprised *sukuk* at the end of June.

In Singapore, the LCY bond market expanded to USD252 billion at the end of June on marginal growth of 0.4% q-o-q, which was solely accounted for by government bonds, particularly bills issued by the Monetary Authority of Singapore. The stock of Singapore Government Securities bills and bonds contracted despite increased issuance due to the high volume of maturation of Singapore Government Securities bills and bonds during the quarter in review. The stock of corporate bonds marginally slipped as redemptions exceeded new issuance.

Hong Kong, China's LCY bond market reached an outstanding size of USD239 billion at the end of June, posting growth of only 0.6% q-o-q that was driven mostly by Exchange Fund Bills, which expanded 0.4% q-o-q. Reduced issuance of Exchange Fund Notes contributed to the slow growth as the government only issued 2-year notes during Q2 2017. Exchange Fund Notes outstanding fell 6.5% q-o-q during the quarter. Increased issuance of Hong Kong Special Administrative Region (HKSAR) bonds, however, led to a 7.5% q-o-q rise in HKSAR bonds outstanding.

At the end of June, Indonesia's LCY bond market reached a size of USD175 billion. Growth was 1.8% q-o-q in Q2 2017, slower compared with the previous quarter. The government tapered its frontloading policy and lowered its issuance plan for Treasury instruments due to improving revenue collection and ample funding from issuances of foreign currency bonds. Central government bonds, which comprise Treasury bills and bonds, drove much of the growth during the quarter. Corporate bonds also contributed to the growth on higher issuance volumes.

On the other hand, further declines in the stock of central bank bills known as Sertifikat Bank Indonesia (SBI) were noted at the end of June following Bank Indonesia's cessation of issuance of conventional SBI at the beginning of 2017. The move was made in line with regulations that require the use of government securities as underlying instruments for monetary operations. The central bank now uses other monetary policy tools such as term deposits and foreign currency exchange bills in managing its monetary operations. However, Bank Indonesia continues to issue shariah-compliant SBI. The issuance volume of shariah-compliant SBI is relatively small compared with conventional SBI, resulting in a decline in outstanding central bank bills.

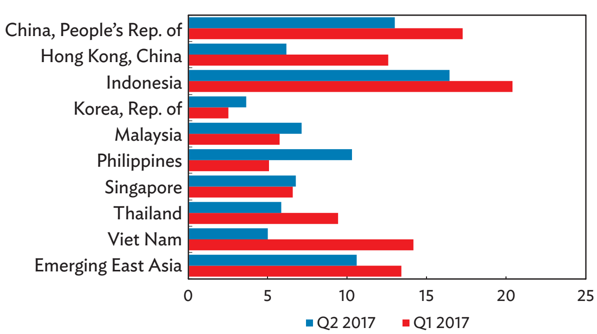
The LCY bond market in the Philippines climbed to a size of USD102 billion at the end of June on overall growth of 4.6% q-o-q. It marked the fastest q-o-q growth rate in emerging East Asia in Q2 2017. Growth came largely from increases in the stock of Treasury bills and bonds as issuance climbed more than 50% from the previous quarter, due largely to an upsized issue of Retail Treasury Bonds (RTBs). Corporate bonds also contributed to the LCY bond market's expansion during the review period, albeit to a lesser extent. Other government bonds declined during Q2 2017 due to redemptions.

Viet Nam's LCY bond market remained the smallest in the region in Q2 2017. Its bond market size climbed to USD45 billion at the end of June, posting growth of 1.9% q-o-q, markedly higher than the 0.3% q-o-q expansion in the previous quarter. Growth in Q2 2017 was solely accounted for by an increase in the stock of Treasury bonds. The stock of other government bonds fell as redemptions exceeded new issuance. In addition, there were no remaining outstanding central bank bills due to the absence of new issuance. Corporate bonds also contracted during the review period due to a lack of issuance. Some corporates in Viet Nam issue bonds via private placement with the details undisclosed. (*AsianBondsOnline* data classifies the bonds of some state-owned entities in Viet Nam as government bonds.)

Overall growth in the region's LCY bond market continued to ease on a y-o-y basis, rising 10.5% y-o-y in Q2 2017 after a 13.4% y-o-y expansion in Q1 2017 (**Figure 1b**). All markets in emerging East Asia posted positive y-o-y growth in Q2 2017. However, five out of nine markets saw their y-o-y growth rates moderate compared with Q1 2017. Indonesia posted the fastest annual growth rate in the region at 16.4% y-o-y, followed by the PRC at 12.9% y-o-y and the Philippines at 10.2% y-o-y. All other markets in the region posted growth rates of 7.1% y-o-y or less.

At the end of June, the stock of LCY government bonds in the region reached USD7,215 billion, with the segment's share of the region's total LCY bond market rising to 65.9% from 64.9% at the end of March (**Table 1**).

Figure 1b: Growth of Local Currency Bond Markets in the First and Second Quarters of 2017 (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 2017 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond* and *Wind Information*); 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).

The government bond market's growth was faster on a q-o-q basis in Q2 2017 than in Q1 2017, but was slower on a y-o-y basis.

The PRC accounted for the largest LCY government bond market in emerging East Asia at USD5,480 billion. Its share was equivalent to 76.0% of the region's total LCY government bond stock at the end of June. The Republic of Korea's government bond total of USD780 billion followed next, representing a 10.8% share of the region's total. Thailand was third with a government bond market size of USD235 billion. Next was Malaysia's government bond market, which was broadly comparable in size at USD156 billion with the sovereign debt markets of Indonesia and Singapore at about USD150 billion each. At the end of June, the two smallest government bond markets in the region were those of the Philippines and Viet Nam with less than USD100 billion worth of bonds outstanding each.

Emerging East Asia's LCY corporate bond stock totaled USD3,739 billion at the end of June, posting faster gains on both a q-o-q and y-o-y basis. Growth on a q-o-q basis was marginal at 0.7%, due largely to weakness in the PRC's corporate bond segment as continued deleveraging made it expensive and difficult for corporates to obtain funding. Other markets that posted q-o-q contractions in their corporate bond segments were those of Singapore and Viet Nam.

Nonetheless, the PRC's LCY corporate bond market size of USD2,178 billion remained the largest in the region with a 58.3% share of the regional total at the end of June. The Republic of Korea's corporate bond segment was the second-largest in the region at USD1,089 billion, representing a 29.1% share of the total. The remaining 12.6% share of the corporate bond total was accounted for by all other markets in emerging East Asia.

As a share of regional gross domestic product (GDP), emerging East Asia's LCY bond market increased to the equivalent of 69.0% of GDP in Q2 2017 from 68.5% in Q1 2017 (**Table 2**). The share of government bonds to GDP climbed to 45.5% in Q2 2017 from 44.4% in the previous quarter. In contrast, the share of corporate bonds to GDP slipped to 23.6% in Q2 2017 form 24.1% in Q2 2017. The Republic of Korea and Malaysia had the largest bond markets in emerging East Asia as a share of GDP at 127.5% and 96.2%, respectively.

Table 1: Size and Composition of Local Currency Bond Markets

	Q2 2016		Q1 2017		Q2 2017		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q2 2016		Q2 2017		Q2 2016		Q2 2017	
							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	6,916	100.0	7,245	100.0	7,658	100.0	8.0	30.6	4.1	12.9	4.9	21.9	5.7	10.7
Government	4,706	68.0	5,098	70.4	5,480	71.6	12.6	40.0	5.8	18.8	9.3	30.6	7.5	16.4
Corporate	2,210	32.0	2,146	29.6	2,178	28.4	(0.6)	14.3	(0.1)	0.5	(3.5)	6.6	1.5	(1.4)
Hong Kong, China														
Total	226	100.0	238	100.0	239	100.0	6.6	15.2	0.6	6.1	6.6	15.1	0.1	5.5
Government	131	57.7	137	57.7	138	57.8	5.8	19.8	0.8	6.3	5.8	19.7	0.3	5.6
Corporate	96	42.3	101	42.3	101	42.2	7.8	9.6	0.2	5.9	7.8	9.5	(0.2)	5.3
Indonesia														
Total	152	100.0	172	100.0	175	100.0	5.2	20.1	1.8	16.4	5.5	21.2	1.6	15.2
Government	131	86.5	148	86.0	150	85.7	5.0	21.3	1.5	15.3	5.3	22.4	1.3	14.1
Corporate	20	13.5	24	14.0	25	14.3	6.4	13.0	3.6	23.1	6.6	14.1	3.4	21.9
Korea, Rep. of														
Total	1,792	100.0	1,873	100.0	1,869	100.0	1.0	5.4	2.1	3.6	0.2	2.1	(0.2)	4.3
Government	741	41.3	780	41.6	780	41.7	1.6	5.9	2.3	4.6	0.9	2.5	(0.01)	5.3
Corporate	1,051	58.7	1,093	58.4	1,089	58.3	0.5	5.1	1.9	2.9	(0.2)	1.7	(0.4)	3.6
Malaysia														
Total	289	100.0	272	100.0	290	100.0	2.0	8.2	3.3	7.1	(1.3)	1.3	6.5	0.5
Government	160	55.4	147	54.0	156	53.8	2.5	5.9	2.9	4.0	(0.8)	(0.8)	6.1	(2.4)
Corporate	129	44.6	125	46.0	134	46.2	1.4	11.0	3.8	10.9	(1.9)	4.0	7.0	4.1
Philippines														
Total	99	100.0	98	100.0	102	100.0	(0.4)	0.9	4.6	10.2	(2.9)	(3.5)	4.0	3.0
Government	82	82.8	80	81.1	83	81.5	(0.3)	(0.4)	5.0	8.5	(2.9)	(4.8)	4.4	1.4
Corporate	17	17.2	19	18.9	19	18.5	(0.6)	7.9	2.7	18.5	(3.1)	3.2	2.2	10.7
Singapore														
Total	241	100.0	247	100.0	252	100.0	0.3	(2.1)	0.4	6.7	0.4	(2.1)	2.0	4.5
Government	135	55.9	147	59.4	150	59.6	(1.1)	(8.0)	0.8	13.7	(1.0)	(7.9)	2.4	11.3
Corporate	106	44.1	100	40.6	102	40.4	2.0	6.5	(0.1)	(2.2)	2.1	6.5	1.4	(4.2)
Thailand														
Total	295	100.0	325	100.0	323	100.0	1.6	8.0	(1.7)	5.8	1.6	3.9	(0.5)	9.5
Government	220	74.4	240	73.9	235	72.6	1.5	5.8	(3.4)	3.2	1.5	1.8	(2.3)	6.8
Corporate	75	25.6	85	26.1	89	27.4	2.0	14.9	3.3	13.5	2.0	10.6	4.5	17.5
Viet Nam														
Total	44	100.0	44	100.0	45	100.0	10.8	0.8	1.9	5.0	10.8	(1.3)	2.0	3.0
Government	42	96.0	42	95.2	43	95.6	11.1	(0.7)	2.3	4.5	11.0	(2.7)	2.4	2.5
Corporate	2	4.0	2	4.8	2	4.4	5.4	58.5	(7.0)	15.5	5.4	55.2	(6.9)	13.3
Emerging East Asia														
Total	10,054	100.0	10,515	100.0	10,953	100.0	5.9	21.8	3.3	10.5	3.6	15.4	4.2	8.9
Government	6,347	63.1	6,819	64.9	7,215	65.9	9.7	29.2	4.7	15.5	7.1	22.2	5.8	13.7
Corporate	3,707	36.9	3,696	35.1	3,739	34.1	0.2	11.0	0.7	2.1	(1.9)	5.3	1.2	0.8
Japan														
Total	10,812	100.0	10,180	100.0	10,144	100.0	0.7	2.6	0.5	2.2	9.9	21.8	(0.4)	(6.2)
Government	10,062	93.1	9,472	93.0	9,445	93.1	0.8	3.1	0.6	2.2	10.0	22.4	(0.3)	(6.1)
Corporate	749	6.9	708	7.0	699	6.9	(0.9)	(3.3)	(0.4)	1.6	8.1	14.8	(1.3)	(6.7)

