

Bond Market Developments in the Second Quarter of 2019

Size and Composition

The outstanding amount of emerging East Asia's local currency bonds climbed to USD15.3 trillion at the end of June.

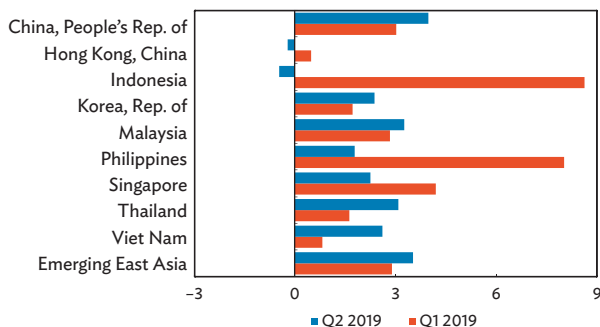
Emerging East Asia's local currency (LCY) bond market expanded in size to reach USD15.3 trillion at the end of June.³ The region's bond market saw growth of 3.5% quarter-on-quarter (q-o-q) in the second quarter (Q2) of 2019, up from 2.9% q-o-q in the first quarter (Q1) (Figure 1a). Except for Indonesia and Hong Kong, China, all markets in emerging East Asia posted positive q-o-q growth in Q2 2019. The fastest growth rates were noted in the People's Republic of China (PRC), Malaysia, and Thailand. Compared with Q1 2019, the q-o-q growth rate accelerated in five out of nine emerging East Asian

markets, including the PRC, the Republic of Korea, Malaysia, Thailand, and Viet Nam.

On a year-on-year (y-o-y) basis, growth in emerging East Asia's LCY bond market climbed to 14.2% in Q2 2019 from 14.0% in Q1 2019 (Figure 1b). All nine bond markets in the region posted positive y-o-y expansions in Q2 2019, with the fastest growth seen in Indonesia and the Philippines, albeit from a low base in both cases. The PRC emerged as the third-fastest growing bond market on a y-o-y basis. Compared with the previous quarter, annual bond market growth moderated in Q2 2019 in Hong Kong, China; Indonesia; the Philippines; and Thailand.

The PRC bond market remained the largest in the region in terms of size with an outstanding bond stock of

Figure 1a: Growth of Local Currency Bond Markets in the First and Second Quarters of 2019 (q-o-q, %)



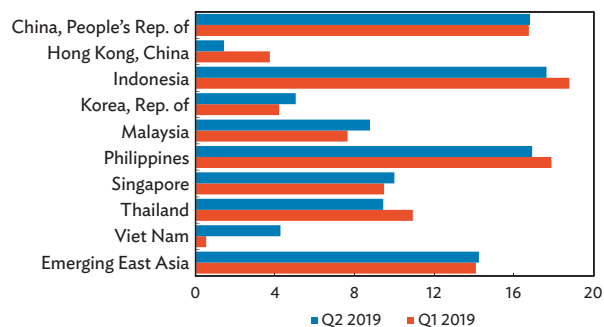
q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second quarter.

Notes:

1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. Emerging East Asia growth figures are based on 30 June 2019 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.

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

Figure 1b: Growth of Local Currency Bond Markets in the First and Second Quarters of 2019 (y-o-y, %)



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

Notes:

1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
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³ Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

USD11.5 trillion at the end of June, which represented a 75.3% share of emerging East Asia's bond total, the same as at the end of March. Growth in the PRC's bond market climbed to 4.0% q-o-q in Q2 2019 from 3.0% q-o-q in Q1 2019 on accelerated increases in both the stock of government and corporate bonds.

While all government bond categories in the PRC showed growth in Q2 2019, the fastest growth came from local government bonds, which expanded 5.4% q-o-q. The outstanding amount of local government bonds expanded after the Ministry of Finance issued directives in April for local governments to accelerate issuance and utilize special bonds to support economic growth and finance development projects. For full-year 2019, the local government bond allocation quota was set at CNY3.08 trillion, which the government has targeted to be reached by September. As a result, local government bond issuance has been very active in the first half of the year. Treasury and other government bonds and policy bank bonds also contributed to the overall growth in government bonds.

While corporate bond market growth eased to 3.6% q-o-q in Q2 2019 from 4.1% q-o-q in the prior quarter, the overall stock of corporate bonds expanded substantially. Growth was driven by increases in financial bonds as financial firms beefed up their funding and capital. Local corporate bonds outstanding also rose during the quarter. On an annual basis, the PRC's bond market maintained its pace of growth at 16.7% for the second quarter in a row.

The Republic of Korea, which is home to the second largest LCY bond market in the region, had LCY outstanding bonds totaling USD2.0 trillion at the end of June. However, its share of the regional total continued to decline, slipping to 13.2% at the end of Q2 2019 from 13.3% in the prior quarter and from 14.4% in the same period a year earlier. Overall bond market growth rose to 2.4% q-o-q in Q2 2019 from 1.7% q-o-q in Q1 2019, buoyed by the corporate bond segment and, to a lesser extent, government bonds. Growth in government bonds moderated to 1.7% q-o-q in Q2 2019 from 1.9% q-o-q in the prior quarter on a contraction in the stock of other government bonds and marginal growth in central bank bonds. The stock of central government bonds, on the other hand, expanded 2.7% q-o-q, as the government continued its frontloading policy to boost

government spending in an effort to spur a slowing economy. Corporate bonds climbed 2.9% q-o-q, lifted by increased issuance during the quarter. On a y-o-y basis, the Republic of Korea's LCY bond market grew 5.0% in Q2 2019, mainly driven by the corporate bond market.

The LCY bonds outstanding of Hong Kong, China declined to USD250.4 billion on negative growth of 0.2% q-o-q in Q2 2019. This was a reversal from the 0.5% q-o-q hike posted in Q1 2019. Growth in the government bond segment rebounded to 0.2% q-o-q after falling 0.6% q-o-q in Q1 2019. While the stock of Exchange Fund Bills rose 0.6% q-o-q in Q2 2019, overall government bond market growth was capped by declines in the stock of Exchange Fund Notes and Hong Kong Special Administrative Region Bonds as maturities exceeded issuance. The corporate bond segment contracted 0.9% q-o-q, reversing the 2.2% q-o-q gain in the prior quarter, on a decline in issuance volume during the quarter. On a y-o-y basis, bond market growth in Hong Kong, China eased to 1.4%.

The outstanding LCY bond total of member economies of the Association of Southeast Asian Nations (ASEAN) reached USD1.5 trillion at the end of June.⁴ Growth in ASEAN bond markets moderated to 2.3% q-o-q in Q2 2019 from 4.0% q-o-q in Q1 2019. Government bonds outstanding reached USD1,025.5 billion at the end of June, accounting for a 68.2% share of the ASEAN bond total. Corporate bonds tallied USD477.8 billion and accounted for the remaining 31.8%. Among ASEAN members, the largest LCY bond markets in terms of bonds outstanding were those of Thailand, Malaysia, and Singapore.

Thailand's LCY bond market reached a size of USD424.9 billion at the end of June, as growth accelerated to 3.1% q-o-q in Q2 2019 from 1.6% q-o-q in the prior quarter. Both government and corporate bonds contributed to overall growth during the review period. Government bonds expanded 2.3% q-o-q, up from 1.4% q-o-q in Q1 2019, driven by increases in the stock of central bank bonds and state-owned enterprise and other bonds. On the other hand, the stock of Treasury bills and bonds declined 0.4% q-o-q. Corporate bonds also posted robust growth in Q2 2019, accelerating to 5.1% q-o-q from 2.3% q-o-q in Q1 2019, on active issuance by corporates. On a y-o-y basis, growth in the LCY bond market in

⁴ LCY bond statistics for ASEAN include the markets of Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.

Thailand moderated to 9.4% in Q2 2019 from 10.9% in the prior quarter.

The LCY bond market of Malaysia reached a size of USD360.1 billion at the end of June as growth climbed to 3.3% q-o-q from 2.9% q-o-q in Q1 2019. The corporate bond market drove most of the growth during the review period; government bonds also contributed, albeit to a lesser degree. While positive, the q-o-q growth in government bonds eased to 1.8% in Q2 2019 from 3.6% in the prior quarter. Growth was solely driven by the increase in the stock of central government bonds, comprising Malaysian Government Securities and Government Investment Issues. The stock of central bank bills fell by nearly half as issuance plummeted in Q2 2019. Corporate bond market growth was robust, rising 5.0% q-o-q on hefty issuance volume during the quarter. On an annual basis, Malaysia's LCY bond market growth picked up to 8.7% y-o-y in Q2 2019 from 7.6% y-o-y in Q1 2019.

Malaysia remained home to the largest *sukuk* (Islamic bond) market in the region at the end of June, with about 61.7% of its LCY bond market structured following Islamic principles. *Sukuk* comprised a 46.6% share of Malaysia's total government bond stock and a much larger 78.2% share of its corporate bond total.

The outstanding amount of Singapore's LCY bonds reached USD317.2 billion at the end of June, with growth slowing to 2.3% q-o-q in Q2 2019 from 4.2% q-o-q in Q1 2019. Government bond market growth decelerated to 2.7% q-o-q from 4.5% q-o-q on higher volume of maturities for Singapore Government Securities despite increased issuance during the quarter. Growth in the corporate bond segment also eased to 1.7% q-o-q in Q2 2019 from 3.7% in Q1 2019. On an annual basis, bond market growth in Singapore inched up to 9.9% y-o-y in Q2 2019 from 9.4% y-o-y in Q1 2019.

Indonesia's LCY bonds outstanding at the end of June totaled USD217.3 billion, as growth contracted 0.5% q-o-q in Q2 2019 after a robust 8.7% q-o-q expansion in Q1 2019. The overall contraction in Indonesia's bond market stemmed from a decline in the stocks of both government and corporate bonds. Government bonds fell as marginal growth in Treasury bills and bonds was more than offset by the decline in central bank bonds. In addition to fewer auctions being scheduled during the quarter due to holidays for the Muslim celebration of Eid al-Fitr, four auctions fell short of their respective target

in May. However, the government was not compelled to accept higher bids as its issuance plan remained on track given its frontloading issuance policy and tapping of the foreign bond market to complement LCY bond issuance. The stock of central bank bills declined on reduced issuance volume, while the stock of corporate bonds contracted on account of a high volume of maturities during the quarter. On a y-o-y basis, growth in the Indonesian LCY bond market slipped to 17.6% in Q2 2019 from 18.7% in Q1 2019.

The outstanding amount of LCY bonds in the Philippines leveled off at USD130.7 billion at the end of June, with growth decelerating to 1.8% q-o-q from 8.0% q-o-q in Q1 2019. Government bonds remained the driver of growth, albeit through a slower expansion of 1.7% q-o-q in Q2 2019 versus 8.8% q-o-q in Q1 2019. The government lowered its issuance volume in Q2 2019 due to a sound cash position resulting from underspending and strong issuance in the prior quarter due to auction taps and the success of Retail Treasury Bond issuance. The corporate bond segment also registered slower q-o-q growth of 2.3% in Q2 2019, down from 5.4% q-o-q in Q1 2019, as maturities capped issuance, which more than doubled during the quarter. On a y-o-y basis, growth in the Philippine bond market eased to 16.8% in Q2 2019 from 17.8% in Q1 2019.

