Bond Market Developments in the Second Quarter of 2020

Size and Composition

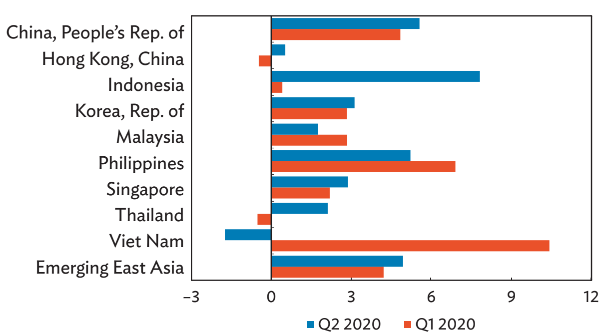
The outstanding amount of local currency bonds in emerging East Asia climbed to USD17.2 trillion at the end of June.

Emerging East Asia's local currency (LCY) bond market expanded in the second quarter (Q2) of 2020 to reach a size of USD17.2 trillion at the end of June.[3] The region's bond market growth quickened to 5.0% quarter-on-quarter (q-o-q) in Q2 2020 from 4.2% q-o-q in the first quarter (Q1) (**Figure 1a**). The expansion was bolstered primarily by increased issuance of government bonds as authorities raised funds to finance policies designed to combat the effects of the global economic contraction brought about by the coronavirus disease (COVID-19).

Except for Viet Nam, all of the region's bond markets posted positive q-o-q growth in Q2 2020. Indonesia, the People's Republic of China (PRC), and the Philippines posted the fastest growth rates. Compared with Q1 2020, the q-o-q growth rate accelerated in six of the region's nine bond markets: the PRC; Hong Kong, China; Indonesia; the Republic of Korea; Singapore; and Thailand.

On a year-on-year (y-o-y) basis, emerging East Asia's LCY bond market grew at a faster pace of 15.5% in Q2 2020 versus 14.0% in Q1 2020 (**Figure 1b**). Except for Hong Kong, China, all markets in the region registered positive y-o-y growth in Q2 2020, led by the PRC and Indonesia. The LCY bond markets of the PRC, Indonesia, the Republic of Korea, the Philippines, and Singapore

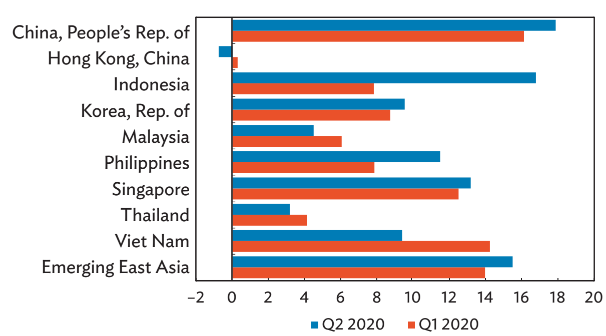
Figure 1a: Growth of Local Currency Bond Markets in the First and Second Quarters of 2020 (q-o-q, %)



q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second quarter.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. Emerging East Asia growth figures are based on 30 June 2020 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.

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

Figure 1b: Growth of Local Currency Bond Markets in the First and Second Quarters of 2020 (y-o-y, %)



Q1 = first quarter, Q2 = second quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency base and do not include currency effects.
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[3] Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

posted higher y-o-y growth in Q2 2020 than in Q1 2020, while the region's remaining markets experienced a slowdown in y-o-y growth.

The PRC bond market remained the largest in the region with an outstanding bond stock of USD13.2 trillion at the end of June. The PRC's share of the regional bond market remained broadly stable at 76.6% in Q2 2020 compared with 76.2% in Q1 2020. Growth in the PRC's bond market accelerated to 5.6% q-o-q in Q2 2020 from 4.9% q-o-q in Q1 2020. The faster growth was primarily driven by strong issuance of Treasury and other government bonds, which rose 49.4% q-o-q in Q2 2020, as the PRC's central and local governments increased borrowing to support the economy amid the COVID-19 pandemic. Growth in the PRC's corporate bond stock eased to 5.9% q-o-q in Q2 2020 from 7.3% q-o-q in the previous quarter. On a y-o-y basis, the PRC's bond market expanded 17.9% y-o-y in Q2 2020, up from 16.1% y-o-y in Q1 2020.

The Republic of Korea remained home to the second-largest LCY bond market in the region, with its outstanding bonds reaching USD2.1 trillion at the end of June. Growth in the Republic of Korea's bond market rose to 3.1% q-o-q in Q2 2020 from 2.8% q-o-q in Q1 2020. Its share of the regional total slipped to 12.3% in Q2 2020 from 12.6% in the previous quarter. Government bonds outstanding increased 4.6% q-o-q in Q2 2020, up from 4.2% q-o-q growth in Q1 2020, due to strong issuance driven by the government's need to finance stimulus programs. The stock of corporate bonds rose 2.1% q-o-q in Q2 2020, up from 1.9% q-o-q growth in Q1 2020. On an annual basis, the Republic of Korea's bond market growth accelerated to 9.5% y-o-y in Q2 2020 from 8.7% y-o-y in Q1 2020.

The size of the LCY bond market in Hong Kong, China stood at USD292.6 billion at the end of June. The 0.5% q-o-q growth in Q2 2020 reversed the 0.5% q-o-q contraction in the previous quarter. The stock of government bonds dropped 1.1% q-o-q in Q2 2020, driven primarily by declines in Exchange Fund Bills and Exchange Fund Notes due to maturities and weaker issuance during the quarter. Growth in the corporate bond segment jumped to 2.3% q-o-q in Q2 2020 from 0.2% q-o-q in Q1 2020. Hong Kong, China's LCY bond market was the only market that posted negative y-o-y growth in the region in Q2 2020, with the 0.8% contraction reversing the modest 0.3% gain posted in the previous quarter.

The aggregate amount of LCY bonds outstanding of the member economies of the Association of Southeast Asian Nations (ASEAN) was stable between Q1 2020 and Q2 2020 at USD1.6 trillion, even as growth accelerated to 3.2% q-o-q from 2.0% q-o-q.[4] The total government bond stock reached USD1.1 trillion at the end of June, while the corporate bond stock amounted to USD484.8 billion. Thailand, Malaysia, and Singapore remained the three largest bond markets in ASEAN.

