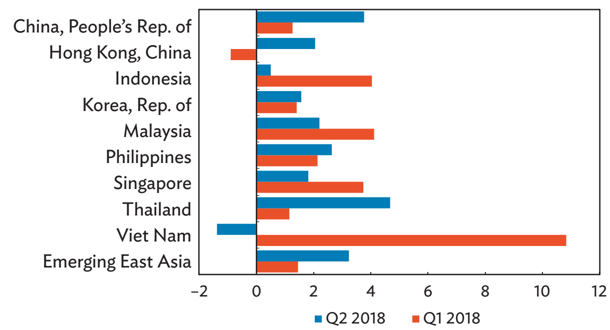
Bond Market Developments in the Second Quarter of 2018

Size and Composition

Emerging East Asia's local currency bond market's quarter-on-quarter growth accelerated to 3.2% in the second quarter of 2018 from 1.5% in the first quarter of 2018 to reach a size of USD12.6 trillion.

Emerging East Asia's local currency (LCY) bond market posted moderate growth of 3.2% quarter-to-quarter (q-o-q) to reach USD12.6 trillion at the end of June 2018.[7] This was an acceleration from the 1.5% q-o-q growth posted in the first quarter (Q1) of 2018 as aggregate bond issuance volume in the region jumped in the second quarter (Q2) of 2018. All individual bond markets in the region expanded on a q-o-q basis in Q2 2018 with the exception of Viet Nam. Five economies posted faster q-o-q growth rates in Q2 2018 than in Q1 2018 (**Figure 1a**).

Figure 1a: Growth of Local Currency Bond Markets in the First and Second Quarters of 2018 (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 2018 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 People's Republic of China (PRC) is home to the largest LCY bond market in the region, comprising 71.7% of total outstanding bonds. In Q2 2018, the PRC bond market led the region's growth, posting an expansion of 3.8% q-o-q to reach a size of USD9.0 trillion at the end of June. This was higher than the marginal growth of 1.3% q-o-q posted in Q1 2018. The faster growth was driven by a surge in issuance in Q2 2018, primarily due to the August deadline of the PRC's local government debt-to-bond swap program. As the program neared completion, local government bond issuance jumped more than five times in Q2 2018 following tepid issuance in the previous quarter. The outstanding amount of local government bonds grew 6.9% q-o-q to USD2.4 trillion at the end of June. The stock of Treasury bonds and policy bank bonds also rose in Q2 2018, up 3.3% q-o-q and 3.0 q-o-q, respectively. The PRC's corporate bond market expanded 2.1% q-o-q in Q2 2018 to reach a size of USD2.5 trillion at the end of June.

The Republic of Korea's LCY bond market, the second-largest in emerging East Asia with a regional share of 15.8%, rose 1.6% q-o-q to USD2.0 trillion in Q2 2018. This was slightly higher than the 1.4% q-o-q growth posted in Q1 2018 and was driven by both the government and corporate bond segments. The outstanding stock of government bonds increased 2.4% q-o-q, driven by the rise in central government bonds in line with the government's plan to increase borrowing and spending in 2018 to boost growth. The amount of outstanding Monetary Stabilization Bonds, which are issued by the Bank of Korea to manage market liquidity, declined in Q2 2018 despite high issuance due to an even larger volume of maturities. The Republic of Korea's LCY corporate bond market expanded 1.0% q-o-q as companies issued more bonds in Q2 2018 in anticipation of rising interest rates.

In Hong Kong, China, total LCY bonds outstanding reached USD246 billion at the end of June, up 2.1% q-o-q

[7] 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.

from the end of March and a reversal from the 0.9% q-o-q contraction posted in Q1 2018. The expansion was largely driven by the 3.9% q-o-q growth in the corporate bond market. Local companies took advantage of relatively low interest rates to raise funds in anticipation of rising interest rates. Hong Kong's monetary policy is tightly linked to that of the United States (US), where the Federal Reserve is expected to hike rates further during the rest of the year. Outstanding government bonds in Hong Kong, China posted marginal growth of 0.8% q-o-q as the rise in the stock of Hong Kong Special Administrative Region (HKSAR) bonds and Exchange Fund Bills was capped by the decline in Exchange Fund Notes. The growth in the amount of total HKSAR bonds was due to increased issuance in Q2 2018 as part of the Institutional Bond Issuance Programme. Exchange Fund Bills also rose during the quarter due to high demand from investors as the market remained awash with liquidity.

The aggregate size of the LCY bond markets of Association of Southeast Asian Nations (ASEAN) economies for which data are available reached USD1.3 trillion at the end of June on a 2.4% q-o-q increase. Excluding Viet Nam, all economies posted positive q-o-q increases in Q2 2018. Total government bonds outstanding among ASEAN economies rose 2.9% q-o-q to USD903 billion at the end of June, comprising 68% of ASEAN's total bond stock. The corporate bond market reached a size of USD420 billion in Q2 2018 on growth of 1.5% q-o-q.

Thailand remained home to the largest bond market among ASEAN member economies in Q2 2018 and posted the fastest growth in the emerging East Asia region at 4.7% q-o-q, an acceleration from the 1.2% q-o-q expansion in Q1 2018. The outstanding size of Thailand's LCY bond market reached US362 billion at the end of June. The robust growth was driven by the government bond sector, which rose 5.6% q-o-q in Q2 2018 on increased central bank bond issuance from the Bank of Thailand. The central bank gradually increased issuance of short-term bonds in Q2 2018 after having eased such issuance beginning in April 2017. The rapid rise in the Thai baht in 2017 had prompted the Bank of Thailand to reduce issuance of its short-term bonds due to high rates of foreign investor participation. The outstanding size of other central government bonds and bonds issued by state-owned enterprises also rose in Q2 2018. Thailand's corporate bond market expanded 2.4% q-o-q in the same period.

Malaysia's LCY bond market growth slowed to 2.2% q-o-q in Q2 2018 from 4.1% q-o-q in Q1 2018 on reduced issuance volume in both the government and corporate segments. Total outstanding LCY bonds in Malaysia reached a size of USD339 billion at the end of June. The stock of LCY government bonds in Malaysia posted growth of 2.5% q-o-q, led by an increase in the outstanding amounts of Malaysian Government Securities and Government Investment Issues. The expansion of Malaysia's corporate bond market also slowed in Q2 2018 to 1.9% q-o-q from 3.5% q-o-q in the previous quarter. Some companies waited out the period leading up to and following the general elections in May as uncertainties over the policies to be implemented by the new government weighed on market sentiments.

Malaysia remained the largest *sukuk* (Islamic bond) market in emerging East Asia, with outstanding *sukuk* reaching USD817 billion at the end of June on growth of 2.7% q-o-q. *Sukuk* continued to comprise a majority of Malaysia's domestic bond market with a share of 59.7%. Malaysia's LCY corporate bond market is dominated by *sukuk*, with a share of 75.6%, while *sukuk* comprise 45.5% of the government bond market.

In Singapore, growth in the LCY bond market eased to 1.8% q-o-q in June following an increase of 3.7% q-o-q in March, to reach a size of USD281 billion. The growth was solely driven by the rise in the stock of outstanding government bonds as corporate bonds fell 0.1% q-o-q in Q2 2018. The expansion in Singapore's LCY government bond market was due to the robust issuance of central bank bills by the Monetary Authority of Singapore as part of efforts to mop up excess liquidity in the market. The slight decline in Singapore's corporate bond market in Q2 2018 was due to tepid issuance, with the quarter marked by rising interest rates that made it costly for companies to issue bonds.

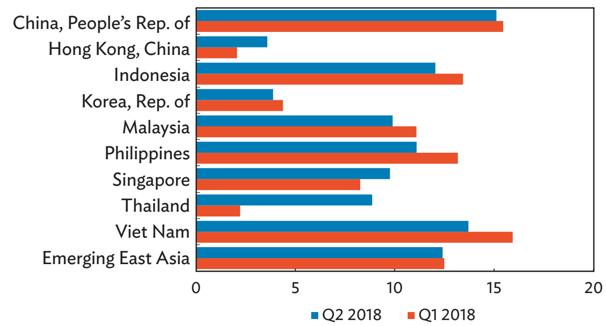
Indonesia's LCY bond market was barely changed from the previous quarter, up only 0.5% q-o-q to reach a total size of USD182 billion at the end of June, a deceleration from the 4.0% q-o-q increase in Q1 2018. The marginal growth was due to reduced issuance of Treasury bonds in Q2 2018 from a high base in the previous quarter, which was in line with the government's frontloading policy in which borrowing is generally conducted at the start of the year. Unsuccessful auctions also contributed to the slow growth as market participants sought higher yields amid an environment of rising interest rates and the continued depreciation of the Indonesian rupiah. The outstanding amount of Indonesia's central bank bills declined in Q2 2018. Indonesia's corporate bond market remained small, posting minimal growth of 0.5% q-o-q.

In the Philippines, the outstanding size of the LCY bond market was up 2.6% q-o-q at the end of June, slightly higher than the 2.1% q-o-q growth posted in Q1 2018. Growth was supported by both government bonds and corporate bonds. Total government bonds outstanding rose 2.5% q-o-q in Q2 2018 as a result of the PHP121.8 billion Retail Treasury Bond issuance in June. However, the large volume of maturities during the quarter capped the bond market's expansion. The government raised its planned issuance for Q2 2018 by 35.0% from Q1 2018, particularly for short-term Treasury bills, due to the high demand for short-term paper observed in the previous quarter. However, the planned issuance volume was not reached because of a number of failed auctions as market participants sought higher yields. The Philippine corporate bond market remains one of the smallest in the region but continued to grow in Q2 2018, posting a 3.2% q-o-q increase.

Viet Nam's LCY bond market was the only market in the region that contracted in Q2 2018, falling 1.4% q-o-q to USD51 billion following a 10.8% q-o-q rise in Q1 2018. The contraction was driven by a drop in outstanding government bonds, which fell 2.1% q-o-q in Q2 2018. Only Treasury bills and bonds posted q-o-q growth in Q2 2018, while the outstanding amount of central bank bills and government-guaranteed and municipal bonds fell during the quarter. Despite comprising a mere 5% of total outstanding government bonds, the drop in the stock of central bank bills, due to maturities exceeding new issuance, was the main driver of the q-o-q decline in government bonds. Viet Nam's corporate bond market remained underdeveloped but continued to expand, posting robust growth of 10.6% q-o-q in Q2 2018.

On a year-on-year (y-o-y) basis, emerging East Asia's LCY bond market expanded 12.4% at the end of June, slightly easing from 12.5% growth in Q1 2018 (**Figure 1b**). Most economies in the region posted lower annual growth rates in Q2 2018, with only three markets having higher growth rates. The PRC and Viet Nam posted the highest annual growth rates at 15.1% y-o-y and 13.7% y-o-y, respectively, the latter being a small, developing market. Hong Kong, China and the Republic of Korea posted the slowest expansions at 3.6% y-o-y and 3.9% y-o-y, respectively.

