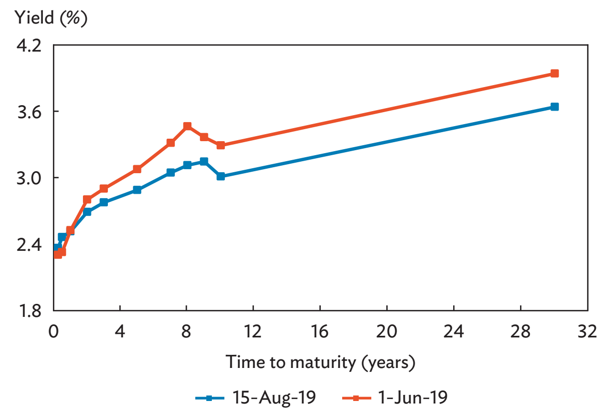
Market Summaries

People's Republic of China

Yield Movements

The People's Republic of China's (PRC) yield curve for local currency (LCY) bonds shifted downward for all tenors except short-dated tenors between 1 June and 15 August (**Figure 1**). For tenors of 1 year or longer, yields fell an average of 21 basis points (bps). In contrast, yields for tenors less than 1 year rose an average of 10 bps. The 2-year versus 10-year yield spread fell between 1 June and 15 August from 49 bps to 32 bps.

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



Source: Based on data from Bloomberg LP.

Yields for longer-dated tenors declined largely due to ongoing economic challenges facing the PRC, both domestic and external. On the domestic front, the PRC's economy continued to show signs of weakening. The gross domestic product (GDP) growth rate decelerated to 6.2% year-on-year (y-o-y) in the second quarter (Q2) of 2019 from 6.4% y-o-y in the first quarter (Q1). Industrial production weakened, with growth falling to 4.8% y-o-y in July from 6.3% y-o-y in June. Retail sales growth also declined to 7.6% y-o-y in July from 9.8% y-o-y in the previous month.

The external environment has also proved to be challenging to the PRC amid the ongoing trade dispute with the United States (US). Exports have been relatively weak, with the PRC reporting export growth of 3.3% y-o-y in July after a 1.3% y-o-y contraction in June.

The PRC's inflation rate has remained stable. Consumer prices grew 2.8% y-o-y in July after rising 2.7% y-o-y in June. Inflation has been largely supply-side driven, with food prices leading the increases mainly due to supply shocks impacting pork prices over the outbreak of swine flu.

While longer-term yields generally reflect economic conditions, shorter-term interest rates in the PRC follow funding conditions as demand increased in June before easing toward the end of the month due to corporate cash needs driven by end-of-period balance sheet reporting, before spiking again in July due to corporate tax payments. In addition, funding difficulties were noted for smaller lenders due to heightened risk aversion following the government takeover of Baoshang Bank on 24 May to control credit risks.

Size and Composition

LCY bonds outstanding in the PRC rose 4.0% quarter-on-quarter (q-o-q) in Q2 2019, an acceleration from 3.0% q-o-q growth in Q1 2019. On an annual basis, LCY bonds grew 16.7% y-o-y (**Table 1**).

Government bonds. The government bond market continued to expand in Q2 2019, with growth accelerating to 4.2% q-o-q from 2.5% q-o-q in Q1 2019. A rapid increase in government bonds outstanding was largely due to government efforts to mitigate the headwinds facing the PRC economy. As a result, local government bonds continued their strong growth, expanding 5.4% q-o-q in Q2 2019 after rising 5.2% in Q1 2019, driven by an increase in the local government bond quota in March. In addition, local governments have been instructed to complete their 2019 bond issuance by the end of September.

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

	Outstanding Amount (billion)						Growth Rates (%)			
	Q2 2018		Q1 2019		Q2 2019		Q2 2018		Q2 2019	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**67,720**	**10,228**	**76,012**	**11,325**	**79,049**	**11,512**	**3.9**	**15.4**	**4.0**	**16.7**
Government	44,114	6,663	49,061	7,309	51,135	7,447	4.4	16.0	4.2	15.9
Treasury Bonds and Other Government Bonds	13,841	2,091	14,882	2,217	15,461	2,252	2.8	10.1	3.9	11.7
Central Bank Bonds	0	0	2	0	4	1	0.0	0.0	166.7	0.0
Policy Bank Bonds	14,005	2,115	14,776	2,201	15,213	2,215	3.0	9.8	3.0	8.6
Local Government Bonds	16,268	2,457	19,401	2,890	20,457	2,979	7.0	28.0	5.4	25.7
Corporate	23,606	3,565	26,951	4,015	27,914	4,065	3.1	14.2	3.6	18.3
Policy Bank Bonds										
China Development Bank	7,743	1,169	8,328	1,241	8,580	1,250	2.3	7.8	3.0	10.8
Export–Import Bank of China	2,366	357	2,444	364	2,533	369	1.6	6.8	3.6	7.0
Agricultural Devt. Bank of China	3,895	588	4,005	597	4,100	597	5.3	16.1	2.4	5.3

( ) = negative, CNY = Chinese yuan, 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 local currency–USD rates are used.
4. Growth rates are calculated from local currency base and do not include currency effects.
Sources: CEIC and Bloomberg LP.

The issuance of local government bonds is mostly designed to finance local infrastructure projects. However, in June, regulators relaxed rules governing special bonds issued by local governments, allowing the use of proceeds in lieu of equity capital for some projects.

Treasury bond issuance also increased in Q2 2019, growing 159.9% q-o-q in Q2 2019 after contracting 52.2% q-o-q in Q1.

Corporate bonds. The corporate bond market grew 3.6% q-o-q in Q2 2019, down from 4.1% q-o-q growth in the previous quarter. Growth in corporate bonds slowed over concerns about the PRC's economy as well as corporate bond defaults (**Table 2**).

Increased issuance was noted for financial bonds, listed corporate bonds, and asset-backed securities in Q2 2019 versus Q1 2019 (**Figure 2**).

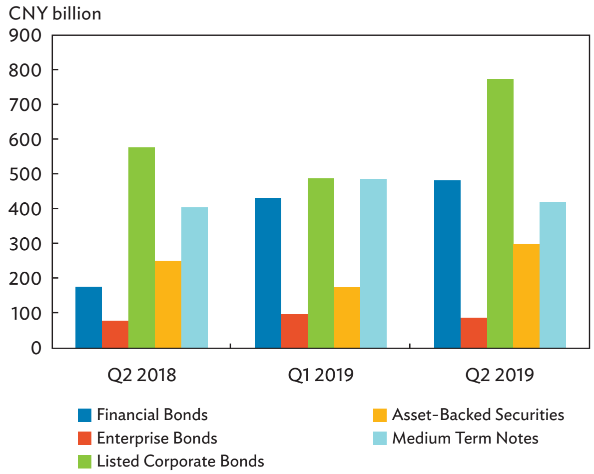
The PRC's LCY corporate bond market continued to be dominated by a few big issuers (**Table 3**). At the end of Q2 2019, the top 30 corporate bond issuers accounted for CNY7.7 trillion worth of corporate bonds outstanding, or about 27.5% of the total market. Of the top 30, the 10 largest issuers accounted for CNY4.8 trillion. China Railway, the top issuer, had more than four times the outstanding amount of bonds as the second-largest issuer, Industrial Commercial Bank

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)			Growth Rate (%)			
				Q2 2018		Q2 2019	
	Q2 2018	Q1 2019	Q2 2019	q-o-q	y-o-y	q-o-q	y-o-y
Financial Bonds	3,854	4,744	5,042	1.0	21.0	6.3	30.8
Enterprise Bonds	4,205	3,872	3,834	1.0	(6.4)	(1.0)	(8.8)
Listed Corporated Bonds	5,759	6,608	7,024	1.1	25.5	6.3	22.0
Commercial Papers	1,741	2,240	2,197	1.0	2.6	(1.9)	26.2
Medium Term Notes	5,056	5,813	5,919	1.0	12.2	1.8	17.1
Asset-Backed Securities	1,164	1,728	1,924	1.2	67.1	11.3	65.3

( ) = negative, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second quarter, y-o-y = year-on-year.
Source: CEIC.

Figure 2: Corporate Bond Issuance in Key Sectors



CNY = Chinese yuan, Q1 = first quarter, Q2 = second quarter.
Source: CEIC.

of China. The top 30 issuers included 13 banks, who continue to generate funding to strengthen their capital bases, improve liquidity, and lengthen their maturity profiles.

Table 4 lists the largest corporate bond issuances in Q2 2019. The top issuers consisted largely of banks and state-owned enterprises.

Investor Profile

Government bonds. Among the major government bond categories, banks were the single-largest holder at the end of June, owning more than 70% of the total outstanding government bonds (**Figure 3**). The concentration of bank holdings is the highest for local government bonds, as banks are asked by the government to support the funding efforts of local governments. Policy banks are the next largest holder of local government bonds. Unincorporated products were the second largest holder of policy bank bonds after banks.[7]

Liquidity

The volume of interest rate swaps rose 17.6% q-o-q in Q2 2019. The 7-day repurchase remained the most used interest rate swap, comprising a 75.3% share of the total interest rate swap volume during the quarter (**Table 5**).

Policy, Institutional, and Regulatory Developments

The People's Republic of China Relaxes Restrictions on Use of Local Government Bonds Proceeds

On 11 June, the Government of the PRC allowed local governments to use funds raised from the issuance of special bonds for the 20%–25% equity requirement for certain types of infrastructure projects in order to boost infrastructure spending. The central government also said this would encourage local governments to issue special bonds with tenors longer than 10 years and use the proceeds of special bonds for Belt and Road Initiative projects, shanty-town renovations, and urban and rural infrastructure projects.

The People's Bank of China Reduces Reserve Requirement Ratio for Rural Banks

On 20 August, the People's Bank of China (PBOC) announced that it would make changes to how the benchmark loan prime rate is used. The PBOC said that banks are encouraged to use the loan prime rate as the benchmark for loan pricing instead of the existing 1-year benchmark lending rate. In addition, banks will need to link loan prime rate pricing to the rates used for the PBOC's existing medium-term lending facility. The goal of the PBOC is to reduce interest rate costs charged to borrowers.

[7] Unincorporated products include banks' wealth management products, securities investment funds, trust funds, and insurance products.

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	1,765.5	257.1	Yes	No	Transportation
2.	Industrial and Commercial Bank of China	439.7	64.0	Yes	Yes	Banking
3.	Agricultural Bank of China	418.2	60.9	Yes	Yes	Banking
4.	Bank of China	412.0	60.0	Yes	Yes	Banking
5.	Central Huijin Investment	343.4	50.0	Yes	No	Asset Management
6.	China Construction Bank	327.2	47.6	Yes	Yes	Banking
7.	State Grid Corporation of China	320.0	46.6	Yes	No	Public Utilities
8.	China Minsheng Banking	290.0	42.2	No	Yes	Banking
9.	China CITIC Bank	267.6	39.0	No	Yes	Banking
10.	Bank of Communications	265.9	38.7	No	Yes	Banking
11.	Shanghai Pudong Development Bank	265.3	38.6	No	Yes	Banking
12.	China National Petroleum	260.8	38.0	Yes	No	Energy
13.	Industrial Bank	205.3	29.9	No	Yes	Banking
14.	State Power Investment	173.4	25.3	Yes	No	Energy
15.	Tianjin Infrastructure Construction and Investment Group	163.8	23.9	Yes	No	Industrial
16.	China Everbright Bank	161.5	23.5	Yes	Yes	Banking
17.	Huaxia Bank	143.9	21.0	Yes	No	Banking
18.	Ping An Bank	138.0	20.1	No	Yes	Banking
19.	CITIC Securities	133.4	19.4	Yes	Yes	Brokerage
20.	China Merchants Bank	126.7	18.4	Yes	Yes	Banking
21.	PetroChina	125.0	18.2	Yes	Yes	Energy
22.	Datong Coal Mine Group	120.8	17.6	Yes	No	Coal
23.	China Datang	113.5	16.5	Yes	Yes	Energy
24.	China Southern Power Grid	105.5	15.4	Yes	No	Energy
25.	China Merchants Securities	103.0	15.0	No	Yes	Brokerage
26.	China Three Gorges Corporation	102.1	14.9	Yes	No	Power
27.	China Life Insurance	100.0	14.6	Yes	Yes	Insurance
28.	GF Securities	98.0	14.3	No	Yes	Brokerage
29.	Guotai Junan Securities	93.0	13.5	No	Yes	Financial
30.	Haitong Securities	93.0	13.5	No	Yes	Brokerage
Total Top 30 LCY Corporate Issuers		**7,675.3**	**1,117.7**			
Total LCY Corporate Bonds		**27,914.1**	**4,065.1**			
Top 30 as % of Total LCY Corporate Bonds		**27.5%**	**27.5%**			

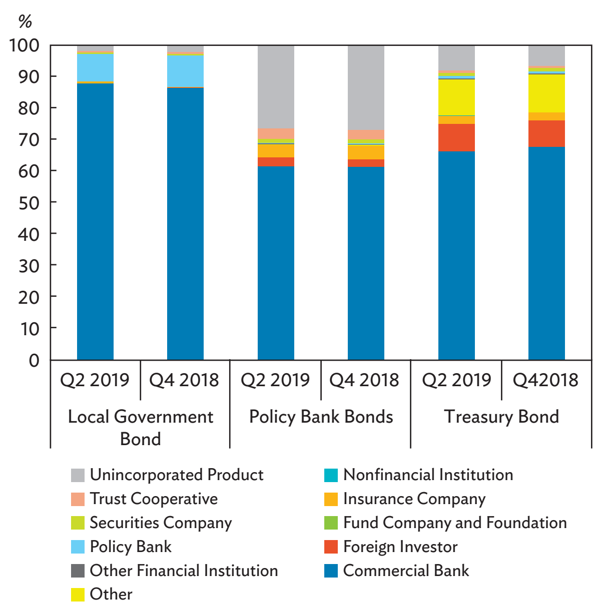
CNY = Chinese yuan, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 30 June 2019.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Table 4: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
Central Huijin Investment		
3-year bond	3.40	13.0
3-year bond	3.45	13.0
3-year bond	3.47	10.0
3-year bond	3.74	10.0
5-year bond	3.70	7.0
5-year bond	3.83	7.0
5-year bond	4.06	5.0
5-year bond	3.78	5.0
Agricultural Bank of China		
10-year bond	4.30	40.0
15-year bond	4.63	20.0
Industrial and Commercial Bank of China		
10-year bond	4.40	45.0
15-year bond	4.69	10.0
State Power Investment Corporation		
3-year bond	3.90	2.9
3-year bond	3.85	2.8
3-year bond	4.00	2.3
3-year bond	3.87	2.0
3-year bond	3.77	1.8
3-year bond	3.75	1.7
3-year bond	3.73	1.5
3-year bond	3.73	1.5

CNY = Chinese yuan.
Source: Based on data from Bloomberg LP.

Figure 3: Government Bonds Investor Profile



Q2 = second quarter, Q4 = fourth quarter.
Source: Bloomberg LP.

Table 5: Notional Values of the People's Republic of China's Interest Rate Swap Market in the Second Quarter of 2019

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	Share of Total Notional Amount (%)	Growth Rate (%)
	Q2 2019		q-o-q
7-Day Repo Rate	33,894.5	75.3	19.4
Overnight SHIBOR	10,489.7	23.3	14.5
3-Month SHIBOR	339.0	0.8	110.6
1-Year Term Deposit Rate	157.5	0.4	–
1-Year Lending Rate	132.5	0.3	29.3
Loan Interest Rate 1 Year	0.0	–	(100.0)
5-Year Lending Rate	27.5	0.1	192.6
Depository Institution 7-Day Repo Rate	0.5	–	(97.0)
3-Year AAA Short-Term Notes/ Government Debt	0.0	–	(100.0)
Loan Interest Rate—5 Year * 1.05	0.00	–	(100.0)
Total	**45,041.2**	**100.0**	**17.6**

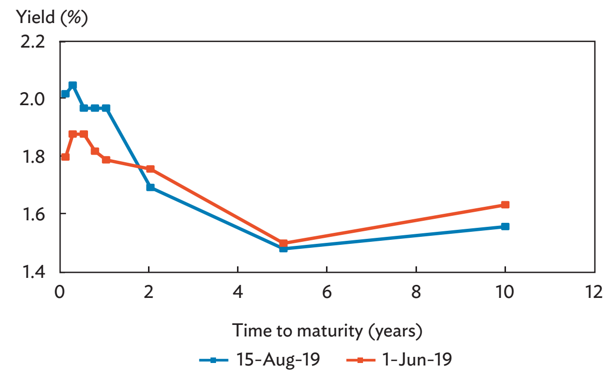
( ) = negative, – = not applicable, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q2 = second quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.
Note: Growth rate computed based on notional amounts.
Sources: *AsianBondsOnline* and *ChinaMoney*.

Hong Kong, China

Yield Movements

The local currency (LCY) government bond yield curve of Hong Kong, China showed unusual movement during the review period. Between 1 June and 15 August, the yield curve rose at the shorter-end but dropped for tenors with maturities of 2 years and longer. The yields of short-dated bonds with maturities below 2 years rose 16 basis points (bps) on average, with the 1-month tenor gaining the most at 22 bps. In contrast, yields fell for bonds with maturities of 2 years and longer. The 2-year tenor shed 6 bps and the 10-year tenor dropped 8 bps (**Figure 1**). The inverted yield curve has been in place since the middle of April, when the 10-year yield fell below the 2-year rate by 2 bps. By the end of the review period, the gap had widened, with the 2-year yield outpacing the 10-year yield by 14 bps.

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



Source: Based on data from Bloomberg LP.

The yield curve's inversion reflected heightened uncertainties and expectations of an economic slowdown. The political unrest that unfolded during the quarter added to the headwinds brought by the trade dispute between the People's Republic of China and the United States (US). The jump in yields on short-dated bonds reflected tightened liquidity. The Hong Kong Monetary Authority's (HKMA) defense of the currency in the previous quarter reduced the aggregate balance of interbank liquidity to HKD54.3 billion (USD6.9 billion) at the beginning of the review period from HKD76.5 billion (USD9.8 billion) at the beginning of the year. Demand for cash surged during the review period, due to funding needs for companies' mid-year dividend payments and investors' anticipation of high-profile initial public offerings. The uncertainties brought by political protests gave rise to outflow concerns, increasing financial institutions' demand for liquid assets. The dwindling liquidity pushed the Hong Kong Interbank Offered Rate higher, causing bond yields to rise at the shorter-end of the curve.

Falling yields on longer-dated bonds followed a global trend that followed a series of policy rate cuts undertaken by major central banks during the quarter. In August, the HKMA lowered its base rate by 25 bps to 2.50% after the US Federal Reserve cut its key benchmark rate by 25 bps to a range of 2.00%–2.25%.

Weakening economic growth also created downward pressure on yields. The gross domestic product (GDP) growth of Hong Kong, China slowed to 0.5% year-on-year (y-o-y) in the second quarter (Q2) of 2019 from 0.6% y-o-y in the previous quarter. On a seasonally adjusted quarter-on-quarter (q-o-q) basis, GDP contracted 0.4% in Q2 2019, reversing the 1.3% q-o-q GDP expansion posted in the previous quarter. Merchandise exports dropped 5.6% y-o-y during the quarter, undermined by softening global economic growth. Gross domestic fixed capital formation contracted 11.6% y-o-y amid weak business sentiment. The government lowered its full-year 2019 growth forecast to a range of between zero and 1.0% from the previous 2.0%–3.0% estimate.