Thailand's LCY bonds outstanding amounted to USD435.1 billion at the end of June on growth of 2.1% q-o-q and 3.2% y-o-y. The government bond stock rose 4.1% q-o-q in Q2 2020, reversing the 1.0% q-o-q contraction in Q1 2020. Growth stemmed mainly from the government's resumption of Treasury bill issuance, along with issuance of government savings bonds designed to finance programs to mitigate the negative economic impacts of COVID-19. The stock of corporate bonds contracted 2.6% q-o-q in Q2 2020, reversing the 0.8% q-o-q growth in the previous quarter. The decline was mainly driven by a 23.7% q-o-q drop in issuance, as weak investor confidence continued to curtail both the demand for and supply of corporate bonds.

The outstanding amount of Malaysia's LCY bonds totaled USD362.7 billion at the end of June, with growth slowing to 1.8% q-o-q in Q2 2020 from 2.9% q-o-q in Q1 2020. Growth in both the government and corporate bond segments slowed in Q2 2020 from the previous quarter. The stock of government bonds rose 3.2% q-o-q in Q2 2020, down from 3.9% q-o-q in Q1 2020. Growth in the corporate bond segment fell to 0.2% q-o-q from 1.7% q-o-q in Q1 2020. On a y-o-y basis, Malaysia's bond market growth also slowed to 4.5% in Q2 2020 from 6.0% in the previous quarter.

Malaysia is home to the largest *sukuk* (Islamic bond) market in emerging East Asia, with a total of USD227.5 billion of outstanding *sukuk* at the end of June. At the end of Q2 2020, about 47.5% of outstanding Malaysian government bonds were structured following Islamic principles, while 80.2% of corporate bonds were *sukuk*.

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

Singapore's LCY bond market reached USD344.9 billion at the end of June on growth of 2.9% q-o-q and 13.2% y-o-y. The q-o-q growth in Q2 2020 was up from 2.2% q-o-q in the prior quarter due to increased government debt issuance to fund economic relief policies. Growth in the government bond segment rose to 4.4% q-o-q in Q2 2020 from 2.5% q-o-q in Q1 2020. In contrast, growth in the corporate bond segment weakened to 0.3% q-o-q in Q2 2020 from 1.7% q-o-q in the prior quarter.

The outstanding amount of Indonesia's LCY bonds reached USD251.3 billion at the end of June, with growth jumping to 7.8% q-o-q in Q2 2020 from 0.4% q-o-q in Q1 2020. The faster growth stemmed from the government bond segment, where growth quickened to 9.5% q-o-q in Q2 2020 from 0.6% q-o-q in Q1 2020, as the government accelerated issuance of debt to support economic relief efforts. Growth in the stock of outstanding corporate bonds continued to decline, with the contraction worsening to 3.0% q-o-q in Q2 2020 from 0.5% q-o-q in Q1 2020. Indonesia's bond market has been negatively affected by risk-off sentiment brought about by uncertainties related to COVID-19.

The Philippine LCY bond market reached a size of USD150.1 billion at the end of June, with overall growth easing to 5.2% q-o-q in Q2 2020 from 6.9% q-o-q in Q1 2020. Growth in the government bond segment slipped to 6.8% q-o-q in Q2 2020 from 7.5% q-o-q in the previous quarter. The corporate bond segment contracted 0.4% q-o-q in Q2 2020, reversing the 5.0% q-o-q gain posted in Q1 2020. On an annual basis, growth in the Philippine LCY bond market accelerated to 11.5% y-o-y in Q2 2020 from 7.9% y-o-y in Q1 2020.

Viet Nam's LCY bonds outstanding fell to USD58.2 billion at the end of June on a contraction of 1.7% q-o-q in Q2 2020, reversing the 10.4% q-o-q gain in Q1 2020. The decline stemmed from the government bond segment, which contracted 7.8% q-o-q in Q2 2020 following rapid growth of 10.5% in the prior quarter. In contrast, growth in the corporate bond segment jumped to 65.6% q-o-q in Q2 2020 from 10.2% q-o-q in Q1 2020, bolstered by strong issuance. On an annual basis, Viet Nam's LCY bond market expanded 9.4% y-o-y in Q2 2020, down from 14.2% y-o-y growth in Q1 2020.

At the end of June, government bonds continued to account for the majority of emerging East Asia's LCY bond stock, representing a 60.8% share. In nominal terms, the outstanding stock of government bonds in the region reached USD10.5 trillion at the end of Q2 2020 on growth of 5.2% q-o-q and 13.9% y-o-y (**Table 1**). The PRC and the Republic of Korea remained home to the two largest government bond markets in the region, accounting for a combined share of 87.9% of the regional total at the end of June.

ASEAN economies accounted for 10.7% of government bonds in emerging East Asia at the end of Q2 2020. Among ASEAN economies, Thailand had the most outstanding LCY government bonds at the end of June at USD314.8 billion. The next largest LCY government bond markets were those of Indonesia and Singapore with outstanding bonds totaling USD221.2 billion and USD219.4 billion, respectively. Malaysia followed with an LCY government bond stock of USD193.4 billion. The Philippines and Viet Nam continued to have the smallest LCY government bond markets in the region with bonds outstanding of USD118.5 billion and USD50.1 billion, respectively.

LCY corporate bonds outstanding in emerging East Asia amounted to USD6.7 trillion at the end of June. Growth in the region's aggregate corporate bonds outstanding moderated to 4.6% q-o-q in Q2 2020 from 5.7% q-o-q in Q1 2020. The slower growth was driven mostly by the PRC's weakening corporate bond segment. In addition, Indonesia, the Philippines, and Thailand posted negative q-o-q growth rates in their corporate bond segments in Q2 2020, while growth slowed considerably in Malaysia and Singapore. Overall, growth in the region's corporate bond segment during the review period was negatively affected by uncertainties surrounding the COVID-19 outbreak and investors' risk-off sentiment.

ASEAN economies accounted for 7.2% of emerging East Asia's LCY corporate bond market at the end of June. Within ASEAN, Malaysia had the largest LCY corporate bond market, followed by Singapore.