Figure 1b: Growth of Local Currency Bond Markets in the First and Second Quarters of 2018 (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.
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Emerging East Asia's LCY bond market continues to be dominated by government bonds, which account for two-thirds of the regional total while the remaining one-third comprises corporate bonds (**Table 1**).

The region's aggregate LCY government bond market rose 4.0% q-o-q in Q2 2018, up from a 1.3% q-o-q increase in Q1 2018. Excluding Viet Nam, all government bond markets in emerging East Asia posted positive q-o-q growth rates in Q2 2018.

The PRC remained the largest government bond market in the region at the end of June with an outstanding size of USD6.5 trillion and a regional share of 78%, thereby driving emerging East Asia's LCY bond market growth by virtue of its size. The Republic of Korea continued to be the second-largest government bond market in the region with outstanding bonds of USD841 and a share of 10%. Among ASEAN economies, Thailand had the largest government bond market at the end of June, followed by Malaysia and Singapore. The Philippines (USD86 billion) and Viet Nam (USD48 billion) remained the smallest government bond markets in emerging East Asia. Thailand and the PRC registered

Table 1: Size and Composition of Local Currency Bond Markets

	Q2 2017		Q1 2018		Q2 2018		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
							Q2 2017		Q2 2018		Q2 2017		Q2 2018	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	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	7,658	100.0	9,177	100.0	9,026	100.0	4.1	12.9	3.8	15.1	5.7	10.7	(1.6)	17.9
Government	5,480	71.6	6,616	72.1	6,548	72.5	5.8	18.8	4.4	16.7	7.5	16.4	(1.0)	19.5
Corporate	2,178	28.4	2,562	27.9	2,479	27.5	(0.1)	0.5	2.1	11.1	1.5	(1.4)	(3.2)	13.8
Hong Kong, China														
Total	239	100.0	241	100.0	246	100.0	0.6	6.1	2.1	3.6	0.1	5.5	2.1	3.1
Government	138	57.8	146	60.8	148	60.1	0.8	6.3	0.8	7.6	0.3	5.6	0.9	7.1
Corporate	101	42.2	94	39.2	98	39.9	0.2	5.9	3.9	(2.0)	(0.2)	5.3	4.0	(2.4)
Indonesia														
Total	175	100.0	189	100.0	182	100.0	1.8	16.4	0.5	12.0	1.6	15.2	(3.7)	4.3
Government	150	85.7	160	84.6	154	84.6	1.5	15.3	0.5	10.5	1.3	14.1	(3.7)	2.9
Corporate	25	14.3	29	15.4	28	15.4	3.6	23.1	0.5	21.0	3.4	21.9	(3.7)	12.8
Korea, Rep. of														
Total	1,869	100.0	2,056	100.0	1,993	100.0	2.1	3.6	1.6	3.9	(0.2)	4.3	(3.1)	6.6
Government	780	41.7	860	41.9	841	42.2	2.3	4.6	2.4	5.1	(0.01)	5.3	(2.3)	7.8
Corporate	1,089	58.3	1,195	58.1	1,152	57.8	1.9	2.9	1.0	3.0	(0.4)	3.6	(3.7)	5.8
Malaysia														
Total	290	100.0	347	100.0	339	100.0	3.3	7.1	2.2	9.9	6.5	0.5	(2.2)	16.8
Government	156	53.8	182	52.6	179	52.8	2.9	4.0	2.5	7.9	6.1	(2.4)	(1.9)	14.7
Corporate	134	46.2	164	47.4	160	47.2	3.8	10.9	1.9	12.2	7.0	4.1	(2.5)	19.3
Philippines														
Total	102	100.0	107	100.0	108	100.0	4.6	10.2	2.6	11.1	4.0	3.0	0.4	5.0
Government	83	81.5	86	80.1	86	80.0	5.0	8.5	2.5	9.0	4.4	1.4	0.3	3.1
Corporate	19	18.5	21	19.9	22	20.0	2.7	18.5	3.2	20.0	2.2	10.7	0.9	13.5
Singapore														
Total	254	100.0	287	100.0	281	100.0	0.4	8.1	1.8	9.7	2.0	5.8	(2.0)	10.9
Government	150	59.2	175	61.1	174	61.8	0.8	13.7	3.0	14.7	2.4	11.3	(0.8)	15.9
Corporate	104	40.8	112	38.9	107	38.2	(0.1)	0.8	(0.1)	2.5	1.4	(1.3)	(3.8)	3.6
Thailand														
Total	323	100.0	366	100.0	362	100.0	(1.7)	5.8	4.7	8.8	(0.5)	9.5	(1.2)	11.8
Government	235	72.6	263	71.9	262	72.5	(3.4)	3.2	5.6	8.7	(2.3)	6.8	(0.3)	11.7
Corporate	89	27.4	103	28.1	99	27.5	3.3	13.5	2.4	9.1	4.5	17.5	(3.4)	12.1
Viet Nam														
Total	45	100.0	52	100.0	51	100.0	0.6	6.8	(1.4)	13.7	0.7	4.8	(2.0)	12.7
Government	43	94.6	49	94.1	48	93.4	1.3	6.8	(2.1)	12.2	1.4	4.8	(2.7)	11.2
Corporate	2	5.4	3	5.9	3	6.6	(10.7)	7.9	10.6	39.6	(10.6)	5.8	9.9	38.3
Emerging East Asia														
Total	10,956	100.0	12,822	100.0	12,587	100.0	3.3	10.6	3.2	12.4	4.2	9.0	(1.8)	14.9
Government	7,215	65.9	8,538	66.6	8,439	67.0	4.7	15.5	4.0	14.5	5.8	13.7	(1.2)	17.0
Corporate	3,741	34.1	4,284	33.4	4,148	33.0	0.7	2.2	1.8	8.3	1.2	0.9	(3.2)	10.9
Japan														
Total	10,140	100.0	10,848	100.0	10,445	100.0	0.6	2.2	0.3	1.5	(0.3)	(6.2)	(3.7)	3.0
Government	9,441	93.1	10,125	93.3	9,754	93.4	0.7	2.2	0.4	1.8	(0.2)	(6.1)	(3.7)	3.3
Corporate	699	6.9	723	6.7	691	6.6	0.4	1.6	(0.3)	(2.6)	(0.5)	(6.7)	(4.4)	(1.1)

( ) = 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 2018 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).

the fastest q-o-q growth rates in the region at 5.6% and 4.4%, respectively.

The region's aggregate LCY corporate bond market expanded 1.8% q-o-q in Q2 2018, which was almost at par with the 1.7% q-o-q growth posted in the previous quarter. The PRC continued to be home to the largest corporate bond market in emerging East Asia at a size of USD2.5 trillion, comprising 60% of the regional total. The Republic of Korea was second at USD1.2 trillion and a share of 28%. The corporate bond markets in Indonesia (USD28 billion), the Philippines (USD22 billion), and Viet Nam (USD3 billion) remained the smallest in the region. Viet Nam posted emerging East Asia's fastest growth rate in Q2 2018 at 10.6% q-o-q as its corporate bond market continued to develop with the emergence of new issuers. This was followed by Hong Kong, China (3.9% q-o-q) and the Philippines (3.2% q-o-q). Only Singapore posted a q-o-q decline in its corporate bond market in Q2 2018.

As a percentage of the region's GDP, the size of the emerging East Asian bond market rose to 71.2% in Q2 2018 from 70.4% in Q1 2018 as most economies in the region experienced slower economic growth than bond market growth (**Table 2**). The share of the region's government bond market to GDP rose to 47.7% from 46.9% during the review period, while that of the region's corporate bond market was unchanged at 23.5%. All economies in the region posted higher shares of bonds-to-GDP at the end of June versus the end of March except for Indonesia and Viet Nam. The Republic of Korea and Malaysia continued to have the highest shares of bonds-to-GDP in the region at the end of June at 126.2% and 98.4%, respectively.

Foreign investors' share in Malaysia and Indonesia's LCY government bond markets fell in Q2 2018.

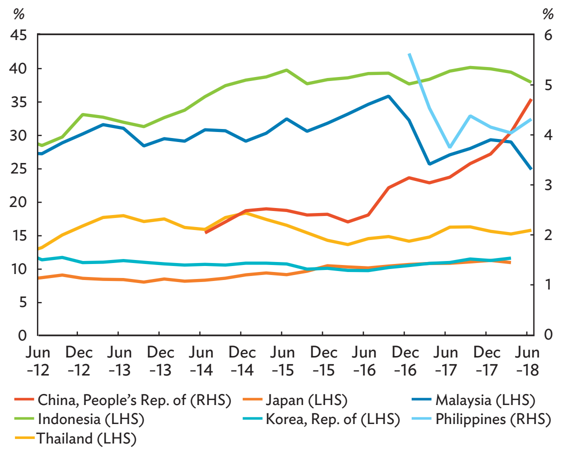
Movements in foreign investor holdings in emerging East Asia's government bond markets were mixed in Q2 2018 as investors assessed the economic fundamentals of each market (**Figure 2**). In the PRC, foreign investors continued to pour funds into government bonds as the PRC gradually opens up its bond market. Investors were also attracted to the

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

	Q2 2017	Q1 2018	Q2 2018
China, People's Rep. of			
Total	66.4	68.1	69.1
Government	47.5	49.1	50.1
Corporate	18.9	19.0	19.0
Hong Kong, China			
Total	72.3	69.6	69.7
Government	41.8	42.3	41.9
Corporate	30.5	27.3	27.9
Indonesia			
Total	17.9	18.7	18.4
Government	15.4	15.8	15.6
Corporate	2.6	2.9	2.8
Korea, Rep. of			
Total	127.3	125.3	126.2
Government	53.1	52.4	53.3
Corporate	74.2	72.9	73.0
Malaysia			
Total	96.2	97.6	98.4
Government	51.7	51.4	51.9
Corporate	44.5	46.3	46.5
Philippines			
Total	34.2	34.6	34.7
Government	27.9	27.7	27.8
Corporate	6.3	6.9	7.0
Singapore			
Total	79.8	83.3	83.8
Government	47.2	50.9	51.8
Corporate	32.6	32.4	32.0
Thailand			
Total	73.3	72.8	75.0
Government	53.2	52.3	54.4
Corporate	20.1	20.5	20.6
Viet Nam			
Total	22.0	23.3	22.5
Government	20.9	21.9	21.0
Corporate	1.2	1.4	1.5
Emerging East Asia			
Total	69.0	70.4	71.2
Government	45.4	46.9	47.7
Corporate	23.6	23.5	23.5
Japan			
Total	210.6	210.1	210.3
Government	196.1	196.1	196.4
Corporate	14.5	14.0	13.9

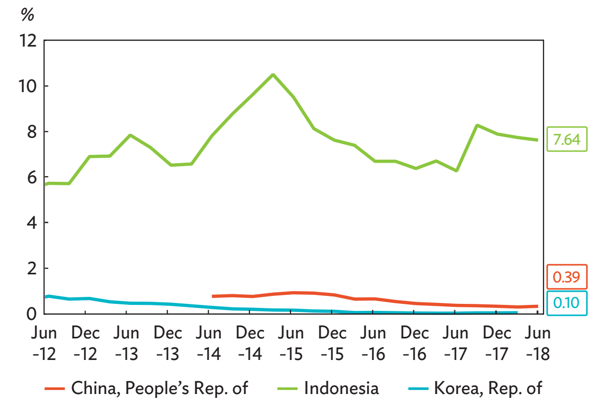
GDP = gross domestic product, Q1 = first quarter, Q2 = second quarter.
Notes:
1. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.
2. Data for GDP is from CEIC.
Sources: People's Republic of China (*ChinaBond* and *Wind Information*); Hong Kong, China (Hong Kong Monetary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

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 30 June 2018 except for Japan and the Republic of Korea (31 March 2018).
Source: *AsianBondsOnline*.