The inflation rate of Hong Kong, China was 3.3% y-o-y in July, the same rate posted in June. On a seasonally adjusted month-on-month basis, the average monthly inflation from May to July stood at 0.3%.

Size and Composition

The LCY bonds outstanding of Hong Kong, China declined to HKD1,955.5 billion in Q2 2019 from HKD1,959.9 in the previous quarter (**Table 1**). The 0.2% q-o-q drop in Q2 2019 reversed the 0.5% q-o-q growth in Q1 2019, driven largely by a contraction in

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2018		Q1 2019		Q2 2019		Q2 2018		Q2 2019	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,929**	**246**	**1,960**	**250**	**1,956**	**250**	**2.1**	**3.6**	**(0.2)**	**1.4**
Government	1,159	148	1,161	148	1,164	149	0.8	7.6	0.2	0.5
Exchange Fund Bills	1,019	130	1,035	132	1,042	133	0.5	10.4	0.6	2.3
Exchange Fund Notes	35	4	31	4	29	4	(4.9)	(18.6)	(5.8)	(16.0)
HKSAR Bonds	105	13	95	12	93	12	6.6	(5.5)	(2.1)	(11.4)
Corporate	771	98	799	102	791	101	3.9	(2.0)	(0.9)	2.7

( ) = negative, HKD = Hong Kong dollar, HKSAR = Hong Kong Special Administrative Region, 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 local currency–USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
Source: Hong Kong Monetary Authority.

corporate bonds outstanding. Annual growth weakened to 1.4% y-o-y in Q2 2019 from 3.7% y-o-y in Q1 2019 due to slower growth of both government and corporate bonds. The bond market remains dominated by government bonds, which accounted for 59.5% of LCY bonds outstanding in Q2 2019.

Government bonds. The outstanding stock of LCY government bonds stood at HKD1,164.1 billion at the end of June, with marginal growth at 0.2% q-o-q and 0.5% y-o-y. The growth was driven by an expansion of Exchange Fund Bills (EFBs), which rose 0.6% q-o-q and 2.3% y-o-y. Both Exchange Fund Notes (EFNs) and Hong Kong Special Administrative Region (HKSAR) Bonds outstanding contracted during the review period. Outstanding EFNs dropped 5.8% q-o-q and 16.0% y-o-y, while HKSAR Bonds outstanding dipped 2.1% q-o-q and 11.4% y-o-y.

Total government issuance amounted to HKD834.7 billion in Q2 2019 on growth of 2.6% q-o-q and 2.8% y-o-y. Issuance of EFBs and EFNs by the HKMA increased 1.9% q-o-q, while issuance of HKSAR Bonds jumped 281.0% as the government re-opened 3-year, 5-year, and 10-year tenors worth a total of HKD8.0 billion during the quarter.

Exchange Fund Bills. At the end of June, outstanding EFBs reached HKD1,041.9 billion, driven by strong issuance during the quarter. New issuance edged up to HKD825.5 billion from HKD810.2 billion in the previous quarter. However, due to maturities, the growth of EFBs remained marginal, though slightly higher than in the previous quarter. In q-o-q terms, the growth of EFBs rose slightly to 0.6% q-o-q in Q2 2019 from 0.5% q-o-q in the previous quarter. Similarly, annual growth improved during the review period, rising to 2.3% y-o-y in Q2 2019 from 2.1% y-o-y in Q1 2019.

Exchange Fund Notes. Since 2015, the HKMA has limited the issuance of EFNs to 2-year tenors, issuing on average HKD1.2 billion EFNs per quarter. As a result, outstanding EFNs have declined steadily. Outstanding EFNs stood at HKD29.4 billion at the end of June, down 5.8% q-o-q from HKD31.2 billion at the end of Q1 2019.

Hong Kong Special Administrative Region Bonds. HKSAR Bonds outstanding stood at HKD92.7 billion at the end of June, down 2.1% q-o-q and 11.4% y-o-y, following the 10.5% q-o-q and 3.5% y-o-y drop recorded in the previous quarter. In Q2 2019, the government issued a 3-year bond worth HKD4.0 billion, a 5-year bond worth HKD2.5 billion, and a 10-year bond worth HKD1.5 billion under the Institutional Bond Issuance Programme.

Corporate bonds. Corporate bonds outstanding reached HKD791.4 billion at the end of June. The 0.9% q-o-q contraction in Q2 2019 reversed the 2.2% q-o-q growth in the previous quarter. Annual growth also slowed to 2.7% y-o-y in Q2 2019 from 7.7% y-o-y in Q1 2019.

The outstanding bonds of the top 31 corporate issuers in Hong Kong, China amounted to HKD217.8 billion in Q2 2019, comprising 27.5% of the total corporate bond market (**Table 2**). Government-owned financial firm Hong Kong Mortgage Corporation remained the top issuer, with outstanding bonds amounting

Table 2: Top 31 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.	Hong Kong Mortgage Corporation	30.7	3.9	Yes	No	Finance
2.	Sun Hung Kai & Co.	16.8	2.2	No	Yes	Finance
3.	MTR Corporation	12.0	1.5	Yes	Yes	Transportation
4.	Link Holdings	11.1	1.4	No	No	Finance
5.	The Hong Kong and China Gas Company	11.1	1.4	No	Yes	Utilities
6.	New World Development	11.0	1.4	No	Yes	Diversified
7.	Hong Kong Land	10.7	1.4	No	No	Real Estate
8.	Haitong International Securities Group	8.6	1.1	No	Yes	Finance
9.	The Wharf (Holdings)	8.6	1.1	No	Yes	Finance
10.	Henderson Land Development	8.3	1.1	No	No	Real Estate
11.	CLP Power Hong Kong Financing	8.3	1.1	No	No	Finance
12.	Swire Pacific	7.9	1.0	No	Yes	Diversified
13.	Smart Edge	6.8	0.9	No	No	Finance
14.	AIA Group	6.3	0.8	No	Yes	Insurance
15.	CK Asset Holdings	6.2	0.8	No	Yes	Real Estate
16.	Swire Properties	5.9	0.8	No	Yes	Real Estate
17.	Hongkong Electric	5.5	0.7	No	No	Utilities
18.	China Merchants Port Holdings	5.5	0.7	No	Yes	Transportation
19.	Hang Lung Properties	4.6	0.6	No	Yes	Real Estate
20.	Hysan Development Company	3.7	0.5	No	Yes	Real Estate
21.	IFC Development Corporation	3.5	0.4	No	No	Finance
22.	Lethai Group	3.0	0.4	No	Yes	Real Estate
23.	Emperor International Holdings	2.9	0.4	No	Yes	Real Estate
24.	Urban Renewal Authority	2.8	0.4	Yes	No	Real Estate
25.	Wharf Real Estate Investment	2.6	0.3	No	Yes	Real Estate
26.	Champion REIT	2.5	0.3	No	Yes	Real Estate
27.	China Dynamics (Holdings)	2.4	0.3	No	Yes	Diversified
28.	The 13 Holdings	2.2	0.3	No	Yes	Industrial
29.	Kowloon-Canton Railway	2.1	0.3	Yes	No	Transportation
30.	CK Hutchison Holdings	2.0	0.3	No	Yes	Diversified
31.	Gluon Xima International	2.0	0.3	No	No	Real Estate
Total Top 31 Nonbank LCY Corporate Issuers		**217.8**	**27.9**			
Total LCY Corporate Bonds		**791.4**	**101.3**			
Top 31 as % of Total LCY Corporate Bonds		**27.5%**	**27.5%**			

HKD = Hong Kong dollar, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 30 June 2019.
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.

to HKD30.7 billion. The company with the second-largest amount of outstanding corporate bonds at HKD16.8 billion was Sung Hung Kai & Co., another financial firm. It was followed by MTR Corporation, a government-owned transportation company, with HKD12.0 billion of bonds outstanding. The next two largest issuers, Link Holdings and Hong Kong and China Gas Company, each had HKD11.1 billion of bonds outstanding, followed closely by New World Development with HKD11.0 billion of bonds outstanding. The top 31 issuers in Q2 2019 were mostly finance and real estate companies. Two-thirds were listed on the Hong Kong Stock Exchange and four were government-owned corporations.

Corporate issuance amounted to HKD75.9 billion in Q2 2019, down from HKD108.4 billion in the previous quarter. The top nonbank issuer, Hong Kong Mortgage Corporation, issued a total of HKD7.1 billion bonds from 13 issuances during the quarter, the largest of which was a 2-year bond worth HKD1.0 billion carrying a 1.89% coupon (**Table 3**). Smart Edge, an investment company, was the second-largest issuer during the quarter, with a 2-year bond worth HKD6.8 billion and carrying a 4.33% coupon. Link Holdings, a financial company, was the third-largest issuer during the quarter, with a 5-year bond worth HKD4.0 billion and carrying a 1.6% coupon. Haitong International, another financial firm, issued a total of HKD2.3 billion from four issuances of 1-year bonds carrying coupons ranging from 2.6% to 2.8%. New World Development—a diversified company with real estate, transportation, telecommunication, and other operations— issued a total of HKD1.6 billion from four issuances of 3-year, 10-year, and 15-year bonds with coupons ranging from 3.0% to 15.0%.

Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
Hong Kong Mortgage Corporation		
3-month bills	1.50	0.13
3-month bills	0.00	0.66
3-month bills	1.42	0.47
1-year bond	1.93	0.50
1-year bond	2.06	0.50
1-year bond	1.82	0.55
1-year bond	1.96	0.52
1-year bond	2.00	0.50
1-year bond	1.88	0.90
1.5-year bond	1.76	0.50
2-year bond	1.89	1.00
2-year bond	1.98	0.75
30-year bond	2.98	0.13
Smart Edge		
2-year bond	4.33	6.80
Link Holdings		
5-year bond	1.60	4.00
Haitong International		
1-year bond	2.80	0.60
1-year bond	2.65	0.70
1-year bond	2.75	0.50
1-year bond	2.60	0.53
New World Development		
3-year bond	3.00	0.10
3-year bond	3.00	0.40
10-year bond	10.01	0.45
15-year bond	15.01	0.65

HKD = Hong Kong dollar.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

Hong Kong Monetary Authority and the Bank of Thailand Collaborate on Financial Innovation

On 12 May, the HKMA and the Bank of Thailand signed a memorandum of understanding to promote collaboration in financial innovation. One potential project highlighted during the signing was a joint research program on central bank digital currency, wherein the two banking authorities may share knowledge and experience from their respective research.

Hong Kong Monetary Authority Keeps Countercyclical Capital Buffer at 2.5%

On 9 July, the HKMA decided to maintain the countercyclical capital buffer (CCyB) at 2.5%. In its press statement, the HKMA noted that the latest data signals a lower CCyB at 1.75% due to the narrowing of the credit-to-GDP gap, which indicated a slowdown in loan growth. However, after considering other factors, including the recovery of residential property prices and banking sector and economy-wide risks, the HKMA decided that holding the CCyB steady at 2.5% was more appropriate to provide an additional buffer should the systemic risks crystallize in the future. The CCyB is an integral part of the Basel III regulatory capital framework designed to increase the resilience of the banking sector in periods of excess credit growth.

Indonesia

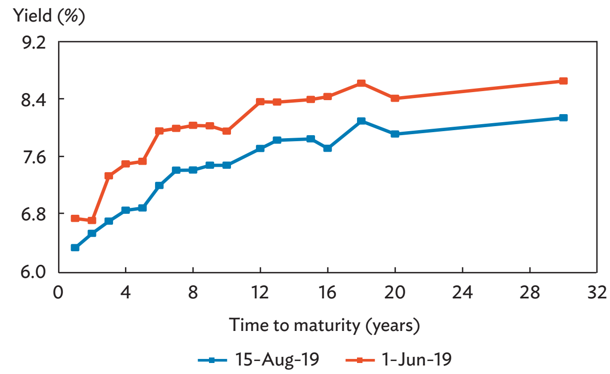
Yield Movements

Local currency (LCY) government bond yields in Indonesia declined between 1 June and 15 August, shifting the entire yield curve downward (**Figure 1**). Yields shed an average of 29 basis points (bps) for maturities of 2 years or less and an average of 59 bps for maturities of 3 years or more. As a result of the downward movement in the yield curve, the spread between the 2-year and 10-year bond yields narrowed from 124 bps on 1 June to 95 bps on 15 August.

The downward trend in bond yields was largely influenced by the 25-bps policy rate cut by Bank Indonesia announced on 18 July and the sovereign ratings upgrade by S&P Global Ratings (S&P) on 31 May (see section on Ratings Update). It was the first policy rate cut of the year and came after Bank Indonesia had raised its policy rate six times in 2018 for a cumulative 175 bps. Another 25-bps cut was announced by the central bank on 22 August, which brought the 7-day reverse repurchase rate to 5.50%, the deposit facility rate to 4.75%, and the lending facility rate to 6.25%. The decision to ease monetary policy was taken on the back of low inflation expectations and efforts to boost economic growth as the global economic outlook remained weak. Bank Indonesia noted that lingering trade tensions between the People's Republic of China and the United States (US) has contributed to the slump in global trade performance and dragged down global economic growth.

Dovish stances by central banks in major advanced economies likewise contributed to the decline in bond yields. Amid global growth moderation and low inflation, the European Central Bank and the Bank of Japan hinted at easing measures, and the US Federal Reserve undertook a 25-bps cut of the federal funds target rate on 31 July. This, in turn, fueled investor interest in higher-yielding emerging market assets such as Indonesian bonds. Foreign fund inflows into Indonesia's LCY government bond market rebounded strongly in June and July after 2 consecutive months of outflows in April and May. The foreign holdings share in the LCY government bond market climbed to 39.1% at the end of June, a level last observed in March 2018.

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



Source: Based on data from Bloomberg LP.

Macroeconomic indicators in Indonesia have been relatively stable thus far in 2019. Consumer price inflation has been subdued, remaining within Bank Indonesia's target range of 2.5%–4.5% for full-year 2019. Consumer prices rose 3.3% year-on-year (y-o-y) in July, roughly the same level as in May and June. Real gross domestic product growth was also stable, rising 5.05% y-o-y in the second quarter (Q2) of 2019, broadly at par with the 5.07% y-o-y expansion in the first quarter (Q1). Domestic demand buoyed growth as household consumption rose 5.2% y-o-y, up from 5.0% y-o-y in Q1 2019. During the same period, growth in government consumption picked up to 8.2% y-o-y from 5.2% y-o-y, while investment growth was likewise stable at 5.0% y-o-y. On a quarter-on-quarter (q-o-q) basis, the economy grew 4.2% in Q2 2019, rebounding from a 0.5% contraction in Q1 2019. Bank Indonesia projects full-year 2019 economic growth to come in below the midpoint of its forecast range of 5.0%–5.4%.

The Indonesian rupiah strengthened vis-à-vis the US dollar during most of the review period, particularly from June through early August. However, following the sharp depreciation of the Argentine peso on 13 August, the Indonesian rupiah, along with other currencies in emerging East Asian markets, weakened against the greenback. Concerns over spillover effects in other emerging markets contributed to the overall weakness of the Indonesian rupiah versus the US dollar, albeit while posting the smallest depreciation among the region's currencies during the review period. Bank Indonesia announced that it stands ready to intervene to ensure stability in financial markets.

Size and Composition

Indonesia's LCY bond market reached a size of IDR3,069.9 trillion (USD217.3 billion) at the end of June, as growth contracted a marginal 0.5% q-o-q in Q2 2019 following an 8.7% q-o-q expansion in Q1 2019 (**Table 1**). The q-o-q decline came from contractions in both central bank bonds and corporate bonds. On a y-o-y basis, overall bond market growth moderated to 17.6% in Q2 2019 from 18.7% in Q1 2019.

Government bonds continued to account for a dominant share of Indonesia's LCY bond market at 86.4% of the total at the end of June, up from 86.2% at the end of March and 84.6% at the end of June 2018. Conventional bonds also increased their share of the total to 84.8% at the end of June from 84.5% at the end of March. The share of *sukuk* (Islamic bonds) slipped to 15.2% as all *sukuk* segments posted contractions during the review period.

Government bonds. The stock of LCY government bonds at the end of June totaled IDR2,652.6 trillion, with growth falling 0.3% q-o-q but rising 20.1% y-o-y. Central government bonds, comprising Treasury bills and Treasury bonds, which are issued by the Ministry of Finance for budget financing, posted marginal growth that was more than offset by contractions in the stock of central bank bonds.

Central government bonds. The stock of central government bonds posted a marginal gain of 0.1% q-o-q in Q2 2019 but rose at a much faster y-o-y pace of 15.2%. The slowdown in q-o-q growth was due largely to a decline in issuance volume during the quarter.

New issuance of Treasury bills and bonds tumbled 39.4% q-o-q to IDR150.4 trillion in Q2 2019. There were fewer scheduled auctions during the quarter due to the Muslim celebration of Eid al-Fitr. In addition, four auctions fell short of their respective target in May as liquidity tightened ahead of the holiday and concerns grew over the resurgence of trade tensions between the People's Republic of China and the US. The government, however, was not compelled to accept bids at a higher rate as it had mostly fulfilled its frontloading issuance plan and tapped the foreign currency bond market as a complement to its LCY issuance. Issuances of bonds denominated in Japanese yen, US dollars, and euros were concluded in the first semester of the year. After the holiday break in June, the government once again awarded bids over its targeted amount, taking advantage of hefty demand for Indonesian government bonds, buoyed by the S&P ratings upgrade and signals of easing monetary policy from major advanced economies.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2018		Q1 2019		Q2 2019		Q2 2018		Q2 2019	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,611,428**	**182**	**3,083,746**	**217**	**3,069,867**	**217**	**0.5**	**12.0**	**(0.5)**	**17.6**
Government	2,208,882	154	2,659,664	187	2,652,610	188	0.5	10.5	(0.3)	20.1
Central Govt. Bonds	2,196,915	153	2,527,993	177	2,531,039	179	0.6	12.5	0.1	15.2
of which: *Sukuk*	354,277	25	427,277	30	420,064	30	7.6	19.1	(1.7)	18.6
Central Bank Bonds	11,967	0.8	131,671	9	121,571	9	(7.9)	(74.2)	(7.7)	915.9
of which: *Sukuk*	11,967	0.8	24,915	2	21,938	2	(7.9)	27.0	(11.9)	83.3
Corporate	402,546	28	424,082	30	417,257	30	0.5	21.0	(1.6)	3.7
of which: *Sukuk*	14,692	1	24,606	2	24,133	2	(10.7)	9.8	(1.9)	64.3

( ) = negative, IDR = Indonesian rupiah, 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 local currency–USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. The total stock of nontradable bonds as of 30 June 2019 stood at IDR205.5 trillion.
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; and Bloomberg LP.