( ) = 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 are 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 are based on 30 June 2017 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 Information*); 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 2016	Q1 2017	Q2 2017
China, People's Rep. of			
Total	64.6	65.4	66.3
Government	43.9	46.0	47.4
Corporate	20.6	19.4	18.9
Hong Kong, China			
Total	72.0	73.2	72.5
Government	41.6	42.2	41.9
Corporate	30.5	31.0	30.6
Indonesia			
Total	16.8	18.0	17.9
Government	14.5	15.5	15.4
Corporate	2.3	2.5	2.6
Korea, Rep. of			
Total	128.8	126.5	127.5
Government	53.2	52.7	53.2
Corporate	75.6	73.8	74.3
Malaysia			
Total	98.1	95.4	96.2
Government	54.3	51.5	51.7
Corporate	43.8	43.9	44.5
Philippines			
Total	33.8	33.4	34.2
Government	28.0	27.1	27.9
Corporate	5.8	6.3	6.3
Singapore			
Total	79.6	83.1	82.7
Government	44.5	49.3	49.3
Corporate	35.1	33.8	33.4
Thailand			
Total	74.1	76.4	74.2
Government	55.1	56.5	53.8
Corporate	18.9	20.0	20.3
Viet Nam			
Total	22.6	21.8	21.8
Government	21.7	20.8	20.8
Corporate	0.9	1.1	1.0
Emerging East Asia			
Total	67.9	68.5	69.0
Government	42.9	44.4	45.5
Corporate	25.0	24.1	23.6
Japan			
Total	209.1	210.8	211.4
Government	194.6	196.1	196.8
Corporate	14.5	14.7	14.6

GDP = gross domestic product, Q1 = first quarter, Q2 = second quarter.
Notes:
1. Data for GDP is from CEIC.
2. For Singapore, corporate bonds outstanding based on *AsianBondsOnline* estimates.
Sources: People's Republic of China (*ChinaBond* and *Wind Information*); 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).

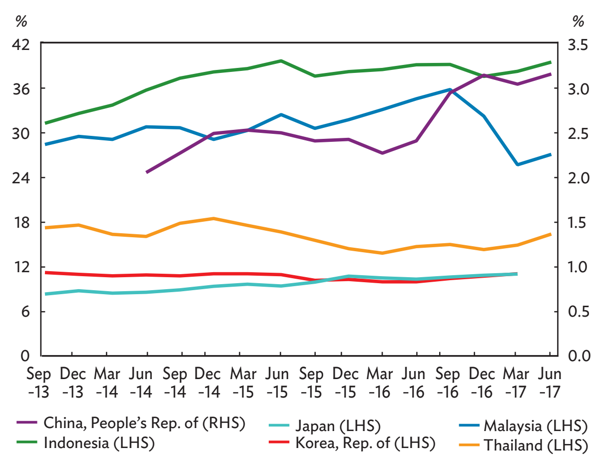
The share of foreign holdings rose in most emerging East Asian LCY government bond markets, buoyed by positive investor sentiment.

As global growth continued to strengthen, investor sentiment toward emerging East Asia's bond market remained bullish, resulting in further gains in the foreign holdings share of LCY government bonds in Q2 2017 in all markets for which data are available (**Figure 2**).

The share of nonresident holdings climbed the fastest in Thailand in Q2 2017, rising 1.5 percentage points to comprise 16.2% of total LCY government bonds at the end of June. While the Bank of Thailand limited the supply of short-dated bills beginning in April, such a move was not effective in curbing foreign fund flows into the Thai bond market. Foreign investors continued to shore up their holdings by shifting to long-dated bonds amid the strong appreciation of the Thai baht.

Malaysia also experienced a notable increase in its foreign holdings share of LCY government bonds in Q2 2017, which gained 1.4 percentage points to reach 27.0% at the end of June. Nonresident investors returned to Malaysia's bond market as the Malaysian ringgit stabilized and measures were put in place to promote onshore liquidity and enhance further development of the financial market.

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



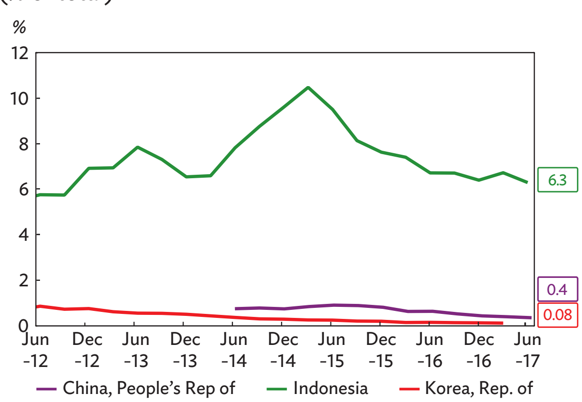
LHS = left-hand side, RHS = right-hand side.
Note: Data as of end-June 2017 except for Japan and the Republic of Korea (end-March 2017).
Source: *AsianBondsOnline*.

In Indonesia, renewed investor optimism following the sovereign rating upgrade by S&P Global in May led investors to increase their holdings of central government bonds. The foreign holdings share rose to nearly 40% of the total stock at the end of June and was little changed in July.

In the PRC, while foreign investors accounted for a small share of the LCY government bond market at the end of June, their share has been on an upward trend since March 2016. Nonresident holdings in the Republic of Korea also inched up to a 10.8% share at the end of March, the latest period for which data are available.

The shares of foreign holdings in the region's LCY corporate bond markets were little changed at the end of June and remained at low levels relative to the foreign holdings of LCY government bonds (**Figure 3**). This may be largely due to the illiquid nature of corporate bonds, given that investors tend to buy and hold until maturity, as well as the additional due diligence needed in evaluating credit risk. In Indonesia, the foreign holdings share of corporate bonds stood at 6.3% of the total at the end of June, down from 6.7% at the end of March. In the PRC, the holdings of foreign investors accounted for less than 0.5% of the total corporate stock at the end of June. The share was even smaller in the Republic of Korea at less than 0.1% at the end of March. The PRC and the Republic of Korea are the two largest corporate bond markets in the region.

Figure 3: Foreign Holdings of Local Currency Corporate Bonds in Select Emerging East Asian Economies (% of total)



Notes:
1. For Indonesia, data as of 22 June 2017 due to week-long holiday in celebration of Eid al-Fitr.
2. For the Republic of Korea, data are as of end-March 2017.
Sources: Based on data from *ChinaBond*, Otoritas Jasa Keuangan, and the Bank of Korea.

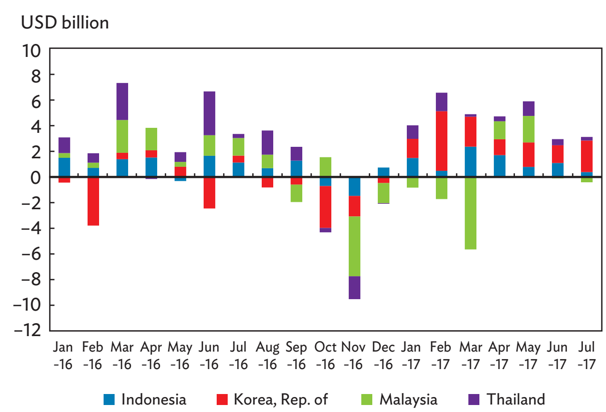
Foreign capital flows into emerging East Asia's LCY bond market were positive in Q2 2017.

All four markets for which data are available posted positive foreign capital flows into their respective bond markets in Q2 2017 (**Figure 4**). The stronger growth outlook in advanced economies improved foreign investor sentiment toward emerging market assets.

