

# Market Summaries

## People's Republic of China

### Yield Movements

The People's Republic of China's (PRC) government bond yield curve fell between 1 June and 15 August (**Figure 1**). The entire yield curve shifted downward by an average of 18 basis points (bps), with the shorter-end declining by a much larger amount. Yields fell from 13 bps to 53 bps for tenors of 3 years or less, while yields fell between 5 bps and 9 bps for longer tenors. The spread between the 2-year and 10-year tenors widened from 49 bps on 1 June to 65 bps on 15 August.

Yields in the PRC declined on weaker economic data. The PRC's gross domestic product (GDP) growth fell to 6.7% year-on-year (y-o-y) in the second quarter (Q2) of 2018 from 6.8% y-o-y in the first quarter (Q1) of 2018. On 29 May, the International Monetary Fund announced that it was maintaining its GDP growth forecast of 6.6% for full-year 2018, down from 6.9% in 2017.

Yields have been driven lower by increased risk aversion and uncertainty arising from the PRC's ongoing trade tensions with the United States (US), which has led to uncertainty regarding the PRC's economic outlook.

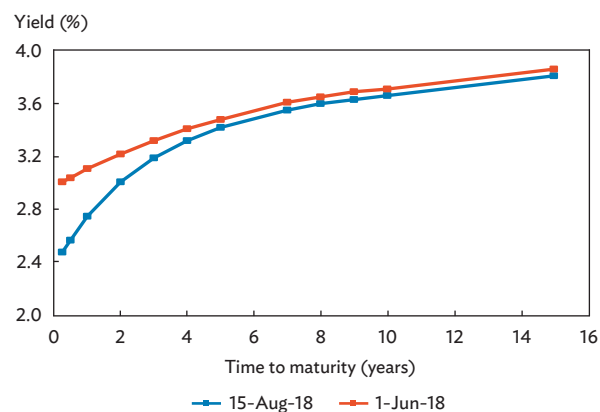
The PRC's government bond market has also benefited from increased demand from investors moving funds out of the stock market, largely due to the ongoing trade tensions. The PRC's equity market fell 11.4% between 1 June and 15 August.

In response, the People's Bank of China (PBOC) reduced the reserve requirement ratio of some banks by 50 bps to mitigate the impact of the ongoing trade tensions with the US. The PBOC is requiring larger banks to use the funds freed up for debt-equity swaps, while for smaller banks the funds are to be used for lending to small- and micro-sized enterprises.

### Size and Composition

The PRC's local currency (LCY) bonds outstanding rose 3.8% quarter-on-quarter (q-o-q) and 15.1% y-o-y to

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



Source: Based on data from Bloomberg LP.

reach CNY59.8 trillion (USD 9.0 trillion). The PRC's bond market q-o-q growth rate quickened from the previous quarter's 1.3% (**Table 1**).

**Government bonds.** The PRC's government bond market's growth rate accelerated to 4.4% q-o-q in Q2 2018 from 0.8% q-o-q in Q1 2018. The faster growth rate was largely due to gains in the category of "Treasury Bonds and Other Government Bonds," which expanded 5.1% q-o-q in Q2 2018, up from 0.7% q-o-q in the previous quarter. Within this category, the primary growth driver was an increase in local government bonds outstanding.

Local government bonds grew 6.9% q-o-q in Q2 2018, up from 1.5% q-o-q in Q1 2018, largely due to an increase in issuance, which rebounded in Q2 2018 ahead of the scheduled end of the local government debt swap program in August, leading to a rush in issuance during the quarter in order to fully utilize the quotas set by the central government. For full-year 2018, local governments were given a total debt ceiling of CNY21.0 trillion. A report released on 14 June said that the current cumulative debt of local governments was CNY16.6 trillion in May, well below the ceiling set by the central government.

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

|  | Outstanding Amount (billion) |       |         |       |         |       | Growth Rates (%) |         |         |       |
|--|------------------------------|-------|---------|-------|---------|-------|------------------|---------|---------|-------|
|  | Q2 2017                      |       | Q1 2018 |       | Q2 2018 |       | Q2 2017          |         | Q2 2018 |       |
|  | CNY                          | USD   | CNY     | USD   | CNY     | USD   | q-o-q            | y-o-y   | q-o-q   | y-o-y |
| <b>Total</b>                                 | 51,931                       | 7,658 | 57,591  | 9,177 | 59,762  | 9,026 | 4.1              | 12.9    | 3.8     | 15.1  |
| Government                                   | 37,159                       | 5,480 | 41,516  | 6,616 | 43,352  | 6,548 | 5.8              | 18.8    | 4.4     | 16.7  |
| Treasury Bonds and<br>Local Government Bonds | 24,405                       | 3,599 | 27,916  | 4,448 | 29,347  | 4,432 | 8.4              | 28.7    | 5.1     | 20.3  |
| Central Bank Bonds                           | 0                            | 0     | 0       | 0     | 0       | 0     | 0.0              | (100.0) | 0.0     | 0.0   |
| Policy Bank Bonds                            | 12,755                       | 1,881 | 13,600  | 2,167 | 14,005  | 2,115 | 1.2              | 7.2     | 3.0     | 9.8   |
| Corporate                                    | 14,771                       | 2,178 | 16,075  | 2,562 | 16,410  | 2,479 | (0.1)            | 0.5     | 2.1     | 11.1  |
| Policy Bank Bonds                            |                              |       |         |       |         |       |                  |         |         |       |
| China Development Bank                       | 7,183                        | 1,059 | 7,571   | 1,206 | 7,743   | 1,169 | (0.03)           | 3.0     | 2.3     | 7.8   |
| Export-Import Bank of China                  | 2,217                        | 327   | 2,329   | 371   | 2,366   | 357   | 1.2              | 11.5    | 1.6     | 6.8   |
| Agricultural Devt. Bank of China             | 3,355                        | 495   | 3,700   | 590   | 3,895   | 588   | 3.9              | 14.1    | 5.3     | 16.1  |

( ) = negative, CNY = Chinese yuan, 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. Calculated using data from national sources.
2. Treasury bonds include savings bonds and local government bonds.
3. Bloomberg LP end-of-period LCY-USD rates are used.
4. Growth rates are calculated from an LCY base and do not include currency effects.

Sources: ChinaBond, Wind Information, and Bloomberg LP.

There were no central bank bonds outstanding in Q2 2018 as the PBOC no longer issues such bonds.

**Corporate bonds.** The PRC's corporate bonds outstanding grew 2.1% q-o-q in Q2 2018, down from Q1 2018's growth of 2.4%. Medium-term notes, state-owned enterprise bonds, and financial bonds increased on a q-o-q basis in Q2 2018, while the outstanding amounts of local corporate bonds and commercial paper declined (Table 2).

The weaker corporate bond growth was largely a result of increased risk aversion due to ongoing uncertainties in the PRC's financial markets due to trade tensions with the US and rising corporate bond defaults. This led to a 1.0% q-o-q contraction in corporate bond issuance in Q2 2018 to CNY1.4 trillion. Other than local corporate bonds, all major categories of corporate bonds had lower issuance levels in Q2 2018 than in the previous quarter (Figure 2).

The PRC's LCY corporate bond market continues to be dominated by a few big issuers (Table 3). At the end of Q2 2018, the top 30 corporate bond issuers accounted for CNY6.7 trillion worth of corporate bonds outstanding, or about 40.9% of the total market. Of the top 30, the 10 largest issuers accounted for CNY4.3 trillion. China Railway, the top issuer, had more than four times the outstanding amount of bonds as the Agricultural Bank

of China, the second-largest issuer. The top 30 issuers include 13 banks, which continue to dominate the list as they generate funding to strengthen their capital bases, improve liquidity, and lengthen their maturity profiles.

Table 4 lists some of the largest corporate bond issuances in Q2 2018.

## Investor Profile

**Treasury bonds and policy bank bonds.** Banks were the single-largest holder of Treasury bonds and policy bank bonds at the end of June, though this share declined to 65.1% from 67.3% a year earlier (Figure 3). In contrast, the share held by funds institutions rose to 16.2% from 14.8% in the same period.

**Corporate bonds.** Funds institutions were the largest holders in the LCY corporate bond market at the end of June with a share of 46.3% of total outstanding corporate bonds, down from 47.5% at the end of June 2017 (Figure 4). The share held by banks rose to 16.9% from 15.9% during the review period.

Figure 5 presents investor profiles across different corporate bond categories at the end of June. Funds institutions were the dominant buyers in the PRC local corporate bonds, while banks were the dominant holders of medium-term notes and commercial bank bonds.

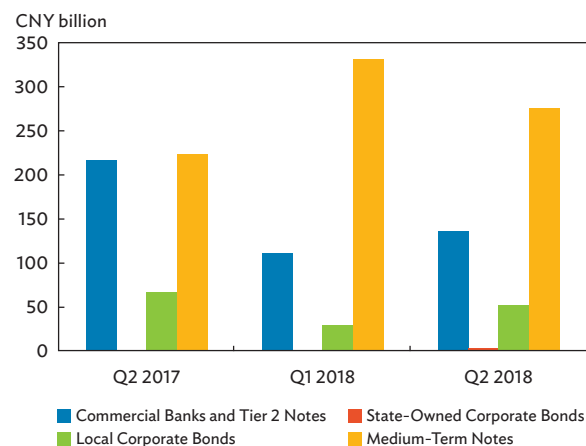
Table 2: Corporate Bonds Outstanding in Key Categories

|  | Amount<br>(CNY billion) |         |         | Growth Rate<br>(%) |        |         |       |
|--|-------------------------|---------|---------|--------------------|--------|---------|-------|
|  | Q2 2017                 | Q1 2018 | Q2 2018 | Q2 2017            |        | Q2 2018 |       |
|  |                         |         |         | q-o-q              | y-o-y  | q-o-q   | y-o-y |
| Commercial Bank Bonds and Tier 2 Notes | 2,713                   | 3,125   | 3,226   | 1.1                | 23.5   | 3.2     | 18.9  |
| SOE Bonds                              | 519                     | 465     | 468     | 1.0                | (11.0) | 0.6     | (9.9) |
| Local Corporate Bonds                  | 2,932                   | 2,911   | 2,771   | 1.0                | 9.0    | (4.8)   | (5.5) |
| Commercial Paper                       | 1,657                   | 1,796   | 1,715   | 0.8                | (41.7) | (4.5)   | 3.5   |
| Medium-Term Notes                      | 4,662                   | 5,049   | 5,222   | 1.0                | 1.9    | 3.4     | 12.0  |

( ) = negative, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second quarter, SOE = state-owned enterprise, y-o-y = year-on-year.

Sources: ChinaBond and Wind Information.

Figure 2: Corporate Bond Issuance in Key Sectors



CNY = Chinese yuan, Q1 = first quarter, Q2 = second quarter.  
Sources: ChinaBond and Wind Information.

## Liquidity

The volume of interest rate swaps rose 2.5% q-o-q in Q2 2018. The 7-day repurchase remained the most used interest rate swap, comprising an 83.3% share of the total interest rate swap volume during the quarter (Table 5).

## Policy, Institutional, and Regulatory Developments

### People's Bank of China Expands Collateral Usage

On 1 June, the PBOC issued guidelines expanding the types of collateral that banks can use for the central bank's medium-term lending facility. The expanded collateral coverage will include bonds issued by small- and micro-sized institutions, green and agricultural financial bonds rated AA and above, corporate bonds rated AA+ or AA, and high-quality small- and micro-sized loans and green loans.

### People's Bank of China Reduces Reserve Requirement Ratio

On 24 June, the PBOC reduced the reserve requirement ratio of some banks by 50 bps. Specifically, the following larger banks, and 12 joint-stock commercial banks, must use freed-up funds to carry out debt-equity swap programs: Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, and Bank of Communications. In addition, Postal Savings Bank of China, city commercial banks, non-county rural banks, and foreign-funded banks must use funds freed up by the reduction to support lending to small- and micro-sized enterprises.

Table 3: Top 30 Issuers of Local Currency Corporate Bonds in the People's Republic of China

|   | Issuers  | Outstanding Amount      |                         | State-Owned | Listed Company | Type of Industry |
|---|--|-------------------------|-------------------------|-------------|----------------|------------------|
|   |  | LCY Bonds (CNY billion) | LCY Bonds (USD billion) |             |                |                  |
| 1.  | China Railway  | 1,675.5                 | 253.06                  | Yes         | No             | Transportation   |
| 2.  | Agricultural Bank of China                               | 358.0                   | 54.07                   | Yes         | Yes            | Banking          |
| 3.  | Industrial and Commercial Bank of China                  | 356.0                   | 53.77                   | Yes         | Yes            | Banking          |
| 4.  | State Grid Corporation of China                          | 331.8                   | 50.11                   | Yes         | No             | Public Utilities |
| 5.  | China National Petroleum                                 | 325.0                   | 49.09                   | Yes         | No             | Energy           |
| 6.  | Bank of China  | 318.9                   | 48.16                   | Yes         | Yes            | Banking          |
| 7.  | China Construction Bank                                  | 272.0                   | 41.08                   | Yes         | Yes            | Banking          |
| 8.  | Bank of Communications                                   | 265.0                   | 40.02                   | No          | Yes            | Banking          |
| 9.  | Central Huijin Investment                                | 200.0                   | 30.21                   | Yes         | No             | Asset Management |
| 10.   | Shanghai Pudong Development Bank                         | 198.6                   | 30.00                   | No          | Yes            | Banking          |
| 11.   | China CITIC Bank   | 192.5                   | 29.07                   | No          | Yes            | Banking          |
| 12.   | China Minsheng Banking                                   | 185.1                   | 27.96                   | No          | Yes            | Banking          |
| 13.   | China Everbright Bank                                    | 180.9                   | 27.32                   | Yes         | Yes            | Banking          |
| 14.   | Industrial Bank  | 155.0                   | 23.41                   | No          | Yes            | Banking          |
| 15.   | Huaxia Bank  | 148.4                   | 22.41                   | Yes         | No             | Banking          |
| 16.   | State Power Investment                                   | 147.4                   | 22.27                   | Yes         | No             | Energy           |
| 17.   | Tianjin Infrastructure Construction and Investment Group | 137.3                   | 20.74                   | Yes         | No             | Industrial       |
| 18.   | CITIC Securities   | 126.8                   | 19.15                   | Yes         | Yes            | Brokerage        |
| 19.   | Bank of Beijing  | 122.9                   | 18.56                   | Yes         | Yes            | Banking          |
| 20.   | China Cinda Asset Management                             | 102.0                   | 15.41                   | Yes         | Yes            | Asset Management |
| 21.   | China Huarong Asset Management                           | 96.0                    | 14.50                   | Yes         | Yes            | Asset Management |
| 22.   | PetroChina   | 95.0                    | 14.35                   | Yes         | Yes            | Energy           |
| 23.   | China Datang   | 93.2                    | 14.08                   | Yes         | Yes            | Energy           |
| 24.   | China Merchants Securities                               | 93.1                    | 14.05                   | No          | Yes            | Brokerage        |
| 25.   | Dalian Wanda Commercial Properties                       | 93.0                    | 14.05                   | No          | Yes            | Real Estate      |
| 26.   | China Three Gorges                                       | 89.5                    | 13.52                   | Yes         | No             | Public Utilities |
| 27.   | Shaanxi Coal and Chemical Industry Group                 | 89.0                    | 13.44                   | Yes         | No             | Energy           |
| 28.   | China Merchants Bank                                     | 89.0                    | 13.44                   | Yes         | Yes            | Banking          |
| 29.   | China Southern Power Grid                                | 88.0                    | 13.29                   | Yes         | No             | Power            |
| 30.   | Guotai Junan Securities                                  | 86.5                    | 13.06                   | Yes         | Yes            | Brokerage        |
| <b>Total Top 30 LCY Corporate Issuers</b>       |  | <b>6,711.36</b>         | <b>1,013.65</b>         |             |                |                  |
| <b>Total LCY Corporate Bonds</b>                |  | <b>16,410.31</b>        | <b>2,478.52</b>         |             |                |                  |
| <b>Top 30 as % of Total LCY Corporate Bonds</b> |  | <b>40.9%</b>            | <b>40.9%</b>            |             |                |                  |

CNY = Chinese yuan, LCY = local currency, USD = United States dollar.

Notes:

1. Data as of 30 June 2018.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

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

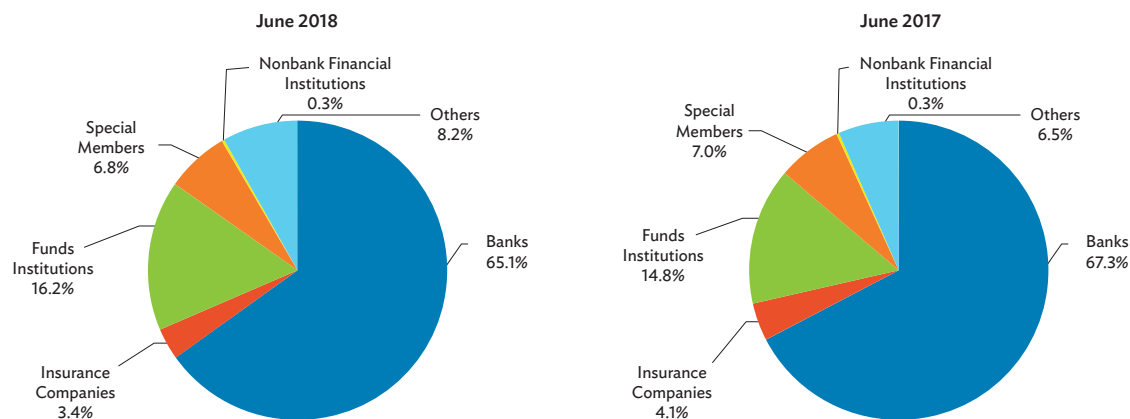
Table 4: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2018

| Corporate Issuers         | Coupon Rate (%) | Issued Amount (CNY billion) | Corporate Issuers  | Coupon Rate (%) | Issued Amount (CNY billion) |
|---------------------------|-----------------|-----------------------------|--|-----------------|-----------------------------|
| China Railway Corp        |                 |                             | 3-year bond  | 4.56            | 7.0                         |
| 5-year bond               | 4.15            | 13.0                        | 3-year bond  | 4.58            | 12.0                        |
| 5-year bond               | 4.52            | 10.0                        | 3-year bond  | 4.55            | 7.0                         |
| 5-year bond               | 4.42            | 13.0                        | Agricultural Bank of China                                 |                 |                             |
| 5-year bond               | 4.46            | 10.0                        | 10-year bond   | 4.45            | 40.0                        |
| 5-year bond               | 4.63            | 13.0                        | China CITIC Securities                                     |                 |                             |
| 5-year bond               | 4.46            | 10.0                        | 2-year bond  | 5.10            | 3.0                         |
| 5-year bond               | 4.46            | 10.0                        | 2-year bond  | 5.05            | 4.8                         |
| 10-year bond              | 4.80            | 10.0                        | 3-year bond  | 4.90            | 0.6                         |
| 10-year bond              | 4.78            | 10.0                        | 3-year bond  | 5.09            | 2.5                         |
| 10-year bond              | 4.74            | 7.0                         | 3-year bond  | 4.80            | 2.4                         |
| 10-year bond              | 4.78            | 7.0                         | Tianjin Infrastructure Construction and Investment (Group) |                 |                             |
| 10-year bond              | 4.73            | 7.0                         | 3-year bond  | 5.19            | 1.8                         |
| 10-year bond              | 4.78            | 10.0                        | 3-year bond  | 4.55            | 1.0                         |
| 10-year bond              | 4.78            | 10.0                        | 3-year bond  | 5.13            | 1.0                         |
| Central Huijin Investment |                 |                             | 5-year bond  | 4.73            | 2.0                         |
| 2-year bond               | 4.52            | 9.0                         | 5-year bond  | 5.40            | 2.0                         |
| 2-year bond               | 4.50            | 3.0                         | 5-year bond  | 5.48            | 1.2                         |
| 2-year bond               | 4.47            | 8.0                         | 5-year bond  | 5.20            | 3.0                         |

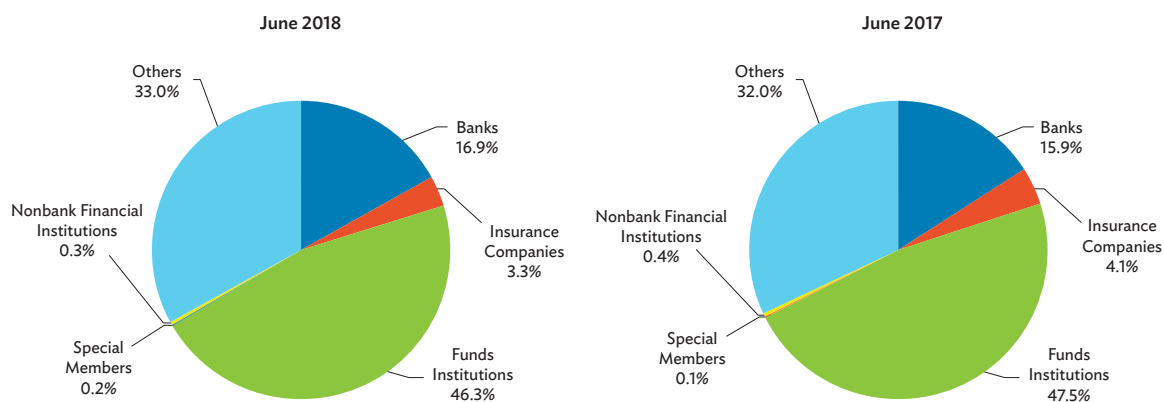
CNY = Chinese yuan.

Source: Based on data from Bloomberg LP.

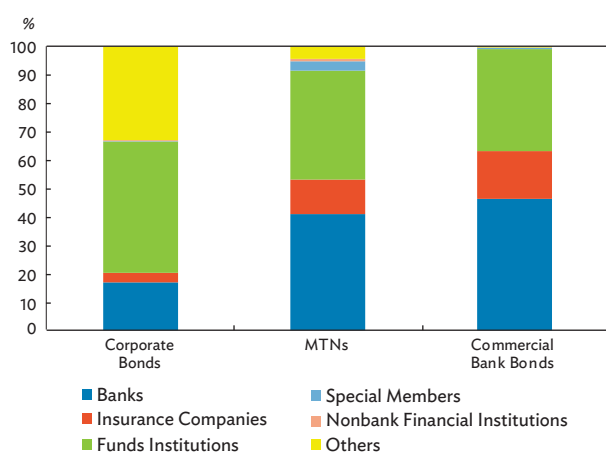
Figure 3: Local Currency Treasury Bonds and Policy Bank Bonds Investor Profile



Source: ChinaBond.

**Figure 4: Local Currency Corporate Bonds Investor Profile**


Source: ChinaBond.

**Figure 5: Investor Profile across Bond Categories**


MTNs = medium-term notes.  
 Note: Data as of end-June 2018.  
 Source: ChinaBond.