Emerging East Asia's total LCY bond market as a percentage of the region's gross domestic product (GDP) expanded to 91.6% at the end of June from 87.8% at the end of March and 81.5% at the end of June 2019 (**Table 2**). The GDP shares of both government and corporate bonds rose in Q2 2020 from the previous quarter. The government bonds-to-GDP share climbed to 55.7% from 53.2% during the review period, while

Table 1: Size and Composition of Local Currency Bond Markets

	Q2 2019		Q1 2020		Q2 2020		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
							Q2 2019		Q2 2020		Q2 2019		Q2 2020	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of														
Total	11,512	100.0	12,464	100.0	13,189	100.0	4.0	16.7	5.6	17.9	1.7	12.6	5.8	14.6
Government	7,447	64.7	7,886	63.3	8,332	63.2	4.2	15.9	5.4	15.1	1.9	11.8	5.6	11.9
Corporate	4,065	35.3	4,577	36.7	4,857	36.8	3.6	18.3	5.9	22.9	1.2	14.0	6.1	19.5
Hong Kong, China														
Total	293	100.0	291	100.0	293	100.0	1.6	5.1	0.5	(0.8)	2.1	5.5	0.5	(0.002)
Government	149	50.9	151	51.9	149	51.0	0.2	0.5	(1.1)	(0.7)	0.7	0.9	(1.1)	0.1
Corporate	144	49.1	140	48.1	143	49.0	3.1	10.3	2.3	(0.9)	3.6	10.8	2.3	(0.1)
Indonesia														
Total	217	100.0	204	100.0	251	100.0	(0.5)	17.6	7.8	16.8	0.4	19.3	23.3	15.6
Government	188	86.4	177	86.7	221	88.0	(0.3)	20.1	9.5	19.0	0.6	21.8	25.2	17.8
Corporate	30	13.6	27	13.3	30	12.0	(1.6)	3.7	(3.0)	3.0	(0.8)	5.2	10.9	2.0
Korea, Rep. of														
Total	2,019	100.0	2,032	100.0	2,123	100.0	2.4	5.0	3.1	9.5	0.6	1.3	4.5	5.2
Government	820	40.6	814	40.1	863	40.7	1.7	1.0	4.6	9.7	(0.1)	(2.5)	6.0	5.3
Corporate	1,200	59.4	1,218	59.9	1,260	59.3	2.9	7.9	2.1	9.4	1.1	4.2	3.5	5.0
Malaysia														
Total	360	100.0	354	100.0	363	100.0	3.3	8.7	1.8	4.5	2.0	6.2	2.6	0.7
Government	189	52.4	186	52.6	193	53.3	1.8	7.8	3.2	6.4	0.5	5.4	4.0	2.6
Corporate	172	47.6	168	47.4	169	46.7	5.0	9.7	0.2	2.4	3.7	7.2	1.0	(1.3)
Philippines														
Total	131	100.0	140	100.0	150	100.0	1.8	16.8	5.2	11.5	4.3	21.6	7.1	14.8
Government	103	78.9	109	77.8	119	79.0	1.7	15.2	6.8	11.6	4.2	19.9	8.7	14.9
Corporate	28	21.1	31	22.2	32	21.0	2.3	23.3	(0.4)	11.0	4.8	28.3	1.4	14.3
Singapore														
Total	314	100.0	329	100.0	345	100.0	2.3	8.8	2.9	13.2	2.5	9.5	5.0	9.9
Government	194	61.8	206	62.7	219	63.6	2.7	10.7	4.4	16.5	2.9	11.4	6.5	13.2
Corporate	120	38.2	123	37.3	126	36.4	1.7	5.8	0.3	7.7	1.9	6.6	2.4	4.6
Thailand														
Total	425	100.0	402	100.0	435	100.0	3.1	9.4	2.1	3.2	38.8	52.9	8.2	2.4
Government	304	71.5	286	71.0	315	72.4	2.3	7.9	4.1	4.4	34.4	46.0	10.2	3.6
Corporate	121	28.5	117	29.0	120	27.6	5.1	13.2	(2.6)	(0.03)	51.1	73.4	3.2	(0.8)
Viet Nam														
Total	53	100.0	58	100.0	58	100.0	2.6	4.1	(1.7)	9.4	2.1	2.5	0.1	9.9
Government	48	91.4	53	91.8	50	86.2	3.2	2.9	(7.8)	3.1	2.7	1.3	(6.0)	3.6
Corporate	5	8.6	5	8.2	8	13.8	(3.4)	18.7	65.6	76.0	(3.9)	16.8	68.8	76.8
Emerging East Asia														
Total	15,323	100.0	16,273	100.0	17,207	100.0	3.6	14.2	5.0	15.5	2.3	11.5	5.7	12.3
Government	9,441	61.6	9,868	60.6	10,462	60.8	3.7	13.6	5.2	13.9	2.5	11.1	6.0	10.8
Corporate	5,883	38.4	6,405	39.4	6,746	39.2	3.4	15.1	4.6	18.1	2.1	12.2	5.3	14.7
Japan														
Total	10,948	100.0	11,079	100.0	11,082	100.0	0.5	2.1	0.4	1.3	3.3	4.8	0.02	1.2
Government	10,191	93.1	10,282	92.8	10,288	92.8	0.3	1.8	0.4	1.0	3.1	4.5	0.1	0.9
Corporate	757	6.9	797	7.2	794	7.2	2.8	6.7	(0.1)	4.9	5.6	9.6	(0.4)	4.9

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

Notes:

1. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.
2. Corporate bonds include issues by financial institutions.
3. Bloomberg LP end-of-period LCY–USD rates are used.
4. For LCY base, emerging East Asia growth figures are based on 30 June 2020 currency exchange rates and do not include currency effects.
5. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

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

the corporate bonds-to-GDP share increased to 35.9% from 34.6%. The higher shares were due to accelerated increases in LCY bonds outstanding in Q2 2020, while at the same time the region's GDP growth moderated as most economies contracted. The expansion in the region's bond market during the quarter can be traced to the higher issuance volumes needed to fund government stimulus measures, and also to governments and corporates taking advantage of the high level of global liquidity and the region's low interest rates.