Viet Nam's LCY bond market, with outstanding bonds of USD52.9 billion at the end of June, remained the smallest in the region. Growth in the bond market jumped slightly to 2.6% q-o-q in Q2 2019 from 0.8% q-o-q in the preceding quarter. The government bond segment was the sole driver of growth, expanding 3.2% q-o-q, buoyed by expansions in the stock of Treasury bonds and central bank bills. Central bank bills surged more than six-fold as the State Bank of Vietnam resumed issuance in March due to ample liquidity in the market. In contrast, a contraction of 3.4% q-o-q was observed in the corporate bond segment during the review period. Annual bond market growth in Viet Nam accelerated to 4.2% y-o-y in Q2 2019 from 0.5% y-o-y in the previous quarter.

Emerging East Asia's LCY bond market remained dominated by government bonds, which represented a 61.8% share of the total bond stock at the end of June. The region's government bond market reached a size of USD9.4 trillion on growth of 3.7% q-o-q and 13.6% y-o-y in Q2 2019 (**Table 1**). The largest government bond markets were those of the PRC and the Republic of Korea,

Table 1: Size and Composition of Local Currency Bond Markets

	Q2 2018		Q1 2019		Q2 2019		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q2 2018		Q2 2019		Q2 2018		Q2 2019	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of														
Total	10,228	100.0	11,325	100.0	11,512	100.0	3.9	15.4	4.0	16.7	(1.5)	18.2	1.7	12.6
Government	6,663	65.1	7,309	64.5	7,447	64.7	4.4	16.0	4.2	15.9	(1.1)	18.8	1.9	11.8
Corporate	3,565	34.9	4,015	35.5	4,065	35.3	3.1	14.2	3.6	18.3	(2.2)	17.0	1.2	14.0
Hong Kong, China														
Total	246	100.0	250	100.0	250	100.0	2.1	3.6	(0.2)	1.4	2.1	3.1	0.3	1.8
Government	148	60.1	148	59.2	149	59.5	0.8	7.6	0.2	0.5	0.9	7.1	0.7	0.9
Corporate	98	39.9	102	40.8	101	40.5	3.9	(2.0)	(0.9)	2.7	4.0	(2.4)	(0.4)	3.2
Indonesia														
Total	182	100.0	217	100.0	217	100.0	0.5	12.0	(0.5)	17.6	(3.7)	4.3	0.4	19.3
Government	154	84.6	187	86.2	188	86.4	0.5	10.5	(0.3)	20.1	(3.7)	2.9	0.6	21.8
Corporate	28	15.4	30	13.8	30	13.6	0.5	21.0	(1.6)	3.7	(3.7)	12.8	(0.8)	5.2
Korea, Rep. of														
Total	1,993	100.0	2,006	100.0	2,019	100.0	1.6	3.9	2.4	5.0	(3.1)	6.6	0.6	1.3
Government	841	42.2	820	40.9	820	40.6	2.4	5.1	1.7	1.0	(2.3)	7.8	(0.1)	(2.5)
Corporate	1,152	57.8	1,186	59.1	1,200	59.4	1.0	3.0	2.9	7.9	(3.7)	5.8	1.1	4.2
Malaysia														
Total	339	100.0	353	100.0	360	100.0	2.2	9.9	3.3	8.7	(2.2)	16.8	2.0	6.2
Government	179	52.8	188	53.1	189	52.4	2.5	7.9	1.8	7.8	(1.9)	14.7	0.5	5.4
Corporate	160	47.2	165	46.9	172	47.6	1.9	12.2	5.0	9.7	(2.5)	19.3	3.7	7.2
Philippines														
Total	108	100.0	125	100.0	131	100.0	2.6	11.1	1.8	16.8	0.4	5.0	4.3	21.6
Government	86	80.0	99	79.0	103	78.9	2.5	9.0	1.7	15.2	0.3	3.1	4.2	19.9
Corporate	22	20.0	26	21.0	28	21.1	3.2	20.0	2.3	23.3	0.9	13.5	4.8	28.3
Singapore														
Total	287	100.0	310	100.0	317	100.0	1.8	11.8	2.3	9.9	(2.0)	12.9	2.5	10.7
Government	174	60.7	188	60.9	194	61.1	3.0	14.7	2.7	10.7	(0.8)	15.9	2.9	11.4
Corporate	113	39.3	121	39.1	123	38.9	(0.1)	7.6	1.7	8.8	(3.8)	8.6	1.9	9.5
Thailand														
Total	361	100.0	399	100.0	425	100.0	4.4	8.6	3.1	9.4	17.8	29.8	6.6	17.8
Government	261	72.4	287	72.0	304	71.5	5.3	8.4	2.3	7.9	15.6	25.6	5.8	16.2
Corporate	99	27.6	111	28.0	121	28.5	2.4	9.1	5.1	13.2	23.9	42.3	8.7	21.9
Viet Nam														
Total	52	100.0	52	100.0	53	100.0	(1.0)	14.7	2.6	4.2	(1.7)	13.6	2.1	2.6
Government	48	92.6	47	90.9	48	91.4	(2.1)	12.2	3.2	2.9	(2.7)	11.2	2.7	1.3
Corporate	4	7.4	5	9.1	5	8.6	14.7	58.2	(3.4)	21.0	14.0	56.8	(3.9)	19.1
Emerging East Asia														
Total	13,794	100.0	15,035	100.0	15,285	100.0	3.4	12.8	3.5	14.2	(1.3)	15.8	1.7	10.8
Government	8,553	62.0	9,273	61.7	9,441	61.8	3.9	14.0	3.7	13.6	(0.8)	16.9	1.8	10.4
Corporate	5,241	38.0	5,762	38.3	5,844	38.2	2.5	11.0	3.3	15.0	(2.1)	14.1	1.4	11.5
Japan														
Total	10,443	100.0	10,597	100.0	10,948	100.0	0.3	1.5	0.5	2.1	(3.7)	3.0	3.3	4.8
Government	9,752	93.4	9,881	93.2	10,191	93.1	0.4	1.8	0.3	1.8	(3.7)	3.3	3.1	4.5
Corporate	691	6.6	717	6.8	757	6.9	(0.3)	(2.6)	2.8	6.7	(4.4)	(1.1)	5.6	9.6

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

Notes:

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

2. Corporate bonds include issues by financial institutions.

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

4. For LCY base, emerging East Asia growth figures are based on 30 June 2019 currency exchange rates and do not include currency effects.

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

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

accounting for shares of 78.9% and 8.7% of the regional government bond total, respectively. All of the region's government bond markets except for Indonesia posted positive q-o-q growth in Q2 2019.

At the end of June, ASEAN member economies accounted for a 10.9% share of emerging East Asia's government bond total. The largest government bond markets among ASEAN members were those of Thailand (USD303.8 billion), Singapore (USD193.9 billion), and Malaysia (USD188.5 billion). Next was Indonesia, whose government bonds outstanding of USD187.8 billion were broadly comparable with the more developed markets of Malaysia and Singapore, and even exceeded the government bond stock of Hong Kong, China. The Philippines and Viet Nam continued to have the smallest government bond markets in the region.

The region's total LCY corporate bond stock stood at USD5.8 trillion at the end of June, accounting for a 38.2% share of the regional bond total. The aggregate stock of corporate bonds in emerging East Asia grew 3.3% q-o-q and 15.0% y-o-y in Q2 2019. Corporates from the PRC and the Republic of Korea dominated the regional corporate bond total, representing a combined share of 90.1% at the end of June. Positive q-o-q growth was noted in six out of the nine corporate bond markets in emerging East Asia. Those that saw q-o-q contractions were the markets of Hong Kong, China; Indonesia; and Viet Nam.

The share of ASEAN member economies in the regional corporate total was 8.2% at the end of June, with the largest corporate bond markets being Malaysia, Singapore, and Thailand.

Measured as a share of regional gross domestic product (GDP), the size of LCY bond market in emerging East Asia climbed to 82.7% at the end of June from 81.4% at the end of March (**Table 2**). The GDP share was lifted by the accelerated increase in the amount of LCY bonds outstanding in Q2 2019, while regional GDP was capped by economic slowdowns in the PRC and the Republic of Korea. The GDP share of government bonds inched up to 51.1% and of corporate bonds to 31.6% in Q2 2019 from 50.2% and 31.2%, respectively, in Q1 2019. On an individual economy basis, the Republic of Korea continued to have the largest outstanding bonds-to-GDP share at 127.8% at the end of June, followed by Malaysia at 106.9% and Singapore at 86.7%.

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

	Q2 2018	Q1 2019	Q2 2019
China, People's Rep. of			
Total	78.8	83.0	84.6
Government	51.3	53.6	54.7
Corporate	27.5	29.4	29.9
Hong Kong, China			
Total	69.8	68.3	67.6
Government	41.9	40.5	40.2
Corporate	27.9	27.8	27.4
Indonesia			
Total	18.4	20.4	20.0
Government	15.6	17.6	17.2
Corporate	2.8	2.8	2.7
Korea, Rep. of			
Total	124.4	125.5	127.8
Government	52.5	51.3	51.9
Corporate	71.9	74.2	75.9
Malaysia			
Total	102.9	104.7	106.9
Government	54.3	55.6	55.9
Corporate	48.6	49.1	50.9
Philippines			
Total	34.7	37.2	37.3
Government	27.7	29.4	29.4
Corporate	6.9	7.8	7.9
Singapore			
Total	81.3	84.8	86.7
Government	49.4	51.7	53.0
Corporate	32.0	33.2	33.7
Thailand			
Total	74.9	76.8	78.4
Government	54.2	55.3	56.0
Corporate	20.6	21.5	22.4
Viet Nam			
Total	22.7	21.3	21.4
Government	21.0	19.4	19.6
Corporate	1.7	1.9	1.8
Emerging East Asia			
Total	78.3	81.4	82.7
Government	48.5	50.2	51.1
Corporate	29.7	31.2	31.6
Japan			
Total	210.5	213.5	213.7
Government	196.6	199.0	198.9
Corporate	13.9	14.4	14.8

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

Notes:

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

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

Foreign Investor Holdings

Movements in the share of foreign investor holdings in emerging East Asia were largely stable at the end of June.

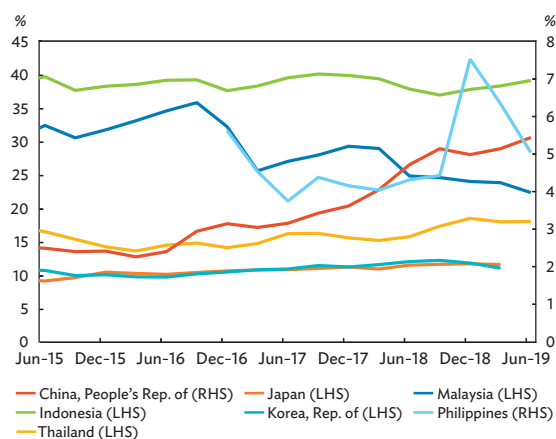
Foreign investor holdings in emerging East Asia's LCY government bond markets were mostly stable in June, following uncertainty earlier in the quarter amid the ongoing PRC-US trade dispute (**Figure 2**).