**Table 5: Notional Values of the People's Republic of China's Interest Rate Swap Market in the Second Quarter of 2018**

| Interest Rate Swap Benchmarks                       | Notional Amount (CNY billion) | Share of Total Notional Amount (%) | Growth Rate (%) |
|---|-------------------------------|------------------------------------|-----------------|
|   |                               | Q2 2018                            | q-o-q           |
| 7-Day Repo Rate                                     | 4,903.1                       | 83.28                              | 10.05           |
| Overnight SHIBOR                                    | 15.0                          | 0.25                               | (6.60)          |
| 3-Month SHIBOR                                      | 849.1                         | 14.42                              | 8.44            |
| 1-Year Lending Rate                                 | 2.4                           | 0.01                               | n.a.            |
| LPR1Y   | 0.5                           | 0.04                               | n.a.            |
| 3-Year Lending Rate                                 | 0.1                           | 0.01                               | (70.57)         |
| 5-Year Lending Rate                                 | 0.3                           | 0.00                               | (89.38)         |
| Depository Institution 7-Day Repo Rate              | 38.0                          | 0.01                               | (84.62)         |
| 10-Year Bond Yield                                  | 75.7                          | 0.65                               | 304.26          |
| 10-Year Treasury Yield                              | 0.7                           | 1.28                               | 310.03          |
| 3-Year AAA Short-Term Notes/<br>Government Debt     | 0.3                           | 0.01                               | 250.00          |
| 10-Year Bond Yield/10-Year<br>Government Bond Yield | 1.7                           | 0.01                               | (62.50)         |
| Loan Interest Rate—1 Year * 1.10                    | 0.5                           | 0.03                               | 415.15          |
| Loan Interest Rate—1 Year * 1.05                    | 0.5                           | 0.01                               | -               |
| <b>Total</b>  | <b>5,887.7</b>                | <b>100.00</b>                      | <b>2.51</b>     |

( ) = negative, CNY = Chinese yuan, LPR1Y = 1-Year Loan Prime Rate, n.a. = not available, q-o-q = quarter-on-quarter, Q2 = second quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.  
 Note: Growth rate computed based on notional amounts.  
 Sources: AsianBondsOnline and ChinaMoney.

## Hong Kong, China

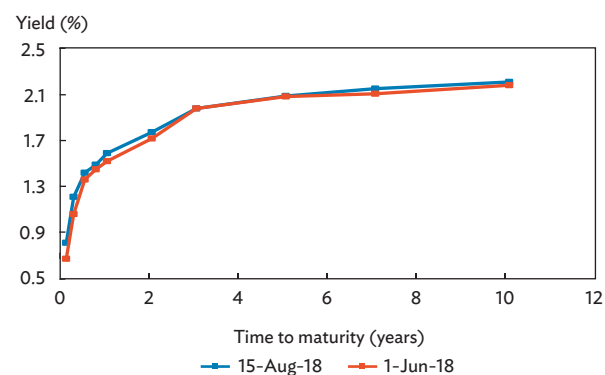
### Yield Movements

Hong Kong, China's local currency (LCY) government bond yield curve slightly shifted upward as yields for all tenors, except the 3-year tenor, rose marginally between 1 June and 15 August (**Figure 1**). Yields for shorter-dated bonds (1 year or less) rose an average of 9 basis points (bps) compared with yields for longer-dated bonds (2 years or more), which, excluding the 3-year tenor, rose an average of 3 bps, causing the yield curve to climb steeply at the shorter-end and flatten toward the longer-end. Consequently, the yield spread between the 2-year and 10-year tenors narrowed to 44 bps on 15 August from 46 bps on 1 June.

The movements in Hong Kong, China's bond yields closely track the movements of United States (US) Treasury yields due to the Linked Exchange Rate System under which the Hong Kong dollar is pegged to the US dollar. In June, the Hong Kong Monetary Authority (HKMA) raised its base rate by 25 bps to 2.25% following a 25-bps hike in the target range for the US federal funds rate. In August, the weak-end of the trading band of HKD7.85 against the US dollar was triggered for the third time since April, prompting the HKMA to sell US dollars in exchange for HKD2.2 billion dollars to reduce the Aggregate Balance to HKD107.2 billion. As a result, the Hong Kong Interbank Offered Rate (HIBOR) gradually increased, bringing interbank liquidity down and, in turn, limiting capital outflows.

The rise of the yield curve was accompanied by a slowdown in the local economy. Hong Kong, China's gross domestic product (GDP) in the second quarter (Q2) of 2018 rose 3.5% year-on-year (y-o-y), decelerating from 4.6% y-o-y GDP growth in the first quarter (Q1) of 2018, due to a slowdown in the growth of goods exports and domestic demand. Exports of goods rose 4.6% y-o-y, decelerating from growth of 5.2% y-o-y in Q1 2018, as the impact of the rising trade conflict between the People's Republic of China (PRC) and the US became more pronounced in the export performance of Hong Kong, China in June. Domestic demand rose 6.1% y-o-y, decelerating from 8.8% y-o-y growth in the previous quarter. On a seasonally adjusted quarter-on-quarter (q-o-q) basis, GDP contracted 0.2% in Q2 2018 after an expansion of 2.1% in Q1 2018.

**Figure 1: Hong Kong, China's Benchmark Yield Curve—Exchange Fund Bills and Notes**



Source: Based on data from Bloomberg LP.

Consumer prices rose 2.4% y-o-y in June, up from 2.1% y-o-y in May, due to increases in private housing rentals, prices of saltwater fish, and charges for package tours. The government noted that robust economic conditions, in general, steered prices higher in June. Inflation held steady in July at 2.4% y-o-y.

### Size and Composition

Hong Kong, China's LCY bonds outstanding grew in Q2 2018 on both a q-o-q and y-o-y basis to reach HKD1,929 billion (USD246 billion) at the end of June (**Table 1**). Q-o-q growth was 2.1%, reversing the 0.9% q-o-q decline in Q1 2018, driven by growth in both government and corporate bonds. Y-o-y growth was 3.6%, accelerating from the 2.1% y-o-y growth in the previous quarter, solely driven by growth in government bonds. During the review period, the LCY bond market comprised about 60% government bonds and 40% corporate bonds.

**Government bonds.** LCY government bonds outstanding amounted to HKD1,159 billion at the end of June, up 0.8% q-o-q in Q2 2018, reversing the 0.4% q-o-q decline in Q1 2018, and 7.6% y-o-y, maintaining the previous quarter's y-o-y growth rate. Q-o-q growth in government bonds were mostly accounted for by Hong Kong Special Administrative Region (HKSAR) bonds, while y-o-y growth was solely driven by the strong issuance of Exchange Fund Bills (EFBs). The aggregate amount of

**Table 1: Size and Composition of the Local Currency Bond Market in Hong Kong, China**

|                     | Outstanding Amount (billion) |            |              |            |              |            | Growth Rate (%) |            |            |            |
|---------------------|------------------------------|------------|--------------|------------|--------------|------------|-----------------|------------|------------|------------|
|                     | Q2 2017                      |            | Q1 2018      |            | Q2 2018      |            | Q2 2017         |            | Q2 2018    |            |
|                     | HKD                          | USD        | HKD          | USD        | HKD          | USD        | q-o-q           | y-o-y      | q-o-q      | y-o-y      |
| <b>Total</b>        | <b>1,862</b>                 | <b>239</b> | <b>1,890</b> | <b>241</b> | <b>1,929</b> | <b>246</b> | <b>0.6</b>      | <b>6.1</b> | <b>2.1</b> | <b>3.6</b> |
| Government          | 1,076                        | 138        | 1,149        | 146        | 1,159        | 148        | 0.8             | 6.3        | 0.8        | 7.6        |
| Exchange Fund Bills | 923                          | 118        | 1,014        | 129        | 1,019        | 130        | 0.4             | 7.4        | 0.5        | 10.4       |
| Exchange Fund Notes | 43                           | 6          | 37           | 5          | 35           | 4          | (6.5)           | (19.5)     | (4.9)      | (18.6)     |
| HKSAR Bonds         | 111                          | 14         | 98           | 13         | 105          | 13         | 7.5             | 10.2       | 6.6        | (5.5)      |
| Corporate           | 786                          | 101        | 741          | 94         | 771          | 98         | 0.2             | 5.9        | 3.9        | (2.0)      |

( ) = negative, HKD = Hong Kong dollar, HKSAR = Hong Kong Special Administrative Region, 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. Calculated using data from national sources.

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

3. Growth rates are calculated from an LCY base and do not include currency effects.

Sources: Hong Kong Monetary Authority.

government bonds outstanding at the end of the review period was predominantly composed of EFBs.

**Exchange Fund Bills.** EFBs outstanding amounted to HKD1,019 billion at the end of June, accounting for about 88% of the aggregate government bond market and growing at a pace of 0.5% q-o-q and 10.4% y-o-y. Issuance of EFBs reached HKD805 billion at the end of June.

**Exchange Fund Notes.** Exchange Fund Notes outstanding continued to decline in Q2 2018 dropping to HKD35 billion at the end of June, down 4.9% q-o-q and 18.6% y-o-y.

**HKSAR bonds.** HKSAR bonds outstanding amounted to HKD105 billion at the end of June, up 6.6% q-o-q but down 5.5% y-o-y. In Q2 2018, the government issued two HKSAR bonds, valued at HKD4 billion with a 3-year tenor and the other valued at HKD2.5 billion with a 5-year tenor, under the Institutional Bond Issuance Programme.

**Corporate bonds.** The amount of corporate bonds outstanding totaled HKD771 billion at the end of June, up 3.9% q-o-q but down 2.0% y-o-y. Hong Kong, China's top 30 nonbank corporate issuers had LCY outstanding bonds amounting to HKD202 billion at the end of June, accounting for 26.3% of the total corporate bonds outstanding (**Table 2**). In the lead was Hong Kong Mortgage Corporation with an outstanding amount of HKD29 billion. Real estate firms dominated the list, comprising more than one-third of the top 30, followed by financing firms. Of the top 30, two-thirds were listed

on the Hong Kong Stock Exchange and four were state-owned corporations.

In Q2 2018, the top five nonbank issuances came from the government, financial firms, and a real estate company. Government-owned Hong Kong Mortgage Corporation remained the top corporate issuer with 13 issuances (**Table 3**). Haitong International Securities, a financing firm, came in second with six issuances, two of which were the largest issuances for the period, amounting to HKD1.5 billion each. LT Commercial Real Estate was third, followed by financing firms AIA Group and Value Success International.

## Policy, Institutional, and Regulatory Developments

### People's Bank of China Enhances Cross-Border Fund Flow Management

In May, the People's Bank of China announced a series of measures to enhance cross-border fund flow management. These include enhancing the existing policy framework to allow offshore renminbi business-clearing banks and participating banks to tap renminbi liquidity from the onshore market to support offshore renminbi business development, implementing the central bank's bilateral currency swap agreements, adjusting the required reserve ratio of renminbi deposits placed by Hong Kong, China's renminbi business-clearing bank in the settlement account in People's Bank of China's Shenzhen subbranch to 0%, and further enhancing the currency conversion



Table 2: Top 30 Nonbank Corporate Issuers of Local Currency Corporate Bonds in Hong Kong, China

|   | Issuers                                | Outstanding Amount      |                         | State-Owned | Listed Company | Type of Industry |
|---|--|-------------------------|-------------------------|-------------|----------------|------------------|
|   |  | LCY Bonds (HKD billion) | LCY Bonds (USD billion) |             |                |                  |
| 1.  | The Hong Kong Mortgage Corporation     | 28.51                   | 3.63                    | Yes         | No             | Finance          |
| 2.  | Haitong International Securities Group | 13.26                   | 1.69                    | No          | Yes            | Finance          |
| 3.  | Sun Hung Kai & Co.                     | 12.90                   | 1.64                    | No          | Yes            | Real Estate      |
| 4.  | MTR Corporation                        | 12.49                   | 1.59                    | Yes         | Yes            | Transportation   |
| 5.  | The Hong Kong and China Gas Company    | 11.34                   | 1.44                    | No          | Yes            | Utilities        |
| 6.  | Hong Kong Land                         | 9.69                    | 1.23                    | No          | No             | Real Estate      |
| 7.  | New World Development                  | 9.41                    | 1.20                    | No          | Yes            | Diversified      |
| 8.  | The Wharf (Holdings)                   | 9.07                    | 1.16                    | No          | Yes            | Finance          |
| 9.  | CLP Power Hong Kong Financing          | 8.81                    | 1.12                    | No          | No             | Finance          |
| 10.   | Swire Pacific                          | 8.57                    | 1.09                    | No          | Yes            | Diversified      |
| 11.   | Link Holdings                          | 7.95                    | 1.01                    | No          | No             | Finance          |
| 12.   | Henderson Land Development             | 6.63                    | 0.85                    | No          | No             | Real Estate      |
| 13.   | Swire Properties                       | 5.93                    | 0.76                    | No          | Yes            | Real Estate      |
| 14.   | Hongkong Electric                      | 5.84                    | 0.74                    | No          | No             | Utilities        |
| 15.   | China Merchants Port Holdings          | 5.70                    | 0.73                    | No          | Yes            | Transportation   |
| 16.   | Hang Lung Properties                   | 4.61                    | 0.59                    | No          | Yes            | Real Estate      |
| 17.   | Value Success International            | 4.25                    | 0.54                    | No          | No             | Finance          |
| 18.   | CK Asset Holdings                      | 4.20                    | 0.53                    | No          | Yes            | Real Estate      |
| 19.   | AlA Group                              | 3.90                    | 0.50                    | No          | Yes            | Insurance        |
| 20.   | IFC Development Corporation            | 3.50                    | 0.45                    | No          | No             | Finance          |
| 21.   | Kowloon-Canton Railway                 | 3.40                    | 0.43                    | Yes         | No             | Transportation   |
| 22.   | LT Commercial Real Estate              | 3.02                    | 0.38                    | No          | Yes            | Real Estate      |
| 23.   | Urban Renewal Authority                | 2.80                    | 0.36                    | Yes         | No             | Real Estate      |
| 24.   | Emperor International Holdings         | 2.60                    | 0.33                    | No          | Yes            | Real Estate      |
| 25.   | Wharf Real Estate Investment           | 2.59                    | 0.33                    | No          | Yes            | Real Estate      |
| 26.   | CK Hutchison Holdings                  | 2.50                    | 0.32                    | No          | Yes            | Diversified      |
| 27.   | China Dynamics (Holdings)              | 2.36                    | 0.30                    | No          | Yes            | Diversified      |
| 28.   | ASM Pacific Technology                 | 2.25                    | 0.29                    | No          | Yes            | Technology       |
| 29.   | The 13 Holdings                        | 2.22                    | 0.28                    | No          | Yes            | Industrial       |
| 30.   | Hysan Development                      | 2.15                    | 0.27                    | No          | Yes            | Real Estate      |
| <b>Total Top 30 Nonbank LCY Corporate Issuers</b> |  | <b>202.42</b>           | <b>25.80</b>            |             |                |                  |
| <b>Total LCY Corporate Bonds</b>                  |  | <b>770.55</b>           | <b>98.20</b>            |             |                |                  |
| <b>Top 30 as % of Total LCY Corporate Bonds</b>   |  | <b>26.27%</b>           | <b>26.27%</b>           |             |                |                  |

LCY = local currency.

Notes:

1. Data as of 30 June 2018.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

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

Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2018

| Corporate Issuers                  | Coupon Rate (%) | Issued Amount (HKD billion) | Corporate Issuers                | Coupon Rate (%) | Issued Amount (HKD billion) |
|------------------------------------|-----------------|-----------------------------|----------------------------------|-----------------|-----------------------------|
| The Hong Kong Mortgage Corporation |                 |                             | Haitong International Securities |                 |                             |
| 3-month bond                       | 0.00            | 0.55                        | 6-month bond                     | 0.00            | 1.00                        |
| 3-month bond                       | 1.30            | 0.62                        | 6-month bond                     | 0.00            | 1.50                        |
| 3-month bond                       | 0.00            | 0.08                        | 1-year bond                      | 2.70            | 0.45                        |
| 3-month bond                       | 0.00            | 0.45                        | 1-year bond                      | 2.00            | 0.35                        |
| 1-year bond                        | 1.89            | 0.43                        | 1-year bond                      | 2.10            | 0.34                        |
| 1-year bond                        | 1.84            | 0.29                        | 1-year bond                      | 0.00            | 1.50                        |
| 1-year bond                        | 2.02            | 0.38                        | LT Commercial Real Estate        |                 |                             |
| 2-year bond                        | 1.69            | 1.00                        | 3-year bond                      | 2.00            | 4.00                        |
| 2-year bond                        | 1.69            | 0.30                        | AIA Group                        |                 |                             |
| 2.5-year bond                      | 2.18            | 0.30                        | 3-year bond                      | 2.76            | 3.90                        |
| 3-year bond                        | 2.29            | 0.30                        | Value Success International      |                 |                             |
| 3-year bond                        | 2.31            | 0.35                        | 1-year bond                      | 2.65            | 1.50                        |
| 10-year bond                       | 2.69            | 0.40                        | 1-year bond                      | 2.50            | 1.20                        |

HKD = Hong Kong dollar.  
Source: Bloomberg LP.

mechanism for Shanghai–Hong Kong Stock Connect and Shenzhen–Hong Kong Stock Connect to facilitate overseas investors’ use of renminbi and foreign currencies for investments. The changes were well received by the HKMA, which believes the new measures will ensure smooth offshore market operations and support Hong Kong, China’s development as the global offshore renminbi business hub.

### Government Increases Shareholding in HKEx to 6.0%

In June, the government increased its shareholding with the Hong Kong Exchanges and Clearing Limited (HKEx) for the exchange fund account to 6.0%, a modest and limited increase from 5.88% in September 2007. Exchange fund shareholding is the government’s approach to contribute to the development of the HKEx, particularly in strategic partnerships and linkages with other institutions in the region.

### HKMA Co-Hosts the 2018 Green and Social Bond Principles Annual General Meeting and Conference

In cooperation with the International Capital Market Association, the HKMA hosted the 2018 Green and Social Bond Principles Annual General Meeting and Conference in Hong Kong, China in June. The flagship event, which was held for the first time in Asia, signified the growing influence of the region in the development of green bonds and sustainable finance, and recognized Hong Kong, China’s status as an international financial center. The conference focused on developing the global green, social, and sustainability bond markets, and on the convergence toward market-based global standards. The 2018 update of the Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines, along with publications providing guidance to further strengthen and interconnect the market ecosystem, is expected to be released following the conference.

## Indonesia

### Yield Movements

Between 1 June and 15 August, local currency (LCY) government bond yields in Indonesia increased, resulting in the entire yield curve shifting upward (**Figure 1**). Yield upticks were most prominent in the belly of the curve, particularly the 5-, 9- and 10-year maturities, which rose by 100, 101, and 102 basis points (bps), respectively. Bond yields at the shorter-end climbed the least, with the 1-year maturity rising only 32 bps. All other yields across the curve gained an average of 66 bps. As yields rose faster at the longer-end than the shorter-end of the curve, the spread between the 2-year and 10-year maturities widened from 22 bps on 1 June to 77 bps on 15 August.

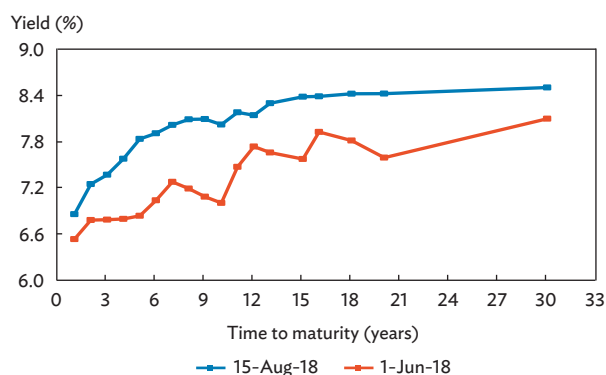
Negative sentiments toward emerging market assets impacted Indonesian bonds, extending the market sell-off that began in February. Foreign investors, which account for the largest investor group in Indonesia's LCY government bond market, reduced their holdings of bonds to a share of 37.8% in mid-August from 38.1% in early June and a high of over 40.0% in January.

Global and domestic issues weighed on the domestic bond market, pushing yields higher during the review period. Positive economic conditions in the United States (US) continued to gain traction, signaling that the Federal Reserve is on track to proceed with its monetary policy normalization. Further exacerbating the global outlook were risks related to trade tensions between the US and the People's Republic of China, and concerns that financial woes in Turkey could spark a contagion in other emerging markets, including Indonesia.

On the domestic front, the Indonesian rupiah was the worst-performing currency among its peers in emerging East Asia between 1 January and 15 August, with its value weakening by 7.0%. The current account deficit widened in the second quarter (Q2) of 2018 to USD8.0 billion (3.0% of gross domestic product [GDP]) from USD5.7 billion (2.2% of GDP) in the first quarter (Q1).

Against this backdrop, Bank Indonesia actively intervened in the foreign currency and bond markets. The central bank also tightened monetary policy, raising its policy rates for a fourth time since May for cumulative hikes of 125 bps. During its 14–15 August meeting,

**Figure 1: Indonesia's Benchmark Yield Curve—  
Local Currency Government Bonds**



Source: Based on data from Bloomberg LP.

Bank Indonesia raised the 7-day reverse repurchase (repo) rate by 25 bps to 5.50%. Corresponding adjustments were also made for the deposit facility rate (4.75%) and the lending facility rate (6.25%). According to Bank Indonesia, the rate hike was part of efforts to maintain the competitiveness of Indonesia's domestic financial markets and manage the current account deficit. The central bank also reinforced its monetary operations by enhancing money market rates through the introduction of a new overnight rate, IndONIA (see Policy and Regulatory Developments).

The Government of Indonesia is looking at measures to trim the current account deficit through the levy of import tariffs on certain goods and online purchases. Some state projects with a heavy import-dependence will also be put on hold to reduce imports.

Consumer price inflation remains relatively controlled, with the inflation rate staying within the full-year 2018 target of 2.5%–4.5% set by Bank Indonesia. Consumer price inflation rose 3.4% year-on-year (y-o-y) in April, before easing to 3.2% in May and 3.1% in June. Consumer prices inched up slightly to 3.2% y-o-y in July.

Bank Indonesia expects economic growth to range between 5.0%–5.4% for full-year 2018. In Q2 2018, real gross domestic product growth climbed to 5.3% y-o-y from 4.9% y-o-y in Q1 2018. Growth was largely buoyed by strong domestic consumption and modest growth in

investments. Household consumption gained 5.1% y-o-y in Q2 2018 on the back of rising incomes and increased spending during the Ramadan and Eid'l Fitr holidays. Government expenditures also contributed to overall GDP growth, accelerating to 5.3% y-o-y in Q2 2018 from 2.7% y-o-y in Q1 2018. Investment growth eased to 5.9% y-o-y from 8.0% y-o-y in the review period. On a quarter-on-quarter (q-o-q) basis, the economy expanded 4.2% in Q2 2018.

## Size and Composition

The local currency bond market in Indonesia managed to expand in Q2 2018 amid the volatility that prevailed in financial markets. The amount of outstanding bonds climbed to IDR2,611.4 trillion at the end of June, with growth slowing on both a q-o-q and y-o-y basis (Table 1). In Q2 2018, the bond market grew a marginal 0.5% q-o-q and 12.0% y-o-y, with growth largely driven by the government bond segment.

Indonesia's LCY bond market is dominated by government bonds, which represented 84.6% of the aggregate LCY bond stock at the end of Q2 2018. The respective shares of the stock of government and corporate bonds were unchanged from the previous quarter. Conventional bonds continued to account for a larger share of the bond market, representing 85.4% of the total. *Sukuk* (Islamic bonds) accounted for the remaining 14.6% share, inching up from a 13.8% share at the end of March.