As a share of GDP, the bond markets of the Republic of Korea and Malaysia were the largest at the end of Q2 2020, with both exceeding 100%. Singapore nearly breached this level with a bonds-to-GDP share of 99.7%. Indonesia's bonds-to-GDP share, which in Q1 2020 was the region's smallest, inched up to 22.8% at the end of June, leaving Viet Nam with the region's smallest share at 22.0%. All emerging East Asian economies saw increases in their share of bonds-to-GDP between Q1 2020 and Q2 2020 except for Viet Nam.

By segment, Singapore had the largest government bonds-to-GDP share in the region at the end of June at 63.4%, while Viet Nam had the smallest at 19.0%. The Republic of Korea and Indonesia continued to have the largest and smallest corporate bonds-to-GDP shares at 82.3% and 2.7%, respectively.

Foreign Investor Holdings

The foreign holdings share in local currency government bonds continued to decline in most emerging East Asian economies in Q2 2020.

Foreign holdings of LCY government bonds in emerging East Asia posted quarterly declines in Q2 2020 in all economies except for the PRC and Malaysia (**Figure 2**). Weak economic performances, protracted recoveries, and uncertainty caused by the COVID-19 pandemic were the key factors that drove risk aversion among foreign investors, as evidenced by foreign ownership remaining at low levels or declining in most economies in the region.

The PRC's foreign holdings share for government bonds increased to 9.1% at the end of June from 8.7% at the end of March. The growth in foreign ownership in Q2 2020 is associated with relatively higher returns in the PRC bond market compared with large economies that are

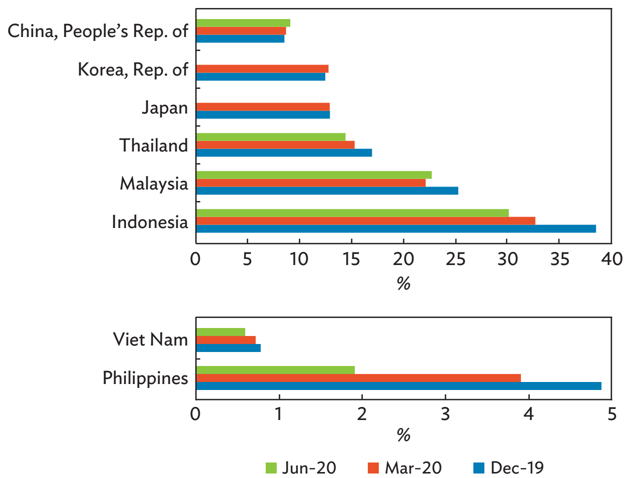
Table 2: Size and Composition of Local Currency Bond Markets (% of GDP)

	Q2 2019	Q1 2020	Q2 2020
China, People's Rep. of			
Total	82.9	90.1	94.4
Government	53.6	57.0	59.7
Corporate	29.3	33.1	34.8
Hong Kong, China			
Total	79.4	80.0	82.1
Government	40.4	41.5	41.8
Corporate	38.9	38.5	40.2
Indonesia			
Total	19.9	20.8	22.8
Government	17.2	18.0	20.1
Corporate	2.7	2.8	2.7
Korea, Rep. of			
Total	127.5	133.5	138.6
Government	51.7	53.5	56.3
Corporate	75.7	80.0	82.3
Malaysia			
Total	106.8	107.3	114.0
Government	55.9	56.4	60.8
Corporate	50.9	50.9	53.2
Philippines			
Total	35.5	36.4	39.7
Government	28.0	28.3	31.3
Corporate	7.5	8.1	8.4
Singapore			
Total	83.3	92.6	99.7
Government	51.4	58.0	63.4
Corporate	31.8	34.5	36.3
Thailand			
Total	78.1	78.3	82.9
Government	55.9	55.6	60.0
Corporate	22.3	22.7	22.9
Viet Nam			
Total	21.4	22.5	22.0
Government	19.6	20.6	19.0
Corporate	1.8	1.8	3.0
Emerging East Asia			
Total	81.5	87.8	91.6
Government	50.2	53.2	55.7
Corporate	31.3	34.6	35.9
Japan			
Total	214.7	215.7	221.3
Government	199.9	200.1	205.4
Corporate	14.8	15.5	15.9

GDP = gross domestic product, Q1 = first quarter, Q2 = second quarter.
Notes:
1. Data for GDP are from CEIC.
2. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.

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

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



Note: Data for Japan and the Republic of Korea as of 31 March 2020.
Source: *AsianBondsOnline*.

considered safe havens like the United States (US) and European markets. The attractiveness of the PRC's bond market was also due to the economy's quick recovery from the adverse impact of COVID-19, as evidenced by its GDP growth of 3.2% q-o-q growth in Q2 2020 while most economies in the region were contracting. Furthermore, the continuation of policies to open up the PRC's bond market to overseas investors have made it easier to attract foreign funds.

In Malaysia, the share of government bonds held by foreign investors rebounded in Q2 2020, albeit marginally, rising to 22.7% at the end of June from 22.2% at the end of March. Ample global liquidity accompanied by Malaysia's subdued inflation and the resumption of economic activities amid an easing of the lockdown may have encouraged inflows of foreign funds into the LCY government bond market. Expectations that FTSE Russell would retain Malaysia in the World Government Bond Index, resulting from Bank Negara Malaysia's effort to improve onshore bond liquidity, may have also fueled buying interest in Malaysian government bonds.

Risk-off sentiment among foreign investors was apparent in the Indonesian and Philippine markets in Q2 2020. Indonesia's foreign holdings remained on a downtrend, with the share falling to 30.2% at the end of June, the lowest level in 8 years. Deterred by pandemic risk, foreign investors appeared wary of holding Indonesian government bonds as evidenced by relatively small foreign fund inflows amid an expansion of the LCY government bond market. This resulted in Indonesia posting the largest drop in its foreign holdings share in the region in Q2 2020 with a decline of 2.5 percentage points. However, Indonesia still retained the highest foreign holdings share in the region at the end of June.