Aside from the weekly Treasury auctions, the government also conducted private placements of some series of conventional Treasury bonds, project-based *sukuk*, and Islamic Treasury bills during the quarter

Central bank bonds. At the end of June, the outstanding stock of central bank bonds, comprising conventional and shari'ah-compliant Sertifikat Bank Indonesia (SBI) and Sukuk Bank Indonesia (SukBI), reached a size of IDR121.6 trillion. Growth declined 7.7% q-o-q but jumped more than ten-fold on a y-o-y basis from a small base in the earlier period. The stock of central bank bonds was dragged down by lower issuance volume of SBI during the quarter, an indication that the central bank is injecting money into the banking system. SBI have relatively longer maturities of 6, 9, and 12 months versus those of SukBI, which are issued in maturities of 7, 14, and 28 days.

In Q2 2019, central bank issuance slid to IDR59.0 trillion, down 44.6% q-o-q from IDR106.5 trillion in Q1 2019. Issuance of SBI dropped significantly as the central bank only had one offering of conventional SBI during the quarter. The issuance volume of conventional instruments is normally larger compared with their Islamic counterparts, a trend similarly observed for Treasury instruments. Issuance of SBI plummeted to IDR3.1 trillion in Q2 2019 from IDR45.5 trillion in the prior quarter. The issuance of SukBI also declined to IDR55.9 trillion in Q2 2019 from IDR61.0 trillion in Q1 2019.

Corporate bonds. At the end of June, corporate bonds outstanding stood at IDR417.3 trillion, down 1.6% q-o-q but up 3.7% y-o-y. The decline in the outstanding stock of bonds was due to a large volume of maturities that exceeded new issuance by corporates during the quarter.

A total of 117 firms comprised Indonesia's corporate bond market at the end of June. The issuers were dominated by banks and financial institutions, which accounted for a 60.6% share of the corporate bond total during the review period. Next were firms coming from infrastructure, utilities, and the transport sector, whose outstanding bond stock accounted for a 20.5% share of the total. Corporate issuers from the property, real estate, and construction sector had a share of 6.8%. All other sectors had a share of 6.0% or less.

The 30 largest corporate bond issuers presented in **Table 2** had an aggregate bond size of IDR311.6 trillion, accounting for 74.7% of the total corporate bond stock at the end of June. Of which, 19 firms were from the banking and financial sector, and the remaining were mostly from sectors requiring large amounts of capital such as energy, telecommunications, and manufacturing. The top 30 list also included 16 state-owned firms, 8 of which were ranked in the top 10.

Leading the list were five state-owned institutions, with the top spot taken by Indonesia Eximbank with outstanding bonds amounting to IDR35.1 trillion at the end of June. Energy firm Perusahaan Listrik Negara moved up to the second spot with outstanding bonds of IDR22.8 trillion. Bank Rakyat Indonesia (IDR21.0 trillion) dropped to the third spot as its outstanding bond total fell due to the maturity of a 3-year bond in May. Sarana Multi Infrastruktur moved up to the fourth spot from seventh in the prior quarter, following a triple-tranche issuance in June that lifted its bond stock to IDR17.3 trillion. Bank Tabungan Negara kept the fifth spot with a bond total of IDR17.1 trillion.

During the quarter, new bonds issued by corporates reached IDR28.8 trillion, up 30.9% q-o-q from IDR22.0 trillion in Q1 2019. On a y-o-y basis, corporate bond issuance saw a marginal decline of 0.6%.

A total of 17 firms tapped the bond market for funding during the quarter, which added 47 new series to the total corporate bond stock through the end of June. Issuance during the quarter comprised 38 new series of conventional bonds and nine of *sukuk*. Three series each of *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership) were issued by Adira Dnamika Multi Finance and Indonesia Eximbank in April. Another three series of *sukuk wakalah* (Islamic bonds backed by an agreement nominating another entity to act on its behalf) were added by Medco Power Indonesia in May. In terms of maturity, 17 bond series carried a maturity of 3 years, and 12 series each had maturities of 370 days and 5 years. The longest-dated bond issued during the quarter was the 15-year bond of Indonesia Eximbank.

The largest corporate bond issuers and their respective new bond issues in Q2 2019 are presented in **Table 3**. The largest corporate bond issuance during the quarter came from Indonesia Eximbank with total issuance worth IDR4.3 trillion from a multitranche bond deal in April. It was followed by Semen Indonesia with issuance of a dual-tranche bond amounting to IDR4.1 trillion in May and

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	35,139	2.49	Yes	No	Banking
2.	Perusahaan Listrik Negara	22,783	1.61	Yes	No	Energy
3.	Bank Rakyat Indonesia	20,990	1.49	Yes	Yes	Banking
4.	Sarana Multi Infrastruktur	17,345	1.23	Yes	No	Finance
5.	Bank Tabungan Negara	17,050	1.21	Yes	Yes	Banking
6.	Bank Pan Indonesia	15,427	1.09	No	Yes	Banking
7.	Indosat	15,372	1.09	No	Yes	Telecommunications
8.	Bank Mandiri	14,000	0.99	Yes	Yes	Banking
9.	Waskita Karya	13,707	0.97	Yes	Yes	Building Construction
10.	Sarana Multigriya Finansial	11,585	0.82	Yes	No	Finance
11.	Adira Dinamika Multifinance	11,120	0.79	No	Yes	Finance
12.	Federal International Finance	10,873	0.77	No	No	Finance
13.	Pupuk Indonesia	9,076	0.64	Yes	No	Chemical Manufacturing
14.	Telekomunikasi Indonesia	8,995	0.64	Yes	Yes	Telecommunications
15.	Permodalan Nasional Madani	7,746	0.55	Yes	No	Finance
16.	Perum Pegadaian	7,649	0.54	Yes	No	Finance
17.	Semen Indonesia	7,078	0.50	Yes	Yes	Cement Manufacturing
18.	Bank CIMB Niaga	7,037	0.50	No	Yes	Banking
19.	Hutama Karya	6,825	0.48	Yes	No	Nonbuilding Construction
20.	Medco-Energi Internasional	6,454	0.46	No	Yes	Petroleum and Natural Gas
21.	Astra Sedaya Finance	6,125	0.43	No	No	Finance
22.	Bank Maybank Indonesia	6,066	0.43	No	Yes	Banking
23.	XL Axiata	5,103	0.36	No	Yes	Telecommunications
24.	ADHI Karya	4,777	0.34	Yes	Yes	Building Construction
25.	BFI Finance Indonesia	4,602	0.33	No	Yes	Finance
26.	Maybank Indonesia Finance	4,350	0.31	No	No	Finance
27.	Bank Pembangunan Daerah Jawa Barat Dan Banten	4,252	0.30	Yes	Yes	Banking
28.	Tower Bersama Infrastructure	3,616	0.26	No	Yes	Telecommunications Infrastructure Provider
29.	Bank Permata	3,360	0.24	No	Yes	Banking
30.	Mandiri Tunas Finance	3,130	0.22	No	No	Finance
Total Top 30 LCY Corporate Issuers		**311,631**	**22.06**			
Total LCY Corporate Bonds		**417,257**	**29.54**			
Top 30 as % of Total LCY Corporate Bonds		**74.7%**	**74.7%**			

IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 30 June 2019.
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 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Indonesia Eximbank		
370-day bond	7.35	147.00
370-day *sukuk mudharabah*	7.35	230.00
3-year bond	8.40	935.00
3-year *sukuk mudharabah*	8.40	145.00
5-year bond	8.90	1,523.00
5-year *sukuk mudharabah*	8.90	66.00
7-year bond	9.25	278.00
10-year bond	9.50	349.00
15-year bond	9.80	625.00
Semen Indonesia		
5-year bond	9.00	3,364.00
7-year bond	9.10	714.00
Sarana Multi Infrastruktur		
370-day bond	7.50	224.00
3-year bond	8.50	1,224.00
5-year bond	8.75	1,552.00
Adira Dinamika Multifinance		
370-day bond	7.75	1,105.00
370-day *sukuk mudharabah*	7.75	72.00
3-year bond	8.60	287.25
3-year *sukuk mudharabah*	8.60	10.00
5-year bond	9.15	607.75
5-year *sukuk mudharabah*	9.15	14.00
Permodalan Nasional Madani		
3-year bond	9.50	1,401.00
5-year bond	9.85	599.00
Bank Danamon		
370-day bond	7.55	1,148.00
3-year bond	8.55	852.00

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.

by Sarana Multi Infrastruktur with a triple-tranche bond worth IDR3.0 trillion in June.

Foreign currency bonds. In May, the Government of Indonesia raised JPY177.0 billion worth of samurai bonds in multiple tranches. The issuance marked the largest ever public samurai bond issuance in Asia and the longest-maturity samurai bonds (15 years and 20 years) from an Asian issuer. The issuance comprised the following tranches: (i) a JPY75.7 billion 3-year bond with a coupon rate of 0.54%, (ii) a JPY80.2 billion 5-year bond with a coupon rate of 0.83%, (iii) a JPY4.5 billion 7-year bond with a coupon rate of 0.96%, (iv) a JPY7.6 billion 10-year bond with a coupon rate of 1.17%, (v) a JPY4.0 billion 15-year bond with a coupon rate of 1.55%, and (vi) a JPY5.0 billion 20-year bond with a coupon rate of 1.79%.

In June, the Government of Indonesia priced its third issuance of dual-currency bonds. The bond sale comprised a EUR750 million 7-year bond with a coupon rate of 1.45% and a USD750 million 10-year bond with a coupon rate of 3.40%. The sale marked Indonesia's sixth issuance of EUR-denominated bonds and its second in a format registered with the US Securities and Exchange Commission. The USD-denominated bond was the government's third issuance under the Securities and Exchange Commission's registered shelf.

Investor Profiles

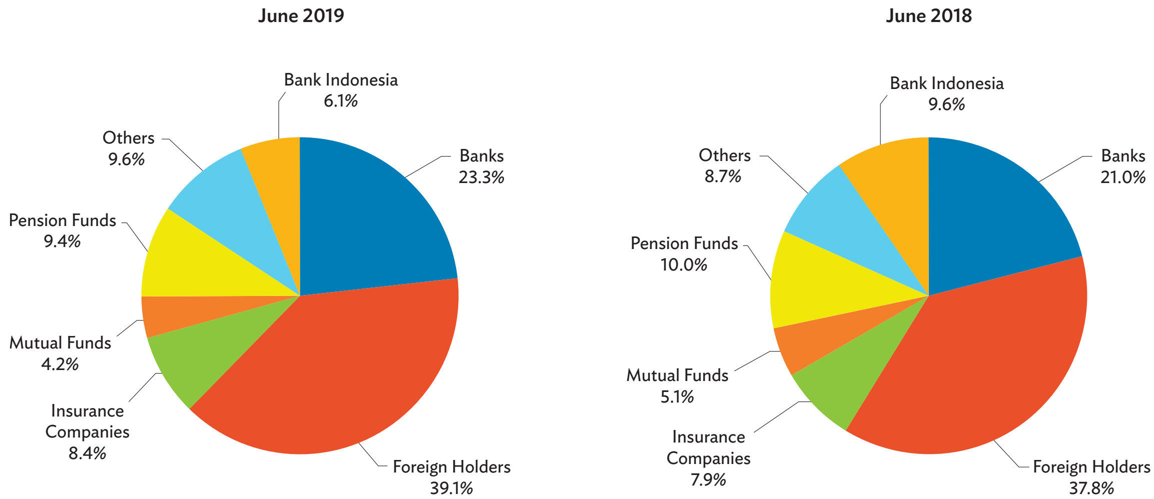
Central government bonds. Foreign investors in Indonesia's LCY government bond market maintained the single-largest share of holdings at the end of June. Nonresident holdings of central government bonds climbed to a 39.1% share of the total from 37.8% in the same period a year earlier (**Figure 2**). Offshore investors shored up their holdings of Indonesian government bonds in June following the rating upgrade from S&P.

Total holdings by nonresidents stood at IDR988.8 trillion at the end of June, up from IDR830.2 trillion at the end of June 2018. Of this amount, IDR162.6 trillion was held by foreign governments and central banks, representing a 6.4% share of the total central government bond stock in June. By type of bonds, the foreign holdings share for conventional bonds at the end of June was much higher at 46.0% than for Islamic bonds with a share of 4.0%.

Much of the LCY government bond holdings of nonresidents are in long-dated maturities. Foreign investor holdings in bonds with maturities of more than 5 years to 10 years accounted for a 35.4% share of the total (**Figure 3**). Their holdings of bonds with maturities of more than 10 years was also substantial at 32.0%. Maturities of more than 2 years to 5 years accounted for a 28.4% share and maturities of 2 years or less accounted for a 4.6% share.

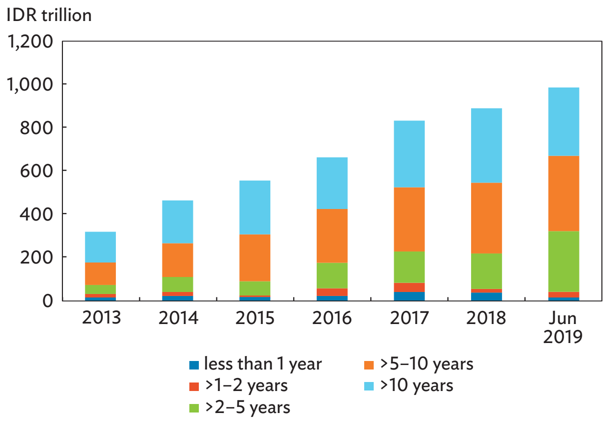
The next largest holders of LCY government bonds were banking institutions. Their holdings gained the most across all investor types, rising 2.3 percentage points to a 23.3% share at the end of June from a 21.0% share a year earlier. During the same period, insurance companies

Figure 2: Local Currency Central Government Bonds Investor Profile



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

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.

increased their holdings share by 0.5 percentage points to 8.4% from 7.9%.

In contrast, Bank Indonesia posted the largest decline in bond holdings, shedding 3.5 percentage points to a 6.1% share at the end of June from 9.6% a year earlier. The decrease reflected improved market conditions in 2019, as the central bank was not compelled to intervene heavily to stabilize bond prices. Also, bond holdings of mutual funds and pension funds edged lower to shares of 4.2% and 9.4%, respectively, from 5.1% and 10.0% a year earlier.

Ratings Update

On 31 May, S&P raised Indonesia's sovereign credit rating from BBB– to BBB. The rating was given a stable outlook. According to S&P, the rating upgrade was based on Indonesia's strong economic growth prospects and supportive policy dynamics. In addition, S&P also noted the relatively low debt level of the government and its moderate fiscal performance.

Policy, Institutional, and Regulatory Developments

Bank Indonesia Lowers Reserve Requirement Ratio

In June, Bank Indonesia announced cuts in the reserve requirement ratio for banks, which came into effect on 1 July, to help boost lending activities. The reserve requirement ratio was reduced by 50 bps to 6.0% for conventional banks and 4.5% for Islamic banks. The average reserve requirement ratio was held steady at 3.0%.

Government Plans to Issue IDR185 Trillion Worth of Bonds in the Third Quarter of 2019

In June, the Government of Indonesia announced its plan to raise IDR185 trillion from the sale of Treasury instruments during the third quarter of 2019. The issuance plan includes the sale of conventional Treasury bills and bonds, and *sukuk*. For full-year 2019, the net issuance target was placed at IDR389 trillion with a gross issuance target of IDR825.7 trillion

Government Announces Macroeconomic Assumptions for 2020 Draft State Budget

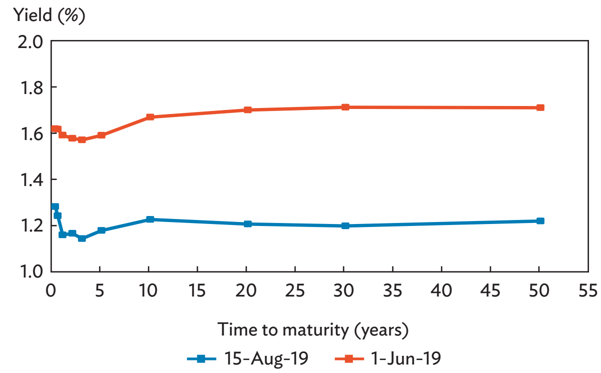
In August, the President of Indonesia announced the macroeconomic assumptions for the draft 2020 state budget. Among the assumptions were (i) economic growth of 5.3% to be driven by consumption and investments, (ii) an inflation target of 3.1% to support purchasing power, (iii) an exchange rate of IDR14,400 per US dollar, (iv) a 3-month Treasury bill rate of 5.4%, and (v) an Indonesian crude oil price of USD65 per barrel. The government is looking at a 2020 budget deficit equivalent to 1.76% of gross domestic product.

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 (**Figure 1**). The decline in yields was more pronounced at the longer end of the curve, with tenors of 20, 30, and 50 years falling an average of 50 basis points (bps). For securities with tenors of between 1 year and 10 years, yields fell 43 bps on average. Meanwhile, yields for the 3-month and 6-month tenors fell 34 bps and 38 bps, respectively, resulting in a slight inversion of the Republic of Korea's yield curve. The yield spread between the 2-year and 10-year tenors slightly fell to 6 bps from 9 bps.

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



Source: Based on data from Bloomberg LP.

Yields fell during the review period due to heightened expectations of a rate cut by the Bank of Korea in its July monetary policy meeting and further rate cuts before the year ends. This sentiment was driven by developments both domestically and in major economies, particularly the United States (US). On the domestic front, low levels of inflation, and the quarter-on-quarter (q-o-q) contraction in gross domestic product (GDP) growth in the first quarter (Q1) 2019 contributed to monetary easing by the Bank of Korea. The recent imposition of trade restrictions by Japan on the Republic of Korea's exports also contributed to the decline in yields. Tensions between the two economies pose an additional downside risk to domestic economic growth and could lead to a further deterioration in export performance.

Developments in major economies have contributed to the downward trend in yields. These include the rate cut by the US Federal Reserve in its July meeting and uncertainty over US monetary policy direction. The ongoing trade tensions between the US and the People's Republic of China (PRC), weaker global economic growth outlook, and dovish stances among central banks in developed markets continue to drive down yields in the Republic of Korea.

At its monetary policy meeting on 18 July, the Bank of Korea decided to cut its base rate by 25 bps to 1.50%, the first cut since 2016. The central bank noted that domestic economic growth eased and inflation remained low. Moreover, the Bank of Korea lowered its GDP growth forecasts for 2019 and 2020 to 2.2% year-on-year (y-o-y) and 2.5% y-o-y, respectively, from April forecasts of 2.5% y-o-y and 2.6% y-o-y. Inflation forecasts for 2019 and 2020 were also lowered to 0.7% y-oy and 1.3% y-o-y from 1.1% y-o-y and 1.6%, respectively.

The Republic of Korea's real GDP growth rose to 2.0% y-o-y in the second quarter (Q2) of 2019 from 1.7% y-o-y in Q1, based on estimates from the Bank of Korea. By type of expenditure, the faster GDP growth in Q2 2019 was primarily driven by higher growth rates in private and government consumption expenditure and a rebound in exports. On a q-o-q basis, the economy grew 1.0% in Q2 2019 following a 0.4% contraction in Q1 2019. Meanwhile, inflation remained subdued in Q2 2019 at a monthly average of 0.7% y-o-y before easing to 0.6% y-o-y in July.