**Government bonds.** At the end of June, the outstanding amount of LCY government bonds rose to IDR2,208.9 trillion on hikes of 0.5% q-o-q and 10.5% y-o-y. Treasury instruments, comprising bills and bonds issued by the Ministry of Finance for budget financing, were the main driver of growth. In contrast, the stock of central bank bills, which are known as *Sertifikat Bank Indonesia* (SBI), contracted during the review period.

**Central government bonds.** The outstanding amount of central government bonds climbed to IDR2,196.9 trillion at the end of June, posting growth of 0.6% q-o-q and 12.5% y-o-y. Despite a slowdown in issuance during Q2 2018, new issuance of Treasury bills and bonds exceeded maturities.

During the quarter, new issuance of central government bonds came from the auction of Treasury bills and bonds. Total issuance volume reached IDR82.8 trillion in Q2 2018, declining significantly by 62.3% q-o-q and 28.5% y-o-y. The drop on a q-o-q basis was due to a high base, as the government adopted a frontloading policy at the start of the year. In Q2 2018, issuance volume was pared as most Treasury auctions from April through mid-May fell short of the targeted amount, including one auction in which the government rejected all bids. Investors demanded higher rates as they priced in uncertainties in the global market and concerns over the depreciation of the Indonesian rupiah. Subsequently, bond auctions were awarded in excess of the targeted amount after Bank Indonesia moved to tighten its

**Table 1: Size and Composition of the Local Currency Bond Market in Indonesia**

|                        | Outstanding Amount (billion) |     |           |     |           |     | Growth Rate (%) |        |         |        |
|------------------------|------------------------------|-----|-----------|-----|-----------|-----|-----------------|--------|---------|--------|
|                        | Q2 2017                      |     | Q1 2018   |     | Q2 2018   |     | Q2 2017         |        | Q2 2018 |        |
|                        | IDR                          | USD | IDR       | USD | IDR       | USD | q-o-q           | y-o-y  | q-o-q   | y-o-y  |
| <b>Total</b>           | 2,331,240                    | 175 | 2,598,075 | 189 | 2,611,428 | 182 | 1.8             | 16.4   | 0.5     | 12.0   |
| Government             | 1,998,689                    | 150 | 2,197,585 | 160 | 2,208,882 | 154 | 1.5             | 15.3   | 0.5     | 10.5   |
| Central Govt. Bonds    | 1,952,234                    | 146 | 2,184,588 | 159 | 2,196,915 | 153 | 3.2             | 18.5   | 0.6     | 12.5   |
| of which: <i>Sukuk</i> | 297,424                      | 22  | 329,204   | 24  | 354,277   | 25  | 8.4             | 35.8   | 7.6     | 19.1   |
| Central Bank Bills     | 46,455                       | 3   | 12,997    | 0.9 | 11,967    | 0.8 | (41.2)          | (46.0) | (7.9)   | (74.2) |
| of which: <i>Sukuk</i> | 46,455                       | 3   | 12,997    | 0.9 | 11,967    | 0.8 | 278.5           | 521.9  | (7.9)   | (74.2) |
| Corporate              | 332,550                      | 25  | 400,490   | 29  | 402,546   | 28  | 3.6             | 23.1   | 0.5     | 21.0   |
| of which: <i>Sukuk</i> | 13,385                       | 1   | 16,449    | 1   | 13,958    | 1   | 13.1            | 40.0   | (15.1)  | 4.3    |

( ) = negative, IDR = Indonesian rupiah, 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. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY-USD rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
4. The total stock of nontradable bonds as of end-June stood at IDR222.8 trillion.

Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; and Bloomberg LP.

monetary policy. As a result of the slowdown in Q2 2018, the government may need to issue a much larger volume in the second half of the year.

**Central bank bills.** At the end of June, the outstanding stock of SBI slipped to IDR12.0 trillion on contractions of 7.9% q-o-q and 74.2% y-o-y. SBI issuance reached IDR2.4 trillion in Q2 2018, declining 42.8% q-o-q but rising more than 100.0% on a y-o-y basis. Bank Indonesia only conducted two auctions of Sharia-compliant SBI during the quarter, one each in April and May. There was no issuance in June due to the long Eid'l Fitr holiday. To help attract foreign portfolio investment, Bank Indonesia announced the resumption of conventional SBI issuance in July. (The central bank previously ceased issuance of conventional SBI in January 2017.) This is expected to boost the supply of SBI beginning in the third quarter of 2018 (see Policy and Regulatory Developments).

**Corporate bonds.** The stock of corporate bonds climbed to IDR402.5 trillion at the end of June, rising a marginal 0.5% q-o-q but a more rapid 21.0% y-o-y. The uptick was due to a modest growth in new corporate debt issues during the review period.

At the end of June, a total of 113 firms comprised the entire corporate bond market in Indonesia. The 30 largest issuers of corporate bonds had an aggregate bond market size of IDR300.4 trillion, representing a 74.6% share of the corporate total (**Table 2**). Dominating the top 30 list were firms from the banking and financial industry, which together account for about 70% of the list. Nearly half of the firms in the list were state-owned firms, with 7 such firms landing in the top 10.

The top 30 list was led by three state-owned firms whose respective standings were unchanged from the prior quarter. Leading the list were Indonesia Eximbank (IDR34.1 trillion), Bank Rakyat Indonesia (IDR25.4 trillion), and Bank Tabungan Negara (IDR18.0 trillion).

In Q2 2018, a total of 24 corporate firms tapped the bond market, raising funds worth IDR28.9 trillion. Total issuance climbed 5.2% q-o-q but fell 24.1% y-o-y during the review period. There were 58 new bond series issued during the quarter, of which 4 bond series were structured as *sukuk mudharab'ah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership).

Among the new bond issues in Q2 2018, state-owned Indonesia Eximbank had the largest aggregate issuance at IDR3.2 trillion. It was followed by Federal International Finance, which issued a total of IDR3.0 trillion from a dual-tranche bond sale. Third on the list was telecommunications firm Indosat with aggregate issuance of IDR2.7 trillion from a multitranche bond issue.

**Table 3** presents some of the largest aggregate new bond issuances during the quarter.

**Foreign currency bonds.** In April, the Government of Indonesia tapped the euro and US dollar bond markets, marking the second time it sold dual-currency bonds. The government sold EUR1.0 billion of 7-year bonds with a coupon rate of 1.75%, its fifth issuance of EUR-denominated bonds. The sovereign also sold USD1.0 billion of 10-year bonds with a coupon rate of 4.1%. Both the EUR- and USD-denominated bonds marked Indonesia's first US Securities and Exchange Commission shelf-registered issuance.

In May, the Government of Indonesia also raised JPY100 billion worth of samurai bonds in four tranches. The bond sale comprised JPY49 billion of 3-year bonds with a coupon rate of 0.67%, JPY39 billion of 5-year bonds with a coupon rate of 0.92%, JPY3.5 billion of 7-year bonds with a coupon rate of 1.07%, and JPY8.5 billion of 10-year bonds with a coupon rate of 1.27%.

With these issuances, the government completed its planned foreign currency funding for the year. Prior to which, the government had frontloaded its 2018 financing via a December 2017 issuance of USD4.0 billion of global bonds and an aggregate of USD3.0 billion from a global *sukuk* issuance in March 2018.

## Investor Profiles

**Central government bonds.** Foreign investors remain the largest holder of LCY government bonds in Indonesia, albeit their share fell to 37.8% at the end of June from 39.5% in June 2017 (**Figure 2**). The decline in the foreign holdings share was driven by a market sell-off as US Treasury yield rose and the US dollar appreciated against most major currencies. This resulted in foreign investors dumping holdings of IDR-denominated bonds as they rebalanced their portfolios. In nominal terms, nonresident bond holdings totaled IDR830.2 trillion at the end of June compared with IDR770.6 trillion a year earlier.

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Indonesia

|   | Issuers                       | Outstanding Amount      |                         | State-Owned | Listed Company | Type of Industry          |
|---|-------------------------------|-------------------------|-------------------------|-------------|----------------|---------------------------|
|   |                               | LCY Bonds (IDR billion) | LCY Bonds (USD billion) |             |                |                           |
| 1.  | Indonesia Eximbank            | 34,117                  | 2.38                    | Yes         | No             | Banking                   |
| 2.  | Bank Rakyat Indonesia         | 25,370                  | 1.77                    | Yes         | Yes            | Banking                   |
| 3.  | Bank Tabungan Negara          | 17,950                  | 1.25                    | Yes         | Yes            | Banking                   |
| 4.  | Indosat                       | 17,519                  | 1.22                    | No          | Yes            | Telecommunications        |
| 5.  | PLN                           | 17,357                  | 1.21                    | Yes         | No             | Energy                    |
| 6.  | Bank Pan Indonesia            | 14,025                  | 0.98                    | No          | Yes            | Banking                   |
| 7.  | Sarana Multi Infrastruktur    | 12,900                  | 0.90                    | Yes         | No             | Finance                   |
| 8.  | Waskita Karya                 | 12,509                  | 0.87                    | Yes         | Yes            | Building Construction     |
| 9.  | Federal International Finance | 12,077                  | 0.84                    | No          | No             | Finance                   |
| 10.   | Bank Mandiri                  | 11,000                  | 0.77                    | Yes         | Yes            | Banking                   |
| 11.   | Adira Dinamika Multifinance   | 10,562                  | 0.74                    | No          | Yes            | Finance                   |
| 12.   | Perum Pegadaian               | 9,840                   | 0.69                    | Yes         | No             | Finance                   |
| 13.   | Pupuk Indonesia               | 9,076                   | 0.63                    | Yes         | No             | Chemical Manufacturing    |
| 14.   | Telekomunikasi Indonesia      | 8,995                   | 0.63                    | Yes         | Yes            | Telecommunications        |
| 15.   | Sarana Multigriya Finansial   | 8,456                   | 0.59                    | Yes         | No             | Finance                   |
| 16.   | Astra Sedaya Finance          | 7,825                   | 0.55                    | No          | No             | Finance                   |
| 17.   | Bank CIMB Niaga               | 7,018                   | 0.49                    | No          | Yes            | Banking                   |
| 18.   | Hutama Karya                  | 6,825                   | 0.48                    | Yes         | No             | Non-Building Construction |
| 19.   | Permodalan Nasional Madani    | 6,746                   | 0.47                    | Yes         | No             | Finance                   |
| 20.   | Bank Maybank Indonesia        | 6,247                   | 0.44                    | No          | Yes            | Banking                   |
| 21.   | Bank OCBC NISP                | 5,604                   | 0.39                    | No          | Yes            | Banking                   |
| 22.   | BFI Finance Indonesia         | 5,541                   | 0.39                    | No          | Yes            | Finance                   |
| 23.   | Medco-Energi Internasional    | 5,252                   | 0.37                    | No          | Yes            | Petroleum and Natural Gas |
| 24.   | Maybank Indonesia Finance     | 4,400                   | 0.31                    | No          | No             | Finance                   |
| 25.   | Indomobil Finance Indonesia   | 4,184                   | 0.29                    | No          | No             | Finance                   |
| 26.   | Bank Permata                  | 4,060                   | 0.28                    | No          | Yes            | Banking                   |
| 27.   | Indofood Sukses Makmur        | 4,000                   | 0.28                    | No          | Yes            | Food and Beverages        |
| 28.   | Bank UOB Buana                | 3,800                   | 0.27                    | No          | No             | Banking                   |
| 29.   | Adhi Karya                    | 3,747                   | 0.26                    | Yes         | Yes            | Building Construction     |
| 30.   | Wahana Ottomitra Multiartha   | 3,362                   | 0.23                    | No          | No             | Finance                   |
| <b>Total Top 30 LCY Corporate Issuers</b>       |                               | <b>300,361</b>          | <b>20.96</b>            |             |                |                           |
| <b>Total LCY Corporate Bonds</b>                |                               | <b>402,546</b>          | <b>28.09</b>            |             |                |                           |
| <b>Top 30 as % of Total LCY Corporate Bonds</b> |                               | <b>74.6%</b>            | <b>74.6%</b>            |             |                |                           |

IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.

Notes:

1. Data as of 30 June 2018.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Source: *AsianBondsOnline* calculations based on Indonesia Stock Exchange data.

**Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2018**

| Corporate Issuers                    | Coupon Rate (%) | Issued Amount (IDR billion) |
|--------------------------------------|-----------------|-----------------------------|
| <b>Indonesia Eximbank</b>            |                 |                             |
| 370-day sukuk mudharabah             | 6.15            | 135                         |
| 3-year bond                          | 7.50            | 938                         |
| 3-year sukuk mudharabah              | 7.50            | 365                         |
| 5-year bond                          | 7.70            | 35                          |
| 7-year bond                          | 8.30            | 1,756                       |
| <b>Federal International Finance</b> |                 |                             |
| 370-day bond                         | 6.10            | 1,592                       |
| 3-year bond                          | 7.45            | 1,408                       |
| <b>Indosat</b>                       |                 |                             |
| 370-day bond                         | 6.05            | 1,209                       |
| 3-year bond                          | 7.40            | 630                         |
| 5-year bond                          | 7.65            | 98                          |
| 7-year bond                          | 8.20            | 266                         |
| 10-year bond                         | 8.70            | 516                         |
| <b>Permodalan Nasional Madani</b>    |                 |                             |
| 3-year bond                          | 8.00            | 1,254                       |
| 5-year bond                          | 8.50            | 1,246                       |
| <b>Astra Sedaya Finance</b>          |                 |                             |
| 370-day bond                         | 6.10            | 570                         |
| 370-day sukuk mudharabah             | 6.10            | 325                         |
| 3-year bond                          | 7.50            | 550                         |
| 3-year sukuk mudharabah              | 7.50            | 175                         |
| <b>Bank Pan Indonesia</b>            |                 |                             |
| 3-year bond                          | 7.40            | 1,500                       |

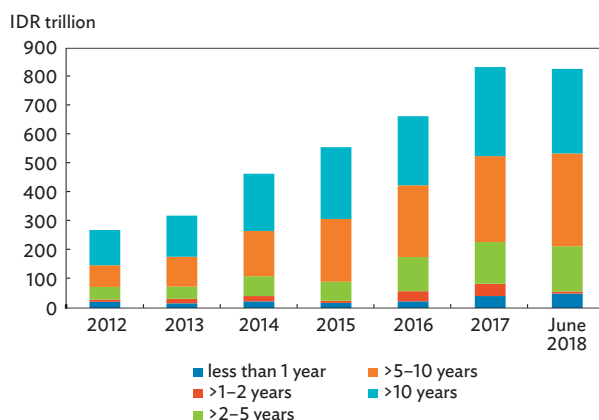
IDR = Indonesian rupiah.

Note: *Sukuk mudharabah* are Islamic bonds backed by a profit-sharing scheme from a business venture or partnership.

Source: Indonesia Stock Exchange.

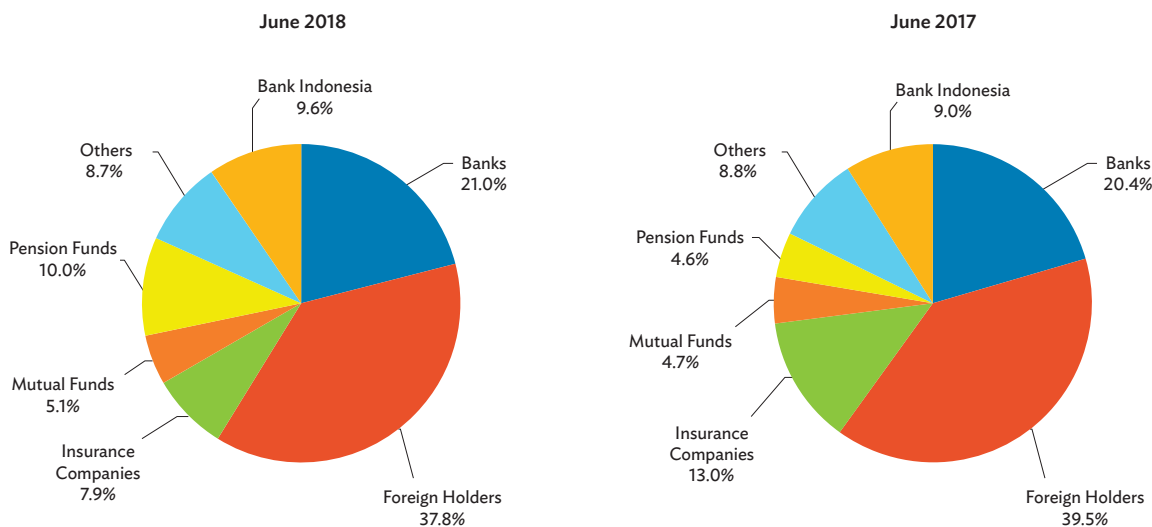
Nonresident investors also include holdings by foreign governments and central banks, which accounted for nearly 7.0% of the total LCY bonds at the end of June.

Despite the volatile market conditions, foreign investor holdings of bonds were still largely placed in longer-dated maturities. About 35% of their aggregate bond holdings were in maturities of 10 years or more, and about 39% were in bonds with maturities of more than 5 years to 10 years (Figure 3). Nonresident holdings of bonds with

**Figure 3: Foreign Holdings of Local Currency Central Government Bonds by Maturity**

IDR = Indonesian rupiah.

Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

**Figure 2: Local Currency Central Government Bonds Investor Profile**

Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

maturities of 1 year or less only accounted for about 6% of total foreign investor holdings at the end of June. This reflects foreign investors maintaining a positive outlook on Indonesia's macroeconomic fundamentals.

Among domestic investors, banking institutions were the largest holders of LCY government bonds, with holdings that were broadly unchanged from a year earlier at 21.0% at the end of June. Pension fund holdings gained the most in terms of share to total, more than doubling to 10.0% at the end of June from only 4.6% a year earlier. Bank Indonesia also increased its holdings of bonds as part of dual-intervention measures initiated to help stabilize the Indonesian rupiah. The central bank continued to actively engage in bond purchases in the secondary market in Q2 2018.

In contrast, holdings of insurance companies declined to 7.9% from 13.0% during the same period. All other domestic investors had marginal changes in their respective holdings of LCY government bonds during the review period.

## Ratings Update

On 31 May, Standard & Poor's (S&P) affirmed Indonesia's long-term and short-term credit ratings at BBB-. The long-term rating was given a stable outlook. In making its decision, S&P took note of the government's low debt levels and moderate fiscal performance and external indebtedness.

## Policy, Institutional, and Regulatory Developments

### Bank Indonesia Resumes Issuance of 9-Month and 12-Month Conventional SBI

On 23 July, Bank Indonesia resumed issuance of 9-month and 12-month SBI. The central bank sold IDR4.2 trillion of 9-month SBI and IDR1.8 trillion of 12-month SBI during the auction. The issuance of conventional SBI is expected to help attract foreign portfolio investment into the Indonesian market and provide more diversity in the instruments being issued by the central bank. Since December 2016, only Sharia-compliant SBI had been issued on a monthly basis.

### Bank Indonesia Introduces New Overnight Reference Rate

On 1 August, Bank Indonesia launched a new interbank overnight reference rate called the Indonesia Overnight Index Average (IndONIA). This new rate replaces the overnight Jakarta Interbank Offered Rate (JIBOR). However, JIBOR remains as a pricing reference for longer tenors. Bank Indonesia will continue to provide overnight JIBOR rates until the end of year as the market transitions to using the IndONIA. The shift to a new overnight reference rate will provide a more reliable market-based reference pricing for loan rates and financial instruments. IndONIA is based on the weighted average of all transactions in the interbank lending market by all banks during the day. JIBOR is based on the average loan rates quoted by banks. The new rate will be published by Bank Indonesia at 7:30 p.m. each day (local time).



## Republic of Korea

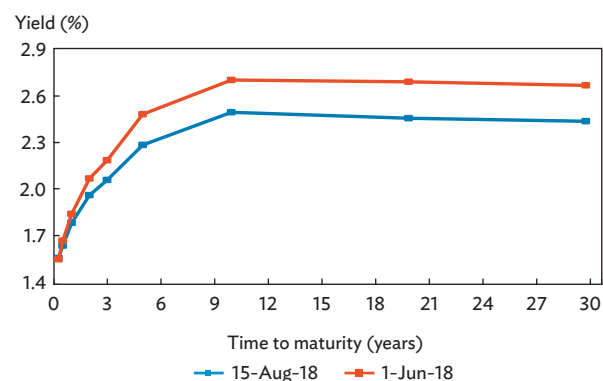
### Yield Movements

Between 1 June and 15 August, local currency (LCY) government bond yields in the Republic of Korea fell for all tenors except the 3-month tenor, which was barely changed (**Figure 1**). The drop was most pronounced at the longer-end of the curve with the 20-year and 30-year bonds falling 23 basis points (bps) each. Yields for tenors of between 2 years and 10 years fell 16 bps on average, while yields for the 6-month and 1-year bonds declined an average of 4 bps. The spread between the 2-year and 10-year yields fell to 53 bps from 63 bps, resulting in a flattening of the yield curve.

Yields fell in the Republic of Korea during the review period due to increased market expectations that the Bank of Korea would not raise its base rate this year; the last rate hike was in November 2017. Recent domestic and global developments have weighed on the Republic of Korea's economic growth prospects, further contributing to speculation that the Bank of Korea will maintain its current monetary policy. These include concerns over recent employment figures as monthly job creation in 2018 has been low relative to previous years. The creation of new jobs has been one of the new administration's main policies to boost economic growth and the program behind the supplementary budget requested and approved this year. The ongoing trade conflict between the People's Republic of China (PRC) and the United States (US) also poses a downside risk as exports have been one of the main drivers of the Republic of Korea's economic growth. Given subdued inflation, the Bank of Korea is expected to maintain an accommodative monetary policy stance.

In its 12 July meeting, the Monetary Policy Board of the Bank of Korea decided to leave its base rate unchanged at 1.50%. The central bank noted continued growth in the global economy and volatility in financial markets caused by rising trade protectionism and the strengthening US dollar. On the domestic front, the economy continues to be supported by consumption and exports, while inflation remains subdued due to the slow pace of price increase for agricultural and livestock products despite rising global oil prices.

**Figure 1: The Republic of Korea's Benchmark Yield Curve—Local Currency Government Bonds**



Source: Based on data from Bloomberg LP.

The Bank of Korea also lowered its gross domestic product growth forecasts for 2018 and 2019 to 2.9% year-on-year (y-o-y) and 2.8% y-o-y, respectively, from April forecasts of 3.0% y-o-y and 2.9% y-o-y. The inflation forecast for 2018 was maintained at 1.6% y-o-y, while for 2019 it was lowered to 1.9% y-o-y from 2.0% y-o-y.

The Republic of Korea's economy grew 2.8% y-o-y in the second quarter (Q2) of 2018, unchanged from the first quarter (Q1) of 2018. Growth was mainly driven by the acceleration in the growth of exports to 4.8% y-o-y in Q2 2018. Meanwhile, consumption posted a slower annual increase of 3.3% y-o-y and gross fixed capital formation contracted 1.3% y-o-y in Q2 2018. On a seasonally adjusted quarter-on-quarter (q-o-q) basis, the Republic of Korea's economy grew 0.6% in Q2 2018, down from the 1.0% growth posted in the prior quarter.

Consumer price inflation in the Republic of Korea remained subdued during the April–July period. Inflation for April was 1.6% y-o-y; it eased to 1.5% y-o-y in May and was unchanged in June and July.