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



Note: Data as of 30 June 2018 except for the Republic of Korea (31 March 2018).
Sources: Based on data from *Wind*, Otoritas Jasa Keuangan, and The Bank of Korea.

Republic of Korea and Thailand, owing to their stable economic fundamentals. In Thailand, the foreign investor share of government bonds increased slightly to 15.7% at the end of June from 15.2% at the end of March, while the foreign holdings share in the Republic of Korea rose slightly to 11.6% at the end of March from 11.2% at the end of December.

In the case of Indonesia, foreign investors remained cautious over the economy's fundamentals, resulting in the continued outflow of funds. Indonesia's foreign holdings share fell to 37.8% at the end of June from 39.3% at the end of March. Investors are concerned about the depreciation of the rupiah and its impact on Indonesia's current account balance.

Malaysia had the largest decline in its foreign holdings share to 24.8% at the end of June from 28.9% at the end of March. The decline in foreign investor holdings can be attributed to uncertainties over the economic and fiscal policies of the new government that unexpectedly won the May elections. In addition, investors were concerned about the fiscal implication of the revelation that government debt may be higher due to debt obligations relating to 1MDB that were previously unreported.

In the Philippines, the foreign investor share rose to 4.3% at the end of June from 4.0% at the end of March.

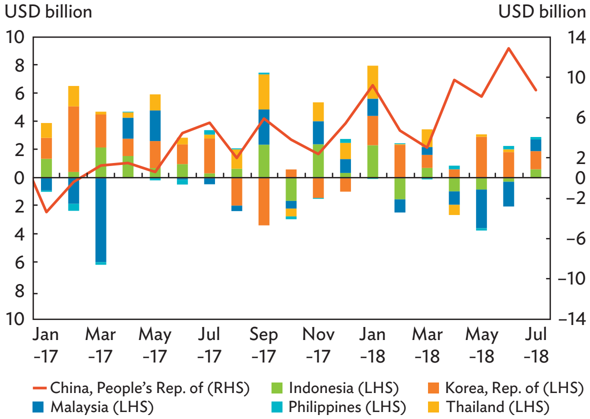
The foreign holdings shares in emerging East Asia's LCY corporate bond markets remained low relative to government bonds (**Figure 3**). For markets in which data are available, the foreign investor shares of corporate bonds were relatively stable during Q2 2018.

Outflows were recorded in Q2 2018 from the LCY bond markets of Indonesia and Malaysia, but foreign investors returned in July.

Similar to movements in the foreign investor share in government bond holdings, outflows were observed in all 3 months of Q2 2018 in Indonesia and Malaysia, owing to unique factors in each market (**Figure 4**). In contrast, Thailand recorded outflows of USD0.7 billion in April and inflows of USD0.2 billion each in May and June. Both the Republic of Korea and the PRC recorded bond inflows during all 3 months of Q2 2018.

In July, all markets for which data are available showed inflows in July, except for Thailand, which had marginal outflows. In the case of Malaysia, investors returned to the bond market in July as they grew increasingly comfortable

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



LHS = left-hand side, RHS = right-hand side, USD = United States dollar.

Notes:

1. The Republic of Korea and Thailand provided data on bond flows. For the People's Republic of China, Indonesia, Malaysia, and the Philippines, month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.
2. Data as of 31 July 2018.
3. Figures were computed based on 31 July 2018 exchange rates to avoid currency effects.

Sources: People's Republic of China (*Wind Information*); Indonesia (Directorate General of Budget Financing and Risk Management, Ministry of Finance); Republic of Korea (Financial Supervisory Service); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); and Thailand (Thai Bond Market Association).

with the new government and Malaysia's resilient economic growth momentum.

In Indonesia, the return of investors to the bond market in July was the result of the continued policy rate hikes conducted by Bank Indonesia to help temper outflows in Q2 2018.

Emerging East Asia's total LCY bond issuance rebound in Q2 2018 on the back of increased debt sales from larger markets.

Emerging East Asia's total LCY bond issuance climbed 26.5% q-o-q to USD1,223 billion in Q2 2018 after posting negative growth in Q1 2018 (**Table 3**). The rebound during the quarter was driven by sizable issuance from large debt-issuing economies like the PRC and the Republic of Korea. The PRC's debt sales reversed from negative growth in Q1 to post a 52.8% q-o-q increase in Q2, while the Republic of Korea's total bond issuance in Q2 2018 was up 15.1% q-o-q. The two economies account for nearly three-quarters of the total bond issuance in the region. Hong Kong, China; the Philippines; and Singapore also saw q-o-q increases in their bond issuance. On the other hand, Indonesia, Malaysia, Thailand, and Viet Nam saw their LCY bond issuance drop in Q2 2018, with Indonesia's and Viet Nam's debt sales each falling more than half during the quarter. The region's government and corporate bond issuance posted positive growth rates in Q2 2018, with the government segment largely propelling the regional bond market's expansion. On an annual basis, the region's issuance growth was at par with the previous quarter at 10.2% y-o-y.

Issuance of LCY government bonds in emerging East Asia increased 39.4% q-o-q to USD866 billion in Q2 2018. Growth in regional issuance during the quarter was driven by the PRC whose issuance of government bonds nearly doubled on a q-o-q basis and comprised about 56% of the emerging East Asian government total. While the Philippines' share of the regional issuance total remained small, it posted a significant 61.3% q-o-q increase in government debt issuance in Q2 2018, the fastest growth rate in the region next to the PRC. Only Malaysia, Indonesia, and Viet Nam saw declines in their issuance during the quarter, with large drops of about 60% q-o-q in the latter two economies. About 71% of issuance in the emerging East Asia bond market in Q2 2018 came from the government segment.

The region's LCY corporate bond issuance rose 3.3% q-o-q in Q2 2018, reversing the negative growth posted in Q1 2018. Corporate issuance reached USD357 billion during the quarter, comprising about 30% of the regional total. Most markets in the region had lower corporate issuance in Q2 2018 compared with Q1 2018, which can be attributed to rising interest rates making borrowing costs higher. Singapore had the largest drop of 56.4% q-o-q, followed by the Philippines at 24.0% q-o-q, albeit their market shares in the region are small. The PRC's corporate bond issuance dropped 1.0% q-o-q, but this comprised a majority share in the regional market at about 57% of the total. The Republic of Korea, Indonesia, and Viet Nam drove the region's increase in total corporate issuance. Much of the growth came from the Republic of Korea, comprising a market share of about 32%, where issuance climbed 22.0% q-o-q.

The PRC's total bond issuance in Q2 2018 amounted to USD692 billion on growth of 52.8% q-o-q in contrast to a quarterly decline in Q1 2018. Compared to a year earlier, the issuance was 8.9% higher. Issuance from the government in Q2 2018 grew at almost twice the rate

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

	Q2 2017		Q1 2018		Q2 2018		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q2 2018		Q2 2018	
	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	620	100.0	477	100.0	692	100.0	52.8	8.9	44.8	11.5
Government	453	73.0	260	54.4	487	70.4	97.9	5.0	87.6	7.5
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	453	73.0	260	54.4	487	70.4	97.9	5.0	87.6	7.5
Corporate	167	27.0	218	45.6	205	29.6	(1.0)	19.5	(6.1)	22.4
Hong Kong, China										
Total	107	100.0	115	100.0	116	100.0	0.8	9.2	0.8	8.6
Government	93	87.5	101	88.0	103	89.3	2.3	11.4	2.3	10.8
Central Bank	92	86.2	101	87.8	103	88.6	1.7	12.1	1.7	11.6
Treasury and Other Govt.	1	1.3	0.2	0.2	0.8	0.7	261.1	(39.3)	261.2	(39.6)
Corporate	13	12.5	14	12.0	12	10.7	(10.2)	(6.3)	(10.2)	(6.7)
Indonesia										
Total	12	100.0	18	100.0	8	100.0	(54.5)	(26.3)	(56.5)	(31.4)
Government	9	75.4	16	89.0	6	74.7	(61.9)	(27.1)	(63.5)	(32.1)
Central Bank	0.1	0.7	0.3	1.7	0.2	2.1	(42.8)	121.8	(45.2)	106.6
Treasury and Other Govt.	9	74.7	16	87.4	6	72.5	(62.3)	(28.5)	(63.9)	(33.4)
Corporate	3	24.6	2	11.0	2	25.3	5.2	(24.1)	0.8	(29.3)
Korea, Rep. of										
Total	176	100.0	180	100.0	198	100.0	15.1	9.6	9.8	12.5
Government	78	44.1	82	45.7	84	42.5	6.8	5.5	1.9	8.2
Central Bank	38	21.8	38	21.1	40	20.4	11.7	2.7	6.6	5.4
Treasury and Other Govt.	39	22.3	44	24.7	44	22.0	2.6	8.2	(2.1)	11.0
Corporate	98	55.9	98	54.3	114	57.5	22.0	12.9	16.4	15.9
Malaysia										
Total	17	100.0	26	100.0	22	100.0	(9.3)	27.7	(13.2)	35.8
Government	7	42.9	15	57.5	13	56.1	(11.5)	67.2	(15.3)	77.7
Central Bank	0.3	2.1	4	16.9	5	20.9	12.4	1,166.7	7.6	1,246.4
Treasury and Other Govt.	7	40.8	11	40.6	8	35.2	(21.4)	10.3	(24.8)	17.3
Corporate	9	57.1	11	42.5	10	43.9	(6.3)	(1.9)	(10.3)	4.2
Philippines										
Total	9	100.0	6	100.0	8	100.0	43.1	(9.7)	40.0	(14.6)
Government	8	88.3	4	78.7	7	88.7	61.3	(9.4)	57.8	(14.3)
Central Bank	0	0.0	0	0	0	0.0	–	–	–	–
Treasury and Other Govt.	8	88.3	4	78.7	7	88.7	61.3	(9.4)	57.8	(14.3)
Corporate	1	11.7	1	21.3	0.9	11.3	(24.0)	(12.5)	(25.7)	(17.2)
Singapore										
Total	79	100.0	93	100.0	103	100.0	15.0	29.1	10.7	30.4
Government	76	95.7	89	95.5	101	98.3	18.4	32.6	13.9	33.9
Central Bank	70	88.9	83	89.7	93	90.2	15.7	31.1	11.4	32.4
Treasury and Other Govt.	5	6.8	5	5.8	8	8.1	59.2	52.7	53.2	54.2
Corporate	3	4.3	4	4.5	2	1.7	(56.4)	(48.7)	(58.0)	(48.2)
Thailand										
Total	67	100.0	72	100.0	67	100.0	(2.3)	(3.4)	(7.8)	(0.8)
Government	54	80.1	57	79.5	56	83.3	2.5	0.4	(3.3)	3.1
Central Bank	40	59.0	47	64.4	45	67.6	2.5	10.6	(3.2)	13.6
Treasury and Other Govt.	14	21.2	11	15.1	10	15.7	2.2	(28.2)	(3.5)	(26.2)
Corporate	13	19.9	15	20.5	11	16.7	(20.5)	(18.9)	(25.0)	(16.7)