Foreign ownership of government bonds in the Philippines dropped to its lowest level since such data have been available, falling to 1.9% at the end of June. The share of foreign holdings in the Philippine bond market posted a quarterly decline of 2.0 percentage points, making it the largest drop in the region in Q2 2020 next to Indonesia. Investors reduced their risk exposure during the quarter, leading to continued fund outflows against the backdrop of rising uncertainty from the pandemic and a low-interest-rate environment as the Bangko Sentral ng Pilipinas unexpectedly cut the policy rate in June by 50 basis points (bps).

Thailand and Viet Nam also saw declining foreign holdings shares in their respective government bond markets, albeit to a lesser extent than Indonesia and the Philippines. The foreign holdings share in Thailand fell to 14.4% at the end of June from 15.3% at the end of March on the back of a frail economic outlook and continued monetary policy easing. In May, the Bank of Thailand reduced its benchmark policy rate by 25 bps to a record low of 0.75%.

In Viet Nam, despite being successful in containing the spread of COVID-19, the foreign ownership share declined marginally to 0.6% at the end of June from 0.7% in the previous quarter. Viet Nam has the smallest foreign holdings share in the region.

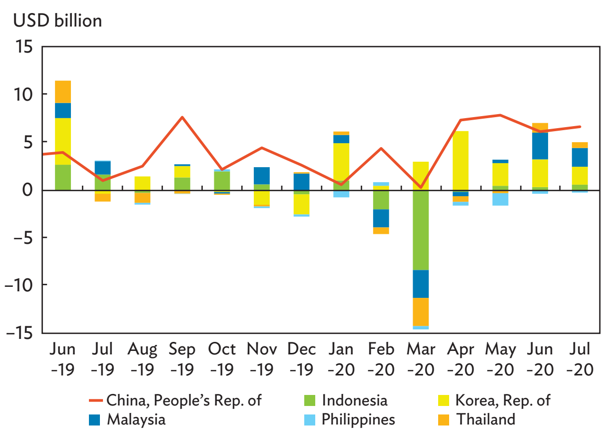
The Republic of Korea saw its share of foreign holdings increase for the fourth consecutive quarter in Q1 2020. At the end of March, the foreign holdings share reached 12.8%, up from 12.5% at the end of December. One of the factors driving foreign investor interest in the Republic of Korea's LCY bond market is the successful preemptive measures taken by the government to contain COVID-19, which lessened the adverse impact on the economy. Better yields, fiscal soundness, and proceeds from currency hedges are also underlying factors that make the Republics of Korea's government bond market attractive to foreign investors.

Foreign Bond Flows

Foreign funds returned to emerging East Asian bond markets as most economies in the region posted net inflows from April to July.

The inflow of offshore funds to emerging East Asia's government bond markets signaled the return of confidence in the region, albeit in calculated manner (**Figure 3**). The positive flows were spurred by relatively higher yields in the region and abundant global liquidity as major central banks deployed stimulus measures. The economies that experienced outflows early in the review period mostly saw a recovery starting in May. In June, all emerging East Asian economies posted net inflows except for the Philippines, with the region's net inflows amounting to USD12.8 billion, the highest level of monthly foreign buying in 2020 through the first 7 months of the year. However, even with the return of foreign funds, the shares of foreign holdings remain low. Concerns of a possible COVID-19 recurrence and a gloomy economic outlook may have capped foreign fund flows into the region.

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



USD = United States dollar.
Notes:
1. The Republic of Korea and Thailand provided data on bond flows. For the People's Republic of China, Indonesia, Malaysia, and the Philippines, month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.
2. Data as of 31 July 2020.
3. Figures were computed based on 31 July 2020 exchange rates to avoid currency effects.

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

The PRC and the Republic of Korea have experienced positive monthly net inflows since the start of the year. From April to July, the PRC had total net inflows of USD28.0 billion, with the highest monthly total posted in May amounting to USD7.9 billion. In the same period, the Republic of Korea posted a total of USD13.3 billion of net inflows, with the highest monthly total in April at USD6.2 billion. The attractiveness of Chinese and Korean bonds is underpinned by sound economic fundamentals and the success of preemptive measures to avert the negative impact of COVID-19.

Malaysia experienced net foreign buying of government bonds amounting to USD4.6 billion in the April–July period. While net outflows of USD0.5 billion were recorded in April, foreign bond buying rebounded in May and has been positive since then, with net inflows peaking in June. Malaysia's low inflation attracted foreign interest despite the downgrade in its economic and sovereign rating outlooks.

Net inflows to Indonesia totaled USD1.3 billion in the April–July period, partially dragged down by the USD0.1 billion of net outflows in April. Monthly net inflows during the review period peaked at USD0.6 billion in July. While foreign funds returned to the Indonesian bond market during the review period, this came with investor cautiousness, resulting in smaller inflows that failed to offset the large outflows earlier in the year. Thus, the foreign holdings share remained below pre-COVID-19 levels.

In Thailand, foreign funds returned to the bond market in June after 4 months of sell-offs, with net inflows of USD1.0 billion, the highest monthly inflow through the first 7 months of the year. From April to July, Thailand recorded net inflows of USD0.8 billion.

In contrast to the trend in the region, the Philippines incurred net outflows in the April–July period totaling USD2.3 billion. The retreat of foreign funds was due to heightened risk aversion caused by a weak economic performance and slow progress in the containment of COVID-19.

LCY Bond Issuance

LCY bond issuance in emerging East Asia reached USD2 trillion in Q2 2020, driven by government efforts to fund stimulus programs.

LCY bond markets in emerging East Asia saw a surge in issuance in Q2 2020, driven mostly by the government bond segment. The region's aggregate issuance volume reached USD2.0 trillion in Q2 2020, with growth accelerating to 21.3% q-o-q from 19.5% q-o-q in the preceding quarter (**Table 3**). Driving much of the growth were Treasury instruments and other government bonds, given the active issuance by governments seeking to fund large-scale stimulus programs and recovery efforts amid the economic fallout from the COVID-19 outbreak. The corporate bond segment also witnessed increased issuance during the quarter, albeit to a lesser extent. In contrast, issuance by central banks declined compared with the previous quarter. All emerging East Asian markets posted higher bond sales in Q2 2020 compared with Q1 2020 except for the Philippines and Viet Nam, both of which recorded contractions in overall issuance volumes.