Foreign demand for the Republic of Korea's LCY government bonds remained high during the review period. Recent financial market volatility in major emerging markets has resulted in a flight to quality, making the Republic of Korea's domestic bonds attractive

**Table 1: Size and Composition of the Local Currency Bond Market in the Republic of Korea**

|                          | Outstanding Amount (billion) |              |                  |              |                  |              | Growth Rate (%) |            |            |            |
|--------------------------|------------------------------|--------------|------------------|--------------|------------------|--------------|-----------------|------------|------------|------------|
|                          | Q2 2017                      |              | Q1 2018          |              | Q2 2018          |              | Q2 2017         |            | Q2 2018    |            |
|                          | KRW                          | USD          | KRW              | USD          | KRW              | USD          | q-o-q           | y-o-y      | q-o-q      | y-o-y      |
| <b>Total</b>             | <b>2,138,183</b>             | <b>1,869</b> | <b>2,186,525</b> | <b>2,056</b> | <b>2,221,054</b> | <b>1,993</b> | <b>2.1</b>      | <b>3.6</b> | <b>1.6</b> | <b>3.9</b> |
| Government               | 892,171                      | 780          | 915,090          | 860          | 937,267          | 841          | 2.3             | 4.6        | 2.4        | 5.1        |
| Central Government Bonds | 552,288                      | 483          | 568,774          | 535          | 589,426          | 529          | 3.6             | 6.9        | 3.6        | 6.7        |
| Central Bank Bonds       | 174,810                      | 153          | 174,790          | 164          | 174,630          | 157          | (0.03)          | (3.6)      | (0.1)      | (0.1)      |
| Others                   | 165,073                      | 144          | 171,526          | 161          | 173,211          | 155          | 0.6             | 6.4        | 1.0        | 4.9        |
| Corporate                | 1,246,012                    | 1,089        | 1,271,435        | 1,195        | 1,283,787        | 1,152        | 1.9             | 2.9        | 1.0        | 3.0        |

( ) = negative, KRW = Korean won, 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. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–USD rates are used.
3. Growth rates are calculated from local currency (LCY) base and do not include currency effects.
4. “Others” comprise Korea Development Bank Bonds, National Housing Bonds, and Seoul Metro Bonds.
5. Corporate bonds include equity-linked securities and derivatives-linked securities.

Sources: The Bank of Korea and EDAILY BondWeb.

to foreign investors. Net foreign bond investments in June amounted to KRW2.1 trillion, easing to USD1.4 trillion in July but remaining high.

Recent global trade tensions have put pressure on most currencies in the region, with the Korean won the second most impacted next to the Chinese renminbi. The Korean won, which had been generally stable in the first 5 months of 2018, depreciated 5.1% against the US dollar between 1 June and August 15. The close trade links between the Republic of Korea and the PRC raised concerns over the impact of PRC–US trade tensions on domestic economic growth.

## Size and Composition

The Republic of Korea’s LCY bond market expanded to reach a size of KRW2,221 trillion (USD1,993 billion) at end June on 1.6% q-o-q growth (**Table 1**). The growth was driven by both its government and corporate bond segments.

**Government bonds.** The Republic of Korea’s LCY government bond market rose 2.4% q-o-q in Q2 2018 to reach a size of KRW937 trillion. This was largely driven by the 3.6% q-o-q growth in the stock of its central government bonds. Meanwhile, the outstanding size of Monetary Stabilization Bonds issued by the Bank of Korea slightly fell 0.1% q-o-q in Q2 2018 despite higher issuance for the quarter due to an even larger volume of maturities. Government bonds issued by government-related entities inched up 1.0% q-o-q in Q2 2018.

Issuance of government bonds rose in Q2 2018, up 6.8% q-o-q to KRW94 trillion. The main driver of growth was the issuance of central bank bonds, which rose 11.7% q-o-q. Meanwhile, issuance of central government bonds remained high in Q2 2018, albeit up only 4.6% q-o-q due to a high base in Q1 2018 when the government implemented its frontloading policy. This is in line with the government’s plan to increase borrowing and spending in 2018 to boost growth.

**Corporate bonds.** The Republic of Korea’s LCY corporate bond market inched up 1.0% q-o-q to reach a size of KRW1,284 trillion at the end of June. The marginal growth was due to maturities despite a jump in issuance during the quarter. **Table 2** lists the top 30 LCY corporate bond issuers in the Republic of Korea with aggregate bonds outstanding of KRW814 trillion at the end of June, comprising 63% of the total LCY corporate bond market. Financial institutions, particularly banks and securities and investment firms, continued to comprise a majority of the top 30 LCY corporate bond issuers in the Republic of Korea. Korea Housing Finance Corporation, a government-related institution providing financial assistance for social housing, remained the largest issuer with outstanding bonds of KRW117 trillion.

Issuance of corporate bonds surged 22.0% q-o-q in Q2 2018 to KRW127 trillion. **Table 3** presents notable corporate bond issuances in Q2 2018. Financial firms such as Nonghyup Bank and NH Investment Securities continued to lead corporate bond issuances in the Republic of Korea. Seoul Metro, one of the two major

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in the Republic of Korea

|   | Issuers                             | Outstanding Amount      |                         | State-Owned | Listed on |        | Type of Industry               |
|---|-------------------------------------|-------------------------|-------------------------|-------------|-----------|--------|--------------------------------|
|   |                                     | LCY Bonds (KRW billion) | LCY Bonds (USD billion) |             | KOSPI     | KOSDAQ |                                |
| 1.  | Korea Housing Finance Corporation   | 117,202                 | 105.1                   | Yes         | No        | No     | Housing Finance                |
| 2.  | Mirae Asset Daewoo Co.              | 63,778                  | 57.2                    | No          | Yes       | No     | Securities                     |
| 3.  | NH Investment & Securities          | 61,646                  | 55.3                    | Yes         | Yes       | No     | Securities                     |
| 4.  | Korea Investment and Securities     | 54,389                  | 48.8                    | No          | No        | No     | Securities                     |
| 5.  | Industrial Bank of Korea            | 45,370                  | 40.7                    | Yes         | Yes       | No     | Banking                        |
| 6.  | KB Securities                       | 40,881                  | 36.7                    | No          | No        | No     | Securities                     |
| 7.  | Hana Financial Investment           | 37,216                  | 33.4                    | No          | No        | No     | Securities                     |
| 8.  | Korea Land & Housing Corporation    | 36,812                  | 33.0                    | Yes         | No        | No     | Real Estate                    |
| 9.  | Samsung Securities                  | 26,423                  | 23.7                    | No          | Yes       | No     | Securities                     |
| 10.   | Shinhan Bank                        | 23,503                  | 21.1                    | No          | No        | No     | Banking                        |
| 11.   | Korea Electric Power Corporation    | 23,380                  | 21.0                    | Yes         | Yes       | No     | Electricity, Energy, and Power |
| 12.   | Kookmin Bank                        | 21,837                  | 19.6                    | No          | No        | No     | Banking                        |
| 13.   | Korea Expressway                    | 21,620                  | 19.4                    | Yes         | No        | No     | Transport Infrastructure       |
| 14.   | KEB Hana Bank                       | 21,170                  | 19.0                    | No          | No        | No     | Banking                        |
| 15.   | Korea Deposit Insurance Corporation | 19,430                  | 17.4                    | Yes         | No        | No     | Insurance                      |
| 16.   | Korea Rail Network Authority        | 19,150                  | 17.2                    | Yes         | No        | No     | Transport Infrastructure       |
| 17.   | Woori Bank                          | 17,940                  | 16.1                    | Yes         | Yes       | No     | Banking                        |
| 18.   | The Export-Import Bank of Korea     | 15,240                  | 13.7                    | Yes         | No        | No     | Banking                        |
| 19.   | NongHyup Bank                       | 14,680                  | 13.2                    | Yes         | No        | No     | Banking                        |
| 20.   | Korea Gas Corporation               | 13,299                  | 11.9                    | Yes         | Yes       | No     | Gas Utility                    |
| 21.   | Mirae Asset Securities              | 13,071                  | 11.7                    | No          | Yes       | No     | Securities                     |
| 22.   | Shinhan Card                        | 12,980                  | 11.6                    | No          | No        | No     | Credit Card                    |
| 23.   | Shinyoung Securities                | 12,447                  | 11.2                    | No          | Yes       | No     | Securities                     |
| 24.   | Small & Medium Business Corporation | 12,373                  | 11.1                    | Yes         | No        | No     | SME Development                |
| 25.   | Hyundai Capital Services            | 12,231                  | 11.0                    | No          | No        | No     | Consumer Finance               |
| 26.   | Daishin Securities                  | 11,970                  | 10.7                    | No          | Yes       | No     | Securities                     |
| 27.   | KB Kookmin Bank Card                | 11,278                  | 10.1                    | No          | No        | No     | Consumer Finance               |
| 28.   | Samsung Card Co. Ltd.               | 10,878                  | 9.8                     | No          | Yes       | No     | Consumer Finance               |
| 29.   | Korea Student Aid Foundation        | 10,810                  | 9.7                     | Yes         | No        | No     | Student Loan                   |
| 30.   | Nonghyup                            | 10,600                  | 9.5                     | Yes         | No        | No     | Banking                        |
| <b>Total Top 30 LCY Corporate Issuers</b>       |                                     | <b>813,603</b>          | <b>730</b>              |             |           |        |                                |
| <b>Total LCY Corporate Bonds</b>                |                                     | <b>1,283,787</b>        | <b>1,152</b>            |             |           |        |                                |
| <b>Top 30 as % of Total LCY Corporate Bonds</b> |                                     | <b>63.4%</b>            | <b>63.4%</b>            |             |           |        |                                |

KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, KRW = Korean won, LCY = local currency, SME = small and medium-sized enterprise, USD = United States dollar.

Notes:

1. Data as of 30 June 2018.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

3. Corporate bonds include equity-linked securities and derivatives-linked securities.

Sources: AsianBondsOnline calculations based on Bloomberg LP and EDAILY BondWeb data.

operators of the Seoul Metropolitan Subway, issued a KRW350 5-year bond. Lotte Shopping also issued KRW310 billion worth of 5-year bonds.

**Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2018**

| Corporate Issuers                            | Coupon Rate (%) | Issued Amount (KRW billion) |
|--|-----------------|-----------------------------|
| Nonghyup Bank                                |                 |                             |
| 2-year bond                                  | 2.29            | 700                         |
| 3-year bond                                  | 2.40            | 300                         |
| 10-year bond                                 | 3.39            | 150                         |
| NH Investment Securities                     |                 |                             |
| 5-year bond                                  | 2.97            | 350                         |
| 3-year bond                                  | 2.72            | 300                         |
| Seoul Metro                                  |                 |                             |
| 5-year bond                                  | 2.68            | 350                         |
| Lotte Shopping                               |                 |                             |
| 5-year bond                                  | 2.96            | 310                         |
| Korea Rural Community and Agricultural Corp. |                 |                             |
| 3-year bond                                  | 2.35            | 300                         |
| KEB Hana Bank                                |                 |                             |
| 10-year bond                                 | 3.32            | 300                         |
| Kookmin Bank                                 |                 |                             |
| 10-year bond                                 | 3.31            | 250                         |

KRW = Korean won.

Source: Based on data from Bloomberg LP.

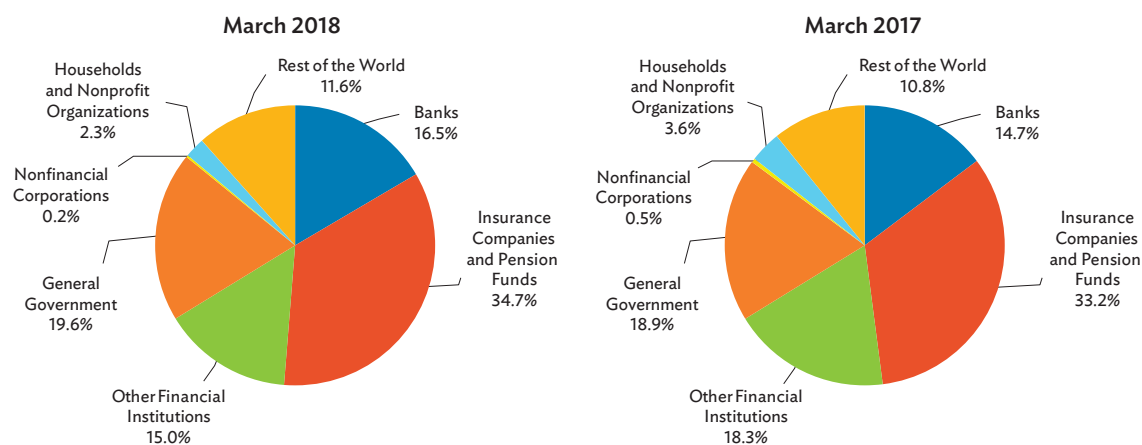
## Investor Profile

Insurance companies and pension funds remained the top holders of the Republic of Korea's LCY government bonds with a market share of 34.7% at the end of March, up from 33.2% a year earlier (**Figure 2**). The general government was second with a share of 19.6%, slightly higher than the 18.9% share in March 2017. The share of banks increased to 16.5% at the end of March from 14.7% a year earlier. Meanwhile, the share of other institutions and households fell on a y-o-y basis at the end of March, while foreign holdings of LCY government bonds inched up to 11.6% from 10.8%.

In the Republic of Korea's LCY corporate bond market, insurance companies and pension funds held the largest share at 38.5% at the end of March, up from 35.8% a year earlier (**Figure 3**). The share of other nonbank financial institutions rose to 33.2% from 31.2% during the review period. The shares of the general government and banks were almost unchanged at 12.8% and 6.8%, respectively. Foreign holdings of the Republic of Korea's LCY corporate bond market remained negligible.

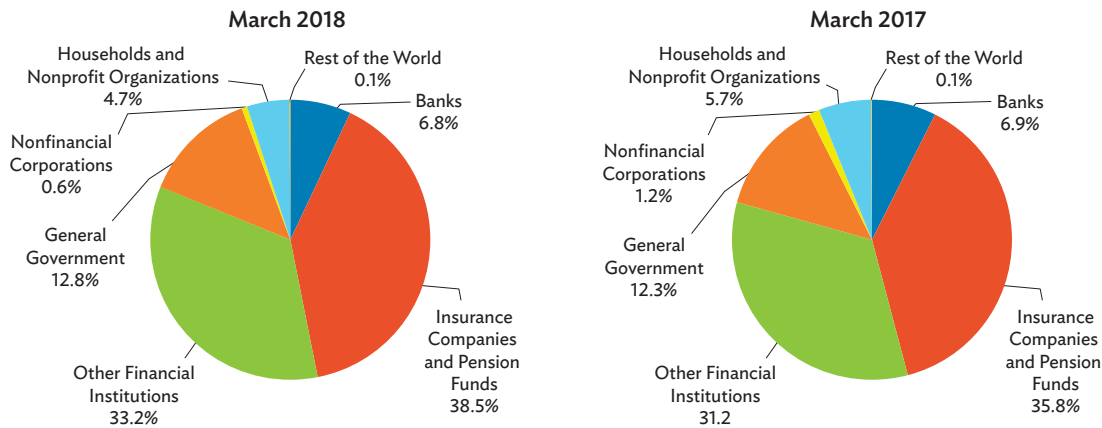
Net foreign inflows into the Republic of Korea's LCY bond market remained high during the May–July period (**Figure 4**). Following an easing to KRW708 billion in April, partly due to the steep rise in US interest rates

**Figure 2: Local Currency Government Bonds Investor Profile**



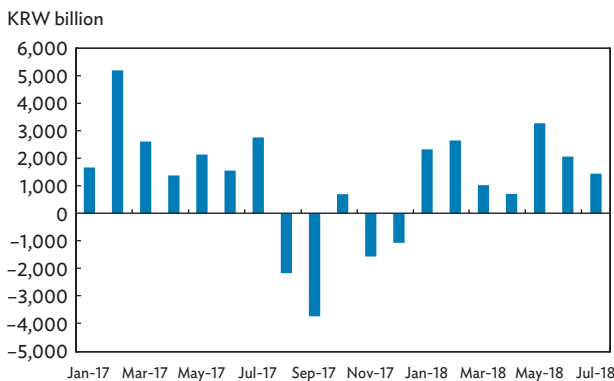
Sources: AsianBondsOnline and the Bank of Korea.

**Figure 3: Local Currency Corporate Bonds Investor Profile**



Sources: AsianBondsOnline and the Bank of Korea.

**Figure 4: Net Foreign Investment in Local Currency Bonds in the Republic of Korea**



KRW = Korean won.  
Source: Financial Supervisory Service.

and the strengthening of the US dollar, foreign inflows rebounded to KRW3.3 trillion in May. This was the highest monthly total posted in 2018 as geopolitical tensions eased, which was coupled with a stable Korean won relative to other currencies in the region. Foreign inflows remained high in June and July, but slightly eased to KRW2.1 trillion and KRW1.5 trillion, respectively, due to the trade spat between the PRC and the US. Despite this, the Republic of Korea is still deemed a safe haven in the region, particularly as other economies in the region

continue to experience weakening domestic currencies and capital outflows.

## Policy and Regulatory Developments

### Ministry of Economy and Finance Announces Economic Policies for Second Half of 2018

In July, the Ministry of Economy and Finance (MEF) released its assessment of economic policies implemented in the first half of 2018 and the planned program for the second half. The MEF reiterated its focus on consumption as a driver of growth through improved employment, wages, and innovation. For the first half of the year, the MEF described positive trends in exports and consumption, but noted risks such as the trade conflict between the PRC and the US, rising oil prices, and financial market volatility in some emerging markets. Employment growth has been slowing in major industries amid a decline in the working-age population. Improvements are expected in the second half of the year with the implementation of the supplementary budget. For the remainder of the year, policies will continue to focus on creating new jobs and improving (and working on passage of) new regulations promoting innovation. To continue with an expansionary fiscal policy, the government will increase spending by around KRW4 trillion.

## Malaysia

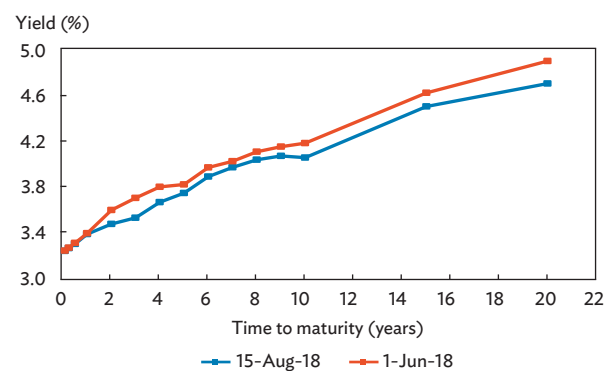
### Yield Movements

Yields of local currency (LCY) government bonds declined across all maturities between 1 June and 15 August (**Figure 1**). Short-term Treasury bills (maturities of 1 year or less) and bonds with tenors of between 5 years to 9 years saw modest declines in their yields during the review period, which ranged from 0.3 basis point (bp) to 8 bps. The smallest declines were observed in 3-month to 6-month Treasury bills, which averaged 0.5 bp. On the other hand, bonds with maturities of between 2 years and 4 years and 10 years and above saw double-digit decreases in their yields, averaging 14 bps. The largest drop in yields was seen for the 20-year government bond at 19 bps. The yield spread between 2-year and 10-year maturities marginally narrowed from 58 bps to 57 bps during the review period.

The general decline in yields during the review period can be attributed to Bank Negara Malaysia (BNM) maintaining its policy rate after raising it by 25 bps in January as a preemptive move. The central bank's tone regarding its monetary policy remains neutral amid sustained economic growth momentum and a subdued inflation forecast. The positive outlook on the Malaysian economy is also a driving force for local bond demand, which could help moderate potential increases in yields, even with the backdrop of a faster pace of US interest rate hikes than previously expected and signals from major central banks that they will tighten their monetary policies. The return of foreign funds to the local bond market in July also helped hold down yield increases.

The Monetary Policy Committee of BNM maintained the overnight policy rate at 3.25% during its meeting on 11 July in line with market expectations. Malaysia's economy is forecast to remain on a steady growth path, supported by private consumption, while the financial sector is benefiting from the improving external position that underpins the economy's fundamentals. Inflation is projected to be lower than earlier forecast in full-year 2018 after taking into account the recent policy measures on domestic cost factors (see Policy and Regulatory Developments).

**Figure 1: Malaysia's Benchmark Yield Curve—Local Currency Government Bonds**



Source: Based on data from Bloomberg LP.

Consumer price inflation in Malaysia rose to 0.9% y-o-y in July after posting a 3-year low of 0.8% y-o-y in June. Malaysia's low inflation can be traced to the tax holidays following the government's removal of the goods and services tax on 1 June. The July inflation was largely driven by higher transport prices, which increased 6.7% y-o-y in July from 5.5% y-o-y in June on the back of costlier fuel. All other components of the Consumer Price Index either registered subdued price growths or price declines.

The Malaysian ringgit continued to slide against the United States (US) dollar between 1 June and 15 August, losing about 3.0% in value. The weakening of the ringgit was due to external developments such as rising yields for US Treasuries, speculation of accelerated interest rate hikes by the US Federal Reserve and monetary policy normalization among other major central banks, and global trade tensions. On the local front, the ringgit was weighed down by risk factors such as the unexpected win of the Pakatan Harapan coalition in the May elections, which generated some market nervousness due to uncertainty over future policies, and the fiscal implications of the 1Malaysia Development Berhad scandal.

Malaysia's GDP expanded 4.5% y-o-y in the second quarter (Q2) of 2018, which was slower than the expansion logged in the first quarter (Q1) of 5.4% y-o-y.

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

|                          | Outstanding Amount (billion) |     |         |     |         |     | Growth Rate (%) |        |         |       |
|--------------------------|------------------------------|-----|---------|-----|---------|-----|-----------------|--------|---------|-------|
|                          | Q2 2017                      |     | Q1 2018 |     | Q2 2018 |     | Q2 2017         |        | Q2 2018 |       |
|                          | MYR                          | USD | MYR     | USD | MYR     | USD | q-o-q           | y-o-y  | q-o-q   | y-o-y |
| <b>Total</b>             | 1,246                        | 290 | 1,339   | 347 | 1,369   | 339 | 3.3             | 7.1    | 2.2     | 9.9   |
| Government               | 670                          | 156 | 705     | 182 | 722     | 179 | 2.9             | 4.0    | 2.5     | 7.9   |
| Central Government Bonds | 634                          | 148 | 656     | 170 | 676     | 167 | 3.5             | 5.6    | 3.0     | 6.6   |
| of which: <i>Sukuk</i>   | 263                          | 61  | 287     | 74  | 295     | 73  | 4.6             | 13.6   | 3.0     | 12.2  |
| Central Bank Bills       | 7                            | 2   | 20      | 5   | 18      | 5   | (23.4)          | (51.8) | (9.0)   | 149.0 |
| of which: <i>Sukuk</i>   | 0                            | 0   | 1       | 0.3 | 6       | 1   | -               | -      | 450.0   | -     |
| Sukuk Perumahan Kerajaan | 28                           | 7   | 28      | 7   | 28      | 7   | 0.0             | 0.0    | 0.0     | 0.0   |
| Corporate                | 576                          | 134 | 635     | 164 | 646     | 160 | 3.8             | 10.9   | 1.9     | 12.2  |
| of which: <i>Sukuk</i>   | 425                          | 99  | 480     | 124 | 489     | 121 | 4.0             | 13.3   | 1.8     | 15.0  |

(-) = negative, -- = not applicable, MYR = Malaysian ringgit, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY-USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. Sukuk Perumahan Kerajaan are Islamic bonds issued by the Government of Malaysia to refinance funding for housing loans to government employees and to extend new housing loans.