The Republic of Korea's LCY government bond market witnessed a surge in net foreign bond inflows in May and June on expectations of a rate cut by the central bank and the resulting capital gains due to declining yields. However, foreign bond flows eased and reversed to marginal outflows in July following the rate cut on 18 July.

The Korean won was the worst-performing currency in the region during the review period, depreciating 2.0% and breaching the KRW1,200 per US dollar level in August. The continued weakening of the Korean won reflects the vulnerability of the Republic of Korea to external factors. These include the impact of the ongoing trade disputes between the PRC and the US given that both are major trading partners of the Republic of Korea. Recent trade restrictions imposed by Japan also led to the further weakening of the Korean won.

Size and Composition

The size of the Republic of Korea's LCY bond market rose 2.4% q-o-q to KRW2,332 trillion (USD2 trillion) at the end of June from KRW2,277 trillion at the end of March (**Table 1**). The growth was led by the 2.9% q-o-q rise in the stock of corporate bonds, while government bonds increased at a slower pace of 1.7% q-o-q.

Government bonds. The outstanding size of LCY government bond market expanded 1.7% q-o-q in Q2 2019 to KRW946 trillion, largely driven by the 2.7% q-o-q rise in central government bonds, which reached KRW600 trillion at the end of June. Meanwhile, the stock of central bank bonds posted a marginal increase of 0.3% q-o-q to KRW172 trillion. The amount of outstanding bonds issued by government-related entities declined 0.3% q-o-q to KRW175 trillion.

Issuance of government bonds inched up 1.1% q-o-q to KRW81 trillion, however the issuance volume for the quarter is still high compared to previous quarters. The government continued with its frontloading policy in 2019, with issuance of central government bonds up 2.4% q-o-q in Q2 2019. The government earlier announced that it plans to spend 70% of its 2019 budget in the first half of 2019. Issuance of Monetary Stabilization Bonds by the Bank of Korea also rose 1.8% q-o-q in Q2 2019.

Corporate bonds. The LCY corporate bond market posted growth of 2.9% q-o-q to reach KRW1.4 trillion at the end of June, primarily due to higher issuance during the quarter. **Table 2** lists the top 30 LCY corporate bond issuers at the end of June, with aggregate bonds outstanding of KRW859 trillion comprising 62% of the total LCY corporate bond market. Financial institutions, particularly securities and investment firms and banks, continued to dominate the list, accounting for around two-thirds of the top 30 corporate bond issuers. Korea Housing Finance Corporation, a government-related institution providing financial assistance for social housing, remained the largest issuer with outstanding bonds of KRW119 trillion.

Issuance of corporate bonds recovered in Q2 2019, with issuance up 28.2% q-o-q to KRW134 trillion as companies took advantage of declining interest rates. **Table 3** lists the notable corporate bond issuances in Q2 2019. Major banks in the Republic of Korea such as Woori Bank, Shinhan Bank, and Kookmin Bank continued to be the top issuers of bonds during the quarter.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2018		Q1 2019		Q2 2019		Q2 2018		Q2 2019	
	KRW	USD	KRW	USD	KRW	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,221,054**	**1,993**	**2,277,392**	**2,006**	**2,331,705**	**2,019**	**1.6**	**3.9**	**2.4**	**5.0**
Government	937,267	841	930,886	820	946,417	820	2.4	5.1	1.7	1.0
Central Government Bonds	589,426	529	584,006	514	599,552	519	3.6	6.7	2.7	1.7
Central Bank Bonds	174,630	157	171,150	151	171,580	149	(0.1)	(0.1)	0.3	(1.7)
Others	173,211	155	175,730	155	175,285	152	1.0	4.9	(0.3)	1.2
Corporate	1,283,787	1,152	1,346,506	1,186	1,385,288	1,200	1.0	3.0	2.9	7.9

( ) = negative, KRW = Korean won, 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 local currency–USD rates are used.
3. Growth rates are calculated from local currency 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*.

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	118,793	102.9	Yes	No	No	Housing Finance
2.	Mirae Asset Daewoo Co.	75,224	65.1	No	Yes	No	Securities
3.	Korea Investment and Securities	63,901	55.3	No	No	No	Securities
4.	Industrial Bank of Korea	52,150	45.2	Yes	Yes	No	Banking
5.	NH Investment & Securities	51,898	44.9	Yes	Yes	No	Securities
6.	KB Securities	49,735	43.1	No	No	No	Securities
7.	Hana Financial Investment	44,632	38.6	No	No	No	Securities
8.	Samsung Securities	31,413	27.2	No	Yes	No	Securities
9.	Shinhan Bank	30,712	26.6	No	No	No	Banking
10.	Korea Land & Housing Corporation	30,160	26.1	Yes	No	No	Real Estate
11.	Korea Electric Power Corporation	27,300	23.6	Yes	Yes	No	Electricity, Energy, and Power
12.	Korea Expressway	22,200	19.2	Yes	No	No	Transport Infrastructure
13.	Woori Bank	20,830	18.0	Yes	Yes	No	Banking
14.	KEB Hana Bank	19,030	16.5	No	No	No	Banking
15.	Kookmin Bank	18,874	16.3	No	No	No	Banking
16.	Shinyoung Securities	18,616	16.1	No	Yes	No	Securities
17.	Korea Rail Network Authority	18,370	15.9	Yes	No	No	Transport Infrastructure
18.	Korea Deposit Insurance Corporation	15,630	13.5	Yes	No	No	Insurance
19.	The Export-Import Bank of Korea	15,165	13.1	Yes	No	No	Banking
20.	Hyundai Capital Services	14,856	12.9	No	No	No	Consumer Finance
21.	Shinhan Card	14,205	12.3	No	No	No	Credit Card
22.	Korea SMEs and Startups Agency	13,633	11.8	Yes	No	No	SME Development
23.	KB Kookmin Bank Card	12,260	10.6	No	No	No	Consumer Finance
24.	Korea Gas Corporation	12,159	10.5	Yes	Yes	No	Gas Utility
25.	NongHyup Bank	12,020	10.4	Yes	No	No	Banking
26.	Hanwha Investment and Securities	11,780	10.2	No	No	No	Securities
27.	Standard Chartered Bank Korea	11,580	10.0	No	No	No	Banking
28.	Nonghyup	10,990	9.5	Yes	No	No	Banking
29.	Korea Student Aid Foundation	10,980	9.5	Yes	No	No	Student Loan
30.	Meritz Securities Co.	9,514	8.2	No	Yes	No	Securities
Total Top 30 LCY Corporate Issuers		**858,609**	**744**				
Total LCY Corporate Bonds		**1,385,288**	**1,200**				
Top 30 as % of Total LCY Corporate Bonds		**62.0%**	**62.0%**				

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 2019.
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.

Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Woori Bank		
1-year bond	1.88	400
2-year bond	1.85	600
Shinhan Bank		
2-year bond	1.86	400
3-year bond	1.88	400
Kookmin Bank		
5-year bond	1.61	400
5-year bond	1.90	400
Standard Chartered Bank		
5-year bond	1.66	500
SK Hynix		
3-year bond	1.96	410

KRW = Korean won.
Source: Based on data from Bloomberg LP.

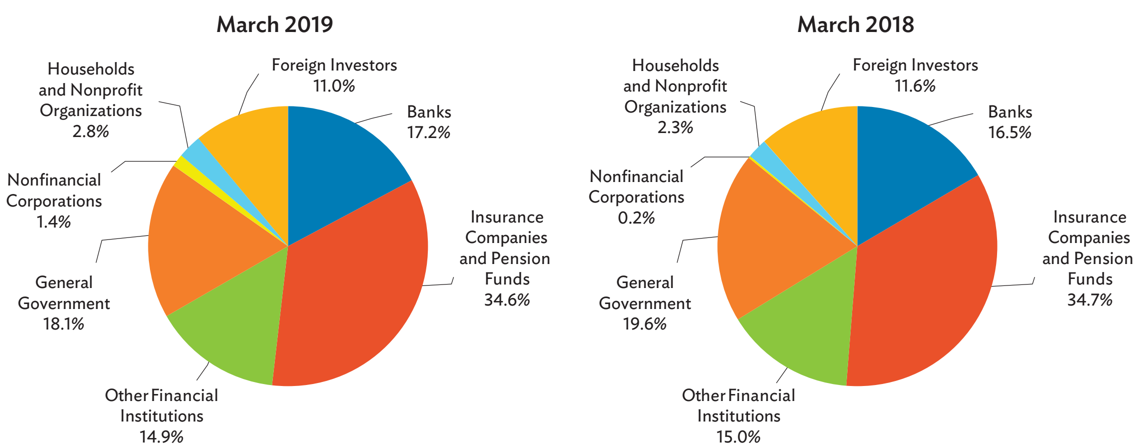
Foreign Exchange Stabilization Bonds. The Republic of Korea issued USD1.5 billion worth of Foreign Exchange Stabilization Bonds on 12 June. These bonds are issued to secure the Republic of Korea's foreign exchange reserves amid increasing volatility in the market. The resulting rates also serve as a guide for prospective companies planning to issue bonds offshore. The issue comprised USD500 million worth of 5-year Green and Sustainability Bonds with a coupon of 2.0% and a yield of 2.177% (30 bps over the 5-year US Treasury) and USD1.0 billion worth of 10-year bonds with coupon of 2.5% and yield of 2.677% (55 bps over the 10-year US Treasury).

Investor Profile

Insurance companies and pension funds remained the largest holders of the Republic of Korea's LCY government bonds, accounting for 34.6% of all holdings at the end of March, almost at par with its share in the same period in 2018 (**Figure 2**). The general government continued to be the second-largest holder with its share slightly lower at 18.1% versus 19.6% in March 2018. The share of banks rose to 17.2% at the end of March from 16.5%, while the share of other financial institutions was marginally changed at 14.9% versus 15.0% at the end of March 2018. Foreign holdings of the Republic of Korea's LCY government bonds remained low at 11.0% in March 2019.

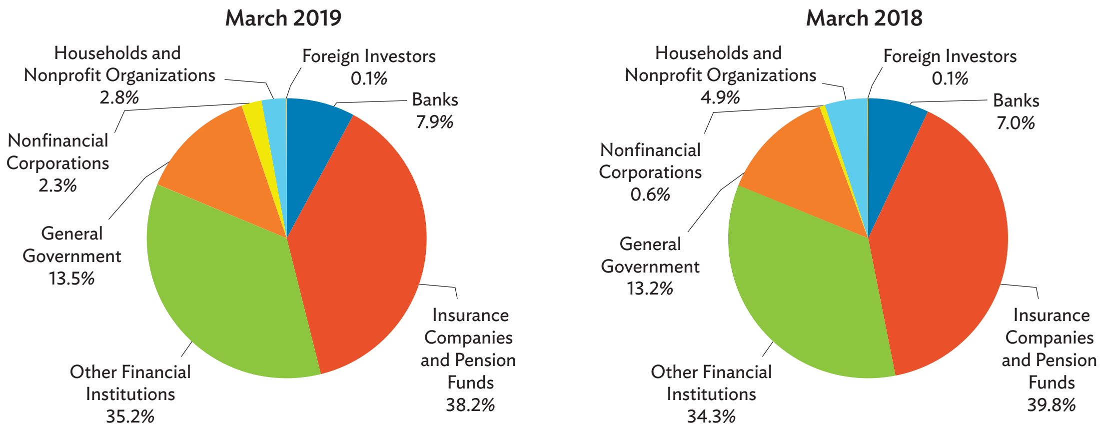
Insurance companies and pension funds and other financial institutions continue to be the two largest holders of the Republic of Korea's LCY corporate bonds (**Figure 3**). The share of insurance companies and pension funds slightly fell to 38.2% at the end of March 2019 from 39.8% in March 2018, while the share of other financial institutions inched up to 35.2% from 34.3%. The shares of the general government and banks were almost unchanged from a year earlier at 13.5% and 7.9%, respectively. The share of foreign investors remained negligible during the review period at 0.1%.

Figure 2: Local Currency Government Bonds Investor Profile



Sources: *AsianBondsOnline* and the Bank of Korea.

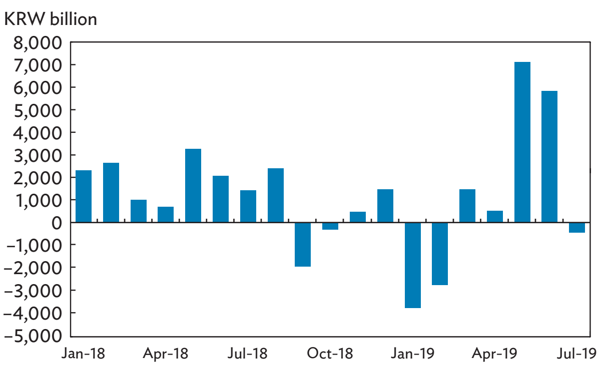
Figure 3: Local Currency Corporate Bonds Investor Profile



Sources: *AsianBondsOnline* and the Bank of Korea.

The Republic of Korea's LCY bond market saw a surge in net foreign inflows in May and June of KRW7,076 billion and KRW5,801 billion, respectively, as investors anticipated capital gains from declining yields ahead of an expected rate cut by the Bank of Korea at its 18 July monetary policy meeting (**Figure 4**). The foreign bond flows reversed in July, with a monthly outflow amounting to KRW421 billion, following the eventual rate cut.

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



KRW = Korean won.
Source: Financial Supervisory Service.

Policy and Regulatory Developments

National Assembly Passes 2019 Supplementary Budget

In August, the National Assembly passed the 2019 supplementary budget to help boost the economy and improve public safety. The supplementary budget was KRW856.8 billion short of the KRW6.7 trillion budget submitted in April. The budget included additional allotments of KRW273.2 billion for spending on manufacturing supplies and KRW94.5 billion for disaster-stricken areas and programs aimed to improve air and water quality, and waste management.

The Bank of Korea and Financial Regulators Establish Cooperation to Avoid Sudden Volatility

In August, the Bank of Korea, Financial Services Commission, and Financial Supervisory Service held a meeting to discuss recent developments in financial markets and pledged cooperation to address any sudden volatility. Risks related to the current financial market volatility were stated, particularly the ongoing trade tensions between the PRC and the US, uncertainties over monetary policy direction in the US, and the sudden devaluation of the Chinese renminbi. The agencies also highlighted the Republic of Korea's record-high foreign exchange reserves and strong foreign net lending balance. The government will continue to monitor the markets. For the stock market, contingency plans include allowing stock buybacks and tightening short-selling rules. The government will also disburse 75% of the supplementary budget in August and September to support exports. In relation to this, the government will continue to conduct talks with Japan to address its imposition of trade restrictions on Korean exports.

Government to Provide Financial Support to Firms Affected by Japan's Export Restrictions

In August, the Financial Services Commission held an emergency meeting to discuss financial support for firms affected by the imposition of trade restrictions by Japan. Measures include rolling over maturing loans; disbursing fresh loans worth KRW6 trillion; and funding long-term investments related to the material, components, and equipment industries.

Malaysia

Yield Movements

Between 1 June and 15 August, Malaysia's local currency (LCY) government bond yields declined for all tenors (**Figure 1**). The shorter-end of the yield curve (1–6 months) declined an average of 5 basis points (bps), while the belly of the curve (4–10 years) decreased an average of 41 bps. On the other hand, longer-term tenors (15–30 years) decreased an average of 69 bps. The yield spread between 2-year and 10-year government bonds contracted from 46 bps on 1 June to 16 bps on 15 August.

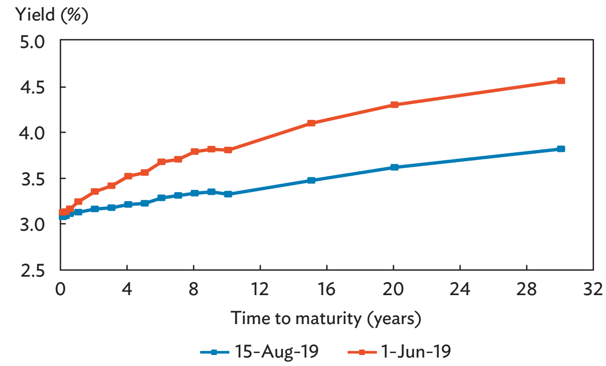
The decline in LCY government bond yields during the review period can be attributed to Bank Negara Malaysia's (BNM) reduction of its overnight policy rate by 25 bps to 3.00% on 7 May. Overall confidence in Malaysia's economic growth also contributed to the demand for Malaysia's government securities. The decrease in the yield curve was reflective of the trend in the region after the United States (US) cut the federal funds rate during its Federal Open Market Committee meeting on 31 July.

Malaysia's economic growth accelerated to 4.9% year-on-year (y-o-y) in the second quarter (Q2) of 2019 from 4.5% y-o-y in the first quarter (Q1). The current account surplus has been increasing since the third quarter of 2018, reaching a peak of MYR16.4 billion in Q1 2019 on high levels of foreign direct investment. The trade surplus increased in June despite exports falling as electrical and electronic exports declined. According to the Department of Statistics, Malaysia's Leading Economic Index indicates continued growth for the Malaysian economy.

Consumer price inflation eased to 1.4% y-o-y in July from 1.5% y-o-y in June. Core inflation increased to 2.0% y-o-y in July from 1.9% y-o-y in June. Although inflation remained low, Bank Negara Malaysia projects it to rise in the coming months as the effects of changes in consumption tax policy wane.

BNM kept its policy rate unchanged during its monetary policy committee meeting on 9 July as the economy grew in line with expectations on continued domestic and external demand. The committee decision was also supported by the inflation outlook.

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



Source: Based on data from Bloomberg LP.

Despite strong economic prospects, the Malaysian ringgit depreciated during the latter part of the review period, reaching a high of MYR4.196 per US dollar on 13 August from a low of MYR4.1085 per US dollar on 15 July. The depreciation was attributed mainly to FTSE Russell raising concerns last April regarding Malaysian bonds and considering excluding them from its World Global Bonds Index, and Norway's sovereign wealth fund dropping Malaysia from its fixed income portfolio. The depreciation was also spurred by contagion concerns after the Argentine peso depreciated sharply on 13 August. According to BNM, the weakness of the ringgit is not a cause for concern as the domestic currency has played a key role in absorbing external shocks and ensuring no disruptions to the economy. Such external shocks include the ongoing trade war between the People's Republic of China and the US, and the looming threat of a global recession.