On a y-o-y basis, emerging East Asia's issuance growth accelerated to 32.0% in Q2 2020 from 21.9% in Q1 2020, with six out of nine markets in the region posting y-o-y increases in bond issuance in Q2 2020. The markets of Malaysia, Thailand, and Viet Nam recorded declines in their respective Q2 2020 issuance compared with Q2 2019.

Of the region's aggregate issuance volume during Q2 2020, 58.7% was accounted for by government bonds, comprising both Treasury and other government bonds and central bank instruments. Government bond issuance in Q2 2020 tallied USD1,199.4 billion, up 29.1% q-o-q and 27.8% y-o-y. Nearly three-quarters of this amount was accounted for by Treasuries and other government bonds. The bond markets of Indonesia, Singapore, and Thailand saw faster q-o-q increases in government bond issuance in Q2 2020 compared with Q1 2020. Indonesia and Thailand accelerated their issuance programs to fund higher fiscal spending. The q-o-q government bond issuance growth in the PRC, the Republic of Korea, and Malaysia moderated from Q1 2020 but remained positive. A q-o-q decline in government bond issuance was noted in Hong Kong, China; the Philippines; and Viet Nam.

Central bank issuance in the region slipped to USD310.1 billion in Q2 2020, down 2.3% q-o-q and 6.4% y-o-y. Most central banks had less issuance during the quarter, particularly Hong Kong, China; Indonesia; Malaysia; and Thailand. Singapore maintained its issuance pace for Monetary Authority of Singapore bills, while Viet Nam halted its central bank issuance during the quarter.

Corporate bond issuance from emerging East Asia tallied USD845.2 billion in Q2 2020, with growth picking up to 11.7% q-o-q and 38.5% y-o-y from 6.8% q-o-q and 36.1% y-o-y, respectively, in the preceding quarter. While corporate bond issuance in five markets in the region slowed, overall growth was buoyed by a higher volume of corporate debt from the PRC.

Nearly 70% of emerging East Asia's LCY bond issuance in Q2 2020 was accounted for by the PRC. New bond sales during the quarter totaled USD1,414.2 billion for a 31.2% q-o-q hike. Growth expanded at the same pace as in the prior quarter. Both government and corporate bonds contributed to the overall growth in LCY bond issuance during the quarter. While growth in government bond issuance moderated from 68.2% q-o-q in Q1 2020 to 49.4% q-o-q in Q2 2020, issuance was still substantial at USD736.1 billion. During the quarter, Treasury bond issuance more than doubled in Q2 2020 as the government had to fund a wider fiscal deficit. Issuance of local government bonds also grew but at a slower pace as the original quota for issuance of such bonds had largely been met by April. While an additional CNY1.0 trillion was added to the special local government bond quota by the State Council in May, it had to be tapped by the end of the same month. Corporate bond issuance during the quarter was quite active due to an easing of regulations that allowed firms to issue bonds for debt repayment in February. Total corporate bond issuance reached USD678.1 billion, with growth rising to 15.9% in Q2 2020 from 10.7% q-o-q in the preceding quarter. On an annual basis, LCY bond issuance surged to 48.2% y-o-y in Q2 2020 from 30.6% y-o-y in the prior quarter.

LCY bond issuance in the Republic of Korea totaled USD208.0 billion in Q2 2020, with q-o-q growth moderating to 4.0% from 6.1% in the prior quarter. Government bond issuance grew 15.4% q-o-q, decelerating from a 45.4% q-o-q hike in Q1 2020, due largely to the government's frontloading policy.

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

	Q2 2019		Q1 2020		Q2 2020		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q2 2020		Q2 2020	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of										
Total	982	100.0	1,075	100.0	1,414	100.0	31.2	48.2	31.5	44.0
Government	540	54.9	491	45.7	736	52.1	49.4	40.3	49.8	36.4
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	540	54.9	491	45.7	736	52.1	49.4	40.3	49.8	36.4
Corporate	442	45.1	584	54.3	678	47.9	15.9	57.7	16.2	53.3
Hong Kong, China										
Total	133	100.0	136	100.0	137	100.0	1.4	2.2	1.4	3.0
Government	107	80.1	108	79.7	107	78.0	(0.8)	(0.4)	(0.8)	0.3
Central Bank	106	79.3	108	79.4	106	77.2	(1.5)	(0.5)	(1.4)	0.3
Treasury and Other Govt.	1	0.8	0.3	0.2	1	0.8	228.0	2.5	228.0	3.3
Corporate	27	19.9	28	20.3	30	22.0	9.8	13.0	9.8	13.9
Indonesia										
Total	17	100.0	19	100.0	31	100.0	44.1	88.0	64.8	86.2
Government	15	87.9	18	93.9	31	98.1	50.5	109.8	72.1	107.7
Central Bank	4	24.8	7	37.0	8	25.2	(1.8)	91.6	12.3	89.7
Treasury and Other Govt.	11	63.2	11	56.9	23	72.9	84.5	116.9	111.0	114.8
Corporate	2	12.1	1	6.1	1	1.9	(54.6)	(70.2)	(48.1)	(70.5)
Korea, Rep. of										
Total	187	100.0	197	100.0	208	100.0	4.0	16.2	5.4	11.5
Government	70	37.7	82	41.8	96	46.4	15.4	42.7	16.9	37.0
Central Bank	32	17.1	30	15.2	33	16.0	9.4	8.8	10.8	4.4
Treasury and Other Govt.	38	20.6	52	26.6	63	30.3	18.9	70.9	20.4	64.1
Corporate	116	62.3	115	58.2	112	53.6	(4.1)	0.1	(2.9)	(3.9)
Malaysia										
Total	27	100.0	21	100.0	22	100.0	1.7	(16.7)	2.6	(19.7)
Government	10	36.4	12	56.2	14	63.7	15.4	45.6	16.3	40.4
Central Bank	2	7.2	2	11.0	0.2	1.1	(90.2)	(87.8)	(90.1)	(88.2)
Treasury and Other Govt.	8	29.2	10	45.1	14	62.6	41.1	78.8	42.3	72.4
Corporate	17	63.6	9	43.8	8	36.3	(15.7)	(52.4)	(15.0)	(54.1)
Philippines										
Total	9	100.0	17	100.0	14	100.0	(19.6)	58.6	(18.2)	63.3
Government	6	71.2	14	83.0	13	96.0	(6.9)	114.0	(5.3)	120.3
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	6	71.2	14	83.0	13	96.0	(6.9)	114.0	(5.3)	120.3
Corporate	2	28.8	3	17.0	1	4.0	(81.3)	(78.2)	(81.0)	(77.6)
Singapore										
Total	116	100.0	125	100.0	133	100.0	4.1	17.5	6.2	14.1
Government	113	96.7	122	97.7	128	96.7	3.0	17.5	5.1	14.1
Central Bank	104	89.7	101	80.9	103	77.7	0.0	1.8	2.0	(1.2)
Treasury and Other Govt.	8	7.0	21	16.9	25	19.0	17.3	220.0	19.7	210.7
Corporate	4	3.3	3	2.3	4	3.3	50.8	17.0	53.8	13.5
Thailand										
Total	93	100.0	72	100.0	79	100.0	3.1	(14.1)	9.2	(14.8)
Government	76	81.7	62	85.9	71	89.6	7.5	(5.8)	13.9	(6.5)
Central Bank	65	70.4	56	77.8	59	75.2	(0.4)	(8.3)	5.5	(9.0)
Treasury and Other Govt.	10	11.3	6	8.1	11	14.4	83.8	9.6	94.8	8.8
Corporate	17	18.3	10	14.1	8	10.4	(23.7)	(51.1)	(19.1)	(51.5)