Sources: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) and Bloomberg LP.

It was the lowest GDP growth since the fourth quarter of 2016. On the demand side, private consumption and gross fixed capital formation supported the expansion in Q2. On the supply side, the services, manufacturing, and construction sectors remained supportive of the economic expansion, although a growth slowdown was observed in the latter two sectors. Bank Negara Malaysia revised downwards Malaysia's full-year GDP growth to 5.0% for 2018 from an earlier projection of 5.5%–6.0% due to extended disruptions in oil and gas production, and the subdued performance of the agriculture sector.

## Size and Composition

Malaysia's total LCY bonds outstanding expanded 2.2% quarter-on-quarter (q-o-q) and 9.9% y-o-y to reach MYR1,369 billion (USD339 billion) at the end of the second quarter (Q2) of 2018 (Table 1). The growth logged in Q2 2018 was slower than in the previous quarter on both a q-o-q and y-o-y basis. The government and corporate segments each showed expansion in Q2 2018, with government bonds outpacing the growth in corporate bonds. Government bonds outstanding amounted to MYR722 billion and corporates amounted to MYR646 billion at the end of Q2 2018, accounting for 52.8% and 47.2% of the total, respectively. Total *sukuk* (Islamic bonds) amounted to MYR817 billion, accounting for a larger share of Malaysia's bond market at 59.7% in Q2 2018 versus 59.4% in Q1 2018.

Issuance of LCY bonds dropped in Q2 2018 by 9.3% q-o-q on account of lower bond sales from the government and corporates. Malaysia posted total issuance of MYR90.9 billion during the quarter. Upward pressure on domestic bond yields was observed in Q2 2018 on the back of cautious investor sentiment, both before and after the general elections, and due to persistent foreign fund outflows resulting from downside risks in global developments. Increased borrowing cost during the period may have held back debt issuances. On a y-o-y basis, however, LCY bond sales posted growth of 27.7%, with government issuance offsetting the drop in corporate issuance.

**Government bonds.** Total LCY government outstanding bonds in Malaysia increased 2.5% q-o-q and 7.9% y-o-y, reaching MYR722 billion at the end of June. Central government bonds remained the driver of growth in the government bond market on an expansion of 3.0% q-o-q. Central bank bills outstanding continued to fall, albeit at a slower pace, on the back high levels of maturing debt even as issuance increased during the quarter. Sukuk Perumahan Kerajaan outstanding were unchanged at MYR28 billion.

Total issuance of LCY government securities decreased to MYR51.0 billion in Q2 2018 from MYR57.6 billion in Q1 2018, reversing the 60.4% q-o-q gain in the previous quarter. Lower issuance volume for Malaysian

Government Securities in Q2 2018 offset the higher issuance volume for Government Investment Issues, resulting in an 8.3% q-o-q decline in long-term government bonds. Issuance of Treasury bills was also down in Q2 2018 to MYR2 billion from MYR8 billion in the preceding quarter. On the other hand, issuance of central bank bills showed an increase of 12.4% q-o-q, underpinned by the continued increase of BNM Interbank Bill issuance, which aims to enhance liquidity in the bond market. Despite some uncertainties over Malaysia's economic and fiscal policies following the change in government in May, the performance of the LCY government bond market remained satisfactory in Q2 2018, owing to the support of local investors.

Foreign holdings of LCY government bonds posted monthly outflows in Q2 2018 after briefly recovering in March (**Figure 2**). Foreign investors shed a total of MYR22.1 billion of their holdings in the LCY bond market during the quarter, largely canceling out the positive inflows in Q1 2018. The sell-off is attributed to several factors, including higher yields for US Treasuries that triggered fund outflows from Malaysia and in other emerging markets; the weakening of the Malaysian ringgit against the US dollar; the unexpected outcome of the May general elections, which clouded expectations of economic and fiscal policies and affected investor

sentiment; the hawkish monetary policy stance of several central banks, which prompted investors to hunt for yield; and concerns over global trade tensions. LCY government bonds held by foreign investors amounted to MYR167.6 billion at the end of June, or 24.8% of total government bonds outstanding. The largest monthly attrition in Q2 2018 was recorded in May, when outflows reached MYR11.1 billion, the highest level since March 2017. In July, foreign fund flows into the local bond market recovered with MYR3.3 billion in net inflows following 3 consecutive months of net outflows. Bargain hunting among foreign investors following the earlier outflows, alongside the economy's solid fundamentals, prompted the return of foreign funds to Malaysia's LCY bond market.

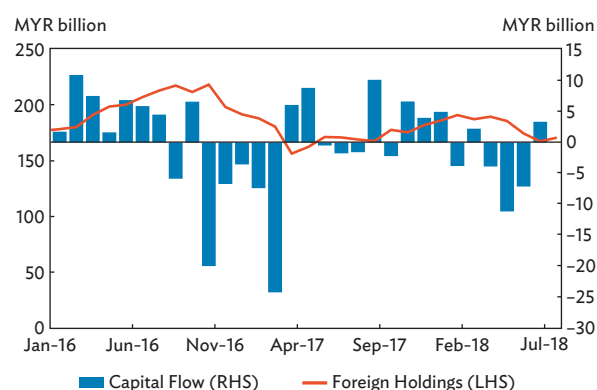
**Corporate bonds.** Corporate bonds posted growth of 1.9% q-o-q and 12.2% y-o-y in Q2 2018, bringing the total outstanding amount to MYR646 billion at the end of June. The slower growth was driven by reduced issuance of corporate paper during the quarter. The share of *sukuk* in total corporate bonds outstanding was 75.6% at the end of June, practically unchanged from the end of March.

Corporate issuance continued to falter in Q2 2018, amounting to MYR39.9 billion, which was down 6.3% q-o-q. Issuance volume in the corporate sector in Q2 2018 was the lowest since Q1 2017, which can be attributed to the new government's review of various infrastructure projects, in line with its fiscal management policies that seek to restrain public debt, affecting the debt sales of major corporate issuers.

The aggregate bonds outstanding of the top 30 LCY corporate issuers amounted to MYR365.2 billion, or 56.5% of the total corporate bond market, at the end of June (**Table 2**). The top 30 corporate issuers are largely from the finance industry with cumulative outstanding bonds equal to MYR181.1 billion. Two-thirds of the list comprises state-owned enterprises, which includes Danainfra Nasional and Cagamas, two of the largest debt issuers.

**Table 3** shows notable issuances during Q2 2018. Cagamas and Lembaga Pembiayaan Perumahan Sektor Awam had the single-largest issuances during the quarter at MYR1.5 billion each, with maturities of 5 years and 15 years, respectively.

**Figure 2: Foreign Holdings and Capital Flows of Local Currency Government Bonds in Malaysia**



LHS = left-hand side, MYR = Malaysian ringgit, RHS = right-hand side.  
Notes:

1. Figures exclude foreign holdings of Bank Negara Malaysia bills.
2. Month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.

Source: Bank Negara Malaysia Monthly Statistical Bulletin.



Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Malaysia

|   | Issuers                                      | Outstanding Amount      |                         | State-Owned | Listed Company | Type of Industry                       |
|---|--|-------------------------|-------------------------|-------------|----------------|--|
|   |  | LCY Bonds (MYR billion) | LCY Bonds (USD billion) |             |                |  |
| 1.  | Danainfra Nasional                           | 48.4                    | 12.0                    | Yes         | No             | Finance                                |
| 2.  | Cagamas                                      | 35.4                    | 8.8                     | Yes         | No             | Finance                                |
| 3.  | Project Lebuhraya Usahasama                  | 30.2                    | 7.5                     | No          | No             | Transport, Storage, and Communications |
| 4.  | Prasarana                                    | 26.5                    | 6.6                     | Yes         | No             | Transport, Storage, and Communications |
| 5.  | Perbadanan Tabung Pendidikan Tinggi Nasional | 19.0                    | 4.7                     | Yes         | No             | Finance                                |
| 6.  | Khazanah                                     | 17.0                    | 4.2                     | Yes         | No             | Finance                                |
| 7.  | Pengurusan Air                               | 14.6                    | 3.6                     | Yes         | No             | Energy, Gas, and Water                 |
| 8.  | Lembaga Pembiayaan Perumahan Sektor Awam     | 13.8                    | 3.4                     | Yes         | No             | Property and Real Estate               |
| 9.  | Maybank                                      | 13.6                    | 3.4                     | No          | Yes            | Banking                                |
| 10.   | CIMB Bank                                    | 13.2                    | 3.3                     | Yes         | No             | Finance                                |
| 11.   | Danga Capital                                | 10.0                    | 2.5                     | Yes         | No             | Finance                                |
| 12.   | Sarawak Energy                               | 9.8                     | 2.4                     | Yes         | No             | Energy, Gas, and Water                 |
| 13.   | Jimah East Power                             | 9.0                     | 2.2                     | Yes         | No             | Energy, Gas, and Water                 |
| 14.   | CIMB Group Holdings                          | 7.9                     | 2.0                     | Yes         | No             | Finance                                |
| 15.   | Public Bank                                  | 7.9                     | 1.9                     | No          | No             | Banking                                |
| 16.   | Maybank Islamic                              | 7.8                     | 1.9                     | No          | Yes            | Banking                                |
| 17.   | Bank Pembangunan Malaysia                    | 7.3                     | 1.8                     | Yes         | No             | Banking                                |
| 18.   | GOVCO Holdings                               | 7.3                     | 1.8                     | Yes         | No             | Finance                                |
| 19.   | YTL Power International                      | 7.3                     | 1.8                     | No          | Yes            | Energy, Gas, and Water                 |
| 20.   | Rantau Abang Capital                         | 7.0                     | 1.7                     | Yes         | No             | Finance                                |
| 21.   | Sarawak Hidro                                | 6.5                     | 1.6                     | Yes         | No             | Energy, Gas, and Water                 |
| 22.   | ValueCap                                     | 6.0                     | 1.5                     | Yes         | No             | Finance                                |
| 23.   | Turus Pesawat                                | 5.3                     | 1.3                     | Yes         | No             | Transport, Storage, and Communications |
| 24.   | Aman Sukuk                                   | 5.2                     | 1.3                     | Yes         | No             | Construction                           |
| 25.   | EDRA Energy                                  | 5.1                     | 1.3                     | No          | Yes            | Energy, Gas, and Water                 |
| 26.   | 1Malaysia Development                        | 5.0                     | 1.2                     | Yes         | No             | Finance                                |
| 27.   | Celcom Networks                              | 5.0                     | 1.2                     | No          | No             | Transport, Storage, and Communications |
| 28.   | GENM Capital                                 | 5.0                     | 1.2                     | No          | No             | Finance                                |
| 29.   | Telekom Malaysia                             | 4.8                     | 1.2                     | No          | Yes            | Telecommunications                     |
| 30.   | Jambatan Kedua                               | 4.6                     | 1.1                     | Yes         | No             | Transport, Storage, and Communications |
| <b>Total Top 30 LCY Corporate Issuers</b>       |  | <b>365.2</b>            | <b>90.4</b>             |             |                |  |
| <b>Total LCY Corporate Bonds</b>                |  | <b>646.5</b>            | <b>160.1</b>            |             |                |  |
| <b>Top 30 as % of Total LCY Corporate Bonds</b> |  | <b>56.5%</b>            | <b>56.5%</b>            |             |                |  |

LCY = local currency, MYR = Malaysian ringgit, USD = United States dollar.

Notes:

1. Data as of 30 June 2018.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) data.

**Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2018**

| Corporate Issuers                               | Coupon Rate (%) | Issued Amount (MYR million) |
|---|-----------------|-----------------------------|
| <b>Cagamas</b>                                  |                 |                             |
| 3-year MTN                                      | 4.22            | 400                         |
| 5-year Islamic MTN                              | 4.50            | 1,500                       |
| <b>Danainfra Nasional</b>                       |                 |                             |
| 7-year Islamic MTN                              | 4.32            | 800                         |
| 10-year Islamic MTN                             | 4.55            | 700                         |
| 15-year Islamic MTN                             | 4.90            | 700                         |
| 20-year Islamic MTN                             | 5.08            | 300                         |
| <b>Lembaga Pembiayaan Perumahan Sektor Awam</b> |                 |                             |
| 5-year Islamic MTN                              | 4.10            | 300                         |
| 7-year Islamic MTN                              | 4.32            | 1,000                       |
| 10-year Islamic MTN                             | 4.54            | 200                         |
| 15-year Islamic MTN                             | 4.90            | 1,500                       |

MTN = medium-term note, MYR = Malaysian ringgit.  
Source: Bank Negara Malaysia Bond Info Hub.

## Investor Profile

Social security institutions were the largest holders of LCY government bonds at the end of March, compared with March 2017 when financial institutions had the largest holdings (**Figure 3**). The holdings share of social security institutions rose to 33.2% in March from 29.8% a year earlier. Foreign investors had the second-largest holdings share of government bonds, with their share increasing to 28.9% in March (ahead of the foreign funds' sell-off

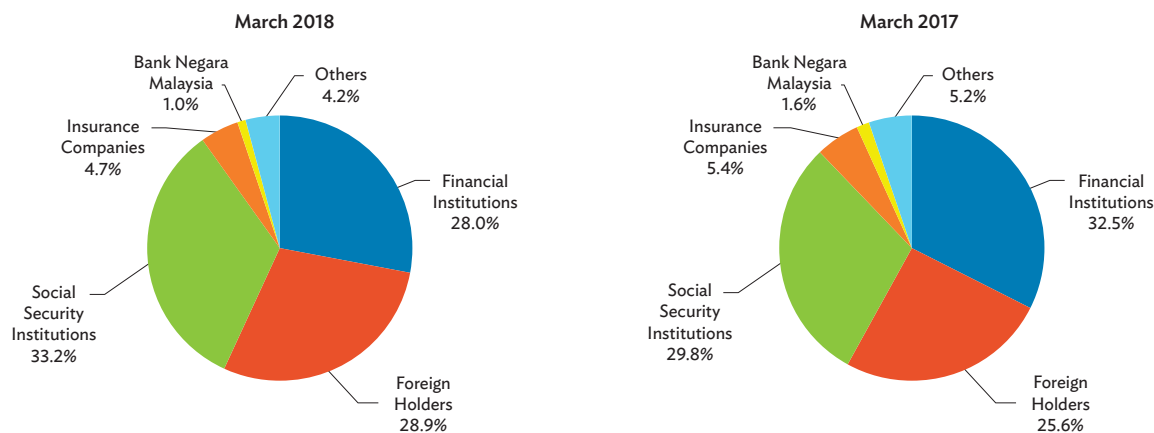
in Q2 2018) from 25.6% a year earlier. BNM's holdings, which were already the smallest among the investor group in March 2017, fell to 1.0% from 1.6% during the review period.

Domestic commercial and Islamic banks remained the largest holders of LCY corporate bonds with their share climbing to 41.5% in June 2018 from 38.9% in June 2017 (**Figure 4**). While life insurance companies had the second-largest holdings at the end of June, their share dipped to 35.0% from 40.0% a year earlier. Foreign commercial and Islamic banks saw their share increase, while the Employees' Provident Fund, investment banks, and general insurance companies all saw their shares decline in June 2018 compared with a year earlier.

## Ratings Update

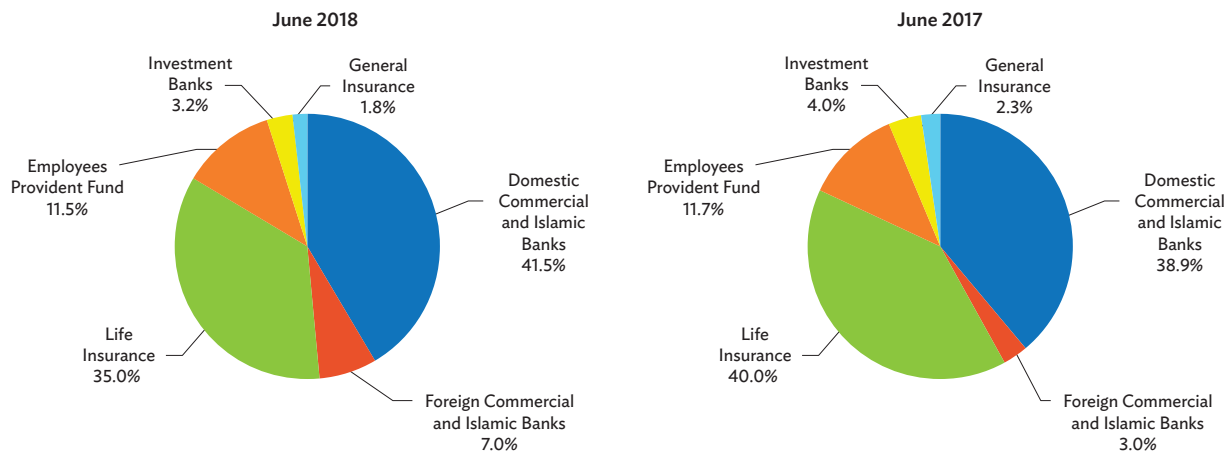
### Fitch Ratings Affirms Malaysia's Sovereign Credit Rating at A-

Fitch Ratings affirmed Malaysia's A- rating with a stable outlook on 11 May. According to Fitch, the election result was unlikely to lead to a significant economic policy shift. Nonetheless, it noted that it will monitor the new government's policy agenda as it evolves and highlighted any policy slippage leading to a deterioration in Malaysia's fiscal consolidation as grounds for a negative outlook. The economy's strong growth momentum and the improving external position were the underlying factors for the rating affirmation.

**Figure 3: Local Currency Government Bonds Investor Profile**

Note: "Others" includes statutory bodies, nominees and trustee companies, and cooperatives and unclassified items.  
Source: Bank Negara Malaysia.

Figure 4: Local Currency Corporate Bonds Investor Profile



Note: The Employees Provident Fund's bond holdings data are as of 31 December 2017, as data are based on the EPF's annual report.  
Sources: Bank Negara Malaysia and the Employees Provident Fund.

## S&P Global Ratings Affirms Malaysia's Sovereign Credit Rating at A-

S&P Global Ratings affirmed Malaysia's sovereign credit rating at A- with a stable outlook on 29 June. The rating agency cited Malaysia's resilient growth performance, robust external position, highly credible monetary policy settings, and well-established institutions that can moderate risks coming from the government's sizable debt burden and the new administration's transition to power. S&P Global Ratings, however, cautioned about downward pressure on the sovereign rating should it assess a weaker commitment to growth and fiscal consolidation.

## Policy, Institutional, and Regulatory Developments

### Malaysia's New Administration Scraps Goods and Services Tax

Malaysia scrapped the 6% goods and services tax (GST), effective 1 June, as a fulfillment of Prime Minister Mahathir Mohamad's campaign promise after his unexpected victory in the general election on 9 May. The abolition of the GST aimed to spur spending in Malaysia and address the rising costs of living. The new administration plans to replace the abolished GST with a sales and services tax (SST). Under the SST, the provision of services will be taxed at 6%, while the sale of goods will incur a 10% tax. The Ministry of Finance stated that the SST system would benefit Malaysia's low-income earners in the long run. The new tax system is expected to be implemented beginning 1 September after the necessary laws have been passed in Parliament.

# Philippines

## Yield Movements

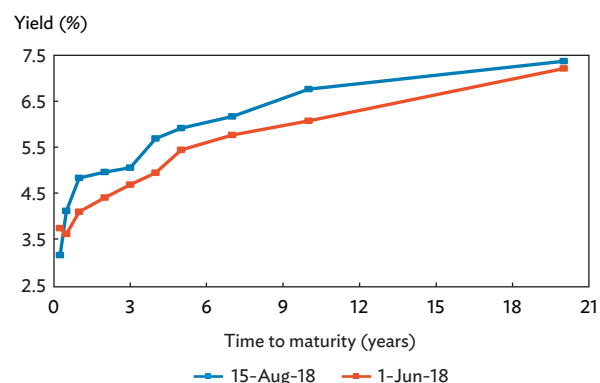
Between 1 June and 15 August, the yields of Philippine local currency (LCY) bonds of all tenors increased except for the 3-month tenor, which decreased 58 basis points (bps) (**Figure 1**). The 4-year maturity increased the most (74 bps), followed by the 1-year maturity (73 bps). The 20-year tenor registered the smallest increase of 16 bps. The yield spread between 2-year and 10-year government bonds expanded 13 bps.

Uncertainties weighed heavily on investor decisions, resulting in a preference for short-dated Treasury bills, particularly the 3-month tenor, as investors chose caution while awaiting the outcomes of domestic and international events. The higher yields also point to the risks that investors see in the long-term. Domestically, buyers were mindful of the Philippines' high inflation and slowing economic growth, coupled with negative sentiments in the foreign exchange market. Investors are also anticipating additional rate hikes by the Bangko Sentral ng Pilipinas (BSP). Internationally, rising oil prices and the trade war between the People's Republic of China (PRC) and the United States (US) affected investor sentiments.

In the second quarter (Q2) of 2018, inflation stayed above the central bank's 2018 inflation target band of 2.0%–4.0%, prompting the BSP to revise its full-year inflation projection to 4.6% from 4.3%. Price inflation for basic goods and services in the Philippines jumped to 5.7% y-o-y in July from 5.2% y-o-y in June, mainly due to higher costs of alcoholic beverages and tobacco attributed to the government's tax reform law, which taxed sin products heavily. On the international scene, oil prices increased due to global oil supply concerns, affecting domestic fuel prices.

Continued increases in the prices of consumer goods and services led the BSP to hike its key interest rates in order to curb inflation and mitigate potential second-round effects. On 9 August, the monetary board of the BSP decided to hike key interest rates by 50 bps each, bringing the total rate hike for policy rates this year to 100 bps. The overnight lending rate stood at 4.5%, while the overnight reverse repurchase and deposit rate stood at 4.0% and

**Figure 1: Philippines' Benchmark Yield Curve—Local Currency Government Bonds**



Source: Based on data from Bloomberg LP.

3.5%, respectively. The decision came amid expectations that inflation is expected to remain high through the end of the year. The latest interest rate increase, which came on the heels of back-to-back 25 bps rate hikes in May and June, was deemed necessary to ease price pressures. Furthermore, the central bank noted that the sustained economic growth allows room for future rate hikes.

The Philippines' gross domestic product expanded 6.0% year-on-year (y-o-y) in Q2 2018, down from 6.6% y-o-y growth recorded in the first (Q1) of 2018, due to slower growth in the services and mining sectors. Despite the slowdown, the Philippines remained one of the fastest-growing economies in the region, just behind Viet Nam at 6.8% y-o-y and the PRC at 6.7% y-o-y. Various organizations like the Organisation for Economic Co-operation and Development, International Monetary Fund, and World Bank have all projected the country's 2018 gross domestic product growth to fall below the government's target range of 7.0%–8.0% for 2018.

Despite the interest rate hikes and good economic growth, the Philippine peso continued to weaken, breaching the PHP53-to-USD1 exchange rate during the second half of June. The weakness of the peso was also attributed to global events, including the ongoing trade war between the US and the PRC, and the strengthening of the US dollar. The central bank has tapped its foreign reserves to temper the peso's depreciation, with the

country's gross international reserves declining since the start of the year. From USD81.2 billion in January, the foreign reserves were down to USD76.7 billion in July. The depreciating peso and price pressures on basic goods and services were also the result of ongoing concerns regarding the Philippines' current account deficit spurred by expanding trade deficits during the first half of 2018. The trade deficit reached USD3.2 billion in June, bringing the total deficit for the first half of 2018 to USD18.9 billion.