One exception was Malaysia, where the foreign holdings share in the LCY bond market fell to 22.3% at the end of June from 23.8% at the end of March. The decline was due to investor reaction to news reports that Malaysian bonds would be removed from FTSE bond indices and that Norway's sovereign wealth fund would drop Malaysia's bonds from its fixed-income portfolio. Lower oil prices also generated investor concerns given the importance of oil to the Malaysian economy.

The Philippines experienced a decline in its foreign holdings share to 5.0% at the end of June from 6.3% at the end of March as investors took profits amid declining bond yields driven by slowing inflation.

The foreign holdings share slightly rose to 5.4% in the PRC at the end of June from 5.1% at the end of March due to expected easing measures to prop up the economy.

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



LHS = left-hand side, RHS = right-hand side.

Note: Data as of end-June 2019 except for Japan and the Republic of Korea (end-March 2019).

Source: *AsianBondsOnline*.

In Indonesia, nonresident holdings rose from 38.3% to 39.1% as foreign investors shored up their holdings, fueled by a ratings upgrade from S&P at the end of May and expectations of a policy rate cut.

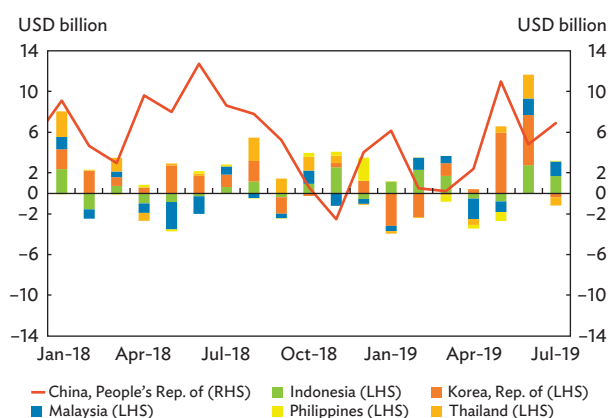
Foreign Bond Flows

Net outflows from the region's bond market were recorded in May over risk aversion arising from the PRC-US trade tensions.

On a net regional basis, foreign investors continued to be buyers of emerging East Asian LCY bonds during the April-July period, with the exception of Malaysia and the Philippines (**Figure 3**).

The largest net inflows during April-July were observed in the PRC and the Republic of Korea. In the PRC, foreign investors continued to invest in government bonds as interest rates declined further amid a slowing economy and on expectations of additional easing measures. In the Republic of Korea, rising bond prices were also driven by expectations of further easing given the slowdown in the domestic economy.

Figure 3: Foreign Bond Flows in Select Emerging East Asian Economies



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

Notes:

1. The Republic of Korea and Thailand provided data on bond flows. For the People's Republic of China, Indonesia, Malaysia, and the Philippines, month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.

2. Data as of end-July 2019.

3. Figures were computed based on 31 July 2019 exchange rates to avoid currency effects.

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

On a monthly basis, net outflows were noted in April and May for most emerging East Asian economies, with the exception of the PRC and the Republic of Korea, amid heightened risk aversion due to the resurgence of the PRC–United States (US) trade dispute. The largest outflows occurred in Malaysia, triggered by news that Malaysia would be excluded from global bond indices. Outflows in the Philippines were also noted due to profit-taking amid the continued decline in interest rates.

Investor sentiment recovered in June, fueled by expectations of US monetary policy easing. Outflows, however, were noted in July in the Republic of Korea over investor concerns regarding the trade dispute with Japan, and in Thailand as the central bank sought to limit the baht's appreciation.

Issuance

LCY bond issuance in emerging East Asia totaled USD1.6 trillion in Q2 2019.

Aggregate LCY bond issuance in emerging East Asia rose 12.2% q-o-q to reach USD1,570.2 billion in Q2 2019, surpassing the 10.0% q-o-q growth posted in Q1 2019 (**Table 3**). Growth in regional issuance during the quarter was mainly driven by the PRC, whose issuance of government bonds increased 24.7% q-o-q and where corporate debt issuance rebounded from negative growth in the previous quarter. On a q-o-q basis, the majority of markets saw moderate-to-accelerated issuance growth. Hong Kong, China; Indonesia; and the Philippines each experienced contractions in issuance during the quarter. On an annual basis, the region's issuance growth eased to 16.4% in Q2 2019 from 39.4% in Q1 2019 on weaker issuance in both the government and corporate bond sectors.

Issuance of LCY government bonds in emerging East Asia reached USD959.1 billion in Q2 2019, with growth slowing to 13.4% q-o-q from 28.7% q-o-q in Q1 2019. The growth stemmed primarily from accelerated issuance in the PRC, as the government endeavored to boost economic growth with debt-financed infrastructure spending through the use of special bonds. In addition, local governments are seeking to complete their issuance targets by the end of September. Government bond issuance in Viet Nam increased 309.0% q-o-q from a low base in the previous quarter. In Hong Kong, China; the Republic of Korea;

Singapore; and Thailand, government bond issuance grew more modestly, posting q-o-q gains of 2.6%, 1.1%, 4.0%, and 4.1%, respectively. Due to frontloading measures taken during Q1 2019, growth in Q2 2019 government bond issuance declined in Indonesia and the Philippines.

By type of government bond, Treasury and other government bond issuance in emerging East Asia rose 18.7% q-o-q in Q2 2019, while central bank bonds increased 4.7% q-o-q. On a y-o-y basis, government bond issuance increased 12.5% in Q2 2019, which was weaker compared with growth of 37.3% y-o-y in Q1 2019. Government bonds comprised 61.1% of the total issuance in emerging East Asia in Q2 2019.

The region's LCY corporate bond issuance rose 10.4% q-o-q to USD611.0 billion in Q2 2019, rebounding from a 10.1% q-o-q decline in Q1 2019. Except for Hong Kong, China and Viet Nam, corporate debt issuance surged in emerging East Asia during the quarter as companies in the region took advantage of declining interest rates. The Philippines recorded the highest growth rate, with corporate bond issuance rising 114.4% q-o-q, followed by Malaysia with 68.3% q-o-q growth. Indonesia, the Republic of Korea, and Thailand also saw accelerated q-o-q growth in corporate debt issuance during the quarter, with increases of 30.9%, 28.2%, and 11.6%, respectively. Growth rates in both the PRC (6.2% q-o-q) and Singapore (4.0% q-o-q) were more moderate. On an annual basis, emerging East Asia's corporate bond issuance grew 23.1% y-o-y in Q2 2019.

The PRC continued to be the largest issuer of LCY bonds in the region, with total issuance of USD982.1 billion in Q2 2019, comprising 62.5% of the regional total. Total issuance grew 15.6% q-o-q, up from 11.6% q-o-q in Q1 2019. The growth in government sector issuance was driven solely by Treasury and other government bond issuance, which grew 24.7% q-o-q. Issuance growth was weaker compared to the previous quarter's 44.5% q-o-q rise. Local government bond issuance was maintained to meet infrastructure spending targets, while Treasury bond issuance grew significantly in Q2 2019, rising 159.9% q-o-q. In June, local governments in the PRC issued USD104.3 billion of debt intended for infrastructure projects in an effort to prop up economic growth that slowed to 6.2% y-o-y in Q2 2019.⁵ Meanwhile, corporate bond issuance rebounded in Q2 2019 as

⁵ K. Yao and S. Qui. 2019. China Boosts Local Government Bond Issuance to \$104 Billion in June to Spur Economy. *Reuters*. 16 July. <https://www.reuters.com/article/us-china-economy-spending/china-boosts-local-government-bond-issuance-to-104-billion-in-june-to-spur-economy-idUSKCN1UB02K>.

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

	Q2 2018		Q1 2019		Q2 2019		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q2 2019		Q2 2019	
							q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of										
Total	849	100.0	869	100.0	982	100.0	15.6	20.0	13.0	15.7
Government	489	57.6	443	50.9	540	54.9	24.7	14.4	21.9	10.3
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	489	57.6	443	50.9	540	54.9	24.7	14.4	21.9	10.3
Corporate	360	42.4	426	49.1	442	45.1	6.2	27.5	3.8	22.9
Hong Kong, China										
Total	116	100.0	117	100.0	117	100.0	(1.2)	0.2	(0.7)	0.6
Government	103	89.3	104	88.2	107	91.7	2.6	2.8	3.1	3.3
Central Bank	103	88.6	103	88.0	106	90.8	1.9	2.7	2.4	3.1
Treasury and Other Govt.	0.8	0.7	0.3	0.2	1	0.9	281.0	23.1	282.9	23.6
Corporate	12	10.7	14	11.8	10	8.3	(30.0)	(22.1)	(29.7)	(21.7)
Indonesia										
Total	8	100.0	26	100.0	17	100.0	(36.8)	108.6	(36.2)	111.6
Government	6	74.7	25	94.2	15	87.9	(41.0)	145.6	(40.5)	149.2
Central Bank	0.2	2.1	7	28.3	4	24.8	(44.6)	2,316.6	(44.2)	2,351.5
Treasury and Other Govt.	6	72.5	17	65.9	11	63.2	(39.4)	81.7	(38.9)	84.3
Corporate	2	25.3	2	5.8	2	12.1	30.9	(0.6)	32.0	0.9
Korea, Rep. of										
Total	198	100.0	163	100.0	187	100.0	16.5	(2.3)	14.5	(5.7)
Government	84	42.5	71	43.4	70	37.7	1.1	(13.2)	(0.6)	(16.2)
Central Bank	40	20.4	32	19.6	32	17.1	1.8	(18.3)	0.1	(21.1)
Treasury and Other Govt.	44	22.0	39	23.9	38	20.6	0.6	(8.4)	(1.1)	(11.6)
Corporate	114	57.5	92	56.6	116	62.3	28.2	5.8	26.1	2.1
Malaysia										
Total	22	100.0	25	100.0	27	100.0	9.8	24.5	8.5	21.7
Government	13	56.1	15	58.5	10	36.4	(31.7)	(19.2)	(32.5)	(21.0)
Central Bank	5	20.9	5	19.2	2	7.2	(58.6)	(56.8)	(59.1)	(57.8)
Treasury and Other Govt.	8	35.2	10	39.3	8	29.2	(18.5)	3.1	(19.5)	0.8
Corporate	10	43.9	10	41.5	17	63.6	68.3	80.5	66.3	76.4
Philippines										
Total	8	100.0	14	100.0	9	100.0	(40.2)	3.5	(38.7)	7.7
Government	7	88.7	13	92.0	6	71.2	(53.7)	(16.9)	(52.6)	(13.6)
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	7	88.7	13	92.0	6	71.2	(53.7)	(16.9)	(52.6)	(13.6)
Corporate	0.9	11.3	1	8.0	2	28.8	114.4	163.3	119.6	174.0
Singapore										
Total	103	100.0	112	100.0	116	100.0	4.0	12.2	4.2	13.0
Government	101	98.3	108	96.7	113	96.7	4.0	10.4	4.2	11.2
Central Bank	93	90.2	103	92.0	104	89.7	1.5	11.6	1.7	12.4
Treasury and Other Govt.	8	8.1	5	4.8	8	7.0	52.8	(2.7)	53.1	(2.0)
Corporate	2	1.7	4	3.3	4	3.3	4.0	114.8	4.2	116.3
Thailand										
Total	66	100.0	85	100.0	93	100.0	5.4	30.6	9.0	40.6
Government	55	83.1	70	82.7	76	81.7	4.1	28.3	7.7	38.2
Central Bank	45	68.4	65	76.6	65	70.4	(3.1)	34.4	0.3	44.7
Treasury and Other Govt.	10	14.7	5	6.1	10	11.3	94.3	(0.1)	101.0	7.6
Corporate	11	16.9	15	17.3	17	18.3	11.6	41.7	15.4	52.5