Size and Composition

Malaysia's LCY bond market expanded 3.3% quarter-on-quarter (q-o-q) in Q2 2019 to MYR1,488.1 billion (USD360.1 billion) from MYR1,440.8 billion in Q1 2019 (**Table 1**). The growth corresponds to an 8.7% y-o-y jump from MYR1,368.9 billion in Q2 2018. Growth in the LCY bond market in Q2 2019 was supported by both LCY government and corporate bonds, which accounted for 52.4% and 47.6%, respectively, of total LCY bonds outstanding at the end of June. Total outstanding *sukuk* (Islamic bonds) at the end of the review period

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2018		Q1 2019		Q2 2019		Q2 2018		Q2 2019	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,369**	**339**	**1,441**	**353**	**1,488**	**360**	**2.2**	**9.9**	**3.3**	**8.7**
Government	722	179	766	188	779	189	2.5	7.9	1.8	7.8
Central Government Bonds	676	167	720	176	742	180	3.0	6.6	3.0	9.8
of which: *Sukuk*	295	73	327	80	333	81	3.0	12.2	2.0	13.0
Central Bank Bills	18	5	17	4	9	2	(9.0)	149.0	(46.8)	(49.7)
of which: *Sukuk*	6	1	5	1	2	0.4	450.0	–	(71.2)	(72.7)
Sukuk Perumahan Kerajaan	28	7	28	7	28	7	0.0	0.0	0.0	(1.8)
Corporate	646	160	675	165	709	172	1.9	12.2	5.0	9.7
of which: *Sukuk*	489	121	520	127	555	134	1.8	15.0	6.8	13.5

( ) = 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 local currency–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 and Bloomberg LP.

stood at MYR917.5 billion, growing 4.3% q-o-q from MYR879.4 billion at the end of the previous quarter, spurred by increased stocks of government and corporate *sukuk*.

Issuance of LCY bonds in Q2 2019 increased 9.8% q-o-q to MYR113.1 billion from MYR103.0 billion in Q1 2019, driven by the expansion of LCY corporate bond issuance, which was slightly offset by the contraction in issuance of LCY government bonds.

Government bonds. The LCY government bond market grew 1.8% q-o-q to MYR779.1 billion in Q2 2019, up from MYR765.7 billion in the previous quarter. The growth was mainly due to the 3.0% q-o-q increase in outstanding central government bonds, which comprised about 95% of total outstanding LCY government bonds. This was offset by the decline of almost one-half in the stock of central bank bills, although they represent only about 1% of total LCY government bonds outstanding. There was no change in the outstanding stock of Sukuk Perumahan Kerajaan, which had about a 4% share of total outstanding LCY government bonds.

LCY government bonds issued in Q2 2019 declined 31.7% q-o-q as issuances of government bonds, Treasury bills, and central bank bills all decreased. Issuance of Malaysian Government Securities and Government Investment Issues dropped as well compared to the previous quarter.

Corporate bonds. LCY corporate bonds outstanding jumped 5.0% q-o-q to MYR709.0 billion in Q2 2019 from MYR675.2 billion in Q1 2019. Outstanding corporate *sukuk* increased 6.8% q-o-q to MYR554.8 billion at the end of June from MYR519.5 billion in the prior quarter.

The top 30 LCY corporate bond issuers in Malaysia accounted for MYR416.2 billion, or 58.7% of total LCY corporate bonds outstanding as of the end of Q2 2019 (**Table 2**). Government institutions Danainfra Nasional and Cagamas dominated all issuers with outstanding LCY corporate bonds amounting to MYR57.8 billion (8.2% of total LCY corporate bonds outstanding) and MYR33.5 billion (4.7% of total LCY corporate bonds outstanding), respectively. By industry, finance companies comprised the largest share (53.2%) of the top 30 issuers of LCY corporate bonds during the review period with MYR221.6 billion in outstanding LCY corporate bonds. This was followed by the transport, storage, and communications industry with MYR70 billion, or a share of 16.8% of total LCY corporate bonds outstanding at the end of Q2 2019.

Issuance of LCY corporate bonds soared 68.3% q-o-q in Q2 2019 due to a large dual-tranche issuance in May by Urusharta Jamaah.

Urusharta Jamaah had the largest issuance in Q2 2019 (**Table 3**). The state-owned finance company issued dual-tranche zero coupon bonds comprising

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	57.8	14.0	Yes	No	Finance
2.	Cagamas	33.5	8.1	Yes	No	Finance
3.	Project Lebuhraya Usahasama	29.9	7.2	No	No	Transport, Storage, and Communications
4.	Prasarana	29.5	7.1	Yes	No	Transport, Storage, and Communications
5.	Urusharta Jamaah	27.6	6.7	Yes	No	Finance
6.	Perbadanan Tabung Pendidikan Tinggi Nasional	21.6	5.2	Yes	No	Finance
7.	Lembaga Pembiayaan Perumahan Sektor Awam	20.8	5.0	Yes	No	Property and Real Estate
8.	Pengurusan Air	17.3	4.2	Yes	No	Energy, Gas, and Water
9.	Khazanah	14.0	3.4	Yes	No	Finance
10.	CIMB Bank	13.3	3.2	Yes	No	Finance
11.	Maybank	11.9	2.9	No	Yes	Banking
12.	Sarawak Energy	11.3	2.7	Yes	No	Energy, Gas, and Water
13.	Maybank Islamic	11.0	2.7	No	Yes	Banking
14.	CIMB Group Holdings	11.0	2.7	Yes	No	Finance
15.	Danga Capital	10.0	2.4	Yes	No	Finance
16.	Jimah East Power	9.0	2.2	Yes	No	Energy, Gas, and Water
17.	GENM Capital	7.6	1.8	No	No	Finance
18.	GOVCO Holdings	7.3	1.8	Yes	No	Finance
19.	Bank Pembangunan Malaysia	7.3	1.8	Yes	No	Banking
20.	Rantau Abang Capital	7.0	1.7	Yes	No	Finance
21.	Tenaga Nasional	7.0	1.7	No	Yes	Energy, Gas, and Water
22.	Bakun Hydro Power Generation	6.5	1.6	No	No	Energy, Gas, and Water
23.	YTL Power International	6.1	1.5	No	Yes	Energy, Gas, and Water
24.	ValueCap	6.0	1.5	Yes	No	Finance
25.	Public Bank	5.9	1.4	No	No	Banking
26.	Telekom Malaysia	5.8	1.4	No	Yes	Telecommunications
27.	Turus Pesawat	5.3	1.3	Yes	No	Transport, Storage, and Communications
28.	EDRA Energy	5.1	1.2	No	Yes	Energy, Gas, and Water
29.	Celcom Networks	5.0	1.2	No	No	Transport, Storage, and Communications
30.	1Malaysia Development	5.0	1.2	Yes	No	Finance
Total Top 30 LCY Corporate Issuers		**416.2**	**100.7**			
Total LCY Corporate Bonds		**709.0**	**171.6**			
Top 30 as % of Total LCY Corporate Bonds		**58.7%**	**58.7%**			

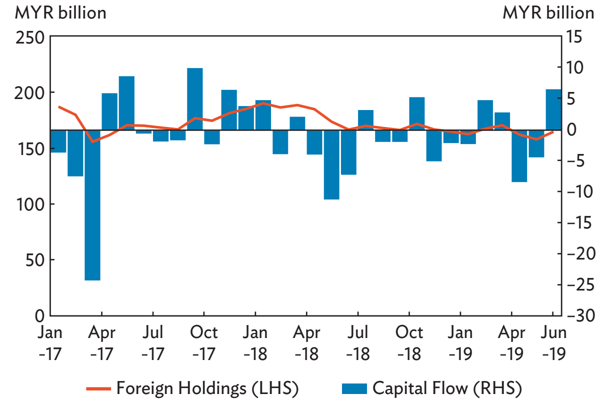
LCY = local currency, MYR = Malaysian ringgit, USD = United States dollar.
Notes:
1. Data as of 30 June 2019.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering data.

Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR billion)
Urusharta Jamaah		
7-year Islamic MTN	0.00	13.2
10-year Islamic MTN	0.00	14.3
Danainfra Nasional		
7-year Islamic MTN	4.03	0.7
10-year Islamic MTN	4.08	0.4
15-year Islamic MTN	4.30	0.8
18-year Islamic MTN	4.53	0.6
24-year Islamic MTN	4.72	0.5
29-year Islamic MTN	4.82	0.8
Maybank		
10-year *Sukuk*	4.50	1.0

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

Figure 2: Foreign Holdings and Capital Flows of Local Currency Central 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.

MYR13.2 billion worth of 7-year and MYR14.3 billion worth of 10-year Islamic medium-term notes. Proceeds from the *sukuk murabahah* (Islamic bonds where bondholders are entitled to shares in the revenues generated by the *sukuk* assets) will be used to finance the transfer of assets from the Malaysian hajj pilgrim fund board, Lembaga Tabung Haji, to Urusharta Jamaah after the former transferred underperforming assets to the latter. The asset transfer helped Lembaga Tabung Haji restore its balance sheet. Danainfra Nasional, the government-owned institution in charge of funding public infrastructure projects, issued six tranches of *sukuk* in April. Its tenors ranged from 7 years to 29 years with coupon rates between 4.03% and 4.82%. Maybank issued a MYR1.0 billion 10-year *sukuk* with a 4.50% coupon rate, the proceeds of which are intended to be part of Maybank's consolidated capital level.

Investor Profile

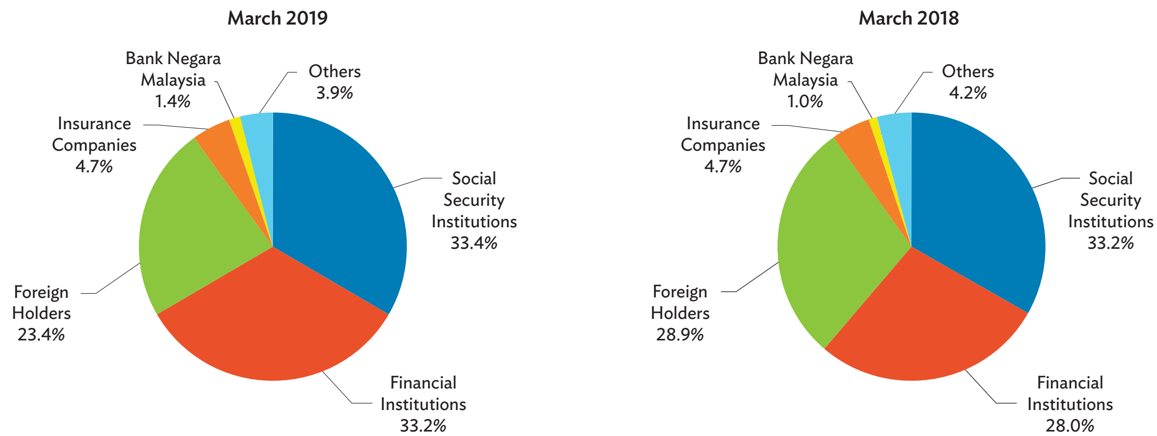
Foreign holdings of LCY government bonds in Q2 2019 dropped to MYR487.7 billion from MYR503.7 billion in Q1 2019 due to capital outflows in April and May spurred by FTSE Russell's announcement that it was reevaluating Malaysian bonds and may potentially exclude them from the World Global Bonds Index (**Figure 2**). Malaysia experienced heavy outflows amid easing economic growth in Q1 2019, weaker global oil prices, and heighted uncertainties in the trade war between the People's Republic of China and the US. Capital inflows recorded in June were not enough to offset the outflows. A total of MYR5.9 billion in capital outflows was recorded during the review period, a reversal from the capital inflows of MYR5.7 billion posted in the previous quarter. As a share of LCY government bonds, foreign holdings of LCY government bonds declined to 22.3% at the end of Q2 2019 from 23.8% at the end of Q1 2019.

Social security institutions dominated all investors in LCY government bonds with a 33.4% share of the total at the end of Q1 2019, up from 33.2% at the end of Q1 2018 (**Figure 3**). Financial institutions followed with a share of 33.2% at the end of Q1 2019, up from 28.0% at the end of Q1 2018, overtaking foreign holders, whose share fell to 23.4% from 28.9% during the review period. Insurance companies retained their share at 4.7%, while BNM's holdings of LCY government bonds increased to 1.4% of the total at the end of Q1 2019 from 1.0% a year earlier.

Ratings Update

On 18 July, Fitch Ratings affirmed Malaysia's long-term foreign currency issuer default rating at A– with a stable outlook. The affirmation was attributed to the economy's promising medium-term growth despite high public debt and weak governance indicators. The latter is expected to improve as the government continues to promote transparency and address corruption. Despite the anticipated moderation of economic growth due to external factors such as global trade tensions, Malaysia's diversified export base is expected to support the

Figure 3: Local Currency Government Bonds Investor Profile



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

economy amid sluggish demand in some sectors. Public consumption and investment are both expected to pick up in the next few years as infrastructure projects are negotiated. On the other hand, expectations for private investment growth are less sanguine as investors face uncertainties in external trade and the domestic political scene. Fitch Ratings viewed BNM's monetary policy as being supportive of economic growth. A future ratings upgrade may be possible if there is sustained government debt reduction and the government commits to greater transparency . Malaysia's long-term local currency issuer default rating was likewise affirmed at A– with a stable outlook.

Policy, Institutional, and Regulatory Developments

Four Regional Central Banks Sign Letters of Intent on Local Currency Settlement

On 5 April, three bilateral letters of intent were signed by BNM, the Bangko Sentral ng Pilipinas, Bank Indonesia, and the Bank of Thailand. The Philippine central bank was party to all three letters with the three other central banks. The letters expressed intentions to establish LCY settlement frameworks between the four economies involved. Having such frameworks is beneficial as LCY settlement of trade and other financial obligations reduces transaction costs and foreign exchange risks. Furthermore, LCY settlement within the Association of Southeast Asian Nations region will promote economic and financial integration, and help develop member economies' foreign exchange and financial markets. Bank Indonesia and the Bank of Thailand already have an existing LCY settlement framework and agreed to expand its coverage.

Bank Negara Malaysia and Securities Commission Malaysia Discuss Financial Market Developments

On 23 April, BNM and Securities Commission Malaysia held a meeting to discuss sustainability, digital assets, and resilience in the financial market. BNM's value-based intermediation strategy and Securities Commission Malaysia's sustainable and responsible investment framework are already aligned, and the two institutions pledged to perform joint research to develop guidelines on fundraising and lending practices of sustainable economic activities. Another research opportunity relates to the mechanisms of feedback interaction of transferring environment-related risks to the financial system. BNM and Securities Commission Malaysia discussed how to develop innovations in digital assets, hold early-stage fundraising for companies, and trade such assets. The following considerations were incorporated into the discussion: oversight, monitoring of risks, and financial integrity. Finally, the two regulators looked into maintaining a resilient Malaysian financial market. Currently, Malaysia's economy is supported by domestic liquidity, sound market infrastructure, and strong macroeconomic fundamentals. The bond market is also thriving, supported by a strong secondary market with high average daily trading volume. BNM and Securities Commission Malaysia are committed to continued transparency with key market players in order to develop and maintain the stability of the financial market.

Bank Negara Malaysia Announces Development Initiatives for the Financial Market

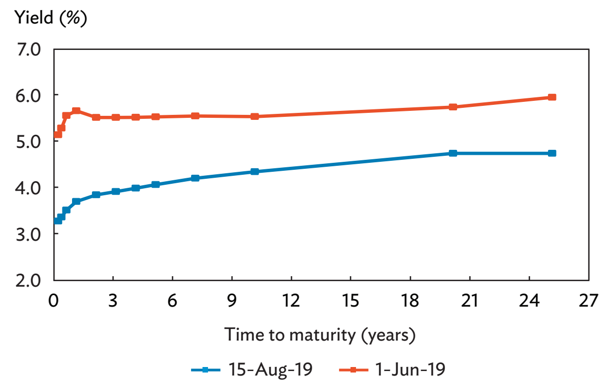
On 16 May, BNM announced initiatives to improve efficiency, accessibility, and liquidity in the domestic financial market. Available off-the-run bonds that may be borrowed through reverse repurchase for market making will be increased. The proposed extension of reverse repurchase tenors beyond 1 year is still up for review. The delivery mechanism for settlement of Malaysia Government Securities futures will be enhanced. Trust banks and global custodians are now allowed to apply under the dynamic hedging program in order to perform dynamic hedging on behalf of their clients. Institutional investors may now buy or sell forward contracts to purchase Malaysian ringgit above the current threshold of 25% of the underlying security, upon approval of BNM. A standard documentation guide for foreign exchange transactions has been developed. Finally, the central bank will continue facilitating the market-making capabilities of appointed overseas offices to ensure global market participants have ample access to ringgit prices.

Philippines

Yield Movements

Between 1 June and 15 August, local currency (LCY) government bond yields in the Philippines fell for all tenors (**Figure 1**). The decline in yields was most pronounced for tenors of 1 year and less at an average of 195 basis points (bps). Yields for bonds with tenors of 2 years up to 25 years, excluding the 20-year which fell 100 bps, fell an average of 143 bps. The spread between the 2-year and 10-year yields widened to 50 bps from 2 bps as the Philippine yield curve normalized following a slight inversion earlier in the year when yields in the middle to longer-end of the curve saw sharper declines than those at the shorter-end, which saw minimal movement.

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



Source: Based on data from Bloomberg LP.

Yields fell in the Philippines during the review period due to monetary easing by the Bangko Sentral ng Pilipinas (BSP) in August and the United States (US) Federal Reserve in July, as well as the dovish stances of central banks in other major economies. Yields have been on a downward trend since June due to expectations of a policy rate cut by the BSP amid easing inflation. In addition, the remaining 100 bps in the 200-bps cut in reserve requirement ratios, announced by the BSP on 16 May, which took effect via two 50-bps cuts (28 June and 26 July) also contributed to additional liquidity in the market, further boosting demand for government securities.

Easing inflation, lower-than-expected second quarter (Q2) gross domestic product growth results, and statements by the central bank governor bolstered expectations of further rate cuts by the BSP during the remainder of the year. A slowdown in US economic growth and continued trade tensions with the People's Republic of China have led to expectations of a more neutral stance or the possibility of another rate cut by the Federal Reserve. These developments have also driven the downward trend in Philippine yields.

On 8 August, the BSP cut the interest rate on its overnight reverse repurchase facility by 25 bps to 4.25%. The interest rates for the overnight deposit and lending facilities were also reduced by 25 bps each to 3.75% and 4.75%, respectively. The BSP stated that the decision to cut rates was due to easing inflation, with baseline forecasts expected to remain in the central bank's target range of 2.0%–4.0% until 2021. Risks to the inflation outlook remain balanced for the next 2 years and are expected to be on the downside in 2021 due to weak global economic growth prospects. The outlook for domestic economic growth remains firm as household spending is expected to recover along with the government's accelerated implementation of its infrastructure spending program. The BSP also stated that these developments give them room for further rate cuts as a preemptive move to address risks related to weakening global growth.

Inflation eased toward the end of Q2 2019, rising slightly from 3.0% y-o-y in April to 3.2% y-o-y in May before slowing to 2.7% y-o-y in June. Inflation eased further in July to 2.4% y-o-y, primarily driven by the deceleration in price increases for food and nonalcoholic beverages. Year-to-date average inflation was 3.3% y-o-y at the end of July, which was within the government's target range for full-year 2019.

The Philippines' real gross domestic product growth slightly eased to 5.5% y-o-y in Q2 2019 from 5.6% y-o-y in the first quarter (Q1) of 2019. Slower economic growth continued due to the delayed passage of the 2019 budget and the government's infrastructure spending program. By type of expenditure, all categories posted slower annual growth rates in Q2 2019 except for investment, which declined 8.5% y-o-y during the quarter to reverse the 8.0% y-o-y growth posted in the previous quarter. Growth in private consumption, government consumption, and exports also eased in Q2 2019.