Malaysia recorded foreign bond inflows of USD3.4 billion in Q2 2017 as offshore investment poured into its bond market, the first net quarterly inflows since the third quarter of 2016. However, foreign bond flows turned negative in June and July, resulting in year-to-date net foreign capital outflows of USD5.2 billion in the first 7 months of 2017.

While foreign capital flows were positive in the Republic of Korea, Indonesia, and Thailand in Q2 2017, they were down for all three markets compared with Q1 2017. The Republic of Korea recorded the largest net foreign capital inflows as it attracted USD4.5 billion of foreign funds into its bond market in Q2 2017. Although the Republic of Korea's bond market is considered a safe haven, geopolitical concerns and a tightening monetary policy outlook in advanced economies have caused the Korean won to weaken.

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



Notes:
1. The Republic of Korea and Thailand provided data on bond flows. For Indonesia and Malaysia, month-on-month changes in foreign holdings of LCY government bonds were used as a proxy for bond flows.
2. Data provided as of July 2017.
3. Figures were computed based on 31 July 2017 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.

Indonesia also posted positive foreign capital flows into its bond market as yield-hungry investors remained attracted to its bond market. While Indonesian government bond yields have fallen since the start of the year, they are still the highest among all regional peers. Foreign bond inflows in the Indonesian bond market were USD3.6 billion in Q2 2017, down from USD4.3 billion in Q1 2017.

In Thailand, foreign bond inflows into its bond market totaled USD2.0 billion in Q2 2017, a decline from USD2.7 billion recorded in the prior quarter.

Emerging East Asia's total LCY bond issuance rose on a q-o-q basis in Q2 2017, driven by the rebound in issuance in the PRC, while other markets in the region posted mixed movements.

Emerging East Asia's total LCY bond issuance rose 27.0% q-o-q to USD1,088 billion in Q2 2017 from USD852 billion in Q1 2017 (**Table 3**). The accelerated growth was due to the rebound in total issuance in both the government and corporate bond markets following q-o-q contractions in Q1 2017. Total government bond issuance increased 29.9% q-o-q to USD780 billion, while new corporate bond issues rose 20.3% q-o-q to USD309 billion. However, despite a recovery in bond issuance in Q2 2017, it was still 16.6% lower than the total volume issued in the same period in 2016.

The high growth in the region's total LCY bond issuance was led by the jump in issuance in the PRC following three consecutive quarterly contractions. The PRC accounted for 57% of the region's total LCY bond issuance in Q2 2017. Other markets that posted positive q-o-q growth in Q2 2017 are Hong Kong, China; the Republic of Korea; the Philippines; and Singapore. Meanwhile, Indonesia, Malaysia, Thailand, and Viet Nam recorded q-o-q contractions.

Issuance of central government bonds—Treasury bills, Treasury bonds, and other government securities—soared 54.8% q-o-q to reach USD539 billion, accounting for half of total LCY bond issuance in the region. The primary driver of growth was the 73.3% q-o-q jump in the PRC, which accounted for 84% of the region's total issuance of central government bonds, as more local government bank loans were replaced with bonds in line with the PRC's local debt restructuring program. Another notable increase was in the Philippines, where issuance rose 55.0% q-o-q following the sale of PHP181 billion worth of retail Treasury bonds. The markets that posted q-o-q contractions include Indonesia, Malaysia, and Viet Nam. This was mainly a result of a slowdown in issuance in Q2 2017 following high issuance volumes in Q1 2017 as part of either expanded borrowing programs or frontloading policies.

Issuance of central bank bonds, which accounted for 22.1% of the region's total bond issuance, was down 4.6% q-o-q to USD241 billion. The higher issuance volumes in Hong Kong, China and Singapore, which collectively account for 67% of total central bank bond issuance in the region, were offset by the decline in issuance in Thailand. In April, the Bank of Thailand began reducing its issuance of short-term central bank bonds as a tool to manage short-term foreign inflows in an effort to limit speculation of the Thai baht.

The region's issuance of corporate bonds posted strong growth in Q2 2017, rising 20.3% q-o-q to USD309 billion after a 26.4% q-o-q slump in issuance in Q1 2017. Companies in the region took advantage of the current market conditions given expectations of an upward trend in yields as the market anticipates the impact of tighter monetary policy by both the United States (US) Federal Reserve and the European Central Bank. All markets in the region recorded positive q-o-q growth rates except Viet Nam, which rarely has corporate bond issuances. The growth was led by the surge in issuance in the PRC and in the Republic of Korea, which accounted for 54% and 32% of the region's total Q2 2017 corporate bond issuance, respectively.

The PRC remained the largest issuer of LCY bonds in the region with total issuance of USD620 billion, comprising 57% of the regional total. Following a 27.1% q-o-q drop in Q1 2017, a surge in new issuances in both the government and corporate bond markets was seen in Q2 2017. In the government sector, the main driver was the rise in issuance of local government bonds as part of the continued bond swap program with the objective of restructuring local government debt. New issuance of local government bonds in Q2 2017 almost tripled to CNY1.4 trillion from CNY474 billion in the previous quarter. A large portion of local government bank loans needed to be swapped for bonds, especially after tepid issuance in Q1 2017. Issuance of Treasury bonds also rose 75.7% q-o-q to CNY819 billion from CNY466 billion in Q1 2017. Despite unfavorable conditions for onshore

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

	Q2 2016		Q1 2017		Q2 2017		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q2 2017		Q2 2017	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of										
Total	894	100.0	391	100.0	620	100.0	56.1	(29.3)	58.5	(30.6)
Government	685	76.6	257	65.8	453	73.0	73.3	(32.6)	76.0	(33.9)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	685	76.6	257	65.8	453	73.0	73.3	(32.6)	76.0	(33.9)
Corporate	209	23.4	134	34.2	167	27.0	23.0	(18.4)	24.9	(20.0)
Hong Kong, China										
Total	98	100.0	103	100.0	107	100.0	4.0	9.6	3.5	8.9
Government	82	83.7	92	88.8	93	87.5	2.5	14.6	2.0	13.9
Central Bank	80	81.5	91	88.6	92	86.2	1.2	15.9	0.7	15.2
Treasury and Other Govt.	2	2.2	0.2	0.2	1	1.3	494.4	(35.2)	491.7	(35.6)
Corporate	16	16.3	12	11.2	13	12.5	16.0	(16.0)	15.4	(16.5)
Indonesia										
Total	14	100.0	15	100.0	11	100.0	(25.3)	(16.0)	(25.4)	(16.9)
Government	11	81.7	14	88.9	9	77.3	(35.1)	(20.6)	(35.2)	(21.4)
Central Bank	2	16.0	0.3	1.7	0.1	0.7	(68.3)	(96.2)	(68.4)	(96.2)
Treasury and Other Govt.	9	65.7	13	87.2	9	76.5	(34.4)	(2.1)	(34.6)	(3.1)
Corporate	2	18.3	2	11.1	3	22.7	53.6	4.4	53.3	3.3
Korea, Rep. of										
Total	154	100.0	165	100.0	176	100.0	9.2	13.4	6.8	14.1
Government	76	49.0	79	48.1	78	44.1	0.3	2.0	(1.9)	2.7
Central Bank	40	25.9	39	23.8	38	21.8	0.3	(4.4)	(2.0)	(3.8)
Treasury and Other Govt.	36	23.2	40	24.3	39	22.3	0.3	9.2	(1.9)	9.9
Corporate	78	51.0	85	51.9	98	55.9	17.5	24.3	14.9	25.1
Malaysia										
Total	15	100.0	17	100.0	17	100.0	(7.5)	14.1	(4.7)	7.1
Government	7	45.3	9	50.5	7	42.9	(21.5)	8.0	(19.1)	1.3
Central Bank	0.4	2.8	0.2	1.1	0.3	2.1	76.5	(14.3)	81.9	(19.6)
Treasury and Other Govt.	7	42.5	9	49.4	7	40.8	(23.7)	9.4	(21.3)	2.7
Corporate	8	54.7	9	49.5	9	57.1	6.8	19.2	10.1	11.8
Philippines										
Total	4	100.0	6	100.0	9	100.0	46.8	157.9	46.0	141.0
Government	4	96.2	5	83.6	8	88.3	55.0	136.9	54.2	121.4
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	4	96.2	5	83.6	8	88.3	55.0	136.9	54.2	121.4
Corporate	0.1	3.8	1	16.4	1	11.7	4.9	684.0	4.3	632.6
Singapore										
Total	63	100.0	72	100.0	79	100.0	7.6	27.6	9.3	24.9
Government	60	94.6	69	95.9	76	95.7	7.4	29.0	9.1	26.3
Central Bank	52	81.8	64	89.1	70	88.9	7.3	38.6	9.0	35.7
Treasury and Other Govt.	8	12.8	5	6.7	5	6.8	8.8	(32.1)	10.5	(33.5)
Corporate	3	5.4	3	4.1	3	4.3	12.3	2.3	14.0	0.1
Thailand										
Total	74	100.0	76	100.0	67	100.0	(13.0)	(12.2)	(12.0)	(9.1)
Government	63	85.4	66	86.0	54	80.1	(18.9)	(17.5)	(17.9)	(14.6)
Central Bank	54	73.5	53	70.0	40	59.0	(26.7)	(29.5)	(25.8)	(27.0)
Treasury and Other Govt.	9	11.9	12	16.0	14	21.2	15.2	56.4	16.6	61.9
Corporate	11	14.6	11	14.0	13	19.9	23.2	19.2	24.7	23.4