continued on next page

Table 3 *continued*

	Q2 2017		Q1 2018		Q2 2018		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q2 2018		Q2 2018	
	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	2	100.0	22	100.0	10	100.0	(54.7)	317.1	(55.0)	313.4
Government	2	98.8	22	99.6	10	96.3	(56.2)	306.4	(56.5)	302.8
Central Bank	0	0.0	19	86.7	9	86.0	(55.1)	–	(55.4)	–
Treasury and Other Govt.	2	98.8	3	12.9	1	10.3	(63.9)	(56.6)	(64.1)	(57.0)
Corporate	0.03	1.2	0.1	0.4	0.4	3.7	303.3	1,203.1	300.8	1,191.3
Emerging East Asia										
Total	1,089	100.0	1,010	100.0	1,223	100.0	26.5	10.2	21.1	12.3
Government	780	71.6	647	64.1	866	70.8	39.4	9.1	33.9	11.1
Central Bank	241	22.1	293	29.0	294	24.1	3.4	21.2	0.6	22.4
Treasury and Other Govt.	539	49.5	354	35.1	572	46.8	69.8	3.8	61.4	6.1
Corporate	309	28.4	363	35.9	357	29.2	3.3	12.8	(1.7)	15.5
Japan										
Total	413	100.0	415	100.0	399	100.0	0.4	(4.7)	(3.7)	(3.3)
Government	379	91.7	396	95.5	364	91.1	(4.2)	(5.3)	(8.1)	(3.9)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	379	91.7	396	95.5	364	91.1	(4.2)	(5.3)	(8.1)	(3.9)
Corporate	34	8.3	19	4.5	35	8.9	97.1	1.8	89.2	3.3

( ) = 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 2018 currency exchange rates and do not include currency effects.
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 (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).

as in the preceding quarter to reach USD487 billion. The significant increase was largely associated with the acceleration of debt-for-bond issuance as local governments tried to maximize their quotas before the bond swap program came to an end in August. Also adding to the increase was the issuance of new bonds by local governments to fund their financing needs. Corporate issuance moved in the opposite direction, decreasing 1.0% q-o-q, although the decline was less than in Q1 2018.

The second-largest debt issuer in the region, the Republic of Korea, sold a total of USD198 billion in Q2 2018, representing about 16% of the regional total. Growth in issuance accelerated in Q2 2018 to 15.1% q-o-q, driven by a rebound in the corporate sector as growth in government issuance eased. The government issued a total of USD84 billion, expanding 6.8% q-o-q, with all government bond categories exhibiting moderate increases. While slower, the continued positive growth in bond issuance was in line with the Government of the Republic of Korea's plan to increase its state spending in 2018 to boost job creation. Corporate issuance grew solidly at 22.0% q-o-q, reversing a decline in the previous quarter. Corporates increased their bond issuance in Q2 2018 on the expectation that the Bank of Korea would raise its policy rate later in the year, which would send financing costs climbing.

In Hong Kong, China, issuance growth decelerated to 0.8% q-o-q to USD116 billion in Q2 2018. Issuance growth from the government was positive at 2.3% q-o-q, after declining in the previous quarter, led by increased Exchange Fund Bill and HKSAR bond issuance. On the other hand, corporate issuance declined 10.2% q-o-q in Q2 2018 after posting about a 50% q-o-q increase in the previous quarter. Corporates were wary of tapping the capital market in the face of rising interest rates.

Indonesia's total bond issuance in Q2 2018 fell more than half to USD8 billion, dragged down by the 61.9% q-o-q reduction in government issuance. Bond sales from the government amounted to USD6 billion, which reflected significant declines in issuance from the central government and central bank of 62.3% q-o-q and 42.8% q-o-q, respectively. The huge q-o-q drop observed in central government issuance was due to a high issuance base in Q1 2018, resulting from the government's frontloading policy. In addition, most auctions during the quarter either fell short of the target amount or rejected due to higher rates demanded by investors. There were only two auctions of central bank bills in Q2 2018 due to the long Eid'l Fitr holiday, resulting in a lower issuance volume. Corporate issuance posted modest growth of 5.2% q-o-q following a decline of about 50% in Q1 2018.

Malaysia's bond issuance in Q2 2018 declined 9.3% q-o-q to USD22 billion. Both the government and corporate segments reduced issuance during the quarter, with a larger drop in the government bond segment. Upward pressures on domestic bond yields were observed in Q2 2018 on the back of cautious investor sentiment both before and after the general elections in May. Persistent foreign fund outflows due to downside risks from global developments may have also caused issuers to reduce debt sales. Issuance from the government was down 11.5% q-o-q as a result of weak issuance from the central government even as issuance of Bank Negara Malaysia Interbank bills increased. Corporate issuance faltered to MYR39.9 billion (USD10 billion) in Q2 2018, reaching its lowest level since Q1 2017. The lower corporate issuance can be attributed to the new government's review of various infrastructure projects in line with fiscal management measures to restrain government debt, which may have also affected the debt sales of major corporate issuers.

The Philippines' total bond issuance grew 43.1% q-o-q in Q2 2018, recording the fastest growth rate among emerging East Asian economies next to the PRC. Total issuance amounted to USD8 billion, mainly spurred by issuance of government securities, which climbed 61.3% q-o-q. The increase largely came from the issuance of Retail Treasury Bonds in June amounting to USD2.3 billion. Corporate issuance recorded the second-fastest pace of decline in emerging East Asia during Q2 2018 at 24.0% q-o-q, which can be attributed to rising borrowing costs. Bangko Sentral ng Pilipinas (BSP) raised its key policy rate twice in Q2 2018 for a total of 50 basis points (bps), which may have resulted in firms holding back on issuance. Even so, corporate issuance only comprised about 11% of the Philippine bond market's total issuance during the quarter.

Total issuance in Singapore rose 15.0% q-o-q in Q2 2018, amounting to USD103 billion, underpinned by increased issuance of government securities. Issuance from the government was up 18.4% in Q2 2018 from a marginal decrease of 0.1% q-o-q in Q1 2018. It amounted to USD101 billion, propelled by issuance of Monetary Authority of Singapore bills and Treasury bills and bonds. Government bonds form about 98% of total debt sales in the Singaporean market. On the other hand, Singapore recorded the fastest decline in corporate debt sales, which plunged 56.4% q-o-q in Q2 2018 after posting a 38.2% q-o-q increase in the preceding quarter. The large drop was due to a high base in Q1 2018, spurred by large issuances of infrastructure bonds.

In Thailand, total debt decreased 2.3% q-o-q to USD67 billion on the back of easing growth in government issuance and a drop in corporate issuance. Issuance from the government, which accounted for about 83% of the total in Q2 2018, grew 2.5% q-o-q to USD56 billion. Growth moderated from 9.9% q-o-q in Q1 2018. Corporate issuance decreased 20.5% q-o-q in Q2 2018 to USD11 billion following growth of 3.0% q-o-q in Q1 2018. The market's lower corporate debt issuance can be attributed to the Securities and Exchange Commission's stricter regulations on bond issuance despite Thailand's low-interest-rate environment.

Viet Nam's total issuance fell the most among all emerging East Asian economies in Q2 2018, plunging 54.7% q-o-q after expanding 40.8% q-o-q in the previous quarter. The large drop emanated from the government segment, which comprises nearly the entire Vietnamese LCY bond market. Most auctions of government securities were not fully awarded because of the higher rates demanded by investors, making it costlier for the government to borrow. Issuance from the corporate sector grew three-fold during the quarter, albeit from a very small base that has little impact on the overall market.

Cross-border bond issuance in emerging East Asia reached USD5.3 billion in Q2 2018.

Total cross-border bond issuances of emerging East Asian economies amounted to USD5.3 billion in Q2 2018, representing a decline of 37.2% q-o-q, and an increase of 63.6% from a year earlier. The PRC saw the largest decline of 61.6% in its cross-border issuances to USD2.3 billion from USD6.0 billion in Q1 2018, but remained the largest issuer in Q2 2018. Hong Kong, China almost tripled its issuances to USD1.4 billion in Q2 2018 from USD0.5 billion in Q1 2018. Singapore, on the other hand, more than doubled its issuances to USD0.5 billion in Q2 2018 from USD0.2 billion in Q1 2018.

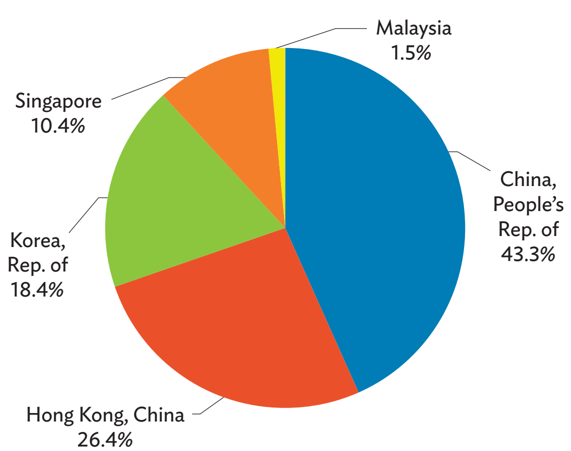
Only five markets engaged in intra-regional bond issuances during the quarter. The PRC issued the most cross-border bonds at USD2.3 billion, accounting for 43.3% of all issuances during the quarter (**Figure 5**). This was followed by Hong Kong, China with USD1.4 billion and a regional share of 26.4%, and the Republic of Korea with issuance of USD1.0 billion and a regional 18.4% share. Rounding out the list of markets with intra-regional bond issuances were Singapore (USD0.5 billion, 10.4%) and Malaysia (USD0.1 billion, 1.5%).