The Philippine peso strengthened in both June and July, hovering at the lower half of the PHP51 per US dollar level. This was due to a weaker US dollar and easing inflation supporting expectations of a policy rate cut by the BSP. However, the Philippine peso depreciated sharply in the first half of August to the PHP52 per US dollar level as a result of renewed investor risk aversion toward emerging markets. This negative sentiment resulted from the rate cut by the Federal Reserve, the resumption of the trade dispute between the People's Republic of China and the US, the devaluation of the Chinese renminbi, the results of Argentina's elections, and fears of a global economic recession following the inversion of the yield curve in the US.

Size and Composition

The size of the Philippine bond market rose 1.8% quarter-on-quarter (q-o-q) to PHP6,707 billion (USD131 billion) at the end of June from PHP6,588 billion at the end of March (**Table 1**). The growth was driven by both the government and corporate segments, which posted increases of 1.7% q-o-q and 2.3% q-o-q, respectively.

Government bonds. The amount of LCY government bonds outstanding inched up 1.7% q-o-q in Q2 2019 to PHP5,290 billion, which was slower than the 8.8% q-o-q growth posted in Q1 2019. The slower growth was primarily driven by the high base in Q1 2019 due to the large issuance of Retail Treasury Bonds, which also resulted in minimal growth in Treasury bonds of only 1.2% q-o-q to PHP4,616 billion at the end of June. Meanwhile, the stock of Treasury bills rose 7.4% q-o-q to PHP652 billion, and bonds issued by government-related entities declined more than a third to PHP22 billion due to maturing bonds and no new issuances during the quarter.

Issuance of government bonds in Q2 2019 fell by more than half to PHP312 billion from PHP675 billion in the previous quarter. This was mainly due to the large issuance volume of Retail Treasury Bonds of PHP236 billion in Q1 2019. The government also had a lower planned issuance volume in Q2 2019 compared with the previous quarter. In addition, one offer of PHP20 billion worth of Treasury bonds was rejected in April due to the high rates sought by market participants and given that the Bureau of Treasury (BTr) already had a huge cash buffer from the high volume raised in Q1 2019.

Corporate bonds. The corporate bond market posted growth of 2.3% q-o-q in Q2 2019 to reach a size of PHP1,417 billion at the end of June on a surge in issuance during the quarter. Banks with aggregate bonds outstanding of PHP492 billion accounted for the largest share in the Philippine corporate bond market at 34.7%

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2018		Q1 2019		Q2 2019		Q2 2018		Q2 2019	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**5,741**	**108**	**6,588**	**125**	**6,707**	**131**	**2.6**	**11.1**	**1.8**	**16.8**
Government	4,592	86	5,203	99	5,290	103	2.5	9.0	1.7	15.2
Treasury Bills	381	7	608	12	652	13	14.6	19.9	7.4	71.2
Treasury Bonds	4,170	78	4,562	87	4,616	90	1.6	8.5	1.2	10.7
Others	40	1	34	1	22	0.4	(0.01)	(20.5)	(35.5)	(45.9)
Corporate	1,149	22	1,385	26	1,417	28	3.2	20.0	2.3	23.3

( ) = negative, 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 local currency–USD rates are used.
3. Growth rates are calculated from local currency 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 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.

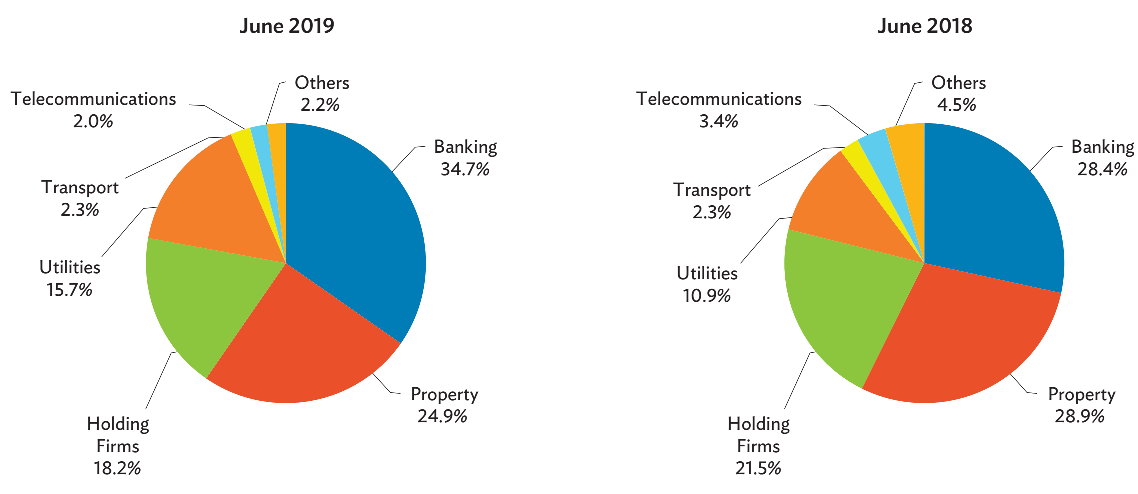
at the end of June, a 6-percentage-point increase from its share in the same period in 2018 (**Figure 2**). Meanwhile, the share of property firms (PHP353 billion) declined to 24.9% at the end of June from 28.9% a year earlier. The share of holding firms (PHP259 billion) also declined to 18.2% from 21.5% during the review period, while that of utility companies (PHP222 billion) rose to 15.7% from 10.9%.

Only 57 companies are actively tapping the bond market in the Philippines. The top 30 issuers accounted for 88.8% of total LCY corporate bonds outstanding at the end of June (**Table 2**). Out of the top 30 bond issuers, only four companies were privately held corporations and the rest were publicly listed with the Philippine Stock Exchange. Banks comprised a third of the list, followed by property firms and holding companies. Ayala Land and SM Prime Holdings remained the largest corporate issuers in the Philippines with approximately PHP104 billion of outstanding bonds each at the end of June. Metrobank was the next largest borrower with roughly the same outstanding amount as as the top two issuers at PHP103 billion.

Issuance of corporate bonds more than doubled in Q2 2019 compared with the previous quarter, with total issuance amounting to PHP126 billion as companies took advantage of declining interest rates. **Table 3** lists the corporate bond issuances in Q2 2019. SMC Global Power was the largest bond issuer for the quarter, issuing PHP30 billion worth of 3-year, 5-year, and 7-year bonds. Universal banks—Security Bank, Metrobank, and Philippine National Bank—also issued medium-term bonds at volumes of PHP18 billion, PHP17.5 billion, and PHP14 billion, respectively.

Foreign currency bonds. In an effort to diversify funding sources, the Government of the Philippines successfully raised funds via two offshore issuances in Q2 2019. In May, the government raised EUR750 million (USD842 million) worth of 8-year bonds priced at 0.875%, or a 70-bps spread over benchmark, the first EUR-denominated issuance in 13 years. The BTr stated that the bonds had high demand and were oversubscribed, which led the government to raise the initial offer volume from EUR500 million. In the same month, the government issued its second panda bonds, or CNY-denominated bonds; the first was in March 2018. The government raised CNY2.5 billion via the issuance of a 3-year bond with a coupon rate of 3.58% that was priced at a spread of 32 bps over benchmark. In August, the government returned to the offshore market to issue JPY92 billion (USD855 million) worth of samurai bonds. The offer included a JPY30.4 billion 3-year bond, JPY21 billion 5-year bond, JPY18 billion 7-year bond, and JPY23 billion 10-year bond. The bonds were priced at 0.18%, 0.28%, 0.43%, and 0.59%, respectively.

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	103.9	2.0	No	Yes	Property
2.	SM Prime Holdings	103.7	2.0	No	Yes	Property
3.	Metropolitan Bank	103.3	2.0	No	Yes	Banking
4.	BDO Unibank	89.8	1.8	No	Yes	Banking
5.	SMC Global Power	80.0	1.6	No	No	Electricity, Energy, and Power
6.	San Miguel	60.0	1.2	No	Yes	Holding Firms
7.	Philippine National Bank	54.6	1.1	No	Yes	Banking
8.	Security Bank	47.4	0.9	No	Yes	Banking
9.	SM Investments	47.3	0.9	No	Yes	Holding Firms
10.	Petron	42.9	0.8	No	Yes	Electricity, Energy, and Power
11.	Rizal Commercial Banking Corporation	41.2	0.8	No	Yes	Banking
12.	Ayala Corporation	40.0	0.8	No	Yes	Holding Firms
13.	Vista Land	38.0	0.7	No	Yes	Property
14.	Bank of the Philippine Islands	37.2	0.7	No	Yes	Banking
15.	Aboitiz Equity Ventures	37.0	0.7	No	Yes	Holding Firms
16.	Maynilad	33.3	0.6	No	No	Water
17.	Union Bank of the Philippines	30.8	0.6	No	Yes	Banking
18.	JG Summit	30.0	0.6	No	Yes	Holding Firms
19.	East West Banking	28.8	0.6	No	Yes	Banking
20.	China Bank	26.2	0.5	No	Yes	Banking
21.	Aboitiz Power	23.2	0.5	No	Yes	Electricity, Energy, and Power
22.	Manila Electric Company	23.0	0.4	No	Yes	Electricity, Energy, and Power
23.	GT Capital	22.0	0.4	No	Yes	Holding Firms
24.	Filinvest Land	22.0	0.4	No	Yes	Property
25.	San Miguel Brewery	22.0	0.4	No	No	Brewery
26.	Doubledragon	15.0	0.3	No	Yes	Property
27.	PLDT	15.0	0.3	No	Yes	Telecommunications
28.	Philippine Savings Bank	14.5	0.3	No	Yes	Banking
29.	NLEX Corporation	13.9	0.3	No	No	Transport
30.	Robinsons Land	12.0	0.2	No	Yes	Property
Total Top 30 LCY Corporate Issuers		**1,258.0**	**24.5**			
Total LCY Corporate Bonds		**1,416.9**	**27.6**			
Top 30 as % of Total LCY Corporate Bonds		**88.8%**	**88.8%**			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of 30 June 2019.
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 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
SMC Global Power		
3-year bond	6.84	13.84
5-year bond	7.18	9.23
7-year bond	7.60	6.92
Security Bank		
2-year bond	5.88	18.00
Metrobank		
3-year bond	6.30	17.50
Philippine National Bank		
2-year bond	6.30	13.87
SM Prime Holdings		
3-year bond	6.22	10.00
Rizal Commercial Banking		
2-year bond	6.15	8.00
BDO Unibank		
6-year bond	5.38	7.32
Ayala Land		
7-year bond	6.37	7.01
Unionbank Philippines		
3-year bond	6.00	5.80
Aboitiz Equity Ventures		
5-year bond	6.02	3.35
10-year bond	6.32	1.65
Century Properties		
3-year bond	7.82	3.00

PHP = Philippine peso.
Source: Bloomberg LP.

Investor Profile

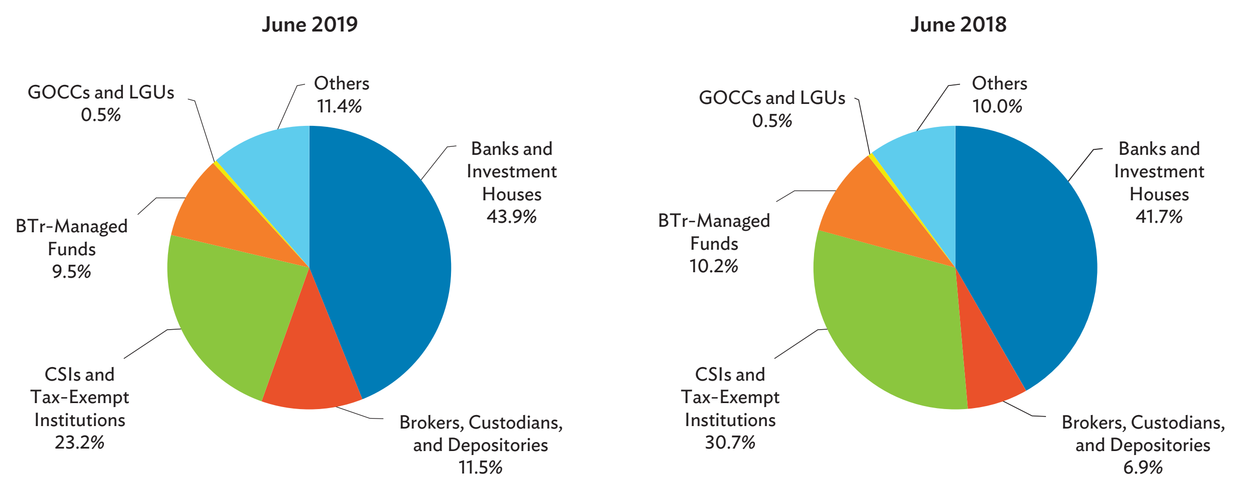
Banks and investment houses continued to be the largest holder of Philippine LCY government bonds, with a share inching up to 43.9% at the end of June from 41.7% at the end of June 2018 (**Figure 3**). On the other hand, the share of contractual savings institutions—including the Social Security System, Government Service Insurance System, Pag-IBIG, and life insurance companies—and tax-exempt institutions, such as trusts and other tax-exempt entities, declined to 23.2% from 30.7% during the same period. The share of custodians rose to 11.5% from 6.9% during the review period, while that of BTr-managed funds slightly fell to 9.5% from 10.2%.

Policy, Institutional, and Regulatory Developments

Bangko Sentral ng Pilipinas Issues Risk Management Guidelines for Investments

In August, the BSP issued risk management guidelines for investments made by banks and quasi-banks, given their exposures on bonds issued by emerging economies, complex structured products, and other tradable assets. The BSP guidelines highlight the need for due diligence prior to investing as well as on an ongoing basis.

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.

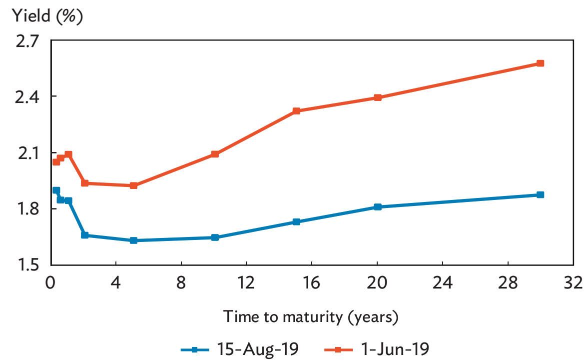
They consider lessons from the global financial crisis and the guidelines included in the Basel Core Principles for Effective Banking Supervision. In particular, banks and quasi-banks with significant holdings of foreign-currency-denominated securities are required to determine whether these firms have sufficient capital to cover risks that may arise from currency conversion restrictions imposed by relevant foreign governments.

Singapore

Yield Movements

Between 1 June and 15 August, Singapore's local currency (LCY) government bond yields declined for all tenors (**Figure 1**). The lower end of the yield curve (3 months–1 year) declined an average of 21 basis points (bps). However, short-term yields remain elevated due to the impacts of tightened liquidity since the start of 2019 as evidenced by the decreasing spread between the London Interbank Offered Rate and Singapore Interbank Offered Rate. On the other hand, long-term tenors (10–30 years) recorded a larger decline, decreasing an average of 58 bps. The yield spread between 2-year and 10-year government bonds contracted from 15 bps on 1 June to –1 bps on 15 August, adding to concerns that Singapore may be entering a recession.

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



Source: Based on data from Bloomberg LP.

The yield curve for Singapore LCY government bonds shifted downward during the review period, following the movement of government bond yields in the United States (US) as demand for safe-haven assets increased. The drop in US yields was due to the Federal Open Market Committee's decision to cut the federal funds rate during its meeting on 31 July. On the other hand, Singapore's investors' flight to safety was triggered by the escalating trade war between the People's Republic of China (PRC) and the US, a weak global economic growth outlook, and the slowing domestic economy threatening the prospects of trade-dependent Singapore.

Together with the global economy, Singapore's export and growth outlook has suffered due to the ongoing trade war between the PRC and the US. Singapore's non-oil domestic exports have contracted since March 2019, reaching their biggest annual decline of 17.4% year-on-year (y-o-y) in June. Electronics exports have been declining since December 2018. As both the international and domestic growth outlook are bleak, and with Singapore's economy growing just 0.1% y-o-y in the second quarter (Q2) of 2019 after posting 1.1% y-o-y growth in the first quarter (Q1) of 2019, the Ministry of Trade and Industry downgraded its full-year 2019 GDP forecast in August to between zero and 1.0% from 1.5%–2.5% as reported in May.

The Singapore dollar has also reflected the detrimental effects of the escalation of the PRC–US trade war. The Singapore dollar strengthened to an exchange rate of SGD1.353 per US dollar toward the end of June. However, near the end of the review period, on 14 August, the Singapore dollar had depreciated to SGD1.390 per US dollar.

Singapore's core inflation has been slowing since the start of 2019, reaching a low of 0.8% y-o-y in July. The Monetary Authority of Singapore (MAS) does not expect an acceleration of inflationary pressures given the slowdown in both the domestic and global economy, and the restraining effects of monetary policy tightening in 2018. The MAS expects inflation to fall in the lower half of the 1.0%–2.0% range for full-year 2019.

Due to forecasts of a weak trade performance, poor economic growth in the first half of 2019, and slowing inflation, market expects the MAS to ease policy in October in order to stimulate the economy. This would cause the exchange rate to depreciate further, making Singapore's goods more attractive to outside buyers.

Size and Composition

Singapore's LCY bond market expanded 2.3% quarter-on-quarter (q-o-q) in Q2 2019 to SGD429.2 billion (USD317.2 billion) from SGD419.7 billion in Q1 2019 (**Table 1**). The growth corresponds to a 9.9% y-o-y jump from SGD390.4 billion in Q2 2018. The rise in the LCY bond market was supported by the growth of both LCY

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2018		Q1 2019		Q2 2019		Q2 2018		Q2 2019	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**390**	**287**	**420**	**310**	**429**	**317**	**1.8**	**11.8**	**2.3**	**9.9**
Government	237	174	256	188	262	194	3.0	14.7	2.7	10.7
SGS Bills and Bonds	123	90	130	96	129	96	1.7	9.6	(0.2)	5.1
MAS Bills	114	84	126	93	133	98	4.5	20.8	5.6	16.7
Corporate	153	113	164	121	167	123	(0.1)	7.6	1.7	8.8

( ) = negative, 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 local currency–USD rates are used.
4. Growth rates are calculated from local currency base and do not include currency effects.
Sources: Bloomberg LP, Monetary Authority of Singapore, and Singapore Government Securities.

government and corporate bonds, which accounted for 61.1% and 38.9%, respectively, of total LCY bonds outstanding at the end of Q2 2019.

Issuance of LCY bonds in Q2 2019 increased 4.0% q-o-q to SGD157.5 billion from SGD151.4 billion in Q1 2019, driven by the expansion of both LCY government and corporate bond issuance.

Government bonds. LCY government bond market grew 2.7% q-o-q to SGD262.3 billion in Q2 2019 from SGD255.5 billion in the previous quarter. The growth was mainly due to the 5.6% q-o-q increase in outstanding MAS bills, which comprised about 51% of total outstanding LCY government bonds. This was partially offset by the 0.2% q-o-q decline in outstanding Singapore Government Securities (SGS) bills and bonds, with about a 49% share of total LCY government bonds outstanding. The decline was due to the redemptions of SGS bonds during the quarter.