continued on next page

Table 3 *continued*

	Q2 2016		Q1 2017		Q2 2017		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q2 2017		Q2 2017	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
Viet Nam										
Total	7	100.0	6	100.0	2	100.0	(60.8)	(63.9)	(60.8)	(64.6)
Government	7	98.7	6	99.6	2	100.0	(60.7)	(63.4)	(60.6)	(64.1)
Central Bank	1	21.3	3	49.9	0	0.0	(100.0)	(100.0)	(100.0)	(100.0)
Treasury and Other Govt.	5	77.4	3	49.7	2	100.0	(21.2)	(53.3)	(21.1)	(54.2)
Corporate	0.1	1.3	0.02	0.4	0	0.0	(100.0)	(100.0)	(100.0)	(100.0)
Emerging East Asia										
Total	1,323	100.0	852	100.0	1,088	100.0	27.0	(16.6)	27.7	(17.7)
Government	994	75.1	596	70.0	780	71.6	29.9	(20.5)	30.7	(21.5)
Central Bank	230	17.4	252	29.5	241	22.1	(4.6)	4.5	(4.4)	4.7
Treasury and Other Govt.	764	57.8	345	40.4	539	49.5	54.8	(28.1)	56.4	(29.4)
Corporate	329	24.9	256	30.0	309	28.4	20.3	(5.1)	20.6	(6.2)
Japan										
Total	469	100.0	436	100.0	413	100.0	(4.4)	(4.0)	(5.3)	(11.8)
Government	440	94.0	406	93.1	379	91.7	(5.9)	(6.3)	(6.7)	(14.0)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	440	94.0	406	93.1	379	91.7	(5.9)	(6.3)	(6.7)	(14.0)
Corporate	28	6.0	30	6.9	34	8.3	14.9	32.3	13.8	21.5

( ) = 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 2017 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).

corporate bond issuance due to the government's deleveraging efforts, including raising borrowing costs and other regulatory measures, new corporate issues rose 23.0% q-o-q to reach USD167 billion. This was partly due to the huge amount of outstanding corporate debt expected to mature in 2017, which will drive companies back to the market to meet their refinancing requirements. However, the rebound in aggregate issuance of bonds in the PRC in Q2 2017 was down 29.3% compared to a year earlier.

The Republic of Korea was the second-largest bond issuer in the region, accounting for 16% of the regional total. Total LCY bond issuance grew 9.2% q-o-q to reach USD176 billion at the end of June. The main driver of growth was the rise in issuance of corporate bonds, which was up 17.5% q-o-q to USD98 billion. Meanwhile, the government bond market posted minimal growth of 0.3% q-o-q. Issuance of central government bonds and central bank bonds rose 0.3% q-o-q to USD39 billion and USD38 billion, respectively. The government continued its frontloading policy in Q2 2017, spending a total of 59% of its full-year budget in the first half of 2017. On a y-o-y basis, the Republic of Korea's bond issuance rose 13.4%.

Total bond issuance in Hong Kong, China increased 4.0% q-o-q to USD107 billion, making it the third-largest issuer of bonds in the region. Issuance of government bonds inched up 2.5% q-o-q to USD93 billion as the Hong Kong Monetary Authority issued more HKSAR bonds in Q2 2017 than in the previous quarter. Issuance of central bank bonds, comprising mostly Exchange Fund Bills, was almost at par with the previous quarter at USD92 billion. Issuance of corporate bonds posted robust growth of 16.0% q-o-q to reach USD13 billion. Compared with a year earlier, total bond issuance in Hong Kong, China rose 9.6% y-o-y in Q2 2017.

In Singapore, LCY bond issuance rose 7.6% q-o-q to USD79 billion, led by increased issuance of central bank bills. The Monetary Authority of Singapore's bill issuance expanded 7.3% q-o-q to reach USD70 billion, an indication that the central bank is mopping up excess liquidity in the market. New corporate issues also rose in Q2 2017, increasing 12.3% q-o-q to USD3 billion. On a y-o-y basis, growth in total issuance accelerated to 27.6%, led by higher issuance of central bank bonds.

The Philippines saw the second-fastest q-o-q growth in issuance in the region, rising 46.8% q-o-q and 157.9% y-o-y to USD9 billion. The high growth was primarily driven by the sale of PHP181 billion worth of RTBs. From an initial offer of PHP30 billion, the Bureau of the Treasury increased the issue size to PHP181 billion to accommodate strong demand from the market. Excluding the successful RTB offer, however, issuance of Treasury bonds fell from the previous quarter. The large proceeds from the RTB issuance afforded the Bureau of the Treasury to only partially award most of its scheduled Treasury bond auctions as the market sought higher yields. Meanwhile, almost all auctions of Treasury bills were fully awarded. In total, government bond issuance jumped 55.0% q-o-q to USD8 billion. Total corporate bond issuance in Q2 2017 posted moderate growth of 4.9% q-o-q.

In Malaysia, total bond issuance fell 7.5% q-o-q to USD17 billion as the rise in issuance in corporate bonds was offset by the decline in issuance of government bonds. Issuance of central government bonds, both conventional and Islamic, declined 23.7% q-o-q to USD7 billion due to fewer scheduled auctions than in the previous quarter. New issuance of corporate bonds rose 6.8% q-o-q in Q2 2017 as companies borrowed ahead of an expected rise in yields. Total issuance in Malaysia rose 14.1% y-o-y as both government and corporate bond issuance posted positive growth.

Total LCY bond issuance in Thailand contracted 13.0% q-o-q and 12.2% y-o-y to USD67 billion, driven by the drop in issuance of central bank bills. Foreign inflows into short-term central bank bills peaked in Q1 2017, contributing to the sharp appreciation of the Thai baht. In response, the Bank of Thailand reduced its issuance of central bank bills starting in April in order to manage currency speculation. Issuance of central bank bonds fell 26.7% q-o-q in Q2 2017. Meanwhile, issuance of Treasury and other government bonds rose 15.2% q-o-q in the same period. New corporate issues also posted higher growth of 23.2% q-o-q as companies took advantage of accommodating financial conditions, lower yields, and high levels of market liquidity to raise funds.

In Indonesia, LCY bond issuance declined 25.3% q-o-q and 16.0% y-o-y to USD11 billion in Q2 2017. The lower issuance volume was intentional as the government eased its frontloading policy. The issuances of USD-denominated and JPY-denominated bonds in the first half of 2017 provided the government with enough budgetary funding. On the other hand, new corporate bond issues jumped 53.6% in Q2 2017.

Total LCY bond issuance in Viet Nam fell the most in the region, contracting 60.8% q-o-q and 63.9% q-o-q to USD2 billion. Bond issuance in Viet Nam was tepid in Q2 2017, led by the lack of issuance of central bank bonds and corporate bonds. Moreover, the Ministry of Finance also issued fewer Treasury bonds in Q2 2017.

Cross-border bond issuance in Emerging East Asia continued its steady growth in Q2 2017.

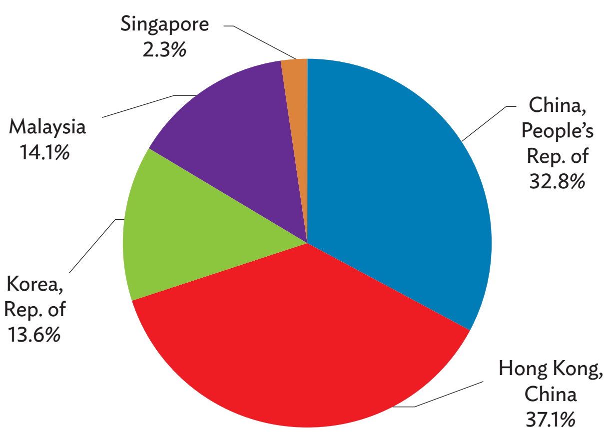
In Q2 2017, total cross-border bond issuance in emerging East Asia increased 7.4% q-o-q and 47.0% y-o-y. The largest share came from Hong Kong, China with intraregional bond issuance reaching USD859 million or 37.1% of the total in Q2 2017 (**Figure 5**).

Four firms in Hong Kong, China issued a total of CNY5.2 billion, with more than half coming from China CITIC Bank International's 3-year bond worth CNY3.0 billion priced at par to yield 4.4%. Meanwhile, two corporations based in Hong Kong, China issued bonds in Singapore dollars amounting to SGD121 million.

The PRC clinched the second spot with a 32.8% share in total intraregional bond issuance in Q2 2017 amounting to USD761 million, comprising notes with maturities of between 3 months and 5 years denominated in Hong Kong dollars and a single issuance in Singapore dollars. The PRC's Huarong Financial was the largest issuer, eclipsing other PRC issuers with SGD600 million worth of 4-year bonds at a coupon rate of 3.2%.

The remaining intraregional issuance in Q2 2017 originated from Malaysia (14.1%), the Republic of Korea (13.6%), and Singapore (2.3%).

Figure 5: Emerging East Asia Intraregional Bond Issuance by Market of Origin in the Second Quarter of 2017



Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Two Malaysian banks issued cross-border bonds worth a combined HKD1,983 million. Malaysia's national mortgage corporation, Cagamas, also issued SGD100 million worth of 1-year bonds with a coupon rate of 1.64%. In the Republic of Korea, three government-related entities issued cross-border bonds totaling USD316 million denominated in Chinese renminbi, Hong Kong dollars, and Indonesian rupiah. In Singapore, Nomura International Funding issued bonds totaling USD53.6 million denominated in both Korean won (KRW50 billion) and Philippine pesos (PHP500 million).

Intraregional issuance in emerging East Asia in Q2 2017 comprised the following currencies: Chinese renminbi which accounted for 35.5% of the total, followed by Hong Kong dollars (30.1%), Singapore dollars (25.7%), Indonesian rupiah (6.4%), Korean won (1.9%), and Philippine pesos (0.4%)

G3 currency bond issuance in Emerging East Asia increased in January–July amid an interest rate environment that remained favorable.