continued on next page

Table 3 continued

	Q2 2018		Q1 2019		Q2 2019		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q2 2019		Q2 2019	
							q-o-q	y-o-y	q-o-q	y-o-y
Viet Nam										
Total	11	100.0	6	100.0	23	100.0	295.1	123.8	293.2	120.3
Government	10	94.9	6	96.6	23	100.0	309.0	135.7	307.1	132.1
Central Bank	9	80.8	3	43.4	22	94.0	756.2	160.4	752.1	156.3
Treasury and Other Govt.	1	14.1	3	53.2	1	6.0	(55.5)	(5.1)	(55.7)	(6.6)
Corporate	0.5	5.1	0.2	3.4	0	0.0	(100.0)	(100.0)	(100.0)	(100.0)
Emerging East Asia										
Total	1,380	100.0	1,417	100.0	1,570	100.0	12.2	16.4	10.8	13.7
Government	868	62.9	853	60.2	959	61.1	13.4	12.5	12.4	10.5
Central Bank	294	21.3	318	22.4	335	21.4	4.7	12.8	5.5	13.9
Treasury and Other Govt.	574	41.6	536	37.8	624	39.7	18.7	12.3	16.5	8.7
Corporate	512	37.1	564	39.8	611	38.9	10.4	23.1	8.4	19.3
Japan										
Total	399	100.0	385	100.0	367	100.0	(7.3)	(10.7)	(4.8)	(8.2)
Government	364	91.1	362	94.1	324	88.3	(13.0)	(13.5)	(10.6)	(11.1)
Central Bank	5	1.2	0	0.0	0	0.0	-	(100.0)	-	(100.0)
Treasury and Other Govt.	359	89.9	362	94.1	324	88.3	(13.0)	(12.3)	(10.6)	(9.9)
Corporate	35	8.9	23	5.9	43	11.7	82.8	18.2	87.9	21.3

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

Notes:

1. Corporate bonds include issues by financial institutions.

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

3. For LCY-base, emerging East Asia growth figures are based on 30 June 2019 currency exchange rates and do not include currency effects.

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

companies took advantage of lower interest rates, rising 6.2% q-o-q to reverse the 9.7% decline in the previous quarter.

The Republic of Korea, the second-largest issuer in the region, issued a total of USD186.5 billion in LCY bonds in Q2 2019, comprising 11.9% of the regional total during the quarter. The Republic of Korea's issuance rose 16.5% q-o-q in Q2 2019, recovering from an 8.6% q-o-q contraction in Q1 2019. Issuance of government bonds gained 1.1% q-o-q to USD70.4 billion, down from a 20.7% q-o-q increase in Q1 2019, as the government tapered its frontloading policy for 2019. Central bank bond issuance increased 1.8% q-o-q, while Treasury and other government bond issuance rose 0.6% q-o-q in Q2 2019. Strong growth in corporate bond issuance compensated for weak growth in the government bond sector during the quarter. Corporate bond issuance rebounded, with the 28.2% q-o-q rise in Q2 2019 reversing the 23.0% q-o-q drop in Q1 2019, as companies

locked in low interest rates. Corporate bond issuance accounted for 62.3% of the Republic of Korea's total issuance in Q2 2019, up from 56.6% in Q1 2019.

In Hong Kong, China, total issuance contracted 1.2% q-o-q to USD116.6 billion in Q2 2019, driven by a significant drop in corporate bond issuance. Government bond issuance rose 2.6% q-o-q to USD106.9 billion, reversing the 2.4% q-o-q drop in Q1 2019. Issuance of Exchange Fund Bills and Notes by the Hong Kong Monetary Authority increased 1.9% q-o-q, while issuance of Hong Kong Special Administrative Region Bonds jumped 281.0%, as the government reopened 3-year, 5-year, and 10-year bonds worth a total of USD1.0 billion during the quarter. The growth in government bond issuance in Q2 2019 was more than offset by a contraction in corporate bond issuance. Despite favorable interest rates, the political unrest that unfolded during the quarter heightened uncertainties in the economy already weakened by the continuing trade dispute between the

PRC and the US. Corporate bond issuance dropped 30.0% q-o-q to USD9.7 billion as weak market sentiment dampened the demand for corporate debt.

The aggregate LCY bond issuance of ASEAN member economies reached USD285.0 billion in Q2 2019, accounting for 18.2% of the aggregate issuance in emerging East Asian economies. Four of the six markets posted positive q-o-q growth in total issuance, with Viet Nam registering the highest q-o-q growth rate from a low base in the previous quarter. Indonesia and the Philippines saw a decline in issuance during Q2 2019, driven by weaker issuance of government bonds. Total LCY bond issuance among ASEAN economies in Q2 2019 comprised 85.0% government bonds and 15.0% corporate bonds.

Growth in total issuance in Indonesia dropped 36.8% q-o-q to USD16.9 billion in Q2 2019, reversing the 141.1% q-o-q growth in the previous quarter. Government bond issuance dropped 41.0% q-o-q, as the government tapered its frontloading policy in Q2 2019. Central bank bond issuance declined 44.6% q-o-q, dragged down by lower issuance volumes of Sertifikat Bank Indonesia and Sukuk Bank Indonesia during the quarter. Likewise, Treasury bonds and other government issuance dropped 39.4% q-o-q in Q2 2019, as fewer auctions were held due to the long holiday in celebration of Eid al-Fitr. Government bonds accounted for 87.9% of total issuance in Q2 2019. Corporate bond issuance rose 30.9% q-o-q in Q2 2019, easing from 61.8% q-o-q growth in Q1 2019. On a y-o-y basis, total LCY bond issuance in Indonesia rose 108.6% in Q2 2019.

Malaysia's LCY bond issuance accelerated in Q2 2019, reaching USD27.4 billion on growth of 9.8% q-o-q and 24.5% y-o-y, driven by growth in the corporate sector. The growth in total issuance was significantly stronger than the 0.7% q-o-q and 2.9% y-o-y posted in Q1 2019. Government issuance declined 31.7% q-o-q, as both central bank and Treasury bond issuance contracted during the quarter. In contrast, corporate debt issuance surged 68.3% q-o-q in Q2 2019, buoyed by the low-interest-rate environment following Bank Negara Malaysia's decision to cut its key interest rate by 25 basis points (bps) in early May. Corporate bonds comprised 63.6% of Malaysia's total issuance in Q2 2019, up from 41.5% in the previous quarter.

In the Philippines, total bond issuance contracted 40.2% q-o-q to USD8.6 billion in Q2 2019. Issuance of government bonds fell 53.7% q-o-q to USD6.1 billion in Q2 2019, driven by a decline in issuance of Treasury bonds and other government bonds. The large drop was due to a high base in the previous quarter, which stemmed from a large issuance of Retail Treasury Bonds. In contrast, issuance of corporate bonds more than doubled in Q2 2019 from the previous quarter, with total issuance amounting to USD2.5 billion as companies took advantage of lower interest rates following the Bangko Sentral ng Pilipinas' decision to reduce the benchmark interest rate by 25 bps in early May.

Singapore's total bond issuance amounted to USD116.4 billion in Q2 2019 on growth of 4.0% q-o-q and 12.2% y-o-y. The growth in total issuance was weaker than the 10.5% q-o-q and 24.1% y-o-y expansion in the previous quarter. Government issuance increased 4.0% q-o-q, driven by strong issuance of Singapore Government Securities (SGS) bills and bonds. The government issued more SGS bonds during the quarter to replace a 10-year SGS bond that matured in June. Among emerging East Asian economies, Singapore's government bond sector comprised the largest share of total issuance in Q2 2019 at 96.7%. Corporate bond issuance also increased 4.0% q-o-q in Q2 2019, down from 17.5% q-o-q growth in the previous quarter.

In Thailand, total bond issuance increased 5.4% q-o-q to USD92.6 billion in Q2 2019. Government bond issuance rose 4.1% q-o-q, reaching USD75.6 billion at the end of June. The growth was driven by increased issuance of Treasury bonds and state-owned enterprise bonds, which offset the 3.1% drop in Bank of Thailand bond issuance. The growth in new government bond issues was weaker than the 16.5% q-o-q expansion in Q1 2019. Corporate bond issuance grew 11.6% q-o-q in Q2 2019, also down from the 31.2% q-o-q growth in the previous quarter. Despite low interest rates, corporate borrowing was tempered by downside risks as the Thai economy was weighed down by weakening global demand. On an annual basis, growth in total bond issuance increased to 30.6% y-o-y in Q2 2019 from 19.6% y-o-y in the previous quarter. Government bond issuance represented 81.7% of total issuance in Q2 2019.

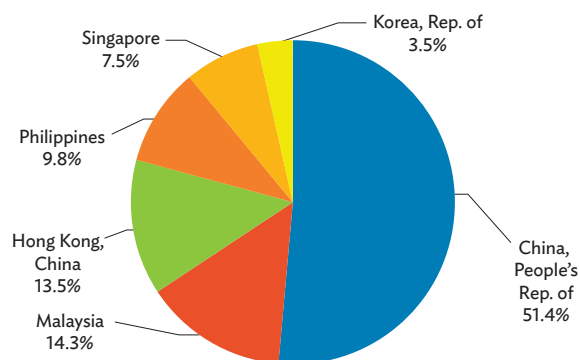
Viet Nam's total bond issuance amounted to USD23.2 billion in Q2 2019, up 295.1% q-o-q from a low base in the previous quarter, thus registering the highest growth rate in emerging East Asia during the review period. The growth was driven solely by a rebound in central bank issuance as the State Bank of Vietnam resumed the issuance of bills in March after a 5-month break. Central bank bond issuances accounted for 94.0% of Viet Nam's total issuance during the quarter. Issuance rose 123.8% y-o-y in Q2 2019, reversing the 72.2% y-o-y contraction in Q1 2019.

Cross-Border Bond Issuance

Intra-regional bond issuance in emerging East Asia totaled USD3.7 billion in Q2 2019.