The PRC issued in both Hong Kong dollars and Singapore dollars. Cross-border bond issuances by Hong Kong, China were denominated in Chinese renminbi and Singapore dollars. The Republic of Korea issued bonds denominated in Chinese renminbi and Hong Kong dollars. The Export–Import Bank of Korea issued seven bonds with tenors ranging from 2 years to 5 years. Singapore issued in Chinese renminbi, Hong Kong dollars, and Philippine pesos, while Malaysia issued only in Hong Kong dollars through Malayan Banking Berhad.

The top 10 issuers accounted for 73.9% of all cross-border bond issuances valued at USD3.9 billion. GLP China Holdings, a transportation and logistics company, led all issuances in terms of amount issued. It also accounted for the largest issue during the quarter with a 9-year bond with variable coupon. The Zhongsheng Group, a holding company from the PRC, issued a 5-year, zero-coupon, convertible puttable bond worth HKD4.7 billion for the repurchase of its existing zero-coupon bond maturing this year, and to expand its network of stores and service its debts.

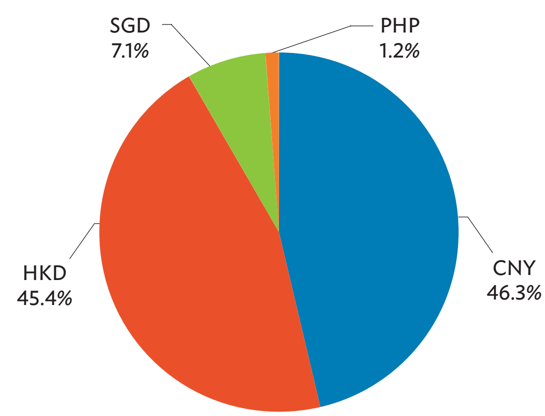
Four currencies were utilized through intra-regional bond issuances in emerging East Asia (**Figure 6**). CNY-denominated bonds by issuers from Hong Kong, China; the Republic of Korea; and Singapore dominated the issuances, totaling USD2.4 billion or 46.3% of all cross-border issuances. Hong Kong dollar bonds worth USD2.4 billion (45.4%) were issued by the PRC, the Republic of Korea, Malaysia, and Singapore.

Figure 5: Origin Economy of Intra-Emerging East Asian Bond Issuance in the Second Quarter of 2018



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

Figure 6: Currency Share of Intra-Emerging East Asian Bond Issuance in the Second Quarter of 2018



CNY = Chinese renminbi, HKD = Hong Kong dollar, PHP = Philippine peso, SGD = Singapore dollar.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

A small share of the pie comprised SGD-denominated bonds (USD0.4 billion, 7.1%) from the PRC and Hong Kong, China, and PHP-denominated bonds (USD0.1 billion, 1.2%) from issuers in Singapore.

Emerging East Asia's G3-denominated bond sales slid to USD171.9 billion in the first 7 months of the year.

Reflecting tighter market conditions, G3 currency bond sales from emerging East Asia slowed in the first 7 months of 2018 to USD171.9 billion from USD194.1 billion in the same 7-month period a year earlier.[8] Between January and July, G3 bond issuance accounted for about 50% of the full-year 2017 total of USD341.6 billion (**Table 4**). Issuers from both the government and corporate segments turned to G3 bond markets as they anticipated rising borrowing costs as the Federal Reserve has signaled two more hikes in the second half of the year.

US dollars were still the currency of choice among G3 issuers in the region, with USD-denominated bonds accounting for 90% of the aggregate G3 issuance volume during the review period. Bonds denominated in euros accounted for an 8.0% share of the total and the remaining 2.0% comprised bonds denominated in Japanese yen. Compared with the same 7-month period in 2017, the relative shares of each currency were little changed.

Some of the largest G3 bond issuers in the region posted y-o-y declines in issuance volume in the first 7 months of the year. In nominal terms, the largest decline in G3 bond issuance was recorded in the PRC. Other markets in the region that posted y-o-y declines in issuance in January–July were Hong Kong, China; Malaysia; Indonesia; and the Republic of Korea.

Nonetheless, the PRC led the region in terms of G3 bond issuance as it accounted for nearly 60% of the aggregate issuance volume of the region during the review period. Hong Kong, China was the second-largest G3 source with a share of 11.7% of the region's total. The Republic of Korea was next with a 10.9% share of the total.

Between January and July, G3 bond issuance from the PRC reached an equivalent of USD99.8 billion for a decline of 18.2% y-o-y. Onshore borrowing conditions continued to tighten following the government's deleveraging efforts. The number of defaults among corporate borrowers also rose, making it increasingly difficult to issue bonds in both domestic and international markets. The PRC was among the region's markets whose currency depreciated significantly this year.

A total of 280 new G3 bonds were issued by PRC-based issuers between January and July. The largest G3 bond issuer from the PRC was CNAC HK Finbridge, which issued an aggregate of USD6.4 billion worth of bonds in euros and US dollars in March. Next were Tencent Holdings' multitranche issuance worth USD5.0 billion in January and State Grid Overseas Investment's euro and US dollar issuance valued at USD2.7 billion in May. In Q2 2018, the largest G3 bond issue from the PRC market was the USD1.0 billion issuance of 10-year bonds with a coupon rate of 4.375% by CNOOC Finance (2016) USA.

In the first 7 months of the year, G3 bond issuance from Hong Kong, China totaled USD20.0 billion on a decline of 17.7% y-o-y. There were a total of 103 G3 bonds, of which 60.2% were denominated in US dollars and 37.9% were in Japanese yen. CHMT Peaceful Development Asia Property remained the largest issuer with an aggregate issuance amount of USD4.1 billion. Taking the second spot was ICBC Asia, which has tapped the G3 bond market three times to date in 2018 (March, June, and July) for aggregate issuance valued at USD3.1 billion. CHMT Peaceful Development Asia Property also sold the largest G3 bond issue from Hong Kong, China in Q2 2018 with a USD3.3 billion 1.5-year bond carrying a coupon rate of 7.5% in April.

G3 bond sales from the Republic of Korea stood at USD18.7 billion in January–July, with issuance declining a marginal 0.8% y-o-y. Bucking the regional trend, the Republic of Korea was the only emerging East Asian market whose G3 issuance exhibited a steady increase from April through July. About one-third of newly issued bonds during the January–July period were sold by government agencies. Leading the list of issuers was state-owned lender Export–Import Bank of Korea, which issued in all three G3 currencies for an aggregate amount of USD4.4 billion. The single-largest G3 bond issue in

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

Table 4: G3 Currency Bond Issuance

2017			January to July 2018		
Issuer	Amount (USD billion)	Issue Date	Issuer	Amount (USD billion)	Issue Date
China, People's Rep. of	**225.4**		**China, People's Rep. of**	**99.8**	
Postal Savings Bank of China 4.50% Perpetual	7.3	27-Sep-17	Tencent Holdings 3.595% 2028	2.5	19-Jan-18
China Evergrande Group 8.75% 2025	4.7	28-Jun-17	CNAC (HK) Finbridge 5.125% 2028	1.8	14-Mar-18
Alibaba Group Holding 3.40% 2027	2.6	6-Dec-17	CNAC (HK) Finbridge 1.75% 2022	1.4	14-Mar-18
State Grid Overseas Investment 3.50% 2027	2.4	4-May-17	CNAC (HK) Finbridge 4.625% 2023	1.3	14-Mar-18
China Zheshang Bank 5.45% 2050	2.2	29-Mar-17	Tsinghua Unic 4.75% 2021	1.1	31-Jan-18
Kaisa Group Holdings 9.38% 2024	2.1	30-Jun-17	Baidu 3.875% 2023	1.0	29-Mar-18
CNAC (HK) Synbridge Company 5.00% 2020	2.0	5-May-17	Bank of China (HK) 2.8973% 2023	1.0	8-Mar-18
CNAC (HK) Finbridge Company 3.85% 2020	2.0	22-Dec-17	Bank of China (HK) 2.7973% 2021	1.0	8-Mar-18
Others	200.3		Others	88.8	
Hong Kong, China	**36.7**		**Hong Kong, China**	**20.0**	
Radiant Access Limited 4.60% Perpetual	1.5	18-May-17	CHMT Peaceful Development Asia Property 7.50% 2019	3.3	25-Apr-18
China Cinda Finance 3.65% 2022	1.3	9-Mar-17	Industrial and Commercial Bank of China Asia 4.90% Perpetual	2.5	21-Mar-18
Others	33.9		Others	14.2	
Cambodia	**0.0**		**Cambodia**	**0.3**	
Indonesia	**26.7**		**Indonesia**	**14.9**	
Perusahaan Penerbit SBSN *Sukuk* 4.15% 2027	2.0	29-Mar-17	Perusahaan Penerbit SBSN *Sukuk* 4.40% 2028	1.8	1-Mar-18
Indonesia (Sovereign) 4.35% 2048	1.8	11-Dec-17	Perusahaan Penerbit SBSN *Sukuk* 3.75% 2023	1.3	1-Mar-18
Perusahaan Listrik Negara 4.13% 2027	1.5	15-May-17	Indonesia (Sovereign) 1.75% 2025	1.2	24-Apr-18
Indonesia (Sovereign) 3.5% 2028	1.3	11-Dec-17	Perusahaan Listrik Negara 6.15% 2048	1.0	21-May-18
Indonesia (Sovereign) 2.15% 2024	1.2	18-Jul-17	Perusahaan Listrik Negara 5.45% 2028	1.0	21-May-18
Others	19.0		Others	8.7	
Korea, Rep. of	**29.8**		**Korea, Rep. of**	**18.7**	
Republic of Korea (Sovereign) 2.75% 2027	1.0	19-Jan-17	Hanwha Life Insurance 4.70% 2048	1.0	23-Apr-18
Export–Import Bank of Korea 3.00% 2022	1.0	1-Nov-17	Export–Import Bank Korea 0.625% 2023	0.9	11-Jul-18
Export–Import Bank of Korea 0.50% 2022	0.9	30-May-17	Export–Import Bank Korea 2.87531% 2021	0.8	1-Jun-18
Others	26.9		Others	16.0	
Lao People's Democratic Rep.	**0.03**		**Lao People's Democratic Rep.**	**0.0**	
Malaysia	**4.4**		**Malaysia**	**0.8**	
Genting Overseas Holdings Limited Capital 4.25% 2027	1.0	24-Jan-17	Cindai Capital 0.00% 2023	0.3	8-Feb-18
CIMB Bank 1.93% 2020	0.6	15-Mar-17	Malayan Banking 0.00% 2048	0.2	29-Mar-18
CIMB Bank 3.26% 2022	0.5	15-Mar-17	Malayan Banking 3.08903% 2023	0.1	12-Jan-18
Others	2.3		Others	0.3	
Philippines	**4.0**		**Philippines**	**3.9**	
Republic of the Philippines (Sovereign) 3.7% 2042	2.0	2-Feb-17	Republic of the Philippines (Sovereign) 3.00% 2028	2.0	1-Feb-18
Others	2.0		Others	1.9	
Singapore	**12.5**		**Singapore**	**10.3**	
DBS Bank 0.38% 2024	0.9	23-Jan-17	DBS Group Holdings 4.52% 2028	0.8	11-Jun-18
DBS Group Holdings 1.71% 2020	0.8	8-Jun-17	Puma International Finance 5.00% 2026	0.8	24-Jan-18
Others	10.9		Others	8.8	
Thailand	**2.2**		**Thailand**	**2.8**	
PTTEP Treasury Center Company 4.60% Perpetual	0.5	17-Jul-17	Sea Limited 2.25% 2023	0.6	18-Jun-18
Others	1.7		Others	2.2	
Viet Nam	**0.0**		**Viet Nam**	**0.5**	
Emerging East Asia Total	**341.6**		**Emerging East Asia Total**	**171.9**	
Memo Items:			**Memo Items:**		
India	**15.1**		**India**	**4.2**	
Vedanta Resources 6.375% 2022	1.0	30-Jan-17	Abja Investment 5.45% 2028	1.0	24-Jan-18
Others	14.1		Others	3.2	
Sri Lanka	**3.7**		**Sri Lanka**	**3.8**	