Emerging East Asian economies issued a total of USD193,920 million worth of G3 currency bonds in January–July, registering an increase of 61.8% y-o-y (**Table 4**).[12] The issuance during the first 7 months of 2017 was close to hitting the full-year 2016 total issuance.

G3 currency bond issuance in Q2 2017 was higher at USD88,024 million compared with USD76,405 million in Q1 2017. In July, an additional USD29,492 million of G3 currency bonds was issued.

The favorable interest rate environment continued to be a key driver in the increase of G3 currency bond issuance. Policy directions from developed economies have recently become relatively clearer. Nonetheless, issuers remained on guard about the timing of the expected policy changes.

The US dollar remained the preferred denomination for G3 bond issuance in emerging East Asian markets as evidenced by issuance in January–July. USD-denominated bond issuance rose 71.3% y-o-y to USD176,772 million during the review period, and increased its share of total G3 issuance to 91.2% from 86.1% in January–July 2016. Bond issuances in Japanese yen amounted to USD2,175 million, up 47.2% y-o-y. However, yen issuance continued to comprise the smallest share of total G3 issuance. EUR-denominated bonds amounted to USD14,973 million in January–July, down 1.0% y-o-y.

All markets in emerging East Asia experienced double-digit y-o-y increases in the issuance of G3 currency bonds in January–July except for the following: Thailand's issuance grew more than four-fold, Malaysia's issuance declined, and the Philippines' G3 bond issuance volume was the same as last year.

The PRC's G3 bond issuance reached USD122,068 million in January–July, posting growth of 86.4% y-o-y. The PRC has not issued any JPY-denominated bonds this year, while its USD-denominated issuance amounted to USD111,961 million and its EUR-denominated issuance amounted to USD10,107 million, both of which reflected y-o-y increases. The crackdown on the massive credit growth in the PRC remained the underlying reason for corporates tapping the offshore market. Companies in the PRC face huge debt repayments in 2017, compelling them to raise cash and tap offshore borrowing, which is cheaper

[12] G3 currency bonds are denominated in either euros, Japanese yen, or US dollars.

Table 4: G3 Currency Bond Issuance

2016		
Issuer	Amount (USD million)	Issue Date
China, People's Rep. of	**120,019**	
China Cinda Asset Management 4.45% Perpetual	3,200	30-Sep-16
Proven Honour Capital 4.125% 2026	2,000	6-May-16
China Minsheng Banking 4.95% Perpetual	1,439	14-Dec-16
Huarong Finance 3.625% 2021	1,350	22-Nov-16
Sinopec 2% 2021	1,300	29-Sep-16
Export–Import Bank of China 2% 2021	1,250	26-Apr-16
Export–Import Bank of China 0.25% 2019	1,209	2-Dec-16
Sinopec 1.75% 2019	1,100	29-Sep-16
Others	107,171	
Hong Kong, China	**29,204**	
China Overseas Finance 0% 2023	1,500	5-Jan-16
CK Hutchison 1.25% 2023	1,420	8-Apr-16
Others	26,284	
Indonesia	**17,888**	
Perusahaan Penerbit SBSN *Sukuk* 4.55% 2026	1,750	29-Mar-16
Indonesia (Sovereign) 2.625% 2023	1,578	14-Jun-16
Indonesia (Sovereign) 3.75% 2028	1,578	14-Jun-16
Indonesia (Sovereign) 5.25% 2047	1,500	8-Dec-16
Indonesia (Sovereign) 4.35 2027	1,250	8-Dec-16
Others	10,233	
Korea, Rep. of	**28,593**	
Korea Development Bank 3% 2026	1,000	13-Jan-16
Korea Eximbank 1.75% 2019	1,000	26-May-16
Korea Eximbank 2.625% 2026	1,000	26-May-16
Others	25,593	
Lao People's Democratic Rep.	**312**	
Malaysia	**6,026**	
Malaysia (Sovereign) *Sukuk* 3.179% 2026	1,000	27-Apr-16
Danga Capital 3.035% 2021	750	1-Mar-16
TNB Global Ventures Capital 3.244% 2026	750	19-Oct-16
Others	3,526	
Philippines	**2,675**	
Philippines (Sovereign) 3.7% 2041	2,000	1-Mar-16
Others	675	
Singapore	**9,636**	
BOC Aviation 3.875% 2026	750	27-Apr-16
DBS Group 3.6% Perpetual	750	7-Sep-16
Others	8,136	
Thailand	**1,225**	
Kasikorn Bank 2.375% 2022	400	6-Oct-16
Others	825	
Emerging East Asia Total	**215,579**	
Memo Items:		
India	**8,354**	
Export–Import Bank of India 3.375% 2026	1,000	5-Aug-16
Others	7,354	
Sri Lanka	**2,916**	

January–July 2017		
Issuer	Amount (USD million)	Issue Date
China, People's Rep. of	**122,068**	
China Evergrande Group 8.75% 2025	4,680	28-Jun-17
State Grid Overseas Investment 3.50% 2027	2,350	4-May-17
China Zheshang Bank 5.45% 2050	2,175	29-Mar-17
Kaisa Group Holdings 9.38% 2024	2,120	30-Jun-17
CNAC (HK) Synbridge Company 5.00% 2020	2,000	5-May-17
Others	108,742	
Hong Kong, China	**24,375**	
Radiant Access Limited 4.60% Perpetual	1,500	18-May-17
China Cinda Finance 3.65% 2022	1,300	9-Mar-17
Nanyang Commercial Bank 5.00% Perpetual	1,200	2-Jun-17
Hong Kong, China (Sovereign) *Sukuk* 3.13% 2027	1,000	28-Feb-17
Melco Resort Finance 2025 4.88%	1,000	6-Jun-17
CK Hutchison International 4.00% Perpetual	1,000	12-May-17
CK Hutchison International 2.88% 2022	1,000	5-Apr-17
Others	16,375	
Indonesia	**15,101**	
Perusahaan Penerbit SBSN *Sukuk* 4.15% 2027	2,000	29-Mar-17
Perusahaan Listrik Negara 4.13% 2027	1,500	15-May-17
Republic of Indonesia (Sovereign) 2.15% 2024	1,184	18-Jul-17
Others	10,417	
Korea, Rep. of	**18,550**	
Republic of Korea (Sovereign) 2.75% 2027	1,000	19-Jan-17
Export-Import Bank of Korea 0.50% 2022	888	30-May-17
Others	16,662	
Malaysia	**3,183**	
Genting Overseas Holdings Limited Capital 4.25% 2027	1,000	24-Jan-17
CIMB Bank 1.93% 2020	600	15-Mar-17
CIMB Bank 3.26% 2022	500	15-Mar-17
Others	1,083	
Philippines	**2,000**	
Republic of the Philippines (Sovereign) 3.7% 2042	2,000	2-Feb-17
Singapore	**6,996**	
DBS Bank 0.38% 2024	888	23-Jan-17
DBS Group Holdings Ltd 1.71% 2020	750	8-Jun-17
Trafigura Group Pte Ltd 6.875% 2050	600	21-Mar-17
Others	4,758	
Thailand	**1,647**	
PTTEP Treasury Center Company 4.60% Perpetual	500	17-Jul-17
Siam Commercial Bank 3.2% 2022	400	26-Jan-17
Others	747	
Emerging East Asia Total	**193,920**	
Memo Items:		
India	**8,728**	
Vedanta Resources PLC 6.375% 2022	1,000	30-Jan-17
Others	7,728	
Sri Lanka	**3,732**	
Republic of Sri Lanka (Sovereign) 6.20% 2027	1,500	11-May-17
Others	**2,232**	

USD = United States dollar.
Notes:
1. Data exclude certificates of deposits.
2. G3 currency bonds are bonds denominated in either euro, Japanese yen, or US dollar.
3. For 2016 data, end of 2016 LCY–USD rates were used; for January-July data, end of July LCY–USD rates were used.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

than domestic markets where interest rates have risen. Authorities in the PRC have been trying to curb the offshore bond boom; however, it is likely to persist.

China Evergrande had the largest G3 bond sales among all issuers in the PRC. The second-largest property developer in the PRC issued a total USD9,124 million of USD-denominated bonds in January–July, USD6,624 million of which were issued in June in a triple-tranche offering that included an 8-year USD4,680 million bond with a coupon rate of 8.75%. China Evergrande's issuance in June was the largest USD-denominated bond ever sold in Asia.[13] Market analysts perceived the outsized bond sales as intended to cushion against domestic credit tightening. They also warned of the risk of rising borrowing costs in Asia's booming bond markets and that markets may struggle to digest the massive bond supply from the PRC. The property firm plans to use the proceeds to refinance current debt as well as for general corporate purposes. China Evergrande is the most indebted property developer in the PRC and is undergoing major restructuring in an attempt to pare down its debt.

Issuers in Hong Kong, China raised a total USD24,375 million of G3 currency bonds in January–July, largely denominated in US dollars and with the remainder in Japanese yen. Its G3 bond issuance increased 73.6% y-o-y, making it the biggest G3 issuer after the PRC during the review period, accounting for 12.6% of the region's total G3 bond issuance.

In the Republic of Korea, G3 bond issuance climbed 10.8% y-o-y to USD18,550 million in the first 7 months of 2017. A large percentage of the issuance was from government-related entities, which raised a total of USD10,387 million. This was followed by banks, which overtook industry as the second leading sector in terms of G3 issuance in 2016. Total G3 bond issuance from the banking sector increased y-o-y, while issuance declined y-o-y in the industrial sector in January–July. Export–Import Bank of Korea was the highest issuer of G3 currency bonds in the Republic of Korea with a total of USD3,688 million. Of this amount, USD1,888 million was raised in April–July via several bond sales, including a lone bond issuance denominated in euros. The Republic of Korea was the third-largest G3 bond issuer among emerging East Asian economies in January–July.