Emerging East Asia's total intra-regional bond issuance reached USD3.7 billion in Q2 2019, down 35.5% q-o-q from the USD5.8 billion raised in Q1 2019 and 28.6% y-o-y from USD5.2 billion issued in Q2 2018. The PRC continued to dominate the market, with total cross-border bond issuance of USD1.9 billion in Q2 2019, comprising half of total intra-regional issuance during the quarter (**Figure 4**). Malaysia and Hong Kong, China followed with issuances of USD531.4 million and USD503.1 million, respectively, and shares of 14.3% and 13.5%. Other economies that issued intra-regional bonds in Q2 2019 include the Philippines (USD364.1 million), Singapore (USD277.8 million), and the Republic of Korea (USD131.6 million).

Figure 4: Origin Economy of Intra-Emerging East Asian Bond Issuance in the Second Quarter of 2019



Source: AsianBondsOnline calculations based on Bloomberg LP data.

Issuance of cross-border bonds from the PRC slowed in Q2 2019, totaling USD1.9 billion, which was only about half of the USD3.7 billion issued in the previous quarter. The decline could be attributed to a slowdown in the PRC's economy. Eight out of the eleven PRC-based companies issued HKD-denominated bonds totaling USD1.8 billion. Two companies issued SGD-denominated bonds amounting to USD124.1 million, while one firm issued USD16.9 million in MYR-denominated bonds. The region's single-largest bond issuance for the quarter was from the PRC as the Bank of China issued USD768.2 million worth of HKD-denominated 2-year bonds.

In Q2 2019, Malaysia surpassed Hong Kong, China as the economy with the second-highest volume of cross-border issuances at USD531.4 million. Malayan Banking Berhad was the sole issuer during the quarter, issuing bonds with tenors of 1, 3, and 5 years. Four bonds were issued in Chinese renminbi totaling USD339.3 million, while one was a USD192.0 million bond denominated in Hong Kong dollars.

Intra-regional bond issuances from Hong Kong, China in Q2 2019 amounted to USD503.1 million, all of which was denominated in Chinese renminbi. The Bank of East Asia (China) had the largest bond issuance from Hong Kong, China, amounting to USD218.4 million with a tenor of 10 years and a coupon rate of 4.94%.

In the Philippines, the central government was the sole issuer for the quarter, with its second-ever issuance of CNY-denominated bonds. In an effort to diversify its funding sources, the Government of the Philippines tapped the PRC market in May, issuing panda bonds amounting to USD364.1 million with a tenor of 3 years and priced at 3.58%. Proceeds from the issuance were to be used by the government to prop up its foreign exchange reserves and for other fiscal spending purposes. It represented the second-largest cross-border bond issuance in the region in Q2 2019.

Cross-border issuances in Singapore were denominated in both Chinese renminbi and Korean won. The largest issuer was ICBC Singapore, which issued a 3-year CNY-denominated bond worth USD145.6 million.

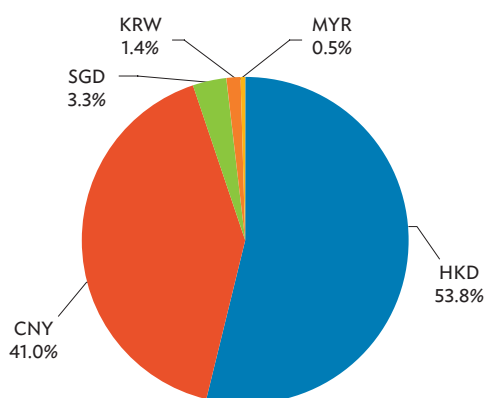
In the Republic of Korea, four banks issued USD131.6 million worth of Hong Kong dollars and CNY-denominated bonds. Government-owned

Korea Development Bank issued a 1-year CNY-denominated bond amounting to USD43.7 million.

The top 10 issuers in the region issued an aggregate USD3.1 billion in Q2 2019, comprising 82.8% of the regional total for the quarter, denominated in Chinese renminbi and Hong Kong dollars. Five companies were from the PRC, while the remaining five were from Hong Kong, China; Malaysia; the Philippines; and Singapore. The largest issuer, which also had the single-largest issue, was the Bank of China, which issued USD768.2 million worth of 2-year HKD-denominated bonds. This was followed by Malayan Banking Berhad with aggregate issuance of USD531.4 million. Other large issuers during the quarter include State Grid Overseas, the PRC's state-owned electric company, which issued 5-year and 10-year HKD-denominated bonds worth USD470.5 million.

Over half of the total regional issuance in Q2 2019 was denominated in Hong Kong dollars, amounting to USD2.0 billion, the majority of which was issued by companies from the PRC (**Figure 5**). Two other HKD-denominated bonds were issued in the Republic of Korea and Malaysia. This was followed by the Chinese renminbi, which accounted for 41.0% of total issuance at an aggregate amount of USD1.5 billion. All economies that issued intra-regional bonds in Q2 2019 issued at least a portion of such bonds in Chinese renminbi.

Figure 5: Currency Share of Intra-Emerging East Asian Bond Issuance in the Second Quarter of 2019



CNY = Chinese yuan, HKD = Hong Kong dollar, KRW = Korean won, MYR = Malaysian ringgit, SGD = Singapore dollar.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Other cross-border issuance currencies in Q2 2019 included Singapore dollars (3.3%, USD124.1 million), issued by companies from the PRC; Korean won (1.4%, USD52.0 million), which came solely from Singapore's Nomura International Fund; and Malaysian ringgit (0.5%, USD16.9 million) from one PRC-based company.

G3 Currency Issuance

The total G3 currency bond issuance in emerging East Asia amounted to USD210.5 billion in January–July.

Total G3 currency bonds issued in emerging East Asia during the January–July period totaled USD210.5 billion, an increase of 19.4% y-o-y from USD176.3 billion in the same period in 2018 (**Table 4**).⁶ The growth was driven by increased G3 issuance in all economies in emerging East Asia except for Singapore, Thailand, and Viet Nam. On average, issuance of G3 currency bonds that were rated below investment grade by each of the top credit rating agencies increased to 12.1% of total issuances from 9.8% in January–July 2018. On the other hand, issuance of G3 currency bonds with no rating from any of the top credit rating agencies increased to 53.8% from 48.0% during the review period.

Among the emerging East Asian economies that issued G3 currency bonds during the review period, issuance was mostly in US dollars. Consequently, 92.3% of all G3 currency bonds issued during the review period were issued in US dollars, while 4.7% were in euros and 3.0% were JPY-denominated. In January–July, a total of USD194.3 billion worth of bonds denominated in US dollars were issued in emerging East Asia, representing a 22.4% y-o-y increase from the same period in the previous year. The equivalent of USD10.0 billion of EUR-denominated bonds were issued during the review period, a decline of 29.8% y-o-y, as most economies that had issued EUR-denominated bonds during January–July 2018 reduced such issuance in 2019. Bonds issued in Japanese yen totaled USD6.2 billion, a surge of 85.0% y-o-y, spurred by Malaysia's samurai bonds in March.

The PRC continued to dominate all economies in the issuance of G3 currency bonds, totaling USD136.8 billion during the January–July period, supported by its issuance

⁶ G3 currency bonds are denominated in either euros, Japanese yen, or US dollars.

Table 4: G3 Currency Bond Issuance

2018			January to July 2019		
Issuer	Amount (USD billion)	Issue Date	Issuer	Amount (USD billion)	Issue Date
Cambodia	0.3		Cambodia	0.0	
China, People's Rep. of	183.6		China, People's Rep. of	136.8	
Tencent Holdings 3.595% 2028	2.5	19-Jan-18	Tencent Holdings 3.975% 2029	3.0	11-Apr-19
CNAC (HK) Finbridge Company 5.125% 2028	1.8	14-Mar-18	China Construction Bank 4.250% 2029	1.9	27-Feb-19
Scenery Journey 11.000% 2020	1.6	6-Nov-18	Guangzhou Bank 5.900% Perpetual	1.4	20-Jun-19
Others	177.8		Others	130.5	
Hong Kong, China	21.9		Hong Kong, China	20.7	
CHMT Peaceful Development Asia Property 7.5% 2019	3.3	25-Apr-18	Celestial Miles 5.75% Perpetual	1.0	31-Jan-19
Bank of China (Hong Kong) 5.9% Perpetual	3.0	14-Sep-18	Hong Kong, China (Sovereign) 2.50% 2024	1.0	28-May-19
ICBC (Asia) 4.9% Perpetual	2.5	21-Mar-18	AIA Group 3.60% 2029	1.0	9-Apr-19
Others	13.0		Others	17.7	
Indonesia	26.1		Indonesia	15.0	
Perusahaan Penerbit SBSN Sukuk 4.40% 2028	1.8	1-Mar-18	Perusahaan Penerbit SBSN Sukuk 4.450% 2029	1.3	20-Feb-19
Indonesia Asahan Aluminium 5.71% 2023	1.3	15-Nov-18	Indonesia (Sovereign) 1.450% 2026	0.8	18-Jun-19
Indonesia (Sovereign) 4.75% 2029	1.3	11-Dec-18	LLPL Capital 6.875% 2039	0.8	4-Feb-19
Others	21.8		Others	12.2	
Korea, Rep. of	30.4		Korea, Rep. of	19.0	
Hanwha Life Insurance 4.700% 2048	1.0	23-Apr-18	Republic of Korea (Sovereign) 2.500% 2029	1.0	19-Jun-19
Korea Development Bank 0.625% 2023	0.9	17-Jul-18	Export-Import Bank of Korea 0.375% 2024	0.8	26-Mar-19
Export-Import Bank of Korea 0.625% 2023	0.9	11-Jul-18	Korea National Oil Corporation 0.240% 2022	0.6	22-Jan-19
Others	27.6		Others	16.5	
Malaysia	2.9		Malaysia	8.1	
TNV Global Ventures Capital 4.85100% 2028	0.8	1-Nov-18	Malaysia (Sovereign) 0.530% 2029	1.8	15-Mar-19
Malayan Banking Berhad 3.51813% 2023	0.3	10-Aug-18	Resorts World Las Vegas 4.625% 2029	1.0	16-Apr-19
Others	1.9		Others	5.3	
Philippines	6.2		Philippines	4.0	
Philippines (Sovereign) 3.00% 2028	2.0	1-Feb-18	Philippines (Sovereign) 3.750% 2029	1.5	14-Jan-19
Philippines (Sovereign) 0.38% 2021	1.0	15-Aug-18	Philippines (Sovereign) 0.875% 2027	0.8	17-May-19
Others	3.2		Others	1.7	
Singapore	16.1		Singapore	5.2	
Temasek Financial 3.625% 2028	1.4	1-Aug-18	BOC Aviation 3.50% 2024	0.8	10-Apr-19
DBS Bank 3.300% 2021	1.3	27-Nov-18	DBS Group Holdings 2.85% 2022	0.8	16-Apr-19
Others	13.5		Others	3.7	
Thailand	5.9		Thailand	1.3	
Bangkok Bank of Hong Kong 4.45% 2028	0.6	19-Sep-18	Siam Commercial Bank 3.9% 2024	0.5	11-Feb-19
Bangkok Bank of Hong Kong 4.05% 2024	0.6	19-Sep-18	Siam Commercial Bank 4.4% 2029	0.5	11-Feb-19
Others	4.7		Others	0.3	
Viet Nam	0.7		Viet Nam	0.3	
Emerging East Asia Total	294.0		Emerging East Asia Total	210.5	
Memo Items:			Memo Items:		
India	6.4		India	15.9	
Export-Import Bank of India 3.875% 2028	1.0	1-Feb-18	Indian Oil Corporation 4.75% 2024	0.9	16-Jan-19
Others	5.4		Others	15.0	
Sri Lanka	3.9		Sri Lanka	4.9	
Sri Lanka (Sovereign) 5.75% 2023	1.3	18-Apr-18	Sri Lanka (Sovereign) 7.55% 2030	1.5	28-Jun-19
Others	2.7		Others	3.4	

USD = United States dollar.