USD = United States dollar.
Notes:
1. Data exclude certificates of deposits.
2. G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.
3. Bloomberg LP end-of-period rates are used.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Q2 2018 also came from Hanwha Life Insurance through its issuance of a USD1.0 billion 30-year variable rate bond.

ASEAN member economies' G3 bond issuance totaled USD33.5 billion in the first 7 months of the year, representing nearly 20% of the regional total. Collectively, issuance climbed 15.7% y-o-y during the January–July period from USD28.9 billion during the same period in 2017. Indonesia's G3 bond issuance during the review period, valued at USD14.9 billion, was the largest among all ASEAN member markets.

Compared with a year earlier, G3 bond issuance in Indonesia in January–July 2018 posted a slight drop from USD15.1 billion to USD14.9 billion. A total of 36 new bond issues were sold during the review period, of which nearly a third were issued in May. The Government of Indonesia was the largest issuer of G3 bonds, issuing in all three G3 currencies and completing its foreign currency issuance plan for the year by July. The government accounted for 40.8% of the aggregate G3 issuance of Indonesia during the 7-month period. Bank Indonesia came next with issuance valued at USD3.0 billion from its regular sale of foreign exchange bills. In Q2 2018, the single-largest bond issue was the government's 7-year EUR-denominated issue in April equivalent to USD1.2 billion and with a coupon rate of 1.75%.

Issuers from Singapore sold a total of USD10.3 billion of G3 bonds in the first 7 months of the year on growth of 46.8% y-o-y. New G3 bonds issued during the period reached 48 issues, mostly denominated in US dollars. United Overseas Bank remained the largest G3 issuer, with an aggregate issuance volume of USD2.0 billion, followed by Oversea-Chinese Banking Corporation at USD1.7 billion. In Q2 2018, the single-largest G3 issue was DBS Group Holding's issuance of a 10-year bond worth USD0.8 billion and carrying a coupon rate of 4.52%.

In the first 7 months of the year, G3 bond sales from the Philippines reached USD3.9 billion, rising from USD2.0 billion in January–July 2017. Six issues came from the Philippines during the review period, all of which were issued between January and April and denominated in US dollars. The largest issuer was the Government of the Philippines, which raised USD2.0 billion worth of bonds in February, with a maturity of 10 years and a coupon rate of 3.0%. The largest issue in Q2 2018 was the USD0.3 billion 5-year bond with a coupon rate of 4.25% issued by Philippine National Bank.

Thailand also saw a y-o-y increase in issuance of G3 bonds in January–July 2018, with aggregate issuance rising to USD2.8 billion from USD1.6 billion a year earlier. There were eight bond issues, all of which were issued by Thai corporates and denominated in US dollars. The largest G3 issuer from Thailand was ThaiOil Treasury Center with issuance valued at USD0.6 billion. The largest issue in Q2 2018 was sold by Sea Limited, which raised USD0.6 billion of 5-year bonds with a coupon rate of 2.25%.

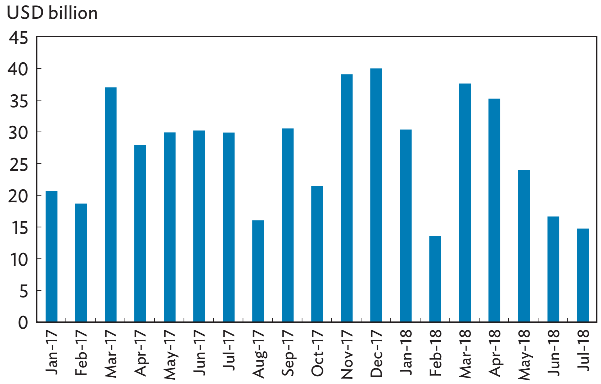
New G3 bond issuance from Malaysia tallied USD0.8 billion between January and July on a decline of 73.3% y-o-y. A total of 10 bonds were issued, all denominated in US dollars except for one bond denominated in Japanese yen. The largest G3 bond issuer was Malayan Banking Berhad with cumulative issuance amounting to USD0.4 billion. In Q2 2018, the single-largest issue was the USD0.05 billion 5-year floating rate bond issued by the Export–Import Bank of Malaysia.

G3 bond sales from Viet Nam climbed to USD0.5 billion in the first 7 months of the year. The largest issuer was Vinpearl, which raised USD0.3 billion from a 5-year bond at a coupon rate of 3.5% in June. The other G3 issuer from Viet Nam was real estate firm No Va Land Investment Group, which sold a USD0.2 billion 5-year bond with a coupon rate of 5.5% in April.

Cambodia tapped the G3 bond market in May for the first time in 2018 with issuance of a USD0.3 billion bond from Naga Corp, a casino and hotel operator. The bond carried a 3-year maturity with a coupon rate of 9.375%.

Monthly G3-denominated bond issuance in emerging East Asia steadily declined through July after hitting a high of USD37.6 billion in March (**Figure 7**). Borrowing offshore became more expensive as investors priced in future rate hikes by the Federal Reserve as well as the weakening of most emerging East Asian currencies versus the US dollar. Some issuers were also hesitant to take on higher funding costs, choosing to wait for the right time to access the G3 bond market.

Figure 7: G3 Currency Bond Issuance in Emerging East Asia



USD = United States dollar.
Notes:
1. Emerging East Asia comprises Cambodia; 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 euros, Japanese yen, or US dollars.
3. Figures were computed based on 31 July 2018 currency exchange rates and do not include currency effects.

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

The government bond yield curve movements in emerging East Asia were largely mixed due to global and domestic uncertainties, leading to divergent responses from the region's central banks.

The global economy largely proceeded as expected in Q2 2018, with some minor hiccups. Among advanced economies, the US continued to lead in terms of growth as its GDP expanded at annual rate of 4.2% in Q2 2018, up from 2.2% in Q1 2018. In addition, the labor market in the US remained strong, with the unemployment rate falling in July to 3.9%.

This strong growth has allowed the US Federal Reserve to proceed with its gradual pace of monetary normalization. On 13–14 June, it raised the Federal Funds target range by 25 bps to between 1.75% and 2.00%. In addition, the Federal Reserve upgraded its 2018 GDP forecast slightly to 2.8% from 2.7% in its March forecast.

While US economic growth accelerated, the euro area experienced a slight slowdown in Q2 2018, with its GDP growth dipping to 2.2% y-o-y from 2.5% y-o-y in Q1 2018. The European Central Bank (ECB) lowered its growth forecast for 2018 to 2.1% from 2.4% in its March forecast. However, the ECB noted that while growth was lower in Q2 2018, the economy continued to expand at a solid pace, thereby allowing the ECB to announce during its 14 June meeting that that it would end its quantitative easing program after December 2018, subject to incoming data.

In Japan, while GDP growth rebounded to an annual rate of 3.0% in Q2 2018 after contracting 0.9% in the previous quarter, the Bank of Japan (BOJ) indicated that economic growth was expected to slow. The BOJ reduced its forecast for Japan's GDP growth slightly to 1.5% for fiscal year 2018 from 1.6% in its April forecast. As a result, during its July meeting, the BOJ left unchanged its monetary policy stance aside from tweaking the range for the 10-year bond yield.

Excluding the US, advanced economies may see slower growth moving forward. In addition, US threats of trade wars and the imposition of sanctions on some economies has increased uncertainty regarding global economic growth and brought higher risk aversion.

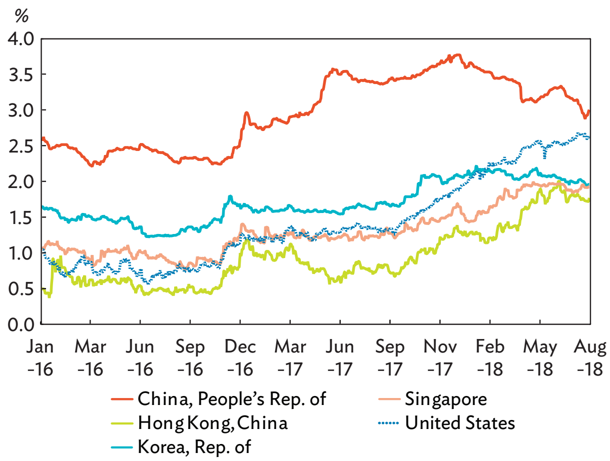
The PRC has been the hardest hit as a result of an ongoing trade spat with the US. The PRC's 2-year yield showed a steep decline starting in the last week of June over concerns that a trade war could impact the PRC's economic growth (**Figure 8a**). The outlook for the PRC's economy was also exacerbated by the past deleveraging measures of the government, resulting in tighter liquidity. Risk aversion was heightened by a number of corporate bond defaults, leading the People's Bank of China to reduce reserve requirement ratios on 24 June to help ease liquidity pressures. A slower economic outlook also led to a decline in yields in the Republic of Korea, Singapore, and Malaysia (**Figure 8b**).

In contrast, 2-year yields rose in Indonesia, the Philippines, Thailand, and Viet Nam. The increase was largely due to economic fundamentals and the responses of their respective central banks.