## Size and Composition

Growth in the Philippines' LCY bond market eased to 2.6% quarter-on-quarter (q-o-q) in Q2 2018 from 4.6% q-o-q in Q2 2017 (**Table 1**). Total LCY bonds amounted to PHP5,741 billion (USD108 billion) at the end of Q2 2018, up from PHP5,593 billion at the end of Q1 2018. The increase was supported by growth in both government and corporate bonds, with the former comprising 80% of total outstanding bonds.

**Government bonds.** The amount of LCY government bonds stood at PHP4,592 billion at the end of June on growth of 2.5% q-o-q, supported by Treasury bills and bonds, which rose 14.6% q-o-q and 1.6% q-o-q, respectively. Despite the surge in outstanding Treasury bills, they only accounted for PHP381 billion of total outstanding government bonds at the end of Q2 2018. Treasury bonds amounting to PHP4,170 billion at the

end of June, or 90.8% of outstanding government bonds, formed the bulk of the government bond market.

A total of PHP376.2 billion worth of LCY government bonds were issued in Q2 2018, up from the PHP233.2 billion recorded in Q1 2018, corresponding to growth of 61.3% q-o-q. This includes reissued Treasury bills and bonds. The growth was supported by the Bureau of the Treasury's issuance of PHP121.8 billion worth of 3-year Retail Treasury Bonds.

During weekly auctions, 91-day Treasury bills were usually fully awarded. On the other hand, most of the longer-tenored 364-day Treasury bills were partially awarded as investors' bids were too high, forcing the Bureau of the Treasury to reject some bids in order to keep rates low. These actions reflected investors' desire for short-term instruments as they wait for events to unfold in domestic and international markets.

Under its program to finance the government's infrastructure program and fund the budget deficit, the Bureau of the Treasury's issuance plans to continue weekly auctions of 91-day, 182-day, and 364-day Treasury bills in the third quarter of 2018. In terms of total Treasury bills and bonds, it plans to borrow PHP300 billion during the quarter, which would be a little lower than the PHP325 billion debt program in Q2 2018. Treasury bond auctions will be held every other week instead of the weekly auctions that were conducted in Q2 2018.

**Table 1: Size and Composition of the Local Currency Bond Market in the Philippines**

|                | Outstanding Amount (billion) |            |              |            |              |            | Growth Rate (%) |             |            |             |
|----------------|------------------------------|------------|--------------|------------|--------------|------------|-----------------|-------------|------------|-------------|
|                | Q2 2017                      |            | Q1 2018      |            | Q2 2018      |            | Q2 2017         |             | Q2 2018    |             |
|                | PHP                          | USD        | PHP          | USD        | PHP          | USD        | q-o-q           | y-o-y       | q-o-q      | y-o-y       |
| <b>Total</b>   | <b>5,168</b>                 | <b>102</b> | <b>5,593</b> | <b>107</b> | <b>5,741</b> | <b>108</b> | <b>4.6</b>      | <b>10.2</b> | <b>2.6</b> | <b>11.1</b> |
| Government     | 4,211                        | 83         | 4,479        | 86         | 4,592        | 86         | 5.0             | 8.5         | 2.5        | 9.0         |
| Treasury Bills | 318                          | 6          | 332          | 6          | 381          | 7          | 11.1            | 10.4        | 14.6       | 19.9        |
| Treasury Bonds | 3,842                        | 76         | 4,106        | 79         | 4,170        | 78         | 5.1             | 9.3         | 1.6        | 8.5         |
| Others         | 51                           | 1          | 40           | 1          | 40           | 1          | (27.0)          | (33.1)      | (0.01)     | (20.5)      |
| Corporate      | 957                          | 19         | 1,114        | 21         | 1,149        | 22         | 2.7             | 18.5        | 3.2        | 20.0        |

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

Notes:

1. Calculated using data from national sources.

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

3. Growth rates are calculated from an LCY base and do not include currency effects.

4. "Others" comprise bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. This includes bonds issued by Power Sector Assets and Liabilities Management (PSALM) and the National Food Authority, among others.

5. Peso Global Bonds (PHP-denominated bonds payable in US dollars) are not included.

Sources: Bloomberg LP and Bureau of the Treasury.

**Corporate bonds.** LCY corporate bonds grew 3.2% q-o-q during Q2 2018. Total LCY corporate bonds outstanding increased to PHP1,149 billion from PHP1,114 billion in the previous quarter.

At the end of June 2018, the top three sectors comprising LCY corporate bonds outstanding were the property sector (PHP331.9 billion or 28.9%), the banking sector (PHP326.8 billion or 28.4%), and holding firms (PHP247.1 billion or 21.5%) (**Figure 2**). These same sectors dominated the LCY corporate bond market at the end of June 2017. The banking, property, and utilities sectors increased their respective shares of LCY corporate bonds outstanding during the review period, while holding firms, the telecommunications sector, and transport sector all saw a decline.

In Q2 2018, PHP48.0 billion worth of LCY corporate bonds were issued, down from the PHP63.2 billion issued in Q1 2018, for a decline of 24.0% q-o-q. Uncertainties in domestic and international financial markets led to fewer companies issuing LCY corporate bonds.

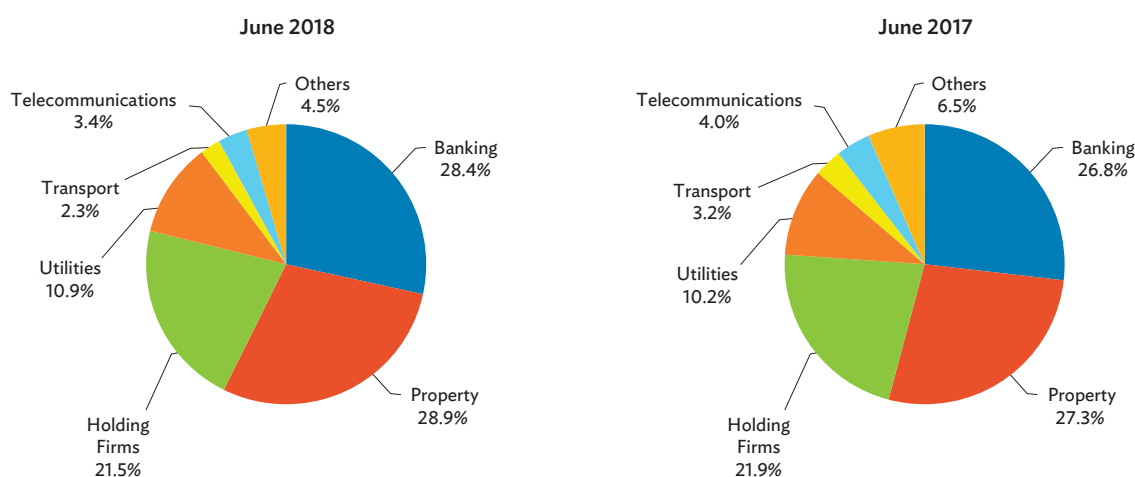
Property developers topped the issuers of LCY corporate bonds at the end of June. Ayala Land issued PHP104.7 billion while SM Prime Holdings issued PHP93.8 billion (**Table 2**). The country's largest bank, BDO Unibank, was the third-largest issuer with PHP63.6 billion of bonds outstanding. Companies in the banking sector comprised the largest sectoral bloc

among the top 30 list, cumulatively accounting for 30.2% of all outstanding LCY bonds among the 30 largest corporate issuers. This was followed by the property sector with a 28.6% share, and holding firms with a 23.6% share. Altogether, the top 30 issuers of LCY corporate bonds accounted for PHP1,003.0 billion, or 87.3% of all corporate bonds outstanding at the end of June.

Property companies issued the most notable corporate bonds in Q2 2018 (**Table 3**). Among all corporates, Ayala Land and San Miguel issued the largest amount of corporate bonds during the quarter at PHP10 billion each. Property company Ayala Land issued a 10-year bond with a 5.92% coupon rate in order to cover its capital spending for the year, while food and beverage conglomerate San Miguel issued a 2-year bond with a 5.25% coupon for refinancing its debts and investing in its core business. Philippine Primark Properties offered the highest coupon rate of Q2 2018 at 7.69% for its PHP7 billion 10-year bond. This was followed by Sta. Lucia Land whose 7-year bond had a 7.48% coupon rate. Finally, Ortigas and Company issued PHP3 billion worth of 10-year bonds with a coupon rate of 6.26%.

**Foreign currency bonds.** On 8 August, the Philippines returned to the samurai bond market after a long hiatus, offering three tranches of JPY-denominated bonds totaling JPY154.2 billion. It offered 3-, 5-, and 10-year samurai bonds with coupon rates of 0.38%, 0.54%, and 0.99%, respectively. Proceeds from the JPY107.2 billion

**Figure 2: Local Currency Corporate Bonds Outstanding by Sector**



Source: Based on data from Bloomberg LP.

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in the Philippines

|   | Issuers                              | Outstanding Amount      |                         | State-Owned | Listed Company | Type of Industry               |
|---|--------------------------------------|-------------------------|-------------------------|-------------|----------------|--------------------------------|
|   |                                      | LCY Bonds (PHP billion) | LCY Bonds (USD billion) |             |                |                                |
| 1.  | Ayala Land                           | 104.7                   | 2.0                     | No          | Yes            | Property                       |
| 2.  | SM Prime Holdings                    | 93.8                    | 1.8                     | No          | Yes            | Property                       |
| 3.  | BDO Unibank                          | 63.6                    | 1.2                     | No          | Yes            | Banking                        |
| 4.  | San Miguel                           | 60.0                    | 1.1                     | No          | Yes            | Holding Firms                  |
| 5.  | Metropolitan Bank                    | 59.2                    | 1.1                     | No          | Yes            | Banking                        |
| 6.  | SM Investments                       | 52.3                    | 1.0                     | No          | Yes            | Holding Firms                  |
| 7.  | Philippine National Bank             | 41.5                    | 0.8                     | No          | Yes            | Banking                        |
| 8.  | Ayala Corporation                    | 40.0                    | 0.7                     | No          | Yes            | Holding Firms                  |
| 9.  | Security Bank                        | 37.4                    | 0.7                     | No          | Yes            | Banking                        |
| 10.   | San Miguel Brewery                   | 34.8                    | 0.7                     | No          | No             | Brewery                        |
| 11.   | Maynilad                             | 33.9                    | 0.6                     | No          | No             | Water                          |
| 12.   | Aboitiz Equity Ventures              | 32.0                    | 0.6                     | No          | Yes            | Holding Firms                  |
| 13.   | JG Summit                            | 30.0                    | 0.6                     | No          | Yes            | Holding Firms                  |
| 14.   | Filinvest Land                       | 29.0                    | 0.5                     | No          | Yes            | Property                       |
| 15.   | Manila Electric Company              | 28.8                    | 0.5                     | No          | Yes            | Electricity, Energy, and Power |
| 16.   | East West Banking                    | 27.7                    | 0.5                     | No          | Yes            | Banking                        |
| 17.   | Rizal Commercial Banking Corporation | 23.6                    | 0.4                     | No          | Yes            | Banking                        |
| 18.   | GT Capital                           | 22.0                    | 0.4                     | No          | Yes            | Holding Firms                  |
| 19.   | PLDT                                 | 20.6                    | 0.4                     | No          | Yes            | Telecommunications             |
| 20.   | Vista Land                           | 19.9                    | 0.4                     | No          | Yes            | Property                       |
| 21.   | Petron                               | 18.6                    | 0.3                     | No          | Yes            | Electricity, Energy, and Power |
| 22.   | Bank of the Philippine Islands       | 17.2                    | 0.3                     | No          | Yes            | Banking                        |
| 23.   | Union Bank of the Philippines        | 17.0                    | 0.3                     | No          | Yes            | Banking                        |
| 24.   | China Bank                           | 15.9                    | 0.3                     | No          | Yes            | Banking                        |
| 25.   | Doubledragon                         | 15.0                    | 0.3                     | No          | Yes            | Property                       |
| 26.   | SMC Global Power                     | 15.0                    | 0.3                     | No          | No             | Electricity, Energy, and Power |
| 27.   | Aboitiz Power                        | 13.0                    | 0.2                     | No          | Yes            | Electricity, Energy, and Power |
| 28.   | Globe Telecom                        | 12.5                    | 0.2                     | No          | Yes            | Telecommunications             |
| 29.   | Megaworld                            | 12.0                    | 0.2                     | No          | Yes            | Property                       |
| 30.   | Robinsons Land                       | 12.0                    | 0.2                     | No          | Yes            | Property                       |
| <b>Total Top 30 LCY Corporate Issuers</b>       |                                      | <b>1,003.0</b>          | <b>18.8</b>             |             |                |                                |
| <b>Total LCY Corporate Bonds</b>                |                                      | <b>1,149.0</b>          | <b>21.5</b>             |             |                |                                |
| <b>Top 30 as % of Total LCY Corporate Bonds</b> |                                      | <b>87.3%</b>            | <b>87.3%</b>            |             |                |                                |

LCY = local currency, PHP = Philippine peso, USD = United States dollar.

Notes:

1. Data as of 30 June 2018.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

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

**Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2018**

| Corporate Issuers             | Coupon Rate (%) | Issued Amount (PHP billion) |
|-------------------------------|-----------------|-----------------------------|
| Ayala Land                    |                 |                             |
| 10-year bond                  | 5.92            | 10.00                       |
| San Miguel                    |                 |                             |
| 7-year bond                   | 5.25            | 10.00                       |
| Philippine Primark Properties |                 |                             |
| 10-year bond                  | 7.69            | 7.00                        |
| Sta. Lucia Land               |                 |                             |
| 7-year bond                   | 7.48            | 5.00                        |
| Ortigas and Company           |                 |                             |
| 10-year bond                  | 6.26            | 3.00                        |

PHP = Philippine peso.  
Source: Bloomberg LP.

3-year bond, JPY6.2 billion 5-year bond, and JPY40.8 billion 10-year bond will be used to support the government's ambitious infrastructure program known as "Build, Build, Build." This came after the Government of the Philippines issued global bonds in January and panda bonds in March.

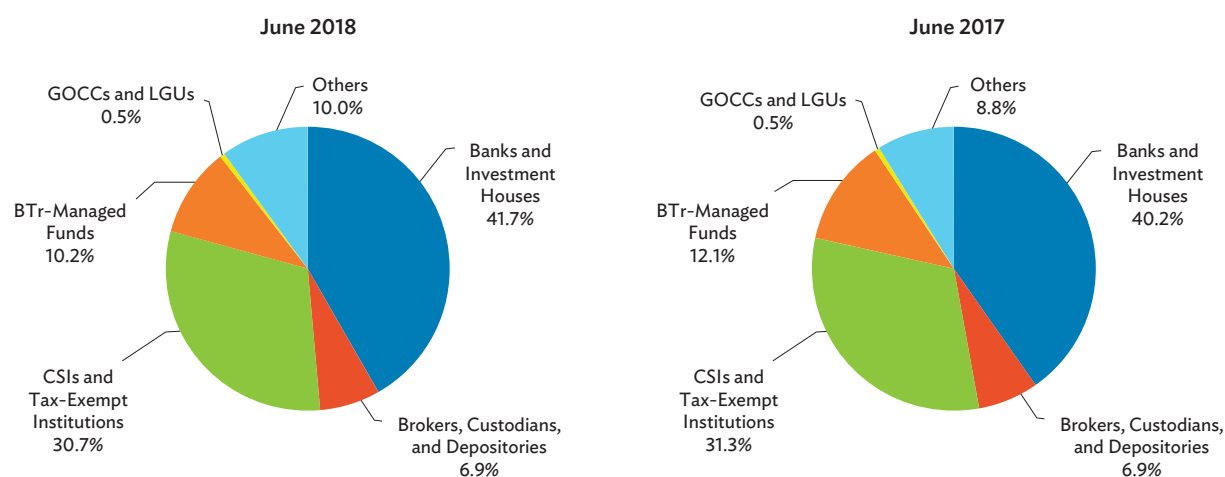
## Investor Profile

Banks and investment houses were the single-largest investor category in the LCY government bond market at

the end of June with a 41.7% share (**Figure 3**). This was up slightly from 40.2% in June 2017 when they were also the largest investor group. Contractual savings and tax-exempt institutions followed with a 30.7% share at the end of June, a slight dip from a 31.3% share in June 2017. Bureau of the Treasury-managed funds saw a decline in their investment share during the review period to 10.2% from 12.1%. Investors from government-owned or -controlled corporations and local government units, and brokers, custodians, and depositories maintained their shares of the LCY government bond market.

## Ratings Update

Fitch Ratings affirmed the Philippines' long-term foreign currency issuer default investment-grade rating of BBB with a stable outlook. The rating agency expects strong domestic economic growth to be maintained, supported by the infrastructure program of the government. It also cited the Philippines' sound banking sector and economic policy framework as basis for the affirmation. Rising inflation, the depreciating peso, and a widening trade deficit were identified as causes for concern, although Fitch Ratings acknowledged the central bank's measures to keep these challenges in check. The stable outlook implies that the rating will likely go unchanged over the next 12–18 months.

**Figure 3: Local Currency Government Bonds Investor Profile**

BTr = Bureau of the Treasury, CSIs = contractual savings institutions, GOCCs = government-owned or -controlled corporations, LGUs = local government units.  
Source: Bureau of the Treasury.



## Policy, Institutional, and Regulatory Developments

### BSP Relaxes Rules on Foreign Exchange

On 18 May, the BSP announced that the conversion of foreign currency loans to pesos and the transfer of such loans to regular banking unit books no longer requires prior central bank approval, provided that the concerned bank understands the risks inherent in such actions. It must have proper risk management policies in place to mitigate risks in managing such transactions. The move is part of the central bank's efforts to liberalize foreign exchange rules.

### Asian Central Banks Launch Asian Bond Fund Pan-Asia Bond Fund Index Fund Securities Lending

On 26 June, central bank members of the Executives' Meeting of East Asia-Pacific launched the securities lending facility for the Asian Bond Fund Pan-Asia Bond Fund Index Fund (PAIF). PAIF is an exchange-traded bond index fund that invests in LCY government bonds in eight Asian markets and tracks the Markit iBoxx ABF Pan-Asia Index. Starting 10 July, financial firms can borrow LCY bonds under the PAIF in exchange for posting collateral. Through the lending facility, the Executives' Meeting of East Asia-Pacific hope to have improved liquidity and price discovery in the regional bond market.

## Singapore

### Yield Movements

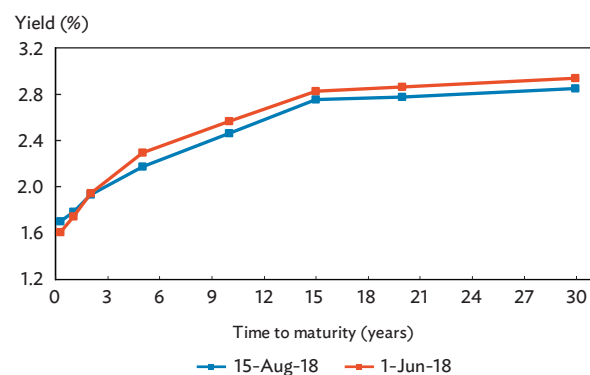
Between 1 June and 15 August, Singapore's local currency (LCY) bond yields decreased for all maturities except the 3-month and 12-month tenors, which increased 9 basis points (bps) and 4 bps, respectively (**Figure 1**). Among those that decreased, the 5-year maturity decreased the most (12 bps), followed by the 10-year maturity (10 bps). The 2-year tenor registered the smallest decrease of 1 bp. The yield spread between 2-year and 10-year government bonds contracted 9 bps during the review period.

Singapore's yields tracked interest rate movements in the United States (US) where short-term tenors increased and long-term tenors declined during the review period. Short-term rates in Singapore also increased due to tightening liquidity in the domestic banking system, as evidenced by rising loan-to-deposit ratios and a narrowing differential between the 1-month and 3-month yields. For long-term tenors, Singapore yields dropped following US Treasury yields' decline after the People's Republic of China (PRC) announced potential tariffs in response to tariffs imposed by the US on Chinese goods.

Singapore's inflation increased during the second quarter (Q2) of 2018. The country recorded inflation of 0.1% year-on-year (y-o-y) in April, which rose to 0.4% y-o-y in May and 0.6% y-o-y in June, where it remained steady in July. The Monetary Authority of Singapore (MAS) expects inflation to gradually increase in the remainder of 2018 due to faster wage growth and rising global oil and food prices. For full-year 2018, inflation is predicted to be in the upper-half of the MAS' 0%–1% forecast.

The Ministry of Trade and Industry revised its gross domestic product growth forecast for full-year 2018 to a range of 2.5%–3.5% from 1.5%–3.5% due to the strong performance of Singapore's economy during the first quarter (Q1) of 2018. However, the growth of Singapore's economy eased to 3.9% y-o-y in Q2 2018 from 4.5% y-o-y during the previous quarter. The decline was due to a slowdown in the performances of the manufacturing and services sectors. Economists expect steady, albeit slower, growth for Singapore during the second half of the year due to concerns over the housing market as the government puts in place cooling measures to curb rising

**Figure 1: Singapore's Benchmark Yield Curve—  
Local Currency Government Bonds**



Source: Based on data from Bloomberg LP.

home prices. As an export-dependent economy, growth could also be dampened by a further escalation of the trade war between the PRC and the US. Uncertainties related to global trade tensions affected Singapore's equity and foreign exchange markets in Q2 2018, with the STI Index dropping to a low of 3,191.82 in June from a high of 3,615.28 in May as investors sold Singapore shares.

Similar to its regional counterparts, the Singapore dollar has not fared well in recent months against the US dollar, reaching its weakest level of SGD1.3802 per USD1 in August, down from a peak of SGD1.3073 in January. The Singapore dollar had been hovering above the SGD1.35-to-USD1 level since the second half of June as the trade war between the US and the PRC escalated. Aside from the prospects of a trade war, investors have also been bearish on the local economy amid the US Federal Reserve's tightening policy, raising the possibility of a Federal Reserve rate hike in September after holding rates steady in its August meeting.

### Size and Composition

The Singapore LCY bond market grew 1.8% quarter-on-quarter (q-o-q) to SGD383 billion (USD281 billion) in 2018, up from SGD376 billion in Q1 2018 (**Table 1**). The expansion was supported by growth in LCY government bonds, compensating for the slight decline in LCY corporate bonds.

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

|                     | Outstanding Amount (billion) |            |            |            |            |            | Growth Rate (%) |            |            |            |
|---------------------|------------------------------|------------|------------|------------|------------|------------|-----------------|------------|------------|------------|
|                     | Q2 2017                      |            | Q1 2018    |            | Q2 2018    |            | Q2 2017         |            | Q2 2018    |            |
|                     | SGD                          | USD        | SGD        | USD        | SGD        | USD        | q-o-q           | y-o-y      | q-o-q      | y-o-y      |
| <b>Total</b>        | <b>349</b>                   | <b>254</b> | <b>376</b> | <b>287</b> | <b>383</b> | <b>281</b> | <b>0.4</b>      | <b>8.1</b> | <b>1.8</b> | <b>9.7</b> |
| Government          | 207                          | 150        | 230        | 175        | 237        | 174        | 0.8             | 13.7       | 3.0        | 14.7       |
| SGS Bills and Bonds | 112                          | 82         | 121        | 92         | 123        | 90         | (3.9)           | 2.7        | 1.7        | 9.6        |
| MAS Bills           | 94                           | 69         | 109        | 83         | 114        | 84         | 7.2             | 30.2       | 4.5        | 20.8       |
| Corporate           | 143                          | 104        | 146        | 112        | 146        | 107        | (0.1)           | 0.8        | (0.1)      | 2.5        |

(-) = negative, LCY = local currency, MAS = Monetary Authority of Singapore, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second quarter, SGD = Singapore dollar, SGS = Singapore Government Securities, USD = United States dollar, y-o-y = year-on-year.