Notes:

1. Data exclude certificates of deposit.

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

3. Bloomberg LP end-of-period rates are used.

Source: AsianBondsOnline calculations based on Bloomberg LP data.

in US dollars. This was followed by Hong Kong, China and the Republic of Korea with USD20.7 billion and USD19.0 billion, respectively, both issuing mainly in US dollars as well.

In the first 7 months of 2019, G3 currency bond issuance increased in Malaysia (830.5% y-o-y); Hong Kong, China (41.9% y-o-y); the PRC (25.9% y-o-y); the Philippines (3.7% y-o-y); and Indonesia (1.2% y-o-y). Meanwhile, issuance of G3 currency bonds declined in Viet Nam (-56.5% y-o-y), Thailand (-52.7% y-o-y), and Singapore (-50.8% y-o-y). The Republic of Korea had about the same issuance during January–July as in the same period in 2018. Cambodia issued G3 currency bonds in January–July 2018, but not in January–July 2019.

The PRC led all economies in terms of total G3 currency bonds issued during January–July. It accounted for 65.0% of all G3 currency issuances in emerging East Asia, issuing USD131.5 billion in US dollars, the equivalent of USD5.1 billion in euros, and USD0.2 billion in Japanese yen. Multinational investment holdings conglomerate Tencent Holdings continued to lead all issuers from the PRC during the review period with issuance totaling USD6.0 billion. The Export–Import Bank of China increased its issuance of USD-denominated bonds with tenors of 4–5 years and varying coupon rates.

The Republic of Korea accounted for a 9.0% share of all G3 currency bonds issued during the review period. By denomination, it issued USD14.9 billion in US dollars, USD2.9 billion in euros, and USD1.2 billion in Japanese yen. The Export–Import Bank of Korea issued a total of USD2.5 billion via a combination of US dollars and euros. In June, it increased its issuance of USD-denominated bonds with two USD0.5 billion bonds with tenors of 3 and 5 years, and coupon rates of 2.87425% and 2.375%, respectively.

Hong Kong, China accounted for a 9.8% share of G3 currency bond issuance in January–July. By currency, USD19.8 billion was issued in US dollars, and JPY-denominated bonds amounted to USD0.9 billion. Securities brokerage company Haitong International issued 10 USD-denominated bonds, the largest of which was a USD0.7 billion 5-year bond with a 3.375% coupon rate. Proceeds from the 5-year bond will be used for the company's refinancing and general purposes.

G3 currency bond issuance among ASEAN member economies increased 0.9% y-o-y to USD34.0 billion in January–July from USD33.7 billion in the same period in 2018. As a share of emerging East Asia's total, ASEAN's G3 currency bond issuance accounted for 16.2% during the review period, down from 19.1% during the same period in 2018. Indonesia issued the most G3 currency bonds among ASEAN members, totaling USD15.0 billion. This was followed by Malaysia and Singapore, with issuance amounting to USD8.1 billion and USD5.2 billion, respectively.

Indonesia's G3 currency bond issuance in January–July accounted for 7.1% of the total in emerging East Asia, comprising USD12.6 billion in US dollars, USD1.6 billion in Japanese yen, and USD0.8 billion in euros. The Government of Indonesia issued in all three currencies, including a USD0.8 billion 7-year bond with a 1.45% coupon rate denominated in euros, a USD-denominated 10-year bond worth USD0.8 billion, and a series of six JPY-denominated bonds with various tenors and coupon rates. The samurai bonds will be used to finance debt repayment.

G3 currency bonds issued in Malaysia accounted for 3.9% of emerging East Asia's total, including USD-denominated bonds worth USD5.8 billion and USD2.3 billion worth of bonds denominated in Japanese yen. Malayan Banking Berhad issued three tranches of samurai bonds in May with tenors of 3, 5, and 10 years.

Singapore's share of issuance of G3 currency bonds in emerging East Asia was 2.5%, comprising USD5.0 billion issued in US dollars and USD0.2 billion in euros. Multinational banking and financial services corporation DBS Bank expanded its US dollar and euro issuances. In July, it issued a USD0.1 billion, 1-year bond with a 2.44775% coupon rate. In June, it issued two EUR-denominated 30-year bonds with coupon rates of 1.42% and 1.55%.

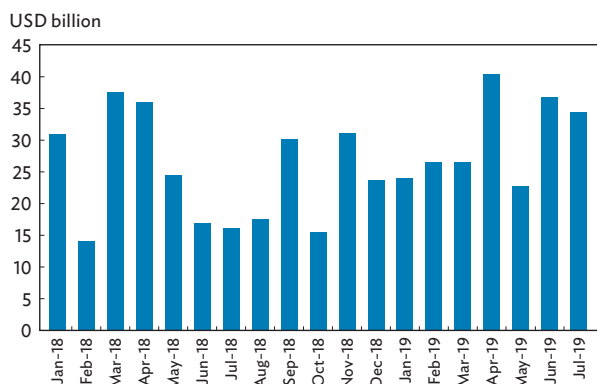
The Philippines accounted for a 1.9% share of total G3 currency bonds issued in emerging East Asia during the January–July period, comprising bonds denominated in US dollars and euros amounting to USD3.2 billion and USD0.8 billion, respectively. In May, the Government of the Philippines issued an 8-year EUR-denominated global bond with a coupon rate 0.875%. Proceeds from the issuance will be used for general purposes.

During the January–July period, 0.6% of all G3 currency bonds issued in the region were from Thailand, with all USD1.3 billion worth of these bonds denominated in US dollars. The Export–Import Bank of Thailand in May issued a USD0.3 billion, 5-year bond with a 3.3735% coupon rate.

Viet Nam accounted for the smallest share of G3 currency bond issuance in emerging East Asia at 0.1%, all of which was issued in US dollars. Vietnam Prosperity Bank was the sole issuer with a USD0.3 billion, 3-year bond with a coupon rate of 6.25%. The issuance was from the bank's Eurobond medium-term note program, with proceeds to be used for meeting the bank's capital and regulatory needs.

Monthly trends from January 2018 to July 2019 showed that April, June, and July 2019 were among the months with the most G3 currency bond issuance in emerging East Asia, with monthly issuance totals of USD40.2 billion, USD36.6 billion, and USD34.2 billion, respectively (**Figure 6**). Between January 2018 and July 2019, the PRC was consistently the main driver of growth, led by issuances from real estate operators and developers.

Figure 6: G3 Currency Bond Issuance in Emerging East Asia



USD = United States dollar.

Notes:

- Emerging East Asia comprises Cambodia; the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
- G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.
- Figures were computed based on 31 July 2019 currency exchange rates and do not include currency effects.

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

Government Bond Yield Curves

Government bond yield curves shifted downward for nearly all tenors in a majority of emerging East Asian markets as central banks in the region began easing monetary policy in response to the continued global economic slowdown.

Global economic growth moderated with the ongoing PRC–US trade dispute continuing to add to uncertainties. GDP growth moderated in Q2 2019 in advanced economies such as the US, where growth fell to 2.0% y-o-y from 3.1% y-o-y in the previous quarter. The euro area's GDP growth slipped to 1.2% y-o-y from 1.3% y-o-y during the same period. Japan's GDP growth also slowed to an annualized 1.3% in Q2 2019 from 2.2% in Q1 2019.

The Federal Reserve reduced its key policy rate by 25 bps on 31 July, citing increased uncertainties regarding the economic outlook. While the European Central Bank (ECB) and the Bank of Japan (BOJ) left key policy rates unchanged during their respective monetary policy meetings on 25 July and 30 July, both central banks signaled a readiness to employ additional stimulus measures if circumstances warrant it. Subsequently, on 12 September, the ECB cut the deposit facility rate by 10 bps to –0.50% and held unchanged the refinancing operations and marginal lending facility rates. The ECB also announced it would resume bond purchases at a monthly pace of EUR20 billion, effective 1 November.

Rising economic uncertainties over the growth outlook, softening inflation, and other events such as the PRC–US trade dispute have been cited as areas of concern by central banks. Both the ECB and the BOJ have slightly downgraded their growth forecasts for their respective economies. While US growth forecasts have been mostly unchanged, the Federal Reserve has downgraded its inflation outlook.

US GDP forecasts made in June were the same as in March, except for a slight increase in forecasted growth for 2020 to 2.0% from 1.9%. More significantly, there was a downgrade in the forecast for 2019 personal consumption expenditure inflation to 1.5% from 1.8%. The inflation forecast for 2020 was also slightly lowered to 1.9% from 2.0%.

In the euro area, the ECB downgraded in September its growth forecasts from those made in June. The 2019 and 2020 GDP growth forecasts were lowered to 1.1% and 1.2%, respectively, from previous forecasts of 1.2% and 1.4% made in June. The 2021 GDP growth forecast, however, was left unchanged at 1.4%.

The BOJ downgraded its GDP forecasts from those made in April. For 2019, the GDP forecast was reduced to 0.7% from 0.8%, while for 2021 the forecast was reduced to 1.1% from 1.2%. Forecasts for 2020 were unchanged.

The global economic slowdown also impacted emerging East Asian markets and investor sentiment, leading to declining yields in the region's LCY government bond markets between 1 June and 15 August.

As a result, 2-year yields have trended downward in nearly all emerging East Asian markets. For Hong Kong, China, while its 2-year yield has trended downward, its movement was not as strong compared with other markets, owing to seasonal liquidity demands and local political uncertainties (**Figure 7a**). Indonesia's 2-year yield also trended downward overall during the review period, but this included a slight upward spike toward the end of July (**Figure 7b**).

During the review period, 10-year yields moved similarly, with the 10-year yield of Hong Kong, China showing less downward movement (**Figure 8a**), while Indonesia's

10-year yield exhibited a spike toward the end of July (**Figure 8b**).