LCY government bonds issued in Q2 2019 grew 4.0% q-o-q as issuances of MAS bills and SGS bills and bonds increased. More SGS bonds were issued during the quarter to replace the 10-year SGS bond that matured in June.

On 24 May, MAS announced that, starting in July 2019, it would gradually replace 24-week MAS bills with 6-month SGS bills as the SGS market continues to develop. The switch was also meant to meet the demand for short-term SGD-denominated securities as SGS bills are more accessible to a wider range of investors.

Corporate bonds. LCY corporate bonds outstanding increased 1.7% q-o-q to SGD166.9 billion in Q2 2019 from SGD164.2 billion in Q1 2019, helped by the increase in outstanding corporate bonds in the industrial sector.

The top 30 LCY corporate bond issuers in Singapore accounted for a combined SGD77.6 billion, or 46.5% of total LCY corporate bonds outstanding at the end of Q2 2019 (**Table 2**). Government institutions such as the Housing & Development Board and the Land Transport Authority dominated all issuers with outstanding LCY corporate bonds amounting to SGD22.4 billion (13.4% of total LCY corporate bonds outstanding) and SGD10.4 billion (6.2% of total LCY corporate bonds outstanding), respectively. In terms of industry, real estate companies had the largest share (43.3%) of the top 30 issuers of LCY corporate bonds during the review period with SGD33.6 billion. This was followed by the transportation industry with SGD15.6 billion and a share of 20.1% of total LCY corporate bonds outstanding at the end of Q2 2019.

Issuance of LCY corporate bonds jumped 4.0% q-o-q in Q2 2019 due to a surge in issuances in May and June. Most companies opted to offer large issuances compared to the previous quarter, taking advantage of the low-interest-rate environment.

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	16.6	Yes	No	Real Estate
2.	Land Transport Authority	10.4	7.7	Yes	No	Transportation
3.	Singapore Airlines	4.4	3.2	Yes	Yes	Transportation
4.	Frasers Property	3.8	2.8	No	Yes	Real Estate
5.	Temasek Financial	3.6	2.7	Yes	No	Finance
6.	DBS Group Holdings	2.5	1.9	No	Yes	Banking
7.	United Overseas Bank	2.5	1.8	No	Yes	Banking
8.	Mapletree Treasury Services	2.4	1.8	No	No	Finance
9.	Keppel Corporation	2.2	1.6	No	Yes	Diversified
10.	Capitaland	1.8	1.3	Yes	Yes	Real Estate
11.	Capitaland Treasury	1.6	1.2	No	No	Finance
12.	Oversea-Chinese Banking Corporation	1.5	1.1	No	Yes	Banking
13.	City Developments Limited	1.5	1.1	No	Yes	Real Estate
14.	CMT MTN	1.4	1.0	No	No	Finance
15.	SP Powerassets	1.3	1.0	No	No	Utilities
16.	Public Utilities Board	1.3	1.0	Yes	No	Utilities
17.	Olam International	1.2	0.9	No	Yes	Consumer Goods
18.	GLL IHT	1.2	0.9	No	No	Real Estate
19.	Singtel Group Treasury	1.2	0.8	No	No	Finance
20.	Shangri-La Hotel	1.1	0.8	No	Yes	Real Estate
21.	Suntec REIT	0.9	0.7	No	Yes	Real Estate
22.	Hyflux	0.9	0.7	No	Yes	Utilities
23.	Ascendas	0.9	0.7	No	Yes	Finance
24.	Mapletree Commercial Trust	0.9	0.6	No	Yes	Real Estate
25.	Sembcorp Financial Services	0.9	0.6	No	No	Engineering
26.	DBS Bank	0.8	0.6	No	Yes	Banking
27.	Sembcorp Industries	0.8	0.6	No	Yes	Shipbuilding
28.	Singapore Technologies Telemedia	0.8	0.6	Yes	No	Utilities
29.	SMRT Capital	0.8	0.6	No	No	Transportation
30.	National University of Singapore	0.8	0.6	No	No	Education
Total Top 30 LCY Corporate Issuers		**77.6**	**57.3**			
Total LCY Corporate Bonds		**166.9**	**123.4**			
Top 30 as % of Total LCY Corporate Bonds		**46.5%**	**46.5%**			

LCY = local currency, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of 30 June 2019.
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 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Land Transport Authority		
35-year bond	3.300	1,400
Housing & Development Board		
5-year bond	2.164	700
Frasers Property		
Perpetual bond	4.980	400
Keppel Infrastructure		
Perpetual bond	4.750	300
Singapore Press Holdings		
Perpetual bond	4.500	150
Wing Tai Holdings		
Perpetual bond	4.480	150
Oversea-Chinese Banking Corporation		
5-year bond	5.000	2

SGD = Singapore dollar.
Source: Bloomberg LP.

The Land Transport Authority issued the single-largest LCY corporate bond in Q2 2019. The state-owned company issued a SGD1,400 million 35-year bond with a coupon rate of 3.3% under its SGD12 billion multicurrency medium-term note program. Oversea-Chinese Banking Corporation issued an LCY corporate bond with the highest coupon during the review period: a SGD2 million 5-year bond with a 5.00% coupon rate. Several companies issued perpetual bonds whose issuance amount ranged from SGD150 million to SGD400 million and with coupon rates of between 4.48% and 4.98%. Proceeds from the perpetual bonds will be used to finance general working capital and to refinance company borrowing.

Policy, Institutional, and Regulatory Developments

Monetary Authority of Singapore Replacing 24-Week Monetary Authority of Singapore Bills with 6-Month Singapore Government Securities Bills

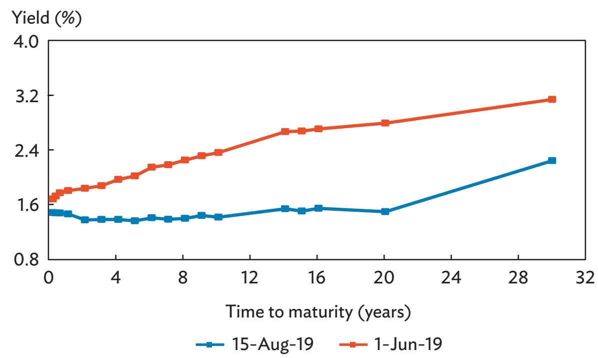
On 24 May, the MAS announced that it would gradually replace 24-week MAS bills with 6-month SGS bills starting in July. The switch was spurred by the SGS market's continued growth and development, with recent years seeing a steady increase in outstanding SGS bills and bonds. The growth was attributed to demand from financial institutions for high-quality liquid assets and from retail investors for Singapore Savings Bonds. The switch was also meant to meet the demands of an expanding investor base for short-term SGD-denominated securities as SGS bills become more accessible to a wider range of investors such as asset managers, corporations, and retail investors.

Thailand

Yield Movements

Between 1 June and 15 August, Thailand's local currency (LCY) government bond yields fell for all tenors, shifting the entire yield curve downward (**Figure 1**). The 20-year tenor exhibited the largest drop in yield at 130 basis points (bps). Yields declined an average of 27 bps for short-dated tenors with maturities of up to 1 year, 71 bps for tenors with maturities between 2 years and 10 years, and 113 bps for tenors with maturities longer than 10 years. As a result, the yield curve flattened at the belly of the curve, with the yields of short- to medium-dated bonds converging within the range of 1.36%–1.48%. The spread between 2-year and 10-year tenors narrowed significantly from 52 bps on 1 June to 4 bps on 15 August. Among the tenors with maturities longer than 10 years, the 30-year bond exhibited the smallest decline in yield at 90 bps. It was also the only tenor with a yield above 2.0% at the end of the review period.

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



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

The downward shift of the Thai LCY government bond yield curve followed the global trend of falling government bond yields, which has been driven by a surge in investor demand for safe-haven assets, particularly sovereign bonds, amid concerns over slowing global growth and escalating trade tensions between the People's Republic of China and the United States (US). In Thailand, falling yields also reflected the weakening prospects of the export-reliant economy, which continued to suffer from the prolonged trade dispute between two of its major trading partners.

A shift toward a more dovish monetary policy environment globally also created downward pressure on yields. The review period saw a series of monetary policy easing across the region following the 25-bps cut to the federal funds rate announced by the US Federal Reserve on 31 July. On 7 August, the Bank of Thailand (BOT) decided to reduce its policy rate by 25 bps to 1.50% to boost economic growth and push inflation up toward the target range.

Thailand's gross domestic product (GDP) growth slowed to 2.3% year-on-year (y-o-y) in the second quarter (Q2) of 2019 from 2.8% y-o-y in the previous quarter amid a continuing slowdown in domestic and external demand. The growth was the slowest pace recorded since the third quarter of 2014. The agriculture sector contracted 1.1% y-o-y in Q2 2019, while the nonagricultural sector expanded 2.6% y-o-y. Growth in the latter was driven primarily by the services sector, which expanded 3.5% y-o-y. In contrast, manufacturing production contracted 0.2% y-o-y, due to a decline in export-oriented sectors such as computers, rubber, and plastic products.

Between 1 June and 15 August, the Thai baht appreciated 2.2% against the US dollar, outperforming other currencies in emerging East Asia. Since the beginning of the year, the baht has appreciated against the US dollar by 5.0%. The baht's strength was partly driven by foreign capital inflows during the period. In May and June, Thailand's LCY bond market recorded inflows of foreign funds worth THB91.4 billion. To curb the baht's appreciation and counter speculative capital flows, the BOT reduced the supply of short-term bills, lowered the limit on nonresident baht accounts, and tightened reporting requirements for nonresident holdings of Thai debt securities in July.

Thailand's consumer price inflation dropped to 0.5% y-o-y in August from 1.0% y-o-y in July. Core inflation, which excludes volatile fresh food and energy prices, rose to 0.5% y-o-y in August from 0.4% y-o-y in July. Headline inflation fell below the BOT's target range of 1.0%–4.0% for a third straight month.

Size and Composition

Thailand's LCY bond market expanded in size to THB13,036.9 billion (USD424.9 billion) at the end of Q2 2019 from THB12,649.0 billion (USD398.6 billion) in the first quarter (Q1) of 2019 (**Table 1**). The growth of 3.1% quarter-on-quarter (q-o-q) in Q2 2019 surpassed the 1.6% q-o-q growth in the previous quarter, driven by faster expansion of both government and corporate bonds. The bond market in Thailand remains largely dominated by government bonds, which accounted for 71.5% of the LCY bonds outstanding in Q2 2019. On a y-o-y basis, Thailand's LCY bond market expanded 9.4% in Q2 2019, easing slightly from the 10.9% growth in Q1 2019.

Government bonds. The outstanding stock of LCY government bonds amounted to THB9,319.3 billion at the end of June, with growth accelerating to 2.3% q-o-q in Q2 2019 from 1.4% q-o-q in the previous quarter. Central bank bonds and state-owned enterprise and other bonds led the expansion, rising to THB3,771.7 billion and THB793.6 billion on growth of 5.4% q-o-q and 4.7% q-o-q, respectively. Due to maturities, government bonds and Treasury bills fell slightly in Q2 2019, contracting 0.4% q-o-q to THB4,754.1 billion at the end of June.

In the same period, government bond issuance rose 4.1% q-o-q, reaching THB2,320.1 billion at the end of June. The growth was driven by increased issuance of Treasury and state enterprise bonds, which more than offset the drop in BOT bond issuance. The growth in new government bond issues in Q2 2019 was weaker than the 16.5% q-o-q expansion in Q1 2019.

Corporate bonds. The outstanding stock of LCY corporate bonds rose to THB3,717.5 billion at the end of June from THB3,537.6 billion at the end of March, with growth accelerating to 5.1% q-o-q in Q2 2019 from 2.3% q-o-q in Q1 2019. Annual growth was also faster at 13.2% y-o-y compared to the 10.3% y-o-y expansion in the previous quarter. The growth was supported by relatively high issuance of corporate debt during the quarter. Corporate debt issuance in Q2 2019 rose 11.6% q-o-q and 41.7% y-o-y, reaching THB520.9 billion.

The top 30 issuers of LCY bonds in Thailand accounted for 54.4% of the total outstanding stock of LCY corporate bonds, with a combined amount worth THB2,023.6 billion (**Table 2**). Food and beverages, banking, and communications firms together comprised half of the top 30 issuers. A majority of the companies were listed private companies; only four of them were state-owned firms. Among the top issuers, six had outstanding LCY bond stocks exceeding THB100 billion at the end of Q2 2019: Siam Cement (THB181.5 billion), Thai Beverage (THB180.0 billion), CP All (THB164.8 billion), Bank of Ayudhya (THB130.8 billion), Berli Jucker (THB121.8 billion), and Charoen Pokphand Foods (THB109.5 billion).

In Q2 2019, the Bank of Ayudhya issued the largest amount of corporate bonds totaling THB33.8 billion,

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2018		Q1 2019		Q2 2019		Q2 2018		Q2 2019	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**11,918**	**361**	**12,649**	**399**	**13,037**	**425**	**4.4**	**8.6**	**3.1**	**9.4**
Government	8,634	261	9,111	287	9,319	304	5.3	8.4	2.3	7.9
Government Bonds and Treasury Bills	4,532	137	4,774	150	4,754	155	2.4	10.5	(0.4)	4.9
Central Bank Bonds	3,268	99	3,579	113	3,772	123	10.0	6.1	5.4	15.4
State-Owned Enterprise and Other Bonds	834	25	758	24	794	26	3.2	6.8	4.7	(4.8)
Corporate	3,284	99	3,538	111	3,718	121	2.4	9.1	5.1	13.2

( ) = negative, 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 local currency–USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
Source: Bank of Thailand.

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	5.9	Yes	Yes	Construction Materials
2.	Thai Beverage	180.0	5.9	No	No	Food and Beverage
3.	CP All	164.8	5.4	No	Yes	Commerce
4.	Bank of Ayudhya	130.8	4.3	No	Yes	Banking
5.	Berli Jucker	121.8	4.0	No	Yes	Commerce
6.	Charoen Pokphand Foods	109.5	3.6	No	Yes	Food and Beverage
7.	PTT	84.7	2.8	Yes	Yes	Energy and Utilities
8.	Toyota Leasing Thailand	82.2	2.7	No	No	Finance and Securities
9.	True Move H Universal Communication	82.0	2.7	No	No	Communications
10.	Thai Airways International	69.1	2.3	Yes	Yes	Transportation and Logistics
11.	Minor International	66.0	2.2	No	Yes	Hospitality and Leisure
12.	Indorama Ventures	63.9	2.1	No	Yes	Petrochemical and Chemicals
13.	CPF Thailand	61.0	2.0	No	Yes	Food and Beverage
14.	True Corp	54.1	1.8	No	Yes	Communications
15.	TMB Bank	50.4	1.6	No	Yes	Banking
16.	Banpu	48.9	1.6	No	Yes	Energy and Utilities
17.	Krungthai Card	44.9	1.5	Yes	Yes	Banking
18.	Mitr Phol Sugar	42.2	1.4	No	No	Food and Beverage
19.	Land & Houses	40.5	1.3	No	Yes	Property and Construction
20.	Bangkok Expressway and Metro	38.2	1.2	No	Yes	Transportation and Logistics
21.	CH. Karnchang	38.1	1.2	No	Yes	Property and Construction
22.	TPI Polene	36.6	1.2	No	Yes	Property and Construction
23.	Advanced Wireless	32.4	1.1	No	Yes	Communications
24.	Thai Union Group	30.6	1.0	No	Yes	Food and Beverage
25.	DTAC Trinet	29.5	1.0	No	Yes	Communications
26.	BTS Group	28.5	0.9	No	Yes	Hospitality and Leisure
27.	Bangkok Commercial Asset Management	28.2	0.9	No	No	Finance and Securities
28.	Kasikorn Bank	28.0	0.9	No	Yes	Banking
29.	Sansiri	27.9	0.9	No	Yes	Property and Construction
30.	Muangthai Capital	27.4	0.9	No	Yes	Finance and Securities
Total Top 30 LCY Corporate Issuers		**2,023.6**	**66.0**			
Total LCY Corporate Bonds		**3,717.5**	**121.2**			
Top 30 as % of Total LCY Corporate Bonds		**54.4%**	**54.4%**			

LCY = local currency, THB = Thai baht, USD = United States dollar.
Notes:
1. Data as of 30 June 2019.
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.

comprising a 3-year bond with a 2.37% coupon and a 5-year bond with a 3.80% coupon (**Table 3**). The next largest issuer during the quarter was TMB Bank, which borrowed a total of THB30.0 billion from a 10-year bond carrying a 4.0% coupon. True Corp, a communications company, followed with total issuance of THB25.0 billion from five issuances of bonds with tenors ranging from 1.25 years to 5.26 years, and carrying coupons ranging from 3.3% to 5.0%. CPF Thailand was the fourth-largest issuer during the quarter, with a multitranche issuance amounting to THB17.0 billion. Another notable issuance included Siam Cement's THB15.0 billion 4-year bond carrying a 3.1% coupon.

Investor Profile

Central government bonds. Financial corporations and nonresidents together held more than 60% of Thailand's LCY government bonds at the end of June (**Figure 2**). Financial corporations continued to hold the single-largest share of LCY government bonds, accounting for 42.7% of the total at the end of June. Between June 2018 and June 2019, the share of nonresidents rose from 15.7% to 18.0%, while the share of other depository corporations dropped from 20.6% to 15.8%. As a result, nonresidents surpassed the holdings of other depository corporations, becoming the second-largest holding group of LCY government bonds at the end of June. During the same period, the central government's share of holdings increased from 11.6% to 14.3%. Together, these four groups accounted for 90.8% of LCY government bonds outstanding at the end of June, up from 90.4% a year earlier.