continued on next page

Table 3 *continued*

	Q2 2019		Q1 2020		Q2 2020		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
							Q2 2020		Q2 2020	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
Viet Nam										
Total	23	100.0	8	100.0	6	100.0	(25.2)	(75.0)	(23.8)	(74.9)
Government	23	100.0	7	93.3	2	39.6	(68.3)	(90.1)	(67.7)	(90.1)
Central Bank	22	93.0	6	75.0	0	0.0	(100.0)	(100.0)	(100.0)	(100.0)
Treasury and Other Govt.	2	7.0	1	18.3	2	39.6	61.5	40.6	64.5	41.2
Corporate	0	0.0	1	6.7	4	60.4	578.2	–	591.1	–
Emerging East Asia										
Total	1,587	100.0	1,671	100.0	2,045	100.0	21.3	32.0	22.4	28.8
Government	959	60.4	918	54.9	1,199	58.7	29.1	27.8	30.7	25.0
Central Bank	335	21.1	310	18.6	310	15.2	(2.3)	(6.4)	(0.1)	(7.5)
Treasury and Other Govt.	624	39.3	607	36.3	889	43.5	45.3	46.5	46.4	42.5
Corporate	628	39.6	753	45.1	845	41.3	11.7	38.5	12.2	34.6
Japan										
Total	398	100.0	383	100.0	406	100.0	6.4	2.0	6.0	1.9
Government	355	89.2	356	92.9	370	91.1	4.3	4.2	4.0	4.1
Central Bank	0	0.0	0	0.0	20	5.0	–	–	–	–
Treasury and Other Govt.	355	89.2	356	92.9	350	86.1	(1.4)	(1.6)	(1.7)	(1.7)
Corporate	43	10.8	27	7.1	36	8.9	33.0	(16.1)	32.5	(16.1)

( ) = negative, – = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Corporate bonds include issues by financial institutions.
2. Bloomberg LP end-of-period LCY–USD rates are used.
3. For LCY base, emerging East Asia growth figures are based on 30 June 2020 currency exchange rates and do not include currency effects.

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

In addition, increased borrowing by the government was necessitated to fund the supplemental budgets designed to support the economy amid the outbreak of COVID-19. Central bank issuance also grew at a slower pace, rising 9.4% q-o-q in Q2 2020 versus 10.7% q-o-q in Q1 2020. Corporate bond issuance contracted for the second consecutive quarter in Q2 2020, falling 4.1% q-o-q after declining 11.1% q-o-q in the previous quarter. On a y-o-y basis, bond issuance grew 16.2% in Q2 2020, down from 30.0% in Q1 2020.

Total bonds sales in Hong Kong, China hit USD137.5 billion in Q2 2020, with overall growth easing to 1.4% q-o-q from 5.0% q-o-q in the prior quarter. Government bond issuance dragged down overall growth as it fell 0.8% in Q2 2020. Central bank issuance declined 1.5% q-o-q as the drop in the issuance of Exchange Fund Bills exceeded the marginal increase in the issuance of Exchange Fund Notes during the quarter. Meanwhile, issuance of Hong Kong Special Administrative Region bonds more than tripled on a q-o-q basis during the quarter. Corporate bond issuance grew a modest 9.8% q-o-q in Q2 2020. On an annual basis, LCY bond sales climbed 2.2% y-o-y in Q2 2020 following a 1.4% y-o-y contraction in the previous quarter.

LCY bond issuance among ASEAN members summed to USD284.9 billion in Q2 2020, accounting for a 13.9% share of emerging East Asia's aggregate bond issuance for the quarter. This was lower compared with its issuance share in Q1 2020, which accounted for 16.2% of the regional total. Issuance growth among ASEAN members rose to 4.5% q-o-q and 1.6% y-o-y in Q2 2020 from modest expansions of 0.5% q-o-q and 2.3% y-o-y, respectively, in Q1 2020. A q-o-q increase in bond issuance was observed in the markets of Indonesia, Malaysia, Singapore, and Thailand in Q2 2020, while declines were recorded in the Philippines and Viet Nam. The most active issuers of LCY bonds in ASEAN in Q2 2020 were Singapore, Thailand, and Indonesia.

Singapore's LCY bond issuance totaled USD132.8 billion in Q2 2020, gaining 4.1% q-o-q after a rise of 1.3% q-o-q in the previous quarter. The rise was due to an increase in issuance of both government and corporate bonds. Government bond issuance was boosted by a 17.3% q-o-q rise in the issuance of Singapore Government Securities bonds in Q2 2020, while the issuance of Monetary Authority of Singapore bills was unchanged from the previous quarter. In Q2 2020, corporate bond issuance significantly increased by 50.8% q-o-q. On a y-o-y basis, Singapore's bond issuance grew 17.5% y-o-y, the same pace as in the prior quarter.