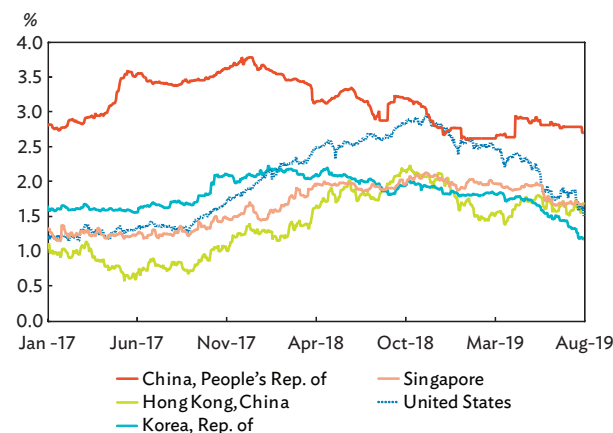
The entire yield curve shifted downward for nearly all markets between 1 June and 15 August with the exception of the PRC and Hong Kong, China (**Figure 9**). In both of these cases, yields rose at the short-end, with yields rising for tenors of less than 1 year in the PRC and for less than 2 years in Hong Kong, China.

While declines in yield curves in emerging East Asia were influenced by the dovish stances of central banks in advanced economies, slowing growth in the region also pushed down yields—with the exception of Indonesia, the Republic of Korea, and Malaysia—but some weaknesses are showing.

In Indonesia, GDP growth was roughly unchanged at 5.05% y-o-y in Q2 2019 versus 5.07% y-o-y in Q1 2019, but lower than the full-year GDP target of 5.3%. In the Republic of Korea, GDP expanded 1.0% q-o-q in Q2 2019 after falling 0.4% in the previous quarter. However, weaknesses remain as growth was largely driven by public spending, while private demand grew by only 0.7% q-o-q. In Malaysia, GDP growth accelerated to 4.9% y-o-y from 4.5% y-o-y in the same period.

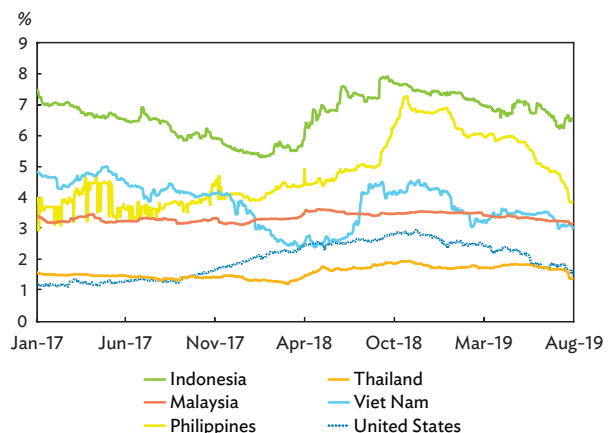
In the remaining emerging East Asian economies, GDP growth slowed in Q2 2019 compared with Q1 2019. In the PRC, GDP growth slowed to 6.2% y-o-y in Q2 2019

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

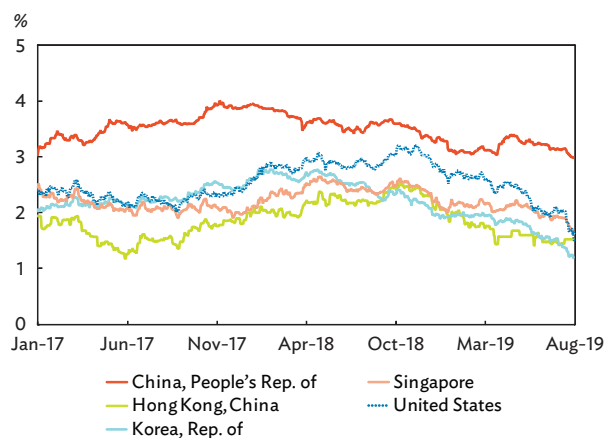


Note: Data as of 15 August 2019.
Source: Based on data from Bloomberg LP.

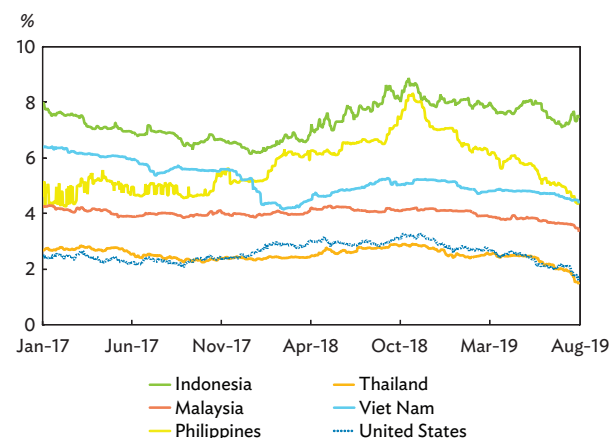
Figure 7b: 2-Year Local Currency Government Bond Yields



Note: Data as of 15 August 2019.
Source: Based on data from Bloomberg LP.

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

Note: Data as of 15 August 2019.
Source: Based on data from Bloomberg LP.

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

Note: Data as of 15 August 2019.
Source: Based on data from Bloomberg LP.

from 6.4% y-o-y in Q1 2019. In Hong Kong, China, GDP growth slowed to 0.5% y-o-y in Q2 2019 from 0.6% y-o-y in the previous quarter. While on a seasonally adjusted q-o-q basis, the GDP of Hong Kong, China fell 0.4%. In the Philippines, GDP growth slipped to 5.5% y-o-y in Q2 2019 from 5.6% y-o-y in Q1 2019. In Singapore, GDP grew only 0.1% y-o-y in Q2 2019, down from 1.1% y-o-y in Q1 2019. On a seasonally adjusted q-o-q basis, GDP contracted 3.3% in Singapore. In Thailand, GDP growth fell to 2.3% y-o-y in Q2 2019 from 2.8% y-o-y in the first quarter.

Despite slowing economic growth, inflation rates in emerging East Asia have remained relatively stable. However, accelerated inflation was noted in Hong Kong, China (**Figure 10a**) and the PRC (**Figure 10b**), caused by rising pork prices due to the impact of swine flu. Rising inflation was also noted in Malaysia. The region's sole exception to the accelerated inflation trend was the Philippines, where inflation has shown a steady decline since October 2018.

Falling inflation allowed the Bangko Sentral ng Pilipinas to reduce policy rates by 25 bps each on 9 May and again on 8 August (**Figure 11a**). Slowing economic growth and the dovishness of advanced economy central banks prompted other central banks in the region to cut policy rates as well. The Republic of Korea reduced policy rates by 25 bps on

18 July and Thailand reduced policy rates by 25 bps on 7 August. Indonesia also reduced policy rates by 25 bps on 18 July and by another 25 bps on 22 August (**Figure 11b**).

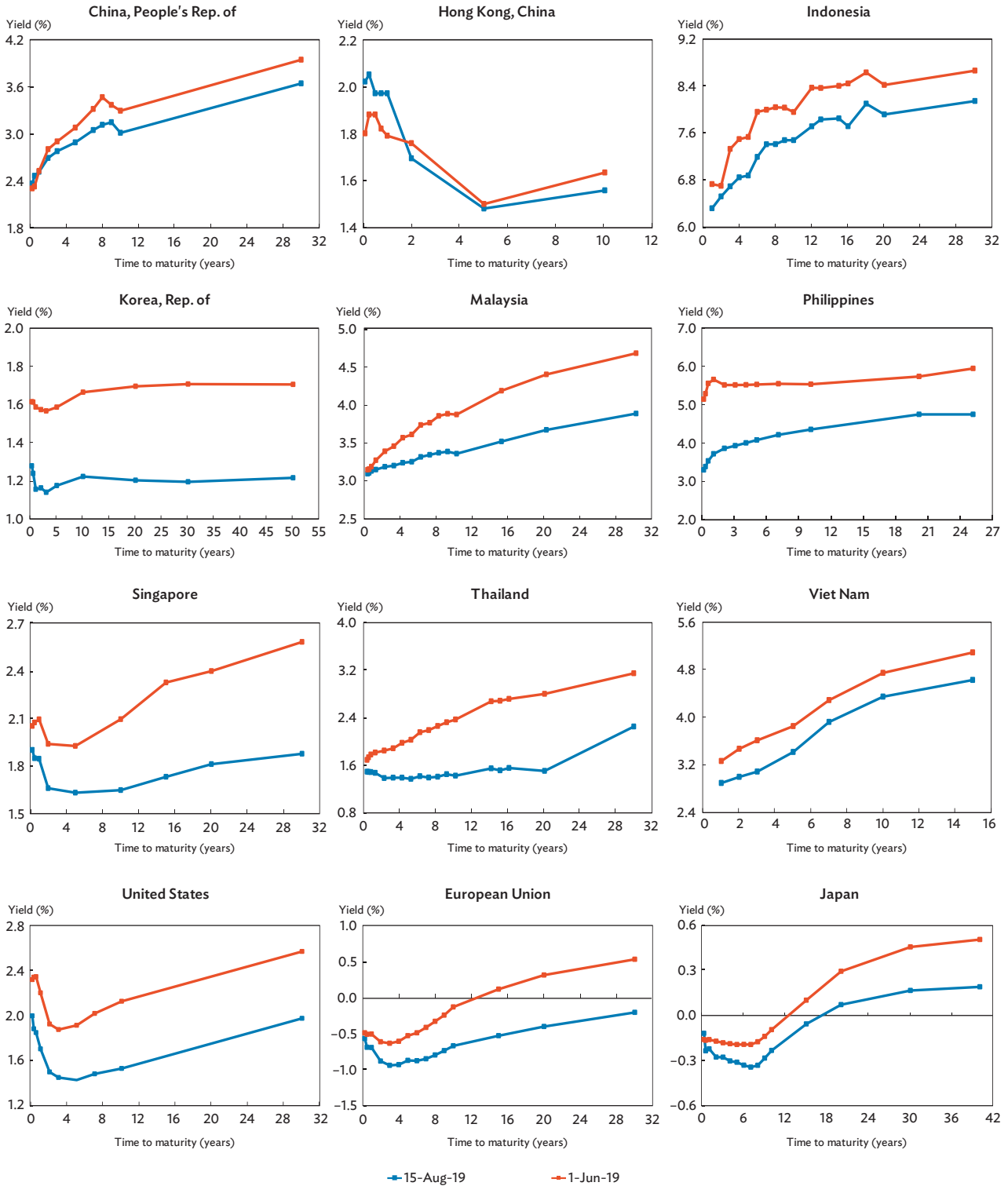
Slowing economic growth in the region led to 2-year versus 10-year yield spreads falling in all regional markets except the Philippines and Viet Nam (**Figure 12**).