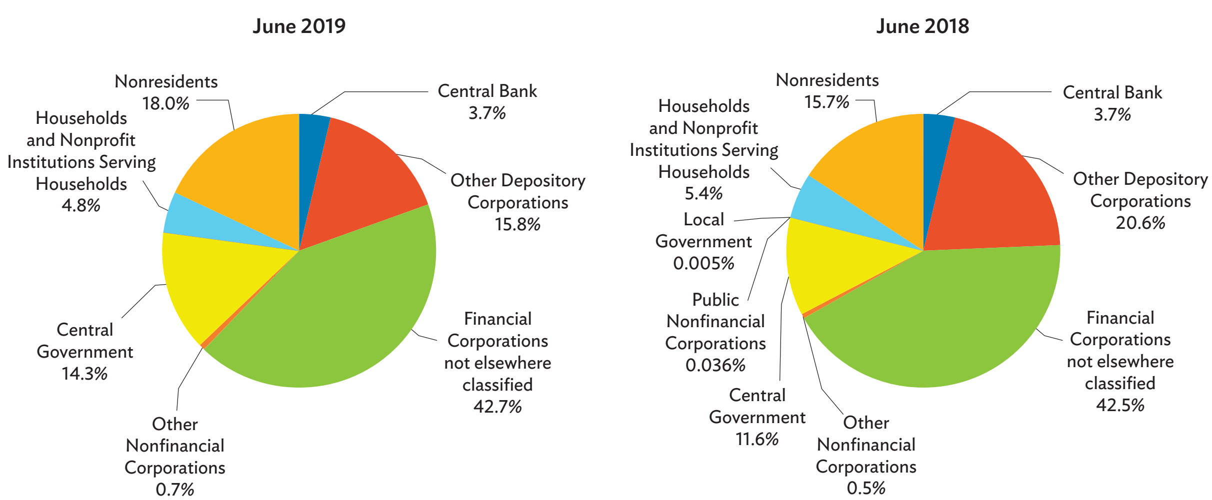
Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
Bank of Ayudhya		
3-year bond	2.37	15.0
10-year bond	3.80	18.8
TMB Bank		
10-year bond	4.00	30.0
True Corp		
1.25-year bond	3.30	1.8
2-year bond	3.70	5.2
2.98-year bond	3.80	0.3
3.25-year bond	4.00	5.8
5.26-year bond	5.00	11.8
CPF Thailand		
4-year bond	2.91	4.0
6-year bond	3.34	2.0
8-year bond	3.65	0.5
10-year bond	4.00	4.0
12-year bond	4.18	6.5
Siam Cement		
4-year bond	3.10	15.0

THB = Thai baht.
Source: Bloomberg LP.

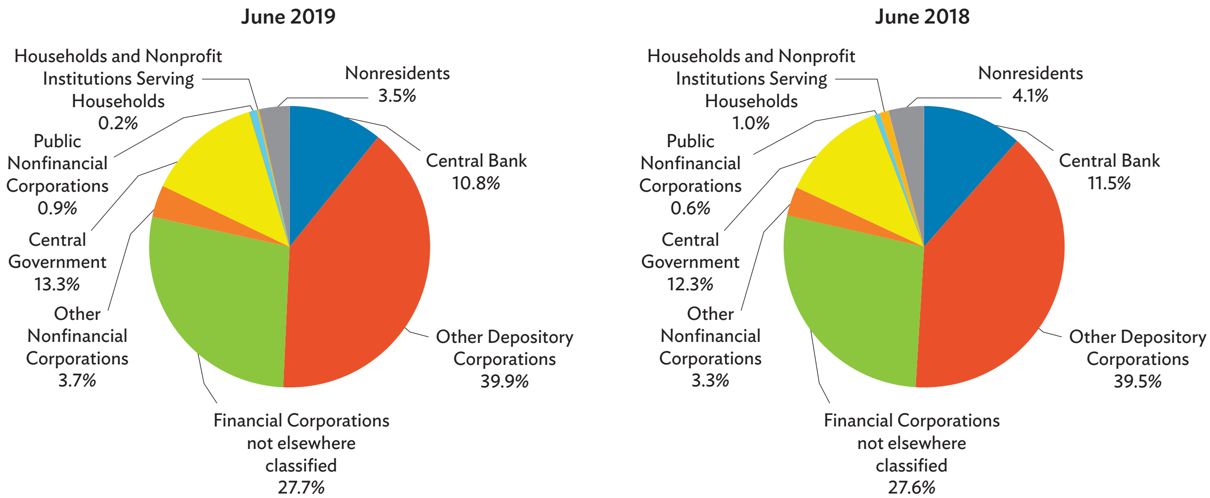
Central bank bonds. The distribution of LCY central bank securities remained stable between June 2018 and June 2019 (**Figure 3**). At the end of June 2019,

Figure 2: Local Currency Government Bonds Investor Profile



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

Figure 3: Local Currency Central Bank Securities Investor Profile

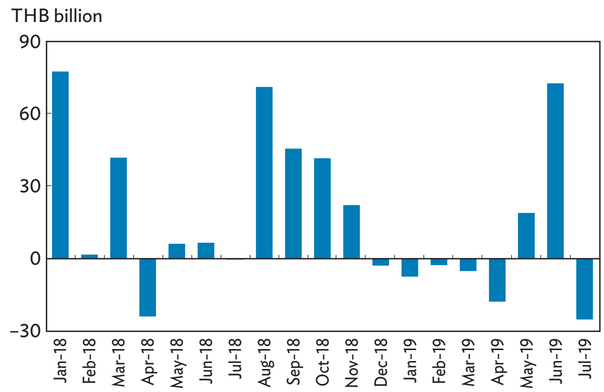


Source: Bank of Thailand.

other depository corporations held the largest share of LCY central bank bonds at 39.9%, followed by financial corporations (27.7%) and the central government (13.3%). The share of these three groups barely changed from that of a year earlier. The central bank's holdings decreased slightly to 10.8% from 11.5% a year earlier. These four investor groups cumulatively held 91.7% of the total LCY central bank bonds at the end of June 2019, up from 90.9% a year earlier.

Foreign investors in Thailand's LCY bond market recorded net outflows in 5 of the 7 months from January to July (**Figure 4**). However, the relatively high inflows in May (THB18.9 billion) and June (THB72.5 billion) more than offset the outflows, resulting in net inflows of THB33.2 billion during the 7-month period. Following the orderly conclusion of the national election in March, which eased political uncertainties, renewed market sentiment drew large inflows in May and June. The surge of inflows into short-term bonds contributed to the accelerated appreciation of the baht, prompting the BOT to implement several measures to stem short-term capital inflows and curb the baht's appreciation. In July, the BOT reduced its supply of 3-month, 6-month, and

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



THB = Thai baht.
Source: Thai Bond Market Association.

1-year bonds by a total of THB60 billion. It also lowered the limit on the outstanding balance of nonresident baht accounts and nonresident securities accounts to THB200 million from THB300 million. In addition, the BOT tightened reporting requirements for nonresident holdings of Thai debt securities. As a result, net trading of LCY bonds recorded outflows of THB25.1 billion in July.

Policy, Institutional, and Regulatory Developments

Bank of Thailand Implements Measures to Enhance Monitoring of Short-Term Capital Flows

In July, the BOT issued new measures to stem the impact of short-term capital inflows amid a strengthening baht. The BOT lowered the limit on the outstanding balance of nonresident baht accounts and nonresident securities accounts for securities to THB200 million from THB300 million. The measures became effective on 22 July. Nonfinancial corporations with underlying trade and investment activities in Thailand that have opened accounts directly with Thai financial institutions may request a waiver from the new outstanding balance limit; requests for waivers will be considered on a case-by-case basis. In addition, the BOT tightened reporting requirements for nonresident holdings of debt securities issued in Thailand. The names of end beneficiaries are required to be reported for all nonresident holdings of Thai debt securities, effective for the July 2019 reporting period. In its press statement, the BOT emphasized that it would take additional measures if speculative inflows persisted.

Bank of Thailand Cuts Bond Supply in July

The BOT trimmed its supply of short-term bonds for July in a move viewed by market observers as an effort to slow capital inflows and curb the baht's appreciation. The weekly issuance of 3-month bonds was reduced from THB45 billion to THB35 billion, while the supply of 6-month bonds was cut from THB45 billion to THB40 billion per week. The supply of 1-year bonds was likewise be reduced to THB35 billion in July from THB40 billion in June. The total reduction in the month of July amounted to THB60 billion.

Bank of Thailand and the Bank of the Lao People's Democratic Republic Sign Memorandum of Understanding on Banking Supervision

On 22 June, the BOT and the Bank of the Lao People's Democratic Republic signed a memorandum of understanding (MOU) on banking supervision. The MOU provides guidance on how the two monetary authorities will coordinate and share information to effectively supervise banking organizations that operate in both economies in accordance with the principles set out in the Basel Core Principles for Effective Banking Supervision.

Bank of Thailand and the State Bank of Vietnam Sign MOU on Banking Supervision and Financial Innovation

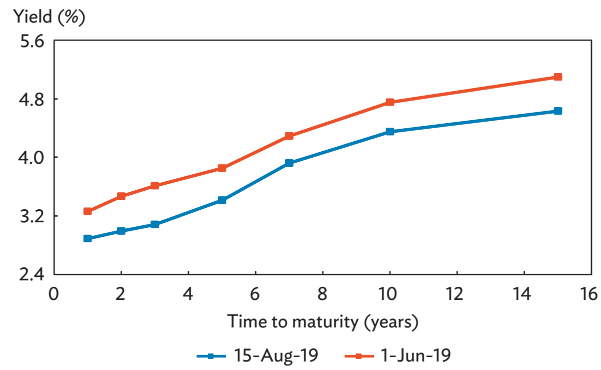
On 6 August, the BOT and the State Bank of Vietnam signed an MOU covering banking supervision and financial innovation. The MOU for banking supervision superseded the previous MOU signed in 2010 and was designed to strengthen cooperation between the two monetary authorities in the areas of information exchange and crisis management. The MOU on cooperation for financial innovation aimed to promote cooperation between the two central banks in developing financial services that leverage financial technology. It also provided a framework for cooperation in facilitating digital payment systems connectivity between the two economies.

Viet Nam

Yield Movements

Local currency (LCY) government bond yields in Viet Nam trended lower between 1 June and 15 August, leading the entire yield curve to shift downward (**Figure 1**). Bond yields declined an average of 44 basis points (bps) across the curve, with the 1-year and 7-year bonds shedding the least at 37 bps each. As a result, the spread between the 2-year and 10-year tenors widened to 136 bps from 129 bps. Viet Nam and the Philippines were the only markets in emerging East Asia that saw a widening of the spread between 2-year and 10-year yields during the review period.

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



Source: Based on data from Bloomberg LP.

The downward trend in bond yields was largely driven by positive sentiments over Viet Nam's economy as the ongoing trade dispute between the People's Republic of China and the United States (US) turned into gains for the domestic economy. As the People's Republic of China and the US imposed tariffs on each other's goods, importers from both markets have turned to Viet Nam's manufacturing-driven economy for trade. While the US is also considering imposing tariffs on Vietnamese goods, trade pacts and concession agreements that Viet Nam has entered into with other markets can serve as a buffer against US tariffs.

Strong foreign inflows into the market also resulted in abundant liquidity, which led interbank rates to fall, leading yields to trend lower across the length of the curve. Dovish stances among the central banks of major advanced economies, on account of global growth moderation, also drove yields lower. To support economic growth, the US Federal Reserve cut the federal funds rate on 31 July. Other central banks in emerging East Asia have likewise engaged in monetary policy easing.

The State Bank of Vietnam held its refinancing rate steady at 6.25% and discount rate at 4.25%, levels that have been kept in place since July 2017. The central bank is opting to manage uncertainties in financial markets through macroprudential measures, including keeping the credit growth target at 14.0% for this year.

During the review period, the Vietnamese dong was one of two currencies in emerging East Asia that strengthened against the US dollar, gaining 0.9%. Foreign direct investment and inflows into the equity market helped sustain the value of the dong, as well as intervention by the central bank.

Viet Nam continued to post robust economic growth in the second quarter (Q2) of 2019, outperforming its emerging East Asian peers. Real gross domestic product (GDP) growth reached 6.7% year-on-year (y-o-y) in Q2 2019, slightly easing from 6.8% y-o-y in the first quarter (Q1). However, on a year-to-date basis, GDP growth moderated, falling to 6.8% y-o-y from 7.1% y-o-y in the same 6-month period a year earlier. Growth was buoyed by industry and construction, which expanded 8.9% y-o-y, albeit this was down slightly from 9.1% y-o-y in the same period in the prior year.

Size and Composition

Viet Nam continued to have the smallest LCY bond market in emerging East Asia, with outstanding bonds of VND1,233.5 trillion (USD52.9 billion) at the end of June (**Table 1**). Overall bond market growth rebounded in Q2 2019, rising 2.6% quarter-on-quarter (q-o-q) from 0.8% q-o-q in Q1 2019. In the same period, y-o-y growth also quickened to 4.2% from 0.5%.

Government bonds. At the end of June, the outstanding stock of LCY government bonds climbed to VND1,127.6 trillion, rising 3.2% q-o-q in Q2 2019, which was up from 0.9% q-o-q growth in Q1 2019.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2018		Q1 2019		Q2 2019		Q2 2018		Q2 2019	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,183,532	52	1,201,959	52	1,233,519	53	(1.0)	14.7	2.6	4.2
Government	1,095,953	48	1,092,228	47	1,127,565	48	(2.1)	12.2	3.2	2.9
Treasury Bonds	857,454	37	919,151	40	932,040	40	1.7	8.7	1.4	8.7
Central Bank Bills	58,400	3	4,900	0	32,999	1	(36.0)	–	573.5	(43.5)
Government-Guaranteed and Municipal Bonds	180,099	8	168,177	7	162,526	7	(2.5)	(4.0)	(3.4)	(9.8)
Corporate	87,579	4	109,731	5	105,954	5	14.7	58.2	(3.4)	21.0

– = not applicable, ( ) = negative, 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 local currency–USD rates are used.
2. Growth rates are calculated from local currency base and do not include currency effects.
Sources: Bloomberg LP and Vietnam Bond Market Association.

The overall stock of government bonds was lifted by the surge in central bank bills in Q2 2019, while Treasury bonds posted a slower expansion and government-guaranteed and municipal bonds contracted during the review period. On an annual basis, growth in government bonds rebounded to 2.9% y-o-y following a 2.4% y-o-y contraction in the prior quarter.

Treasury bonds continued to account for a significant majority of the government bond stock, representing an 82.7% share of the government bond total. The stock of Treasury bonds totaled VND932.0 trillion at the end of June, up 1.4% q-o-q and 8.7% y-o-y.

The outstanding amount of central bank bills jumped to VND33.0 trillion, rising more than six-fold on a q-o-q basis. On a y-o-y basis, however, a contraction of 43.5% was recorded. The State Bank of Vietnam resumed issuing bills in March, following a 5-month hiatus, to siphon excess money from the banking system and safeguard the stability of the Vietnamese dong.

On the other hand, the outstanding stock of government-guaranteed and municipal bonds slightly declined to VND162.5 trillion at the end of June, slipping 3.4% q-o-q and 9.8% y-o-y.

Corporate bonds. The outstanding amount of LCY corporate bonds stood at VND106.0 trillion at the end of June, falling 3.4% q-o-q but rising 21.0% y-o-y. *AsianBondsOnline* data on corporate bonds in Viet Nam, showed that the entire corporate bond market comprised 44 institutions. Many corporates in Viet Nam issue bonds through private placements in which information is mostly undisclosed.[8]

Aggregate bonds outstanding of the 30 largest bond issuers in Viet Nam amounted to VND89.7 trillion (**Table 2**), accounting for 84.7% of the corporate bond total at the end of June. In the top spot was Vingroup with outstanding bonds amounting to VND12.6 trillion, overtaking Vinhomes, which was a close second with VND12.5 trillion, and Masan Consumer Holdings, which was third with VND11.1 trillion. Together, the top three firms accounted for 34.2% of the corporate bond stock. The top 30 list was dominated by firms from the banking and real estate sectors. Of the list, 4 are state-owned firms and 20 are listed with the Ha Noi Stock Exchange.

Policy, Institutional, and Regulatory Developments

Ha Noi Stock Exchange Launches Government Bond Futures

In July, the Ha Noi Stock Exchange launched the government bond futures contract, marking the second derivatives product available in Viet Nam. The bond futures contract will utilize a hypothetical 5-year government bond issued by the State Treasury, which has a large listing volume and commands high liquidity. Initially, the 5-year bond futures will only be traded by

[8] 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. Vingroup	12,600	0.54	No	Yes	Real Estate
2. Vinhomes	12,500	0.54	No	Yes	Real Estate
3. Masan Consumer Holdings	11,100	0.48	No	No	Diversified Operations
4. Vietnam Joint Stock Commercial Bank for Industry and Trade	8,200	0.35	Yes	Yes	Banking
5. Asia Commercial Joint Stock Bank	6,800	0.29	No	No	Banking
6. Vinpearl	5,800	0.25	No	No	Hotel Operator
7. Ho Chi Minh City Infrastructure Investment	3,550	0.15	No	Yes	Infrastructure
8. Bank for Investment and Development of Vietnam	3,050	0.13	Yes	Yes	Banking
9. Hoang Anh Gia Lai	3,000	0.13	No	Yes	Real Estate
10. Masan Group	3,000	0.13	No	Yes	Finance
11. Vietnam Prosperity Joint Stock Commercial Bank	3,000	0.13	No	Yes	Banking
12. Vietnam Technological and Commercial Joint Stock Bank	3,000	0.13	No	No	Banking
13. Sai Dong Urban Investment and Development	2,600	0.11	No	No	Real Estate
14. Hoan My Medical	2,330	0.10	No	No	Healthcare Services
15. Refrigeration Electrical	2,318	0.10	No	Yes	Manufacturing
16. Vietnam International Commercial Bank	2,203	0.09	No	Yes	Agriculture
17. Agro Nutrition International	2,000	0.09	No	No	Agriculture
18. Joint Stock Commercial Bank for Foreign Trade of Vietnam	2,000	0.09	Yes	Yes	Banking
19. Vietnam Electrical Equipment	1,800	0.08	No	Yes	Manufacturing
20. Masan Resources	1,500	0.06	No	Yes	Mining
21. Nui Phao Mining	1,500	0.06	No	No	Mining
22 Saigon-Hanoi Securities	1,150	0.05	No	Yes	Finance
23. SSI Securities	1,150	0.05	No	Yes	Finance
24. Mobile World Investment	1,135	0.05	No	Yes	Manufacturing
25. Pan Group	1,135	0.05	No	Yes	Consumer Services
26. No Va Land Investment Group	1,000	0.04	No	Yes	Real Estate
27. TTC Education Joint Stock Company	951	0.04	No	No	Education Services
28. Vietnam Bank for Agriculture and Rural Development	760	0.03	Yes	No	Banking
29. Nam Long Investment	660	0.03	No	Yes	Real Estate
30. Khang Dien House Trading	534	0.02	No	Yes	Building and Construction
Total Top 30 LCY Corporate Issuers	**89,726**	**3.85**			
Total LCY Corporate Bonds	**105,954**	**4.55**			
Top 30 as % of Total LCY Corporate Bonds	**84.7%**	**84.7%**			

LCY = local currency, USD = United States dollar, VND = Vietnamese dong.
Notes:
1. Data as of 30 June 2019.
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.

institutional investors. The derivatives market saw rapid development after the VN-30 Index futures contract was launched in August 2017, which was aimed to limit risks in the equity market. As of June, trading volume had increased 10 times and open interest volume surged 2.7 times relative to 2017. The bond futures contract is expected to meet investors' investment needs for risk prevention and support the further deepening and development of Viet Nam's government bond market.

Merger of Ha Noi Stock Exchange and Ho Chi Minh Stock Exchange into Viet Nam Stock Exchange

During the 36th session of the National Assembly Standing Committee held on 12–16 August, the merger of the Ha Noi Stock Exchange and the Ho Chi Minh Stock Exchange was announced. The merged entity will be known as the Viet Nam Stock Exchange and will be based in Ha Noi. It will be managed by the Ministry of Finance acting as a focal point for all stock- and securities-related activities. The National Assembly Standing Committee believes that the merger of the two stock exchanges will promote uniformity in the market, increase transparency and efficiency in governance, and ensure the legal rights of investors.