Emerging East Asia's 10-year yields largely tracked the respective 2-year yield movements in individual economies (**Figures 9a, 9b**).

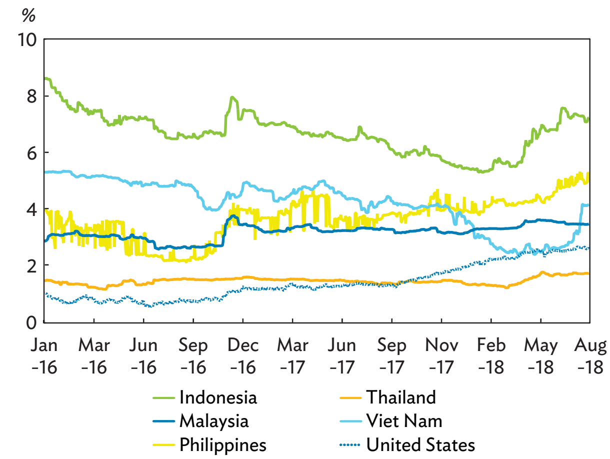
Between 1 June and 15 May, the yield curves of the PRC, the Republic of Korea, Malaysia, and Singapore largely shifted downward amid prospects of slower economic growth (**Figure 10**). In contrast, Hong Kong, China;

Figure 8a: 2-Year Local Currency Government Bond Yields



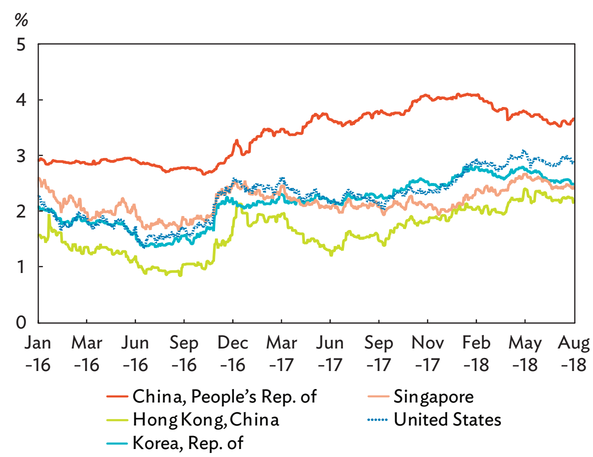
Note: Data as of 15 August 2018.
Source: Based on data from Bloomberg LP.

Figure 8b: 2-Year Local Currency Government Bond Yields



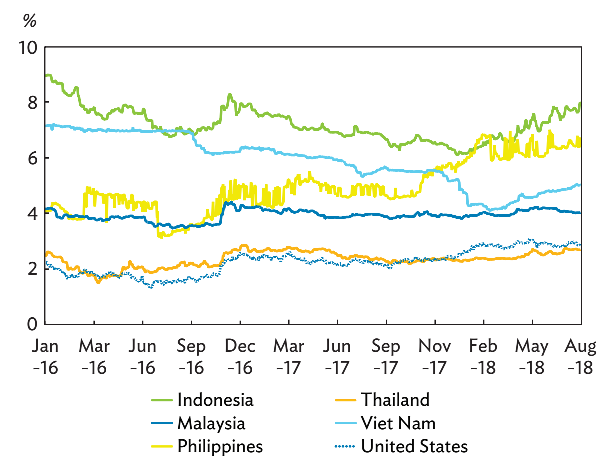
Note: Data as of 15 August 2018.
Source: Based on data from Bloomberg LP.

Figure 9a: 10-Year Local Currency Government Bond Yields



Note: Data as of 15 August 2018.
Source: Based on data from Bloomberg LP.

Figure 9b: 10-Year Local Currency Government Bond Yields

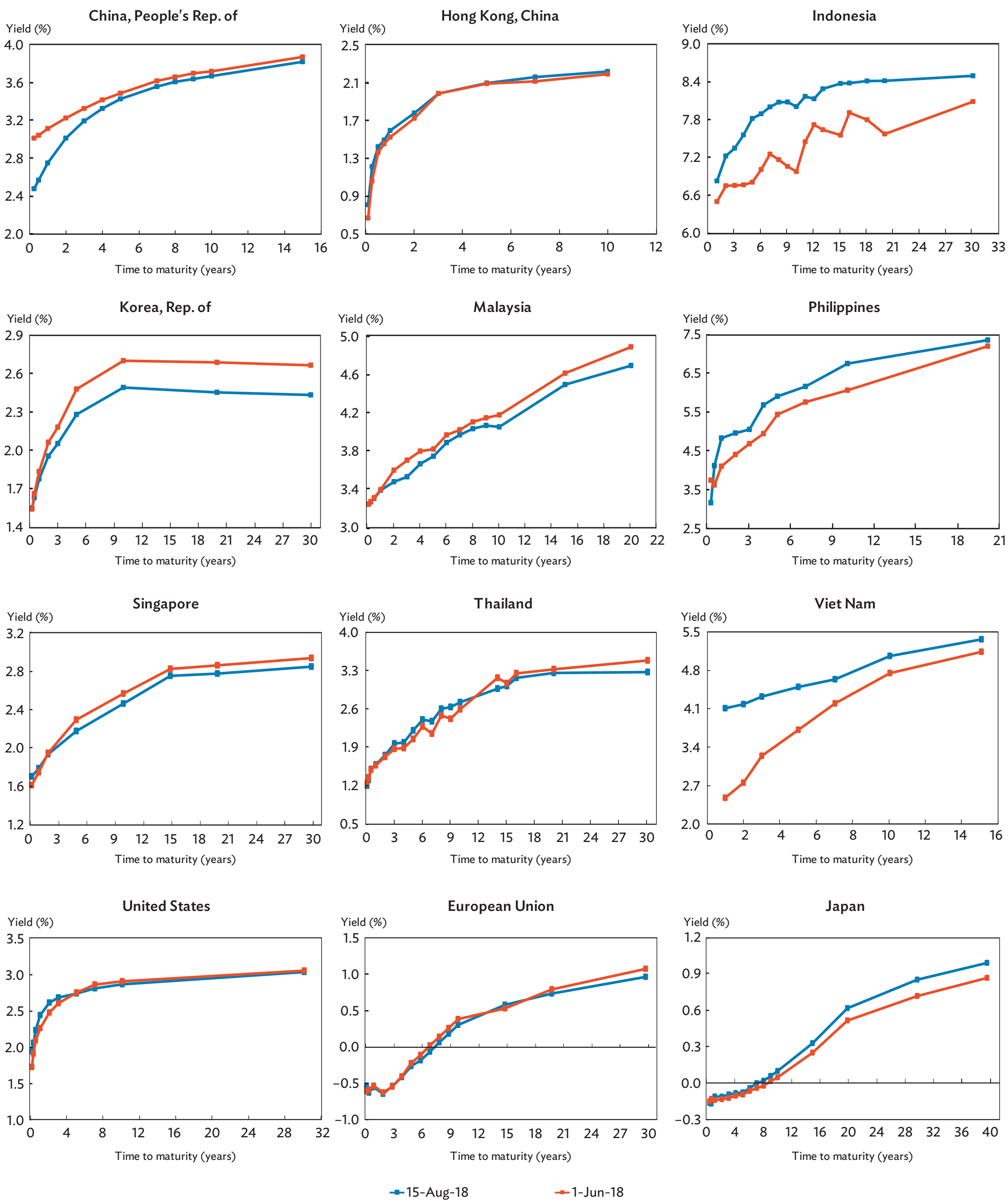


Note: Data as of 15 August 2018.
Source: Based on data from Bloomberg LP.

Indonesia; the Philippines; Thailand; and Viet Nam saw rising yield curves during the review period.

Economic growth in all emerging East Asian markets slowed in Q2 2018 on a y-o-y basis with the exception of the Republic of Korea and Indonesia. The Republic of Korea's GDP growth was unchanged at 2.8% y-o-y in Q2 2018 from Q1 2018, while Indonesia's GDP grew 5.3% y-o-y, up from 5.1% y-o-y. The PRC's GDP growth slowed to 6.7% y-o-y in Q2 2018 from 6.8% y-o-y in Q1 2018, while Hong Kong, China's economy grew 3.5% y-o-y versus 4.6% y-o-y. Malaysia's GDP growth slowed to 4.5% y-o-y in Q2 2018 from 5.4% y-o-y in the previous quarter. In the same period, the Philippines' GDP growth slowed to 6.0% y-o-y from 6.6% y-o-y, Singapore's slowed to 3.9% y-o-y from 4.5% y-o-y, and Thailand's slowed to 4.6% y-o-y from 4.9% y-o-y. Viet Nam's economic growth also decelerated, with year-to-date

Figure 10: Benchmark Yield Curves—Local Currency Government Bonds



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

GDP growth slowing to 7.1% y-o-y in Q2 2018 from 7.4% in Q1 2018, yet it remained the fastest-growing economy in emerging East Asia.

Inflation has been more mixed. Inflation trended upward in Q2 2018 in the PRC; Hong Kong, China; the Philippines; Singapore; Thailand; and Viet Nam (**Figures 11a, 11b**). Among the central banks of these economies, only the BSP raised policy rates in response to rising inflation (**Figure 12a**). This is because the Philippines experienced a much steeper increase in inflation compared with mild upticks in other emerging East Asian economies, owing largely to rising supply prices that have been associated with the implementation of the tax reform program and rising fuel prices.

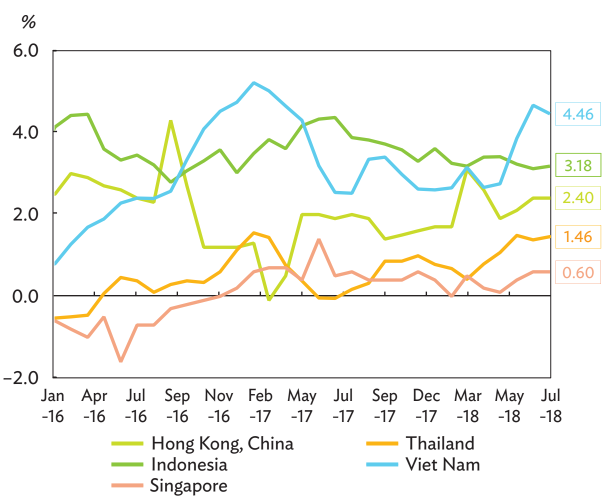
In response to rising inflation, the BSP moved aggressively and raised its policy rate 50 bps on 9 August, following a 25-bps rate hike each on 20 June and 10 May. In Viet Nam, while the State Bank of Vietnam has largely left policy rates unchanged, it began tightening liquidity to address rising inflation and arrest the depreciation of the dong (**Figure 12b**).