Corporate Bond Credit Spreads

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

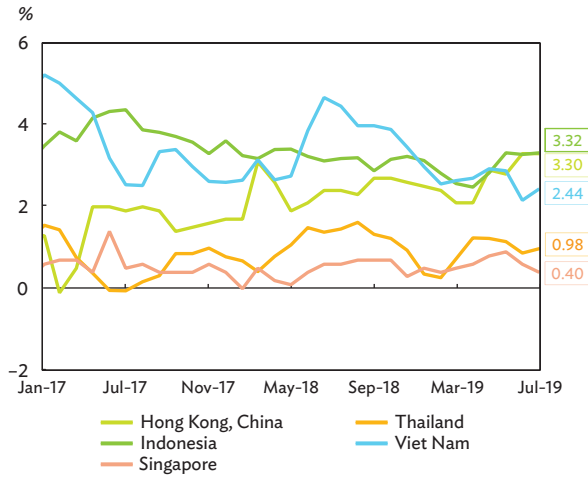
The global economic slowdown heightened risk aversion in emerging East Asia, leading to a rise in the yield spread between AAA-rated corporate bonds and government bonds in the Republic of Korea and Malaysia (**Figure 13a**). The spread was unchanged in the PRC, as corporate debt concerns were focused mainly on lower-rated bonds, resulting in a widening of the spread between yields on lower-rated corporate bonds versus AAA-rated bonds (**Figure 13b**). In contrast, the spread between yields on lower-rated corporate bonds versus AAA-rated bonds remained unchanged in the Republic of Korea and fell in Malaysia.

Figure 9: Benchmark Yield Curves—Local Currency Government Bonds



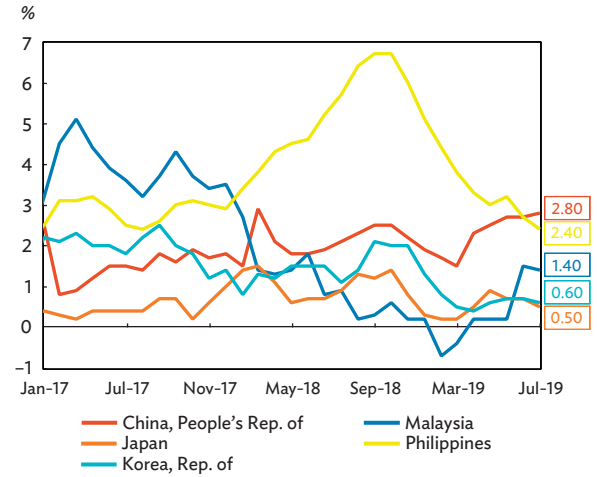
Sources: Based on data from Bloomberg LP and Thai Bond Market Association.

Figure 10a: Headline Inflation Rates



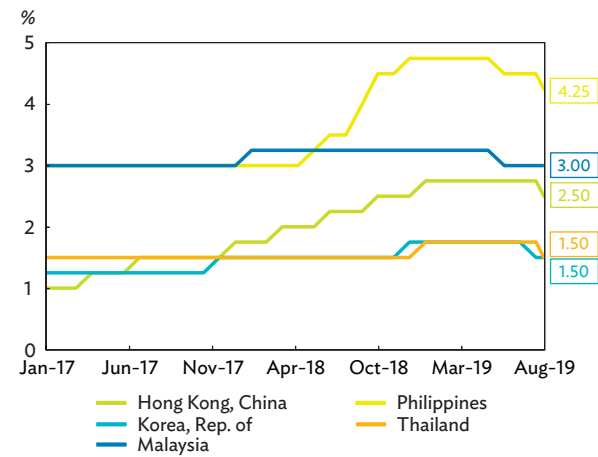
Note: Data as of July 2019.
Source: Based on data from Bloomberg LP.

Figure 10b: Headline Inflation Rates



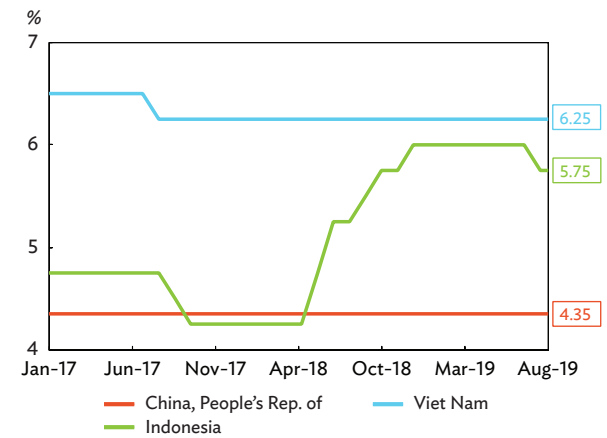
Note: Data as of July 2019.
Source: Based on data from Bloomberg LP.

Figure 11a: Policy Rates



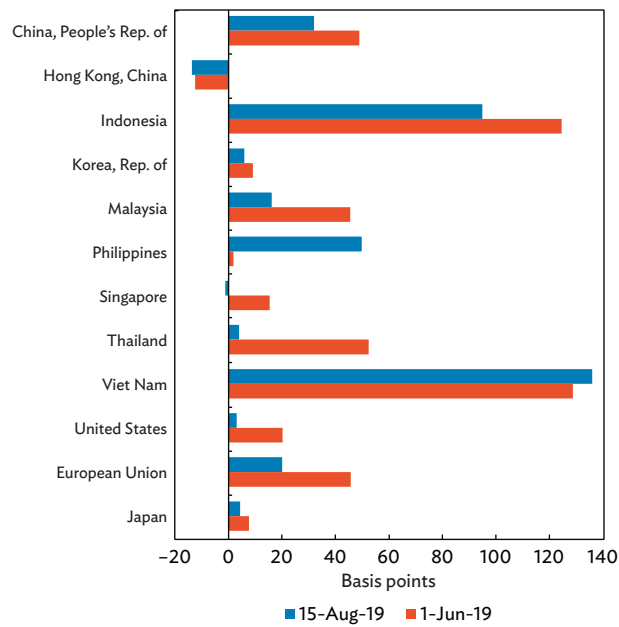
Note: Data as of 15 August 2019.
Source: Based on data from Bloomberg LP.

Figure 11b: Policy Rates



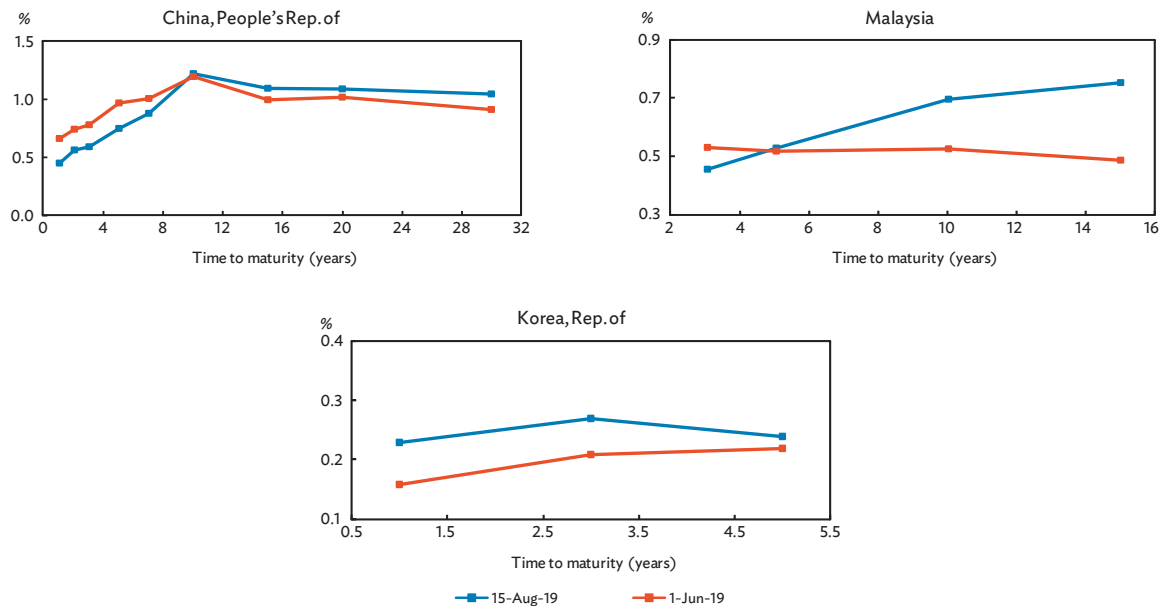
Note: Data as of 15 August 2019.
Source: Based on data from Bloomberg LP.

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



Source: Based on data from Bloomberg LP.

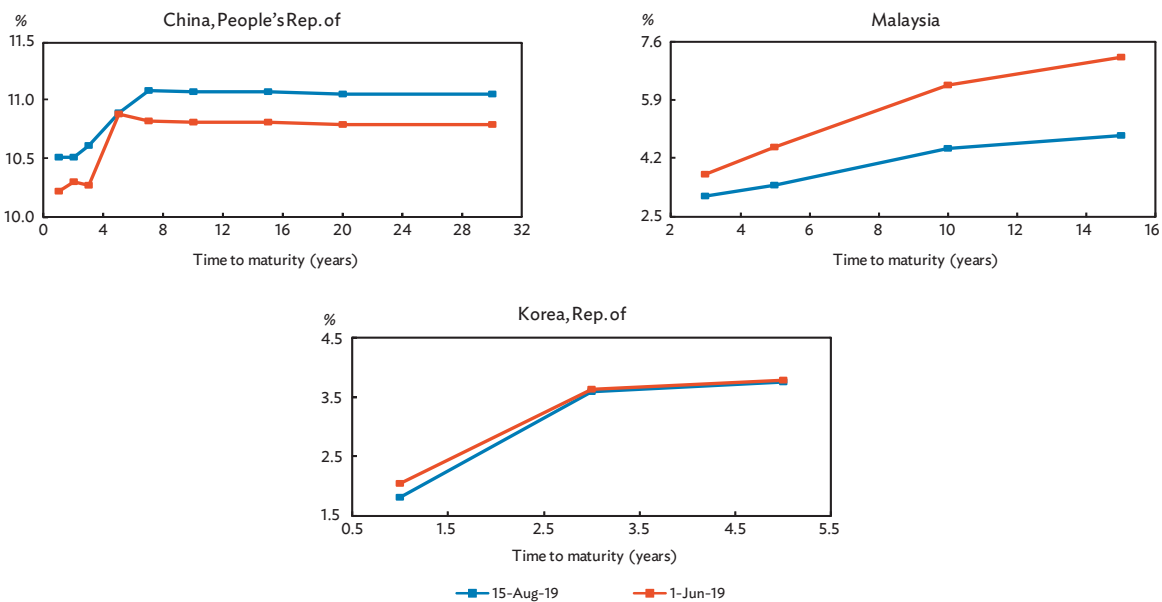
Figure 13a: Credit Spreads—Local Currency Corporates Rated AAA vs. Government Bonds



Notes:

1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
 2. For the Republic of Korea and Malaysia, data on corporate bonds yields are as of 31 May 2019 and 14 August 2019.
- Sources: People's Republic of China (*Wind Information*), Republic of Korea (*EDAILY BondWeb*), and Malaysia (*Bank Negara Malaysia*).

Figure 13b: Credit Spreads—Lower-Rated Local Currency Corporates vs. AAA



Notes:

1. For the People's Republic of China and the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB+.
2. For the Republic of Korea and Malaysia, data on corporate bonds yields are as of 31 May 2019 and 14 August 2019.

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