Notes:

1. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondsOnline* estimates.
2. SGS bills and bonds do not include the special issue of Singapore Government Securities held by the Singapore Central Provident Fund.
3. Bloomberg LP end-of-period LCY-USD rates are used.
4. Growth rates are calculated from an LCY base and do not include currency effects.

Sources: Bloomberg LP, Monetary Authority of Singapore, and Singapore Government Securities.

**Government bonds.** Total outstanding LCY government bonds increased 3.0% q-o-q to SGD237 billion in Q2 2018 from SGD230 billion during the previous quarter. The growth was mainly due to the expansion of outstanding MAS bills, which increased 4.5% q-o-q to SGD114 billion from SGD109 billion in Q1 2018. Outstanding Singapore Government Securities bills and bonds grew 1.7% q-o-q, with SGD123 billion outstanding in Q2 2018, up from SGD121 billion at the end of the previous quarter.

A total of SGD137.9 billion worth of government bills and bonds were issued during Q2 2018. Of these, SGD126.6 billion, or 91.8%, were MAS bills and the remaining SGD11.3 billion, or 8.2%, were Treasury bills and bonds. MAS bills increased 15.7% q-o-q while Treasury bills and bonds grew 59.2% q-o-q.

Weekly MAS bills auctions were met with robust demand in Q2 2018: the 28-, 84-, and 168-day MAS bills were always fully allocated. For most of the quarter, average yields for the 4-week MAS bills were higher than for the 8-week tenor. Toward the end of June, however, investors preferred the shortest tenor as global uncertainties worried the market.

**Corporate bonds.** LCY corporate bonds contracted 0.1% q-o-q in Q2 2018. On a y-o-y basis, however, corporate bonds grew 2.5% to SGD146 billion from SGD143 billion in Q2 2017.

The top 30 LCY corporate issuers accounted for SGD69.8 billion, or 47.7% of all LCY corporate bonds outstanding, at the end of June (**Table 2**). The state-owned real estate company Housing & Development Board topped the list, accounting for 15.3% of the total LCY corporate bond market with SGD22.4 billion of corporate bonds outstanding. Another state-owned company Land Transport Authority was a distant second with SGD5.0 billion of bonds outstanding, comprising 3.4% of the total LCY corporate bond market. The real estate sector dominated the top 30 corporate issuers with 50.1% share of the list's bonds outstanding at the end of June. This was followed by the finance and transportation sector with market shares of 15.4% and 12.6%, respectively.

In Q2 2018, SGD2.4 billion worth of LCY corporate bonds were issued, less than half of the corporate bonds issued the previous quarter due to a high base spurred by large issuances led by the Land Transport Authority in Q1 2018. One of the notable issuances was Housing & Development Board's SGD500 million 12-year bond with a coupon of 3.08%, which was part of its SGD32 billion Multicurrency Medium-Term Note Programme (**Table 3**). This was the longest tenor issued in Singapore in Q2 2018. Ezion Holdings, seeking to refinance its debt, had the most issuances during the quarter with 10-year, 7-year, and 6-year bonds worth SGD31 million, SGD92 million, and SGD333 million, respectively, each with a coupon rate of 0.25%. DBS Bank had the largest coupon at 7.02% for its SGD2 million 1-year bond.

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Singapore

|   | Issuers                          | Outstanding Amount      |                         | State-Owned | Listed Company | Type of Industry |
|---|----------------------------------|-------------------------|-------------------------|-------------|----------------|------------------|
|   |                                  | LCY Bonds (SGD billion) | LCY Bonds (USD billion) |             |                |                  |
| 1.  | Housing & Development Board      | 22.4                    | 16.4                    | Yes         | No             | Real Estate      |
| 2.  | Land Transport Authority         | 5.0                     | 3.7                     | Yes         | No             | Transportation   |
| 3.  | Temasek Financial I              | 3.6                     | 2.6                     | Yes         | No             | Finance          |
| 4.  | Frasers Property                 | 3.4                     | 2.5                     | No          | Yes            | Real Estate      |
| 5.  | Singapore Airlines               | 3.0                     | 2.2                     | Yes         | Yes            | Transportation   |
| 6.  | Capitaland                       | 2.8                     | 2.0                     | Yes         | Yes            | Real Estate      |
| 7.  | United Overseas Bank             | 2.5                     | 1.8                     | No          | Yes            | Banking          |
| 8.  | Mapletree Treasury Services      | 2.3                     | 1.7                     | No          | No             | Finance          |
| 9.  | SP Powerassets                   | 1.9                     | 1.4                     | No          | No             | Utilities        |
| 10.   | Keppel Corporation               | 1.7                     | 1.2                     | No          | Yes            | Diversified      |
| 11.   | Capitaland Treasury              | 1.6                     | 1.2                     | No          | No             | Finance          |
| 12.   | DBS Group Holdings               | 1.5                     | 1.1                     | No          | Yes            | Banking          |
| 13.   | Olam International               | 1.4                     | 1.1                     | No          | Yes            | Consumer Goods   |
| 14.   | Public Utilities Board           | 1.4                     | 1.0                     | Yes         | No             | Utilities        |
| 15.   | GLL IHT                          | 1.4                     | 1.0                     | No          | No             | Real Estate      |
| 16.   | Hyflux                           | 1.2                     | 0.9                     | No          | Yes            | Utilities        |
| 17.   | Singtel Group Treasury           | 1.2                     | 0.8                     | No          | No             | Finance          |
| 18.   | CMT MTN                          | 1.1                     | 0.8                     | No          | No             | Finance          |
| 19.   | City Developments Limited        | 1.1                     | 0.8                     | No          | Yes            | Real Estate      |
| 20.   | National University of Singapore | 1.0                     | 0.7                     | No          | No             | Education        |
| 21.   | Sembcorp Industries              | 1.0                     | 0.7                     | No          | Yes            | Shipbuilding     |
| 22.   | Ascendas                         | 1.0                     | 0.7                     | No          | Yes            | Finance          |
| 23.   | Mapletree Commercial Trust       | 0.9                     | 0.6                     | No          | Yes            | Real Estate      |
| 24.   | Sembcorp Financial Services      | 0.9                     | 0.6                     | No          | No             | Engineering      |
| 25.   | DBS Bank                         | 0.8                     | 0.6                     | No          | Yes            | Banking          |
| 26.   | Overseas Union Enterprise        | 0.8                     | 0.6                     | No          | Yes            | Real Estate      |
| 27.   | SMRT Capital                     | 0.8                     | 0.6                     | No          | No             | Transportation   |
| 28.   | Suntec REIT                      | 0.8                     | 0.6                     | No          | Yes            | Real Estate      |
| 29.   | Keppel Land International        | 0.7                     | 0.5                     | No          | No             | Real Estate      |
| 30.   | CCT MTN                          | 0.7                     | 0.5                     | No          | No             | Real Estate      |
| <b>Total Top 30 LCY Corporate Issuers</b>       |                                  | <b>69.8</b>             | <b>51.2</b>             |             |                |                  |
| <b>Total LCY Corporate Bonds</b>                |                                  | <b>146.3</b>            | <b>107.4</b>            |             |                |                  |
| <b>Top 30 as % of Total LCY Corporate Bonds</b> |                                  | <b>47.7%</b>            | <b>47.7%</b>            |             |                |                  |

LCY = local currency, SGD = Singapore dollar, USD = United States dollar.

Notes:

1. Data as of 30 June 2018.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

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

**Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2018**

| Corporate Issuers           | Coupon Rate (%) | Issued Amount (SGD million) |
|-----------------------------|-----------------|-----------------------------|
| Housing & Development Board |                 |                             |
| 12-year bond                | 3.08            | 500                         |
| Ezion Holdings              |                 |                             |
| 6-year bond                 | 0.25            | 333                         |
| 7-year bond                 | 0.25            | 92                          |
| 10-year bond                | 0.25            | 31                          |
| Smart Capital               |                 |                             |
| 10-year bond                | 3.22            | 100                         |
| DBS Bank                    |                 |                             |
| 1-year bond                 | 7.02            | 2                           |

SGD = Singapore dollar.  
Source: Bloomberg LP.

## Policy, Institutional, and Regulatory Developments

### International Finance Corporation and Monetary Authority of Singapore Work Together to Promote Green Bonds in Asia

On 7 June, the International Finance Corporation and MAS signed a memorandum of understanding to promote green bonds in Asia and the Pacific. They will hold capacity building programs to improve awareness and knowledge of green financing issuances, and will promote international best practices and frameworks related to green bonds. Through the partnership, they hope to address climate change through the financing of low-carbon investments in the region.

### Singapore Government Moves to Cool Property Market

On 5 July, in order to control the rising prices of residential properties, the Government of Singapore increased Additional Buyer's Stamp Duty rates for those buying second and subsequent residential properties and tightened loan-to-value limits for housing loans. The increased rates and tighter lending policy seek to prevent the property market from overheating, eventually requiring corrections that could destabilize the economy, especially as interest rates and the housing supply have both been rising.

## Thailand

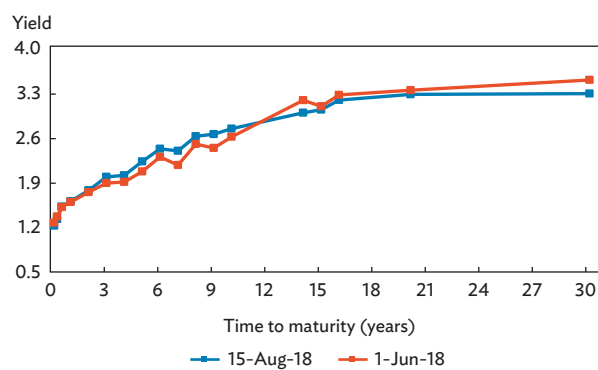
### Yield Movements

Between 1 June and 15 August, declining yields on local currency (LCY) government bonds were observed at both ends of the curve, while yields in the belly of the curve increased (**Figure 1**). Yields on Treasury bills with 1-month and 3-month maturities declined 5 basis points (bps) on average, while bonds at the longer-end of the curve (maturities of 14 year and above) saw declines ranging from 5 bps to 21 bps. On the other hand, yields on government securities with 6-month to 10-year tenors increased in the review period, with the biggest jump noted for the yield of the 7-year tenor at 22 bps and the smallest for the 6-month tenor at 0.9 bps. The yield spread between 2-year and 10-year tenors widened to 96 bps on 15 August from 87 bps on 1 June.

The decline in yields for bonds at the shorter-end of the curve can be traced to the Bank of Thailand (BOT) maintaining its key policy rate in its latest policy-setting meeting in August. Expectations of interest rates remaining low, at least in the immediate-term, contributed to the lower bond yields. While the policy rate was left unchanged in August, the central bank stated that there would be less need for an accommodative monetary policy over time, signaling that eventually a policy hike would be forthcoming. This was reflected in the yield increases for medium-term securities. Uncertainties emanating from global developments, monetary policy tightening in developed economies, and trade tensions also influenced the climb in yields. On the domestic front, the weakening Thai baht and the pick-up in inflation may have compelled investors to seek higher interest rates.

The Monetary Policy Committee of the BOT decided to maintain the 1-day repurchase rate at 1.5% in its monetary policy meeting on 8 August, indicating that the BOT would not rush to match the rate hikes of some of its regional peers. The decision came on the back of Thai economic growth that continued to gain traction and as inflation, though picking up, is expected to remain within the central bank's target range of 1.0%–4.0%. However, one committee member voted to raise the policy rate during the meeting, viewing it as a means to curb financial stability risks that could negatively affect the sustainability of economic growth.

**Figure 1: Thailand's Benchmark Yield Curve—Local Currency Government Bonds**



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

The Thai baht continued to depreciate against the United States (US) dollar during the review period, losing 3.8% in value between 1 June and 15 August, in line with other currencies in emerging East Asia. The volatility of the domestic currency resulted from uncertainties pertaining to the monetary policy outlook of advanced economies, concerns over global trade tensions, and risks related to emerging markets in general. Market participants expect the baht to recover if clearer hints of a policy rate hike emanate from the BOT.

Consumer price inflation in Thailand climbed to 1.5% year-on-year (y-o-y) in July, the 13th consecutive month of price increases since deflation was last recorded in June 2017. Inflation has rebounded to within the central bank's 2018 target range of 1.0%–4.0% since April and is expected to remain within this range for the remainder of 2018. Core inflation, which excludes raw food and energy prices, slowed to 0.79% y-o-y in July from 0.83% y-o-y in June.

Thailand's economic performance was better than expected in the second quarter (Q2) of 2018, with gross domestic product expanding 4.6% y-o-y. However, the growth was slower compared with an expansion of 4.9% y-o-y in the first quarter (Q1) of 2018. On the expenditure side, the expansion was underpinned by an acceleration in private consumption (4.5% y-o-y), investment (3.6% y-o-y), and exports (6.4% y-o-y), while

government consumption growth slowed to 1.4% y-o-y. On the production side, the growth was supported by the accelerated expansion of the agriculture sector to 10.4% y-o-y, while growth in other sectors moderated. For the first half of 2018, Thailand's economy expanded 4.8% y-o-y. According to the National Economic and Social Development Board, the Thai economy is forecast to grow between 4.2% and 4.7% in full-year 2018, supported by improvements in the global economy and favorable expansions in domestic consumption and investment.

## Size and Composition

Thailand's total LCY bond market reached a size of THB11.9 trillion (USD362 billion) at the end of June on growth of 4.7% quarter-on-quarter (q-o-q) and 8.8% y-o-y, both of which were up compared with the previous quarter (**Table 1**). On a q-o-q basis, government bonds outpaced corporate bond growth, while the opposite was the case on a y-o-y basis. Government bonds account for 72.5% of the LCY bond market and corporate bonds accounted for 27.5% at the end of June.

**Government bonds.** The size of the LCY government bond market expanded 5.6% q-o-q, amounting to THB8.7 trillion at the end of June. The q-o-q growth was much faster compared with only a marginal increase at the end of March. All government bond instruments posted positive q-o-q growth in Q2 2018: government bonds and Treasury bills increased 3.0% q-o-q, while central bank bills and state-owned enterprise and other bonds posted growth of 10.0% q-o-q and 3.2% q-o-q,

respectively, following contractions in the previous quarter. On a y-o-y basis, growth at the end of June was 8.7% y-o-y, recovering from the decline observed at the end of March.

The higher q-o-q growth rate in government bonds outstanding was driven by increased debt issuance from the central bank and state-owned enterprises in Q2 2018. BOT bill issuance, which represented 81% of total government bond sales during the quarter, increased 2.5% q-o-q while sales of state-owned enterprise bonds more than doubled on a q-o-q in basis. The increase in BOT bonds can be attributed to the central bank's move to increase its short-term bond supply starting 15 May after a year-long tapering program. In April 2017, the BOT cut its short-term bond issuance to restrain the strength of the baht by shifting fund flows into longer-dated from shorter-dated debt. In contrast, the issuance of government bonds and Treasury bills declined 5.4% q-o-q. While growth in issuance from the government remained positive on a q-o-q basis in Q2 2018, it was modest compared to the growth posted in Q1 2018. Total LCY bond issuance from the government during the quarter amounted to THB1.8 billion.

**Corporate bonds.** The amount of outstanding LCY corporate bonds totaled THB3.3 trillion at the end of June on growth of 2.4% q-o-q and 9.1% y-o-y. These paces of expansion were slower compared with q-o-q and y-o-y growth rates in Q1 2018. The slower growth was due to weaker bonds sales from corporates. Corporate issuance in Q2 2018 declined 20.5% q-o-q and 18.9% y-o-y, reversing the 3.0% q-o-q and 25.9% y-o-y growth in

**Table 1: Size and Composition of the Local Currency Bond Market in Thailand**

|  | Outstanding Amount (billion) |            |               |            |               |            | Growth Rate (%) |            |            |            |
|--|------------------------------|------------|---------------|------------|---------------|------------|-----------------|------------|------------|------------|
|  | Q2 2017                      |            | Q1 2018       |            | Q2 2018       |            | Q2 2017         |            | Q2 2018    |            |
|  | THB                          | USD        | THB           | USD        | THB           | USD        | q-o-q           | y-o-y      | q-o-q      | y-o-y      |
| <b>Total</b>                           | <b>10,973</b>                | <b>323</b> | <b>11,410</b> | <b>366</b> | <b>11,944</b> | <b>362</b> | <b>(1.7)</b>    | <b>5.8</b> | <b>4.7</b> | <b>8.8</b> |
| Government                             | 7,964                        | 235        | 8,203         | 263        | 8,661         | 262        | (3.4)           | 3.2        | 5.6        | 8.7        |
| Government Bonds and Treasury Bills    | 4,103                        | 121        | 4,425         | 142        | 4,559         | 138        | (2.4)           | 5.6        | 3.0        | 11.1       |
| Central Bank Bonds                     | 3,080                        | 91         | 2,969         | 95         | 3,268         | 99         | (6.1)           | 1.7        | 10.0       | 6.1        |
| State-Owned Enterprise and Other Bonds | 781                          | 23         | 808           | 26         | 834           | 25         | 1.9             | (3.2)      | 3.2        | 6.8        |
| Corporate                              | 3,009                        | 89         | 3,208         | 103        | 3,284         | 99         | 3.3             | 13.5       | 2.4        | 9.1        |

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

Notes:

1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY-USD rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.

Sources: Bank of Thailand and Bloomberg LP.

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Thailand

|   | Issuers                                | Outstanding Amount      |                         | State-Owned | Listed Company | Type of Industry             |
|---|--|-------------------------|-------------------------|-------------|----------------|------------------------------|
|   |  | LCY Bonds (THB billion) | LCY Bonds (USD billion) |             |                |                              |
| 1.  | Siam Cement                            | 181.5                   | 5.5                     | Yes         | Yes            | Construction Materials       |
| 2.  | CP All                                 | 179.3                   | 5.4                     | No          | Yes            | Commerce                     |
| 3.  | PTT Public Company                     | 129.3                   | 3.9                     | Yes         | Yes            | Energy and Utilities         |
| 4.  | Berli Jucker                           | 122.0                   | 3.7                     | No          | Yes            | Food and Beverage            |
| 5.  | Bank of Ayudhya                        | 118.0                   | 3.6                     | No          | Yes            | Banking                      |
| 6.  | Charoen Pokphand Foods                 | 87.5                    | 2.6                     | No          | Yes            | Food and Beverage            |
| 7.  | Indorama Ventures                      | 68.4                    | 2.1                     | No          | Yes            | Petrochemicals and Chemicals |
| 8.  | Thai Airways International             | 60.1                    | 1.8                     | Yes         | Yes            | Transportation and Logistics |
| 9.  | Toyota Leasing Thailand                | 59.8                    | 1.8                     | No          | No             | Finance and Securities       |
| 10.   | Tisco Bank                             | 56.9                    | 1.7                     | No          | No             | Banking                      |
| 11.   | Thai Beverage                          | 50.0                    | 1.5                     | No          | No             | Food and Beverage            |
| 12.   | CPF Thailand                           | 44.0                    | 1.3                     | No          | Yes            | Food and Beverage            |
| 13.   | Krungthai Card                         | 43.7                    | 1.3                     | Yes         | Yes            | Banking                      |
| 14.   | Banpu                                  | 41.8                    | 1.3                     | No          | Yes            | Energy and Utilities         |
| 15.   | Mitr Phol Sugar                        | 41.7                    | 1.3                     | No          | No             | Food and Beverage            |
| 16.   | Land & Houses                          | 40.5                    | 1.2                     | No          | Yes            | Property and Construction    |
| 17.   | Advanced Wireless                      | 40.2                    | 1.2                     | No          | Yes            | Communications               |
| 18.   | TPI Polene                             | 39.0                    | 1.2                     | No          | Yes            | Property and Construction    |
| 19.   | Bangkok Expressway and Metro           | 38.2                    | 1.2                     | No          | Yes            | Transportation and Logistics |
| 20.   | True Move H Universal Communication    | 36.0                    | 1.1                     | No          | No             | Communications               |
| 21.   | Bangkok Commercial Asset Management    | 34.5                    | 1.0                     | No          | No             | Finance and Securities       |
| 22.   | Thai Union Group                       | 33.8                    | 1.0                     | No          | Yes            | Food and Beverage            |
| 23.   | PTT Exploration and Production Company | 29.6                    | 0.9                     | Yes         | Yes            | Energy and Utilities         |
| 24.   | DTAC Trinet                            | 29.5                    | 0.9                     | No          | Yes            | Communications               |
| 25.   | Thanachart Bank                        | 28.5                    | 0.9                     | No          | No             | Banking                      |
| 26.   | Kasikorn Bank                          | 28.0                    | 0.8                     | No          | Yes            | Banking                      |
| 27.   | CH. Karnchang                          | 27.8                    | 0.8                     | No          | Yes            | Property and Construction    |
| 28.   | Bangkok Dusit Medical Services         | 26.7                    | 0.8                     | No          | Yes            | Medical                      |
| 29.   | True Corp                              | 25.8                    | 0.8                     | No          | Yes            | Communications               |
| 30.   | Thai Oil                               | 23.5                    | 0.7                     | No          | Yes            | Energy and Utilities         |
| <b>Total Top 30 LCY Corporate Issuers</b>       |  | <b>1,765.3</b>          | <b>53.4</b>             |             |                |                              |
| <b>Total LCY Corporate Bonds</b>                |  | <b>3,283.9</b>          | <b>99.4</b>             |             |                |                              |
| <b>Top 30 as % of Total LCY Corporate Bonds</b> |  | <b>53.8%</b>            | <b>53.8%</b>            |             |                |                              |

LCY = local currency, THB = Thai baht, USD = United States dollar.

Notes:

1. Data as of 30 June 2018.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

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



issuance logged in Q1 2018. The declines can be traced to the Securities and Exchange Commission's stricter rules governing bond issuance.

The aggregate outstanding bonds of the top 30 corporate issuers at the end of June amounted to THB1.8 trillion, accounting for 53.8% of the total LCY corporate bond market (**Table 2**). The list of top 30 issuers comprised 23 listed firms and 7 unlisted firms, and was led by food and beverage firms with total outstanding bonds of THB379 billion. However, the firm with the highest amount of outstanding bonds at the end of June was state-owned Siam Cement with THB181.5 billion.

Siam Cement also had the single-largest issuance in Q2 2018 with a 4-year tenor valued at THB30 billion and carrying a coupon rate of 3.0%. Other notable issuances during the quarter are listed in **Table 3**, including multitranche bond sales from Indorama Ventures Public Company, CPF Thailand, and Bangkok Expressway and Metro.