Total G3 currency bond issuance from members of the Association of Southeast Asian Nations (ASEAN) reached USD28,927 million year-to-date through July, up 22.8% y-o-y. Among ASEAN economies, only Indonesia, Malaysia, the Philippines, Singapore, and Thailand had G3 issuance during the review period. Together, they accounted for 14.9% of the total G3 currency bond issuance in emerging East Asia in January–July, down from a 19.7% share in the same period in 2016.

Indonesia remained the largest source of G3 currency bonds among the ASEAN economies. Its issuance reached USD15,101 million in January–July on growth of 34.7% y-o-y. The increase was supported by G3 issuance from the Government of Indonesia totaling USD4,091 million, which comprised JPY100,000 million, EUR1,000 million, and USD2,000 million. The government issues G3 currency bonds as part of its annual financing and debt instrument diversification plans.

Singapore had the second-largest issuance of G3 currency bonds among ASEAN economies in January–July, amounting to USD6,996 million, up 12.4% y-o-y. The issuance was led by the banking sector with sales of USD4,163 million, or 59.5% of the total, almost equally denominated in euros and US dollars. DBS Group Holdings and DBS Bank were the highest issuers during the period with USD1,250 million and USD1,153 million, respectively, in multiple sales.

The Philippines has had no G3 currency bond issuance since its last sale in February. Total G3 bond issuance from Thailand in January–July increased more than 300% to USD1,647 million, lifted mainly by issuances completed in July totaling USD1,085 million. Most of the issuers were from the industrial sector, led by oil and gas exploration and production company PTTEP Treasury Center, which sold a perpetual bond worth USD500 million and with a coupon rate of 4.6%.

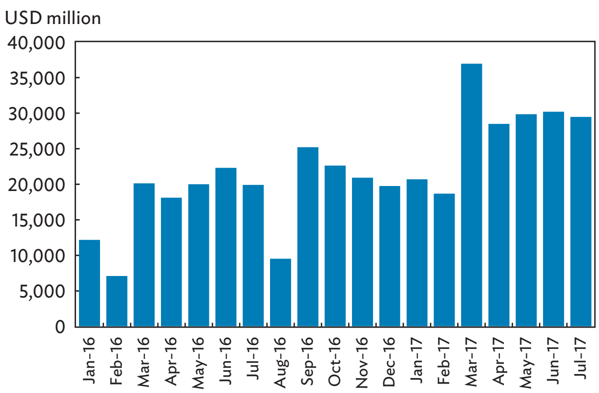
Malaysia was the only market in the region that experienced an annual decline in issuance of G3 currency bonds during the review period. In January–July, issuers

[13] South China Morning Post. 2017. *China Evergrande's US$6.6b Bond Rattles Markets, Prompts Round of Head-Scratching*. 29 June. http://www.scmp.com/business/article/2100620/china-evergrandes-us66b-bond-rattles-markets-prompts-round-head-scratching

from Malaysia raised a total of USD3,183 million, which was down 15.2% y-o-y. The decline may be linked to wariness among potential issuers against the backdrop of negative investor sentiment surrounding the money laundering and embezzlement case of state-owned 1Malaysia Development Berhad, as well as rising risks associated with the upcoming general election that is expected in mid-2018.

A monthly breakdown of the issuance of G3 currency bonds showed a relatively more stable trend in April–July (**Figure 6**). After issuance surged to USD36,992 million in March, issuance from April to July remained in the USD28,000 million–USD30,000 million range. G3 currency bond issuance reached USD27,924 million in April, up 54.2% y-o-y; USD29,890 million in May, up 49.4% y-o-y; USD30,210 million in June, up 35.4% y-o-y; and USD29,492 million in July, up 48.2% y-o-y. The stable trend may be the market's reaction to clearer policy direction in developed economies, indicative of narrowed risk associated with issuing G3 currency bonds. Average monthly issuance in January–July was USD 27,703 million compared with USD17,099 million in the same period in 2016.

Figure 6: G3 Currency Bond Issuance in Emerging East Asia



USD = United States dollar.
Notes:
1. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; the Lao People's Democratic Republic; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
2. G3 currency bonds are bonds denominated in either euro, Japanese yen, or US dollar.
3. Figures were computed based on 31 July 2017 currency exchange rates and do not include currency effects.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Government bond yield curves rose in most markets in emerging East Asia, following a rise in interest rates in most advanced economies, but fell in some markets due to foreign investor demand.

Global economic growth continued to improve in the first half of the year, led primarily by gains in advanced economies. In the US, the labor market continued to strengthen, with the unemployment rate reaching 4.3% in July and 4.4% in August. Nonfarm payrolls added an additional 189,000 jobs in July and 156,000 in August. GDP growth in the US also rebounded to 3.0% y-o-y in Q2 2017 from revised growth of 1.2% in Q1 2017.[14] Personal consumption made a strong showing, growing 3.3% y-o-y in Q2 2017 versus 1.9% in the previous quarter.

Economic developments in the US have allowed the Federal Reserve to remain on track with its monetary policy normalization, raising the key policy rate target in June by 25 basis points to between 1.00% and 1.25%. The Federal Reserve meeting notes indicated that it will begin unwinding its balance sheet in 2017, with some members expressing a preference for providing market participants a specific date for the balance sheet reduction.

Other advanced economies also reported stronger growth prospects. On 8 June, the European Central Bank (ECB) raised its staff projections for GDP growth in 2017 to 1.9% from 1.8%, in 2018 to 1.8% from 1.7%, and in 2019 to 1.7% from 1.6%. Seasonally adjusted GDP growth for Q2 2017 was 2.3% y-o-y, up from 2.0% y-o-y in the prior quarter.[15] In its monetary meeting on 20 July, the ECB noted that the economy continued to expand and that the risks to the growth outlook were roughly balanced.

The Bank of Japan, during its 19 July meeting, noted that the domestic economy continued to operate above output and will continue to do so through 2018. GDP growth in Q2 2017 came in at an annualized 2.5% versus 1.2% in Q1 2017.[16] BOJ also noted that risks to economic growth and inflation remain tilted to the downside.

In most advanced economies, even as economic growth has been on an upward trend, inflation continues to lag. The Federal Reserve noted in its July meeting that

[14] https://www.bea.gov/newsreleases/national/gdp/2017/pdf/gdp2q17_2nd.pdf
[15] http://ec.europa.eu/eurostat/documents/2995521/8213935/2-07092017-AP-EN.pdf/6fe1f60c-51e2-4b98-9d14-ca6ea5c7e260
[16] http://www.esri.cao.go.jp/jp/sna/data/data_list/sokuhou/gaiyou/pdf/main_1.pdf

12-month inflation was still below the 2.0% target. The BOJ and ECB both also noted that inflationary pressures remain low.

One reason for the low inflation in advanced economies is that energy prices have trended downward in 2017. At the start of the year, the price of one barrel of oil was USD52.36 but it had fallen to USD47.57 by 15 August.

Economic growth in advanced economies has helped GDP growth in emerging East Asia. In the PRC, GDP growth in Q2 2017 was 6.9% y-o-y, the same rate as in Q1 2017, despite the government's ongoing deleveraging. Hong Kong, China's GDP growth fell to 3.8% y-o-y in Q2 2017 from 4.3% in Q1 2017, but this was still above trend growth. In Malaysia, GDP growth rose to 5.8% y-o-y in Q2 2017 from 5.6% y-o-y in Q1 2017. GDP growth also accelerated in the Philippines to 6.5% y-o-y in Q2 2017 from 6.4% y-o-y in Q1 2017. In Singapore, GDP growth clocked in at 2.9% y-o-y in Q2 2017 from 2.5% y-o-y in the prior quarter. In Thailand, GDP grew 3.7% y-o-y in Q2 2017 versus 3.3% in Q1 2017. In Viet Nam, GDP grew 5.7% y-o-y in the first half of 2017, up from 5.1% y-o-y in Q1 2017.

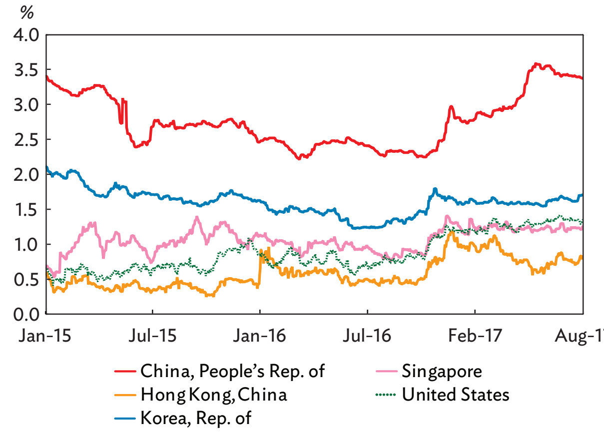
Improving global economic growth has led to increases in the yields of advanced economies, particularly the US, with most emerging East Asian economies following suit. As a result, the 2-year yield trended upward in Hong Kong, China and Singapore, tracking US yield movements (**Figure 7a**).

The 2-year yield trended upward in the PRC due to tightening liquidity as a result of efforts to deleverage its asset markets. The Republic of Korea saw a rise in 2-year yields, tracking the rise in US yields and also on expectations of a wider fiscal deficit resulting from the supplemental budget passed on 22 July.

The 2-year yield trended downward in Indonesia, Thailand, and Viet Nam (**Figure 7b**). Yields in Indonesia and Thailand fell on persistent foreign investor demand. Demand for Indonesian bonds remained strong given high yields and a rating upgrade from S&P Global in May. In Thailand, yields were pushed downward in May and June by deflation.