Indonesia's central bank has also been mindful of the depreciation of the rupiah and the impact on its current account balance, leading to a 25-bps rate hike on 15 August and a 50-bps increase on 29 June.

Other central banks in emerging East Asia had different responses, owing to their more stable economies. Most yield movements in emerging East Asia can be largely attributed to central bank actions as seen in the rise in yields in Indonesia, the Philippines, and Viet Nam. In contrast, other central banks have largely held off adjusting their respective monetary policy stances. The central banks in the Republic of Korea, Malaysia, and Thailand largely left monetary policy unchanged on a wait-and-see attitude toward ongoing developments in the global economy. Outside of a 25-bps rate hike in January, Bank Negara Malaysia has left policy rates unchanged in subsequent meetings over a stable economy. Thailand's central bank has indicated that it may seek to normalize policy in the future as it expects the domestic economy to be stable in 2018.

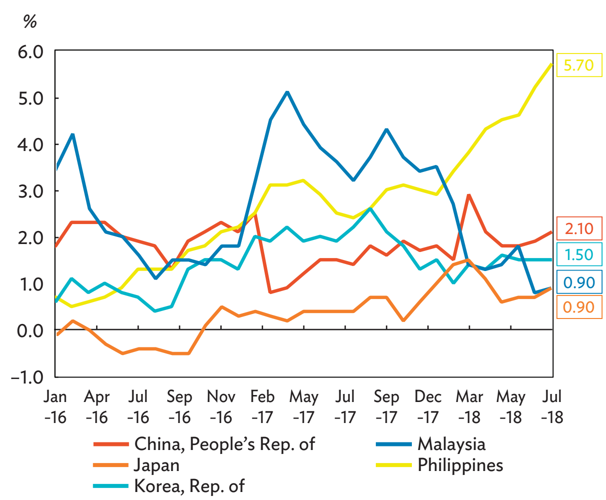
The 2-year versus 10-year yield spread fell in all emerging East Asian economies with the exception of the PRC, Indonesia, the Philippines, and Thailand (**Figure 13**).

Figure 11a: Headline Inflation Rates



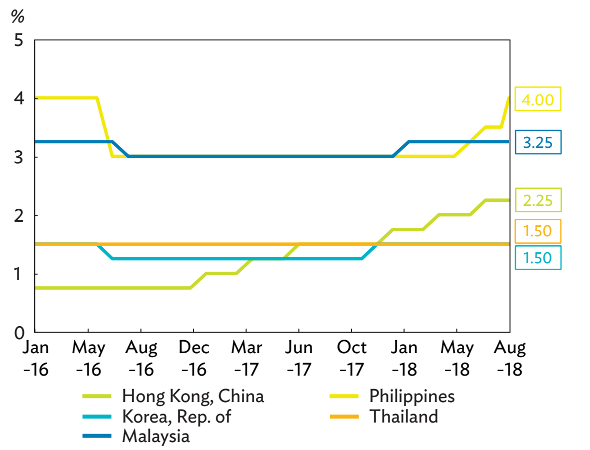
Note: Data as of July 2018.
Source: Based on data from Bloomberg LP.

Figure 11b: Headline Inflation Rates



Note: Data as of July 2018.
Source: Based on data from Bloomberg LP.

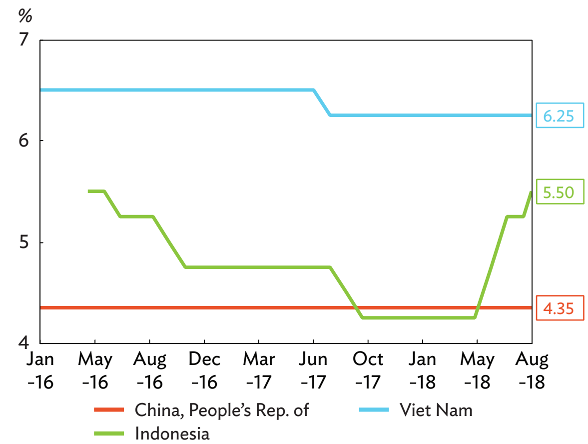
Figure 12a: Policy Rates



Notes:
1. Data as of 15 August 2018.
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.

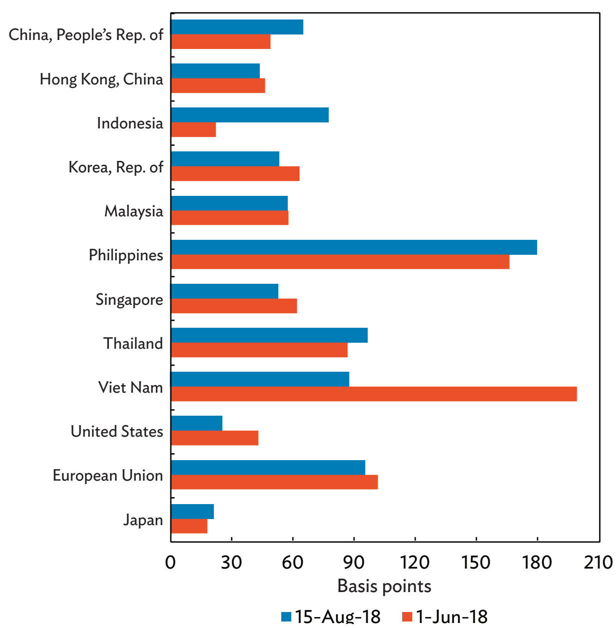
Figure 12b: Policy Rates



Notes:
1. Data as of 15 August 2018.
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 13: Yield Spreads Between 2-Year and 10-Year Government Bonds



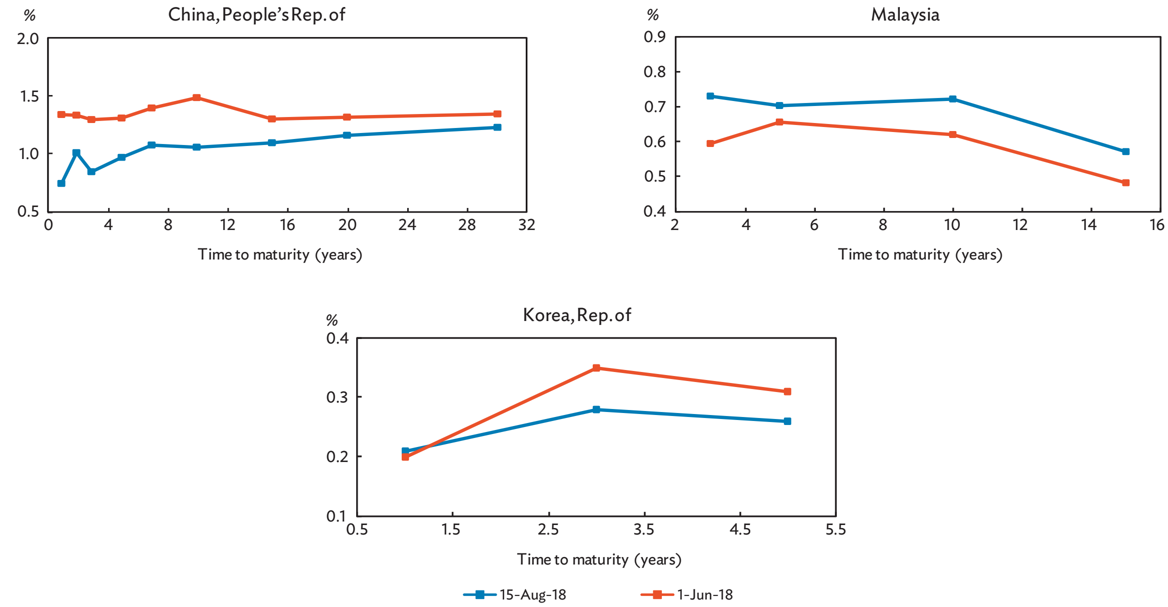
Source: Based on data from Bloomberg LP.

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

Due to rising risk aversion in the PRC as well as concerns over credit defaults, investor demand has largely shifted toward better-rated corporate bonds and government securities (**Figure 14a**).

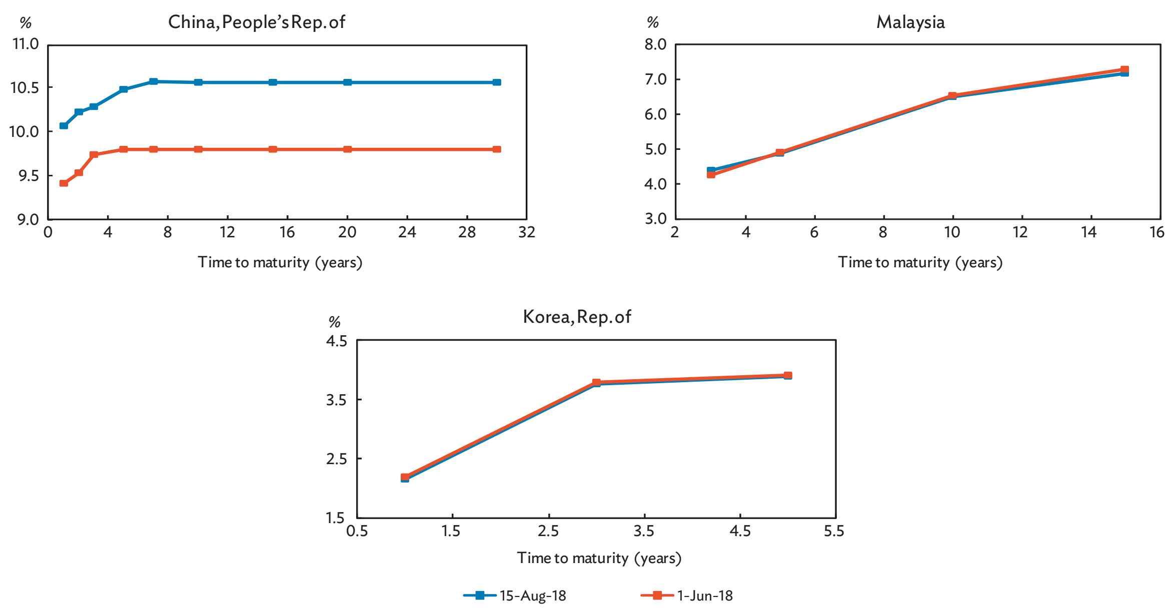
The spread rose between AAA-rated corporate bonds and lower-rated bonds in the PRC due to the abovementioned risk aversion, but was unchanged in the Republic of Korea and Malaysia (**Figure 14b**).

Figure 14a: 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 bonds yields are as of 31 May and 14 August 2018.
Sources: People's Republic of China (*Wind Information*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (Bank Negara Malaysia).

Figure 14b: 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 and 14 August 2018.
Sources: People's Republic of China (*Wind Information*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (Bank Negara Malaysia).