## Investor Profile

**Central government bonds.** The investor profile of central government bond holders in June was little changed from a year earlier (**Figure 2**). Financial corporations remained the largest holder of central government bonds with a share of 42.5%, marginally down

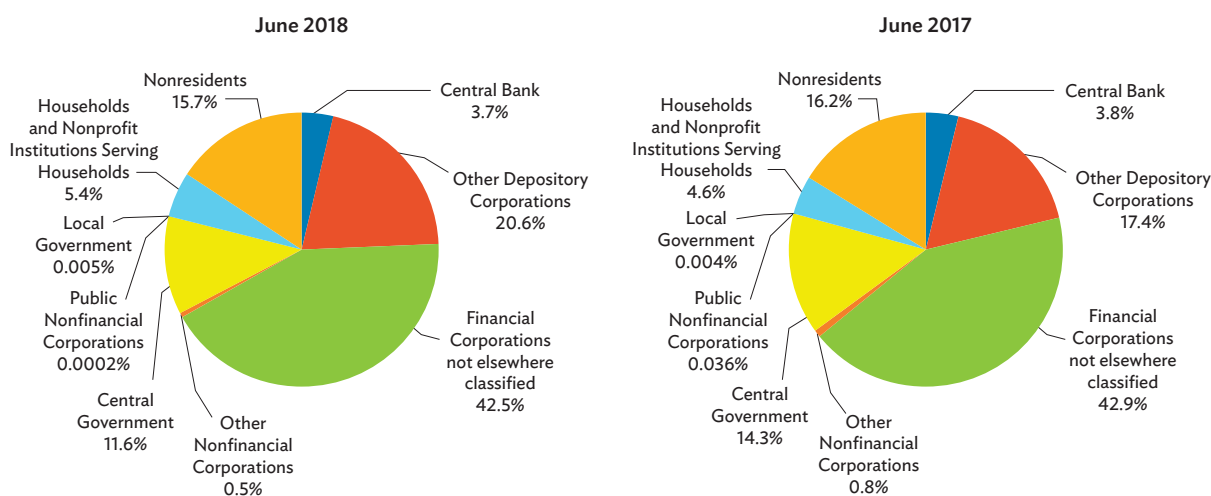
**Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2018**

| Corporate Issuers                | Coupon Rate (%) | Issued Amount (THB million) |
|----------------------------------|-----------------|-----------------------------|
| Siam Cement                      |                 |                             |
| 4-year bond                      | 3.00            | 30,000                      |
| Indorama Ventures Public Company |                 |                             |
| 3-year bond                      | 2.31            | 3,000                       |
| 5-year bond                      | 2.78            | 3,000                       |
| 12-year bond                     | 4.12            | 5,000                       |
| 15-year bond                     | 4.27            | 3,200                       |
| CPF Thailand                     |                 |                             |
| 3-year bond                      | 2.43            | 4,500                       |
| 6-year bond                      | 3.24            | 4,000                       |
| 12-year bond                     | 4.16            | 3,500                       |
| Bangkok Expressway and Metro     |                 |                             |
| 5-year bond                      | 2.46            | 3,500                       |
| 7-year bond                      | 3.01            | 3,500                       |

THB = Thai baht.  
Source: Bloomberg LP.

from 42.9% in June 2017. Other depository corporations had the second-largest holdings share at the end of June, accounting for 20.6%, and posted the largest nominal share increase (3.2 percentage points), among all investor groups during the review period. The central government, whose holdings comprised 11.6% of central government bonds outstanding, posted the largest nominal drop in its holdings share from 14.3% a year earlier. Public

**Figure 2: Local Currency Government Bonds Investor Profile**



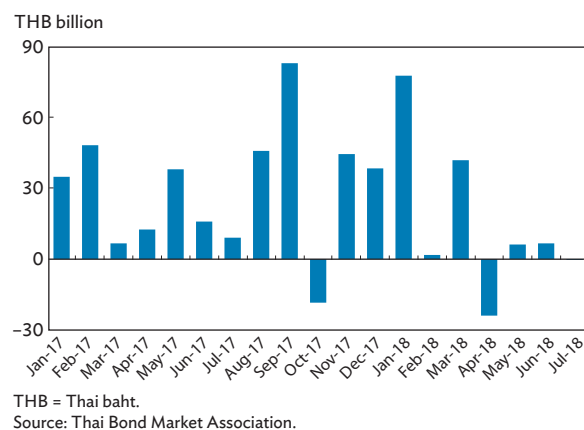
Note: Government bonds include Treasury bills and bonds.  
Sources: AsianBondsOnline and Bank of Thailand.

nonfinancial corporations continued to have the smallest holdings share of central government bonds in June.

**Central bank bonds.** Other depository corporations remained the largest holder of central bank bonds in June, although their share declined to 39.5% from 44.2% from a year earlier (Figure 3). Financial corporations' holdings share of central bank bonds increased to 27.6% from 23.5% during the review period. Other investor groups that showed increased holdings during the review period were foreign investors, whose share more than doubled to 4.1% from 2.0%; households and nonprofit institutions serving households; and public nonfinancial corporations. The central bank, other nonfinancial corporations, and the central government all experienced decreases in their respective holdings' shares during the same period.

Thailand recorded net inflows of THB109.3 billion into its LCY bond market in January–July, down about 34% from the same period in 2017 (Figure 4). The slowdown in fund inflows can be traced to the accelerated pace of interest rate hikes in the US as well as signals of monetary policy tightening from other major central banks at the same time the BOT held its policy rate unchanged. Foreign investors withdrew THB24.0 billion from the Thai bond market in April, with net inflows recovering in May and June to THB6.1 billion and THB6.6 billion, respectively. In July, Thailand recorded net outflows of THB400 million

**Figure 4: Foreign Investor Net Trading of Local Currency Bonds in Thailand**



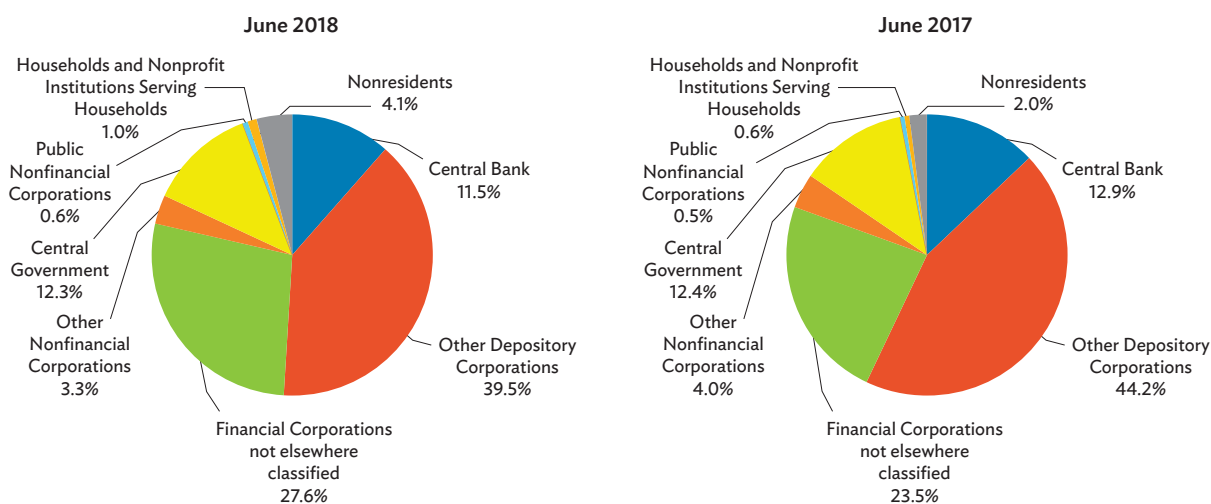
that were triggered by the weakening of the domestic currency.

## Ratings Update

### Fitch Ratings Affirms Thailand’s BBB+ Rating with a Stable Outlook

On 7 June, Fitch Ratings affirmed Thailand’s long-term, foreign currency issuer default rating at BBB+ with a stable outlook. According to Fitch Ratings, the

**Figure 3: Local Currency Central Bank Securities Investor Profile**



Source: Bank of Thailand.

affirmation reflected solid external and public finances, which enhance resiliency to economic shocks. The rating agency cited a sustained and broad-based improvement in growth and the resolution of social and political tensions as grounds for the rating upgrade, while renewed political disruption and a larger and/or sustained rise in government debt ratios could negatively affect Thailand's credit rating.

### RAM Ratings Affirms Thailand's Ratings

On 12 June, RAM Ratings affirmed Thailand's global scale rating of  ${}_{g}BBB_{1}(pi)$  and the Association of Southeast Asian Nations scale rating of  ${}_{sea}AA_{1}(pi)$ . The ratings were both given a stable outlook. In making its decision, RAM Ratings took note of Thailand's robust external finances, well-diversified economy, and fiscal position.

## Policy, Institutional, and Regulatory Developments

### Thailand's Cabinet Approves Medium-Term Fiscal Plan, 2019–2020

Thailand's cabinet approved the medium-term fiscal plan for 2019–2020 in accordance with the Fiscal Responsibility Act, which seeks to maximize the effectiveness of budget spending and prevent pork barrel schemes. Under the approved plan, the government is set to increase tax collections and reduce infrastructure expenditures through public–private partnerships and the Thailand Future Fund. In addition, the government will run a budget deficit of THB450 billion in 2018–2019, THB452 billion in 2020, and THB524 billion in 2021.

## Viet Nam

### Yield Movements

Between 1 June and 15 August, local currency (LCY) government bond yields in Viet Nam climbed for all tenors, shifting the entire curve upward (**Figure 1**). Yields rose more at the shorter-end than the longer-end, causing the curve to flatten during the review period. Yields gained an average of 138 basis points (bps) for maturities of 1 year to 3 years, and an average of 27 bps for maturities of 10 years and 15 years. As a result, the spread between the 2-year and 10-year tenors narrowed from 199 bps on 1 June to 88 bps on 15 August.

The overall rise in yields was reflective of strong economic growth posted in the first half of the year. The economy, as measured by gross domestic product (GDP), expanded in the first half of the year by 7.1% year-on-year (y-o-y). Much of the growth in the first half of the year was contributed by the industry and construction sector (9.1% y-o-y) and services sector (6.9% y-o-y). To a lesser extent, the agriculture, forestry, and fishery sector (3.9% y-o-y) also contributed to the growth.

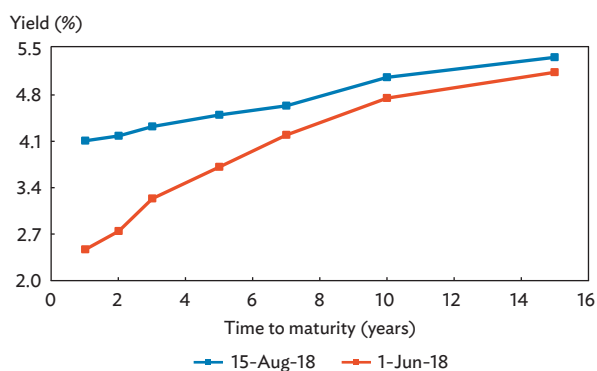
Consumer price inflation has trended upward since the start of the year, with upticks noted in most major subindexes. Consumer price inflation climbed from 2.8% y-o-y in April to 3.9% y-o-y in May, further accelerating to 4.7% y-o-y in June before easing slightly to 4.5% y-o-y in July. The target inflation rate set by the National Assembly (Parliament) for full-year 2018 is 4.0%.

The State Bank of Vietnam (SBV) has engaged in open market operations to rein in inflation and stabilize the value of the Vietnamese dong. The Vietnamese dong depreciated 2.2% against the United States (US) dollar during the review period, in line with the broad strengthening of the US dollar against most emerging market currencies. Further dampening sentiments for the bond market were risks arising from trade tensions between the People's Republic of China and the US, two of Viet Nam's largest trading partners.

### Size and Composition

Viet Nam's LCY bond market was the sole market in emerging East Asia that posted a quarter-on-quarter

**Figure 1: Viet Nam's Benchmark Yield Curve—  
Local Currency Government Bonds**



Source: Based on data from Bloomberg LP.

(q-o-q) contraction in bonds outstanding in Q2 2018. At the end of June, the LCY bond market's size stood at VND1,173.2 trillion, which was down 1.4% q-o-q and reversed a 10.8% q-o-q hike in Q1 2018 (**Table 1**). On a y-o-y basis, however, it posted growth of 13.7%.

**Government bonds.** The outstanding amount of LCY government bonds slipped to VND1,096.0 trillion at the end of June, falling 2.1% q-o-q but rising 12.2% y-o-y. Treasury bills and bonds were the sole sources of growth, as central bank bills and government-guaranteed and municipal bonds posted declines during the review period. Treasury bills and bonds accounted for the largest share of the government bond stock at the end of June, representing a 78.2% share of the total.

The stock of Treasury bills and bonds stood at VND857.5 trillion at the end of June, up 1.7% q-o-q and 8.7% y-o-y. In Q2 2018, issuance of Treasury instruments slowed to VND23.4 trillion on double-digit declines on a q-o-q and y-o-y basis. Most auctions of Treasury bonds fell short of the target amount as investors sought higher yields. The government, however, was unwilling to accept higher borrowing costs in order to fulfill its funding requirements due to the slow disbursement of investment capital. At the end of July, the disbursement of capital by the Government of Viet Nam amounted to VND133.8 trillion, equivalent to only 35.6% of the planned target for the year. Of this amount, disbursement of capital from the issuance of

**Table 1: Size and Composition of the Local Currency Bond Market in Viet Nam**

|  | Outstanding Amount (billion) |     |           |     |           |     | Growth Rate (%) |         |         |       |
|--|------------------------------|-----|-----------|-----|-----------|-----|-----------------|---------|---------|-------|
|  | Q2 2017                      |     | Q1 2018   |     | Q2 2018   |     | Q2 2017         |         | Q2 2018 |       |
|  | VND                          | USD | VND       | USD | VND       | USD | q-o-q           | y-o-y   | q-o-q   | y-o-y |
| <b>Total</b>                               | 1,032,075                    | 45  | 1,189,434 | 52  | 1,173,232 | 51  | 0.6             | 6.8     | (1.4)   | 13.7  |
| Government                                 | 976,720                      | 43  | 1,119,575 | 49  | 1,095,953 | 48  | 1.3             | 6.8     | (2.1)   | 12.2  |
| Treasury Bonds                             | 789,130                      | 35  | 843,522   | 37  | 857,454   | 37  | 2.0             | 10.2    | 1.7     | 8.7   |
| Central Bank Bills                         | 0                            | 0   | 91,270    | 4   | 58,400    | 3   | -               | (100.0) | (36.0)  | -     |
| State-Owned Enterprise and Municipal Bonds | 187,590                      | 8   | 184,783   | 8   | 180,099   | 8   | (1.7)           | (0.4)   | (2.5)   | (4.0) |
| Corporate                                  | 55,354                       | 2   | 69,859    | 3   | 77,279    | 3   | (10.7)          | 7.9     | 10.6    | 39.6  |

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

Notes:

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

2. Growth rates are calculated from an LCY base and do not include currency effects.

Sources: Bloomberg LP and Vietnam Bond Market Association.

government bonds amounted to VND7.0 billion, or only 17.6% of the target.

On the other hand, the outstanding stocks of central bank bills and government-guaranteed and municipal bonds declined at the end of June. The stock of central bank bills, which are used mainly for liquidity management, declined 36.0% q-o-q as maturity exceeded new issuance. The outstanding size of government-guaranteed and municipal bonds slipped 2.5% q-o-q due to the absence of issuance of these instruments during the review period.

**Corporate bonds.** At the end of June, the outstanding amount of corporate bonds climbed to VND77.3 trillion on growth of 10.6% q-o-q and 39.6% y-o-y. The entire LCY corporate bond market of Viet Nam comprised 41 corporate institutions, coming from a diverse set of industries.<sup>9</sup> The majority of these issuers also tapped the equity market for their funding needs.

The 30 largest issuers of corporate bonds had cumulative bonds outstanding of VND75.5 trillion, representing a 97.7% share of the total corporate bond stock at the end of June (Table 2). Masan Consumer Holdings led the list with outstanding bonds valued at VND11.1 trillion, accounting for nearly 15% of the total corporate bond stock. In the second and third spots, respectively, was real estate firm Vingroup (VND9.6 trillion) and state-owned lender Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietinbank) (VND8.2 trillion). Together, these

three firms represented nearly 40% of the total corporate bond stock at the end of June.

In Q2 2018, a total of eight firms issued new corporate debt, raising a total of VND8.5 trillion. The issuance of corporate bonds during the quarter rose more than four-fold from that of Q1 2018, albeit coming from a low base. Some of the largest corporate debt issues during the quarter are presented in Table 3.

Leading the list was state-owned Vietinbank, which raised VND4.0 trillion from the sale of a 10-year bond in June. It was followed by Hoang Anh Gia Lai International Agriculture's issuance of a VND2.2 trillion zero-coupon bond. Third on the list was Nam Long Investment's sale of a 7-year bond worth VND660 billion in June. The three largest issuers of new corporate debt in Q2 2018 were all listed firms.

## Policy, Institutional, and Regulatory Developments

### State Bank of Vietnam Issues Regulation Governing Purchase of Corporate Bonds by Banking Institutions

In June, the SBV issued a regulation that restricts the purchase of corporate bonds by banking institutions, including foreign banks. Under the regulation, credit institutions and foreign bank branches are required

<sup>9</sup> As most bonds in Viet Nam are issued via private placement, our data on corporate bonds may be understated.

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Viet Nam

| Issuers   | Outstanding Amount      |                         | State-Owned | Listed Company | Type of Industry             |
|---|-------------------------|-------------------------|-------------|----------------|------------------------------|
|   | LCY Bonds (VND billion) | LCY Bonds (USD billion) |             |                |                              |
| 1. Masan Consumer Holdings                                    | 11,100                  | 0.48                    | No          | No             | Diversified Operations       |
| 2. Vingroup   | 9,600                   | 0.42                    | No          | Yes            | Real Estate                  |
| 3. Vietnam Joint Stock Commercial Bank for Industry and Trade | 8,200                   | 0.36                    | Yes         | Yes            | Banking                      |
| 4. Asia Commercial Bank                                       | 4,600                   | 0.20                    | No          | No             | Banking                      |
| 5. Hoang Anh Gia Lai  | 4,000                   | 0.17                    | No          | Yes            | Real Estate                  |
| 6. No Va Land Investment Group                                | 3,800                   | 0.17                    | No          | Yes            | Real Estate                  |
| 7. Bank for Investment and Development of Vietnam             | 3,050                   | 0.13                    | Yes         | Yes            | Banking                      |
| 8. Masan Group  | 3,000                   | 0.13                    | No          | Yes            | Finance                      |
| 9. Vietnam Prosperity Joint Stock Commercial Bank             | 3,000                   | 0.13                    | No          | Yes            | Banking                      |
| 10. Vietnam Technological and Commercial Joint Stock Bank     | 3,000                   | 0.13                    | No          | No             | Banking                      |
| 11. Sai Dong Urban Investment and Development                 | 2,600                   | 0.11                    | No          | No             | Real Estate                  |
| 12. Hoang Anh Gia Lai International Agriculture               | 2,217                   | 0.10                    | No          | Yes            | Agriculture                  |
| 13. Joint Stock Commercial Bank for Foreign Trade of Vietnam  | 2,000                   | 0.09                    | Yes         | Yes            | Banking                      |
| 14. Ho Chi Minh City Infrastructure Investment                | 1,830                   | 0.08                    | No          | Yes            | Infrastructure               |
| 15. Vietnam Electrical Equipment                              | 1,800                   | 0.08                    | No          | Yes            | Manufacturing                |
| 16. Saigon Securities   | 1,650                   | 0.07                    | No          | Yes            | Finance                      |
| 17. Agro Nutrition International                              | 1,300                   | 0.06                    | No          | No             | Agriculture                  |
| 18. Saigon-Hanoi Securities                                   | 1,150                   | 0.05                    | No          | Yes            | Finance                      |
| 19. Mobile World Investment                                   | 1,135                   | 0.05                    | No          | Yes            | Manufacturing                |
| 20. DIC Corporation   | 1,000                   | 0.04                    | Yes         | No             | Chemicals                    |
| 21. Vietnam Bank for Agriculture and Rural Development        | 760                     | 0.03                    | Yes         | No             | Banking                      |
| 22. KinhBac City Development Holding                          | 700                     | 0.03                    | No          | Yes            | Real Estate                  |
| 23. Nam Long Investment                                       | 660                     | 0.03                    | No          | Yes            | Real Estate                  |
| 24. Sai Gon Thuong Tin Real Estate Joint Stock                | 600                     | 0.03                    | No          | Yes            | Real Estate                  |
| 25. Khang Dien House Trading and Investment                   | 534                     | 0.02                    | No          | Yes            | Building and Construction    |
| 26. Tasco Corporation   | 500                     | 0.02                    | No          | Yes            | Engineering and Construction |
| 27. An Phat Plastic & Green Environment                       | 450                     | 0.02                    | No          | Yes            | Industrial                   |
| 28. Cuu Long Pharmaceutical                                   | 450                     | 0.02                    | No          | Yes            | Manufacturing                |
| 29. Thanh Thanh Cong-Bien Hoa Joint Stock Company             | 450                     | 0.02                    | No          | Yes            | Industrial                   |
| 30. Sotrans Corporation                                       | 400                     | 0.02                    | No          | No             | Logistics                    |
| <b>Total Top 30 LCY Corporate Issuers</b>                     | <b>75,537</b>           | <b>3.29</b>             |             |                |                              |
| <b>Total LCY Corporate Bonds</b>                              | <b>77,279</b>           | <b>3.37</b>             |             |                |                              |
| <b>Top 30 as % of Total LCY Corporate Bonds</b>               | <b>97.7%</b>            | <b>97.7%</b>            |             |                |                              |

LCY = local currency, USD = United States dollar, VND = Vietnamese dong.

Notes:

1. Data as of 30 June 2018.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Sources: *AsianBondsOnline* calculations based on Bloomberg LP and Vietnam Bond Market Association data.

**Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2018**

| Corporate Issuers  | Coupon Rate (%) | Issued Amount (VND billion) |
|--|-----------------|-----------------------------|
| Vietnam Joint Stock Commercial Bank for Industry and Trade |                 |                             |
| 10-year bond   | 7.50            | 4,000                       |
| Hoang Anh Gia Lai International Agriculture                |                 |                             |
| 1-year bond  | 0.00            | 2,217                       |
| Nam Long Investment  |                 |                             |
| 7-year bond  | 6.50            | 660                         |
| Saigon-Hanoi Securities                                    |                 |                             |
| 2-year bond  | 8.80            | 650                         |

VND = Vietnamese dong.  
Source: Bloomberg LP.

to conduct an internal credit scoring and rating of corporate bonds that they plan to purchase. Also, internal management regulations are required to be made for

evaluating bond investments, particularly for corporate bonds issued to finance projects in potentially risky areas. Credit institutions and foreign bank branches are also prohibited from purchasing corporate bonds that are issued to fund corporate debt restructuring. This law came into effect in August.

### State Treasury Plans to Raise VND75 Trillion Through the Issuance of Government Bonds in the Third Quarter of 2018

In July, the State Treasury released its bond issuance plan worth VND75 trillion for the third quarter of 2018. Of this total, about 50% will comprise bonds with maturities of 10 years and 15 years, 30% will comprise bonds with maturities of 5 years and 7 years, and 20% will comprise bonds with maturities of 20 years and 30 years. For full-year 2018, the government plans to issue about VND200 trillion in government bonds, with issuance concentrated in longer-term maturities.