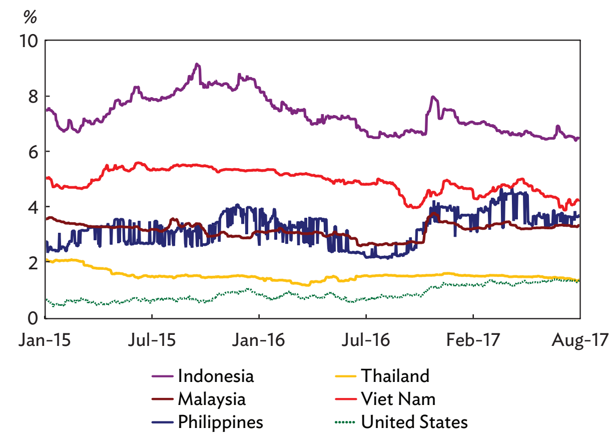
Trends in the 10-year yield were similar to those for the 2-year yield in emerging East Asian bond markets (**Figures 8a, 8b**).

Figure 7a: 2-Year Local Currency Government Bond Yields



Note: Data as of 15 August 2017.
Source: Based on data from Bloomberg LP.

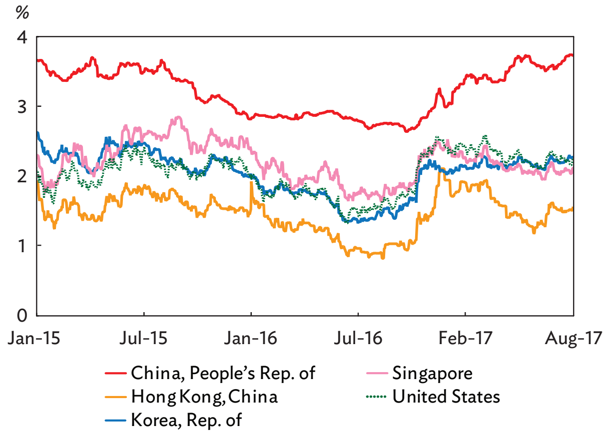
Figure 7b: 2-Year Local Currency Government Bond Yields



Note: Data as of 15 August 2017.
Source: Based on data from Bloomberg LP.

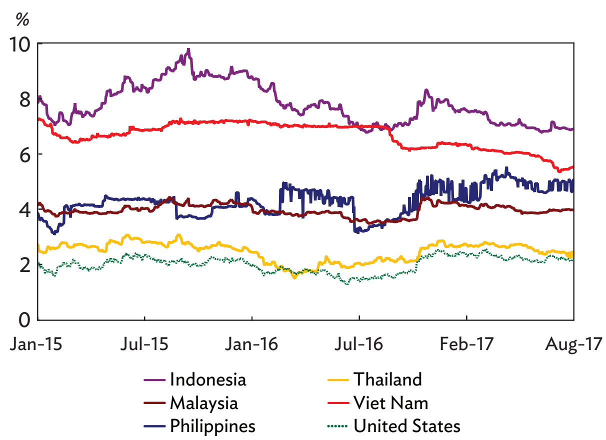
While yield curve movements were generally the same for both 2-year and 10-year yields in most markets, some differences were observed (**Figure 9**). In the PRC, yields at the longer-end of the curve rose between 1 June and 15 August, while yields at the shorter-end fell. The fall at the shorter-end reflected improving liquidity conditions, while the rise at the longer-end reflected renewed market confidence in the PRC's growth prospects. In the Republic of Korea, yields also fell at the very short-end of the curve, while yields rose at the longer-end due to foreign investor demand at the shorter-end.

Figure 8a: 10-Year Local Currency Government Bond Yields



Note: Data as of 15 August 2017.
Source: Based on data from Bloomberg LP.

Figure 8b: 10-Year Local Currency Government Bond Yields



Note: Data as of 15 August 2017.
Source: Based on data from Bloomberg LP.

The yield curve shifted upward for Hong Kong, China and Singapore as these two markets closely track yield movements in the US. Other markets that saw rising yields in line with US yield movements include Malaysia and the Philippines. Only Indonesia, Thailand, and Viet Nam saw a downward shift in their respective yield curves. In the cases of Indonesia and Thailand, the fall in yields was driven by continued demand from foreign investors.

Inflation slowed in July compared to inflation rates in January with some exceptions. Inflation has trended upward in Hong Kong, China; Indonesia; and the Republic of Korea (**Figures 10a, 10b**). Other markets have trended downward or have remained broadly stable.

Central banks in emerging East Asia have kept policy rates steady as economic growth in advanced economies continues as expected and the market assesses potential risks to the growth outlook. The exceptions were Hong Kong, China, which lacks an independent monetary policy, and Viet Nam, which reduced its policy rate to help spur economic growth (**Figures 11a, 11b**).

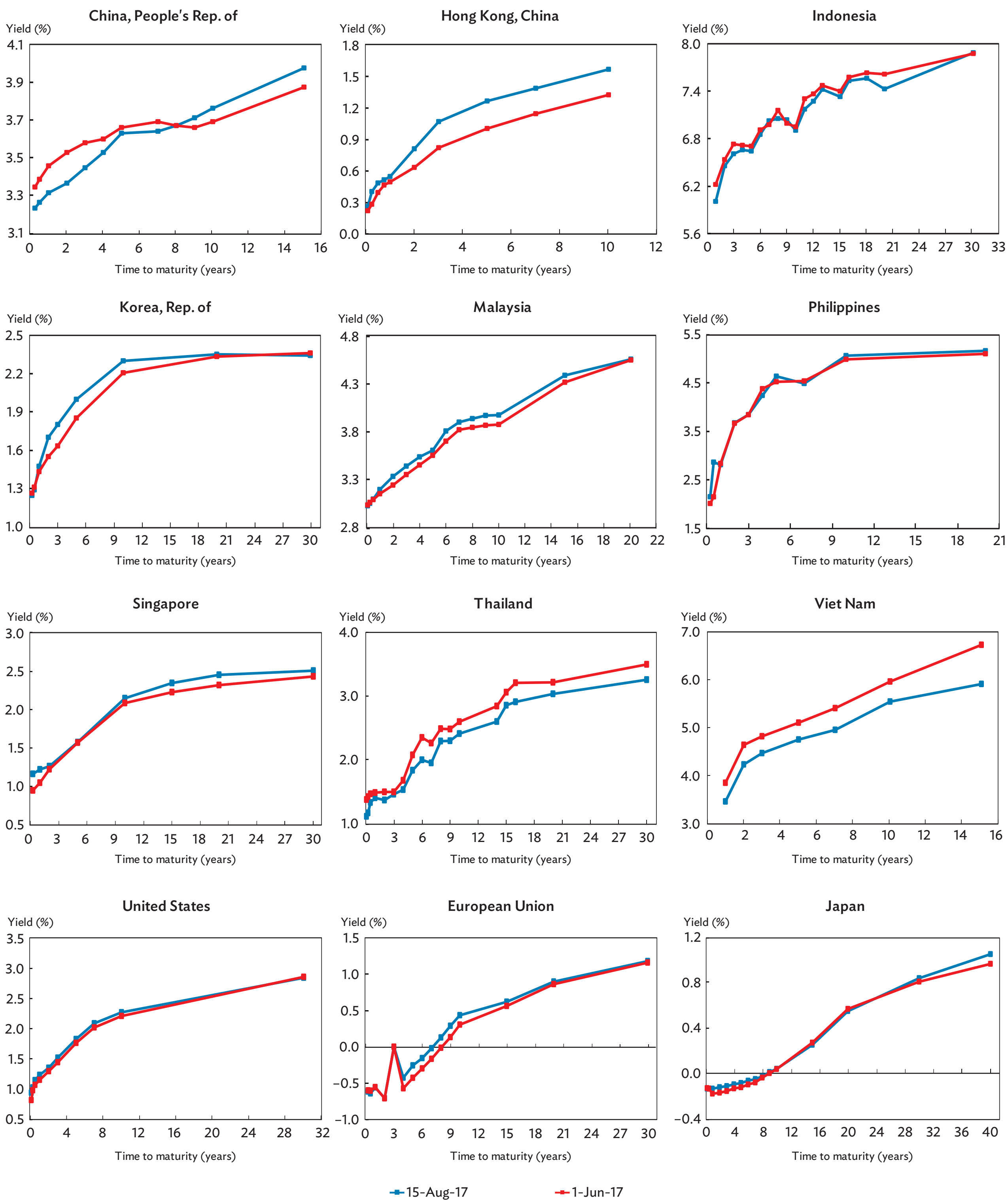
Consistent with the improvements in economic growth, the 2-year versus 10-year yield spread widened for most markets in emerging East Asia between 1 June and 15 August. The exceptions were the Republic of Korea, Thailand, and Viet Nam (**Figure 12**).

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

The spread between AAA-rated corporate yields and government yields narrowed from 1 June to 15 August in the PRC and Malaysia on positive economic growth. However, risk aversion in the Republic of Korea caused the spread to rise during the review period (**Figure 13a**).

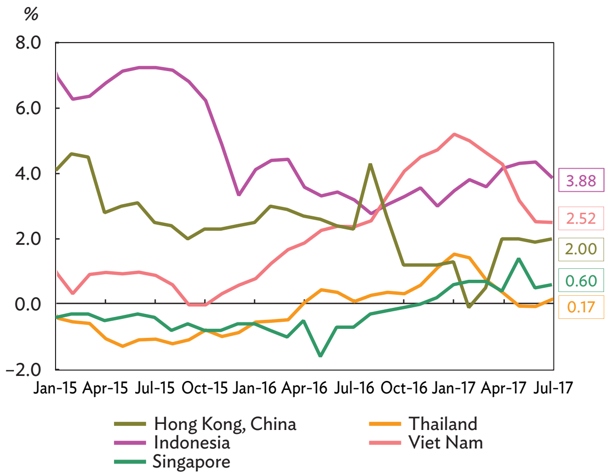
Spreads between AAA-rated corporates and lower-rated corporates also fell between 1 June and 15 August in the PRC on improved growth, while rising in Malaysia and remaining unchanged in the Republic of Korea (**Figure 13b**).

Figure 9: Benchmark Yield Curves—Local Currency Government Bonds



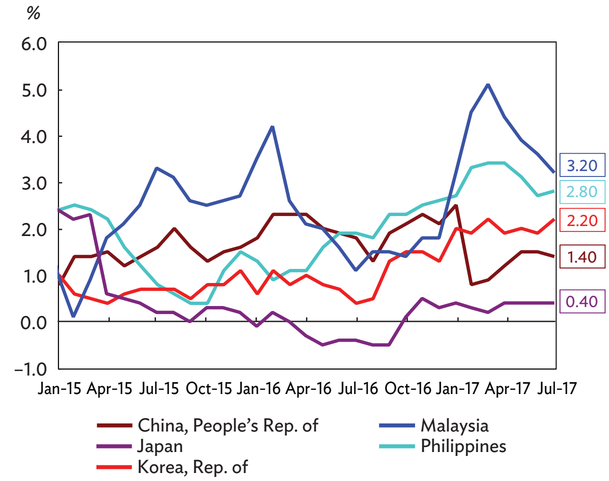
Source: Based on data from Bloomberg LP and Thai Bond Market Association.

Figure 10a: Headline Inflation Rates



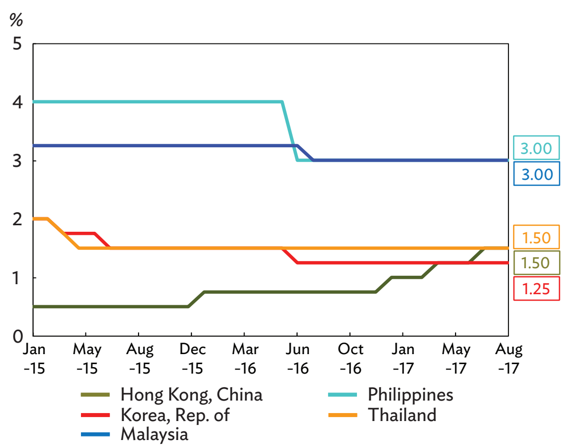
Note: Data as of July 2017.
Source: Based on data from Bloomberg LP.

Figure 10b: Headline Inflation Rates



Note: Data as of July 2017.
Source: Based on data from Bloomberg LP.

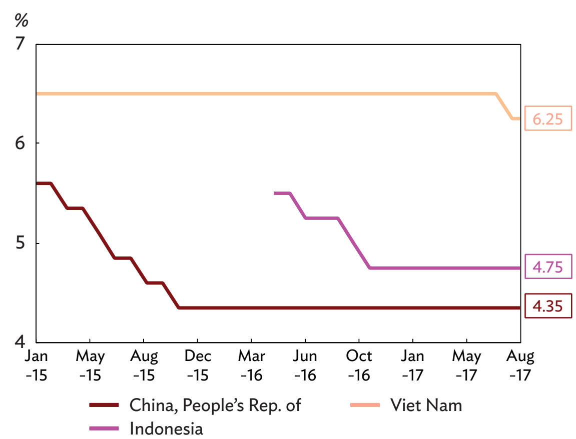
Figure 11a: Policy Rates



Notes:
1. Data as of 15 August 2017.
2. The policy rate of the Philippines was adjusted to 3.0% from 4.0% in June 2016 following the shift in the Bangko Sentral ng Pilipinas' monetary operations to an interest rate corridor system.

Source: Based on data from Bloomberg LP.

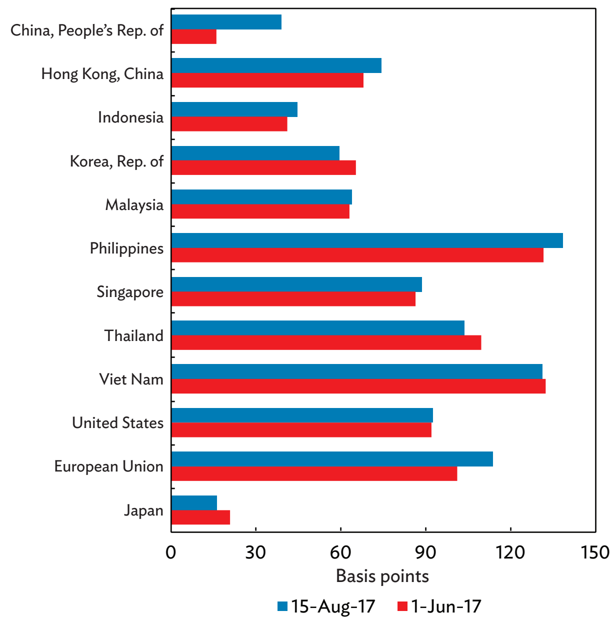
Figure 11b: Policy Rates



Notes:
1. Data as of 15 August 2017.
2. Bank Indonesia shifted its policy rate to the 7-day reverse repurchase rate effective 19 August 2016.

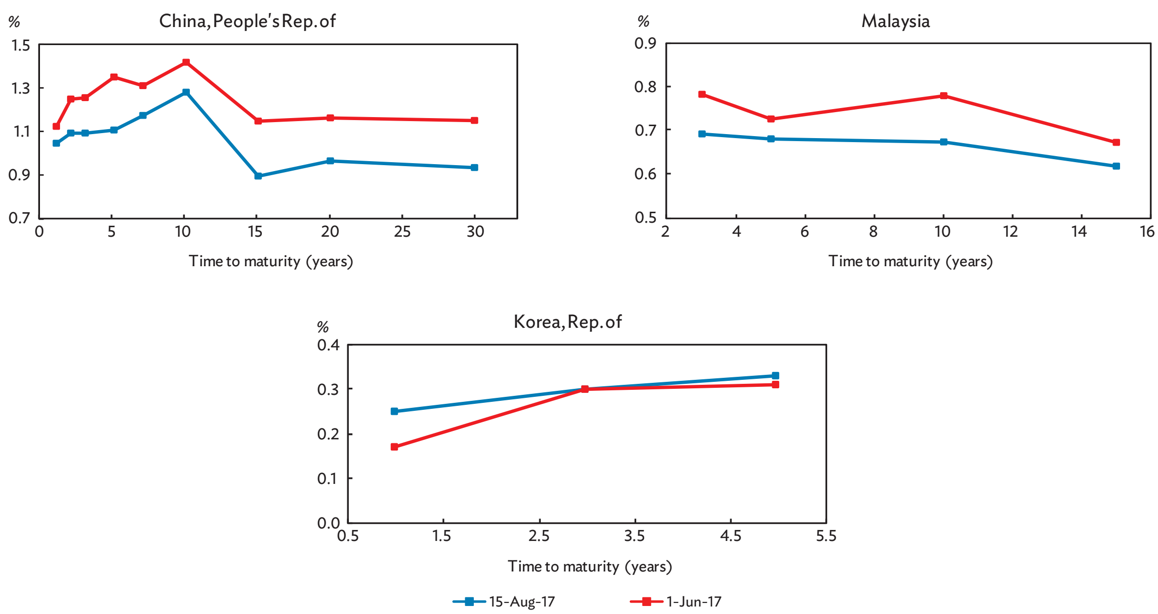
Source: Based on data from Bloomberg LP.

Figure 12: Yield Spreads Between 2-Year and 10-Year Government Bonds



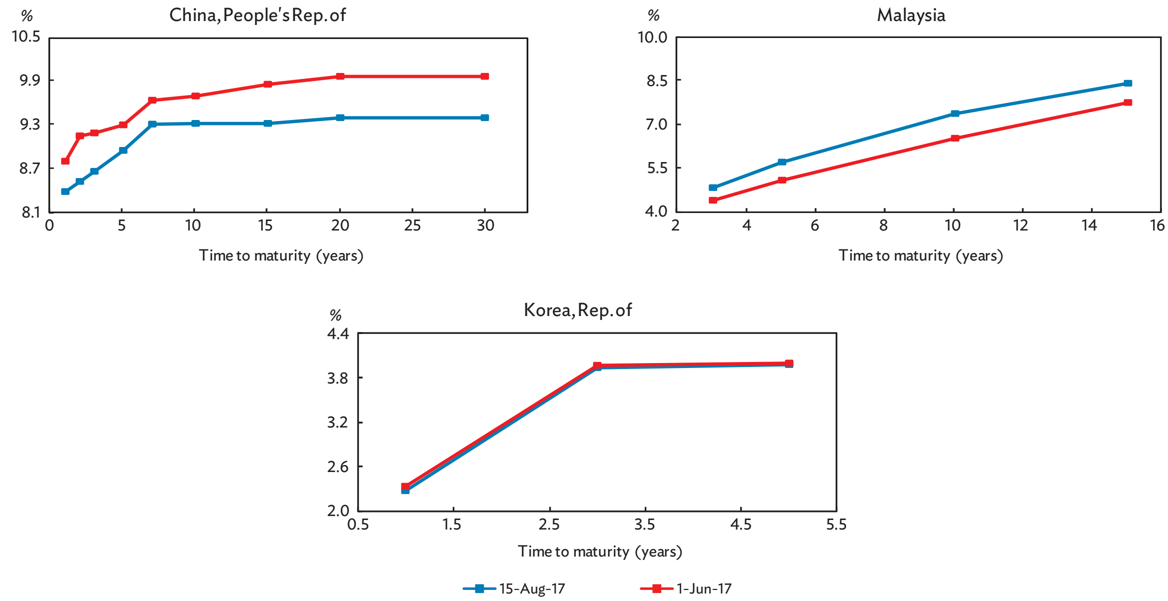
Source: Based on data from Bloomberg LP.

Figure 13a: 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 2017 and 14 August 2017.
Sources: People's Republic of China (*Wind Information*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (Bank Negara Malaysia).

Figure 13b: 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 2017 and 14 August 2017.

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