In Thailand, bond issuance summed to USD78.9 billion, with growth accelerating 3.1% q-o-q in Q2 2020 from 1.1% q-o-q in Q1 2020. The uptick was due to an increase in government bond issuance, which grew 7.5% q-o-q. While central bank bond issuance declined 0.4% q-o-q in Q2 2020, Treasury bond issuance was up 83.8% q-o-q as the government sought to fund fiscal stimulus measures. Corporate bond issuance remained weak, falling 23.7% q-o-q in Q2 2020 after declining 12.4% q-o-q in the previous quarter. On a y-o-y basis, bond issuance in Thailand contracted 14.1%, following a decline of 12.2% in Q1 2020.

Aggregate LCY bond sales in Indonesia soared to USD31.4 billion in Q2 2020, with growth accelerating to 44.1% q-o-q from 6.1% q-o-q in Q1 2020. Government bond issuance drove much of the growth, particularly Treasury instruments, as the government raised its issuance target to fund a wider budget deficit to finance stimulus and recovery measures to mitigate the economic fallout from the COVID-19 outbreak. The 2020 budget deficit ceiling was raised to 6.34% of GDP. In contrast, new issuance of central bank bills dipped 1.8% q-o-q in Q2 2020. Corporate bond issuance during the quarter fell 54.6% q-o-q as companies reconsidered their issuance plan due to the economic slowdown. On an annual basis, bond issuance rebounded to growth of 88.0% y-o-y in Q2 2020 from a 17.5% contraction in the prior quarter.

In Malaysia, bond issuance of USD22.0 billion in Q2 2020 reflected growth slowing to 1.7% q-o-q from 10.7% q-o-q in Q1 2020. The slower growth rate stemmed largely from declining issuance of both central banks bonds and corporate bonds. Government bond issuance grew 15.4% q-o-q, driven by a 41.1% q-o-q surge in the issuance of Treasury bonds during the quarter. The overall growth in government bond issuance was pulled down by a 90.2% q-o-q decline in central bank bond issuance as Bank Negara Malaysia reduced issuance to help boost liquidity. Corporate bond issuance continued its decline, falling 15.7% q-o-q in Q2 2020 after a 14.1% q-o-q drop in Q1 2020. On an annual basis, Malaysia's bond issuance fell 16.7% y-o-y in Q2 2020 after dipping 10.1% y-o-y in Q1 2020.

LCY bond issuance in the Philippines fell 19.6% q-o-q to USD14.0 billion in Q2 2020, as both government and corporate bond issuance declined during the quarter. Government bond issuance fell 6.9% q-o-q after a huge volume of retail Treasury bonds was issued in Q1 2020. Corporate bond issuance dramatically fell 81.3% q-o-q in Q2 2020, as slowing economic growth and quarantine restrictions made corporates reluctant to issue more debt. On a y-o-y basis, bond issuance grew 58.6% in Q2 2020, driven solely by a 114.0% increase in government bonds. In contrast, corporate bonds fell 78.2% y-o-y.

In Viet Nam, LCY bond issuance fell 25.2% q-o-q to USD5.9 billion in Q2 2020. The decline was driven solely by a fall in government bond issuance, which dropped 68.3% q-o-q. The State Bank of Vietnam did not issue any central bank bills during the quarter. Treasury bonds, on the other hand, grew 61.5% q-o-q. Issuance of corporate bonds grew 578.2% q-o-q in Q2 2020 due to increased private placement issues by corporates taking advantage of lower rates. On a y-o-y basis, LCY bond issuance in Viet Nam contracted 75.0% after rising 36.8% in Q1 2020.

Cross-Border Bond Issuance

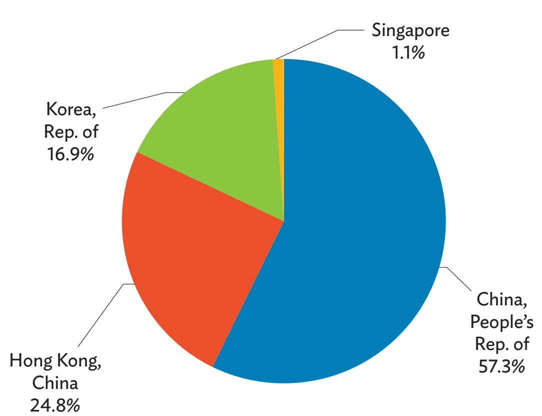
Emerging East Asia's cross-border bond issuance reached USD3 billion in Q2 2020.

Emerging East Asia's total intra-regional bond issuance amounted to USD3.0 billion in Q2 2020, a 20.9% q-o-q increase from USD2.5 billion in the previous quarter. However, this was down 19.4% from the USD3.7 billion raised in the same period in 2019. Institutions from only four economies raised funds via cross-border bond issuance in Q2 2020 compared to six economies in Q1 2020. The start of the quarter saw tepid issuance in the region, with a total of only USD0.5 billion issued in April as economic activity slowed due to the COVID-19 pandemic. However, a surge in issuance to USD1.8 billion was recorded in May, mostly by firms from the PRC. The region's cross-border bond issuance then tapered again to USD0.6 billion in June.

The PRC continued to dominate in terms of intra-regional bond issuance, with an aggregate USD1.7 billion issued in Q2 2020, which comprised over half of the region's quarterly total (**Figure 4**). This was up 15.1% q-o-q from the USD1.5 billion raised in the previous quarter, but down 11.5% y-o-y from Q2 2019. Five out of the seventeen firms in emerging East Asia that issued intra-regional bonds in Q2 2020 were from the PRC; all of their bonds were all denominated in Hong Kong dollars. Zhongsheng Group Holdings, an automobile retail and services company, was the largest issuer overall and had the largest single issuance for the quarter in May with a zero-coupon, convertible 5-year bond worth USD588.3 million. Best Path Global raised USD500 million with a 1-year bond. Kingsoft Corporation, a software and internet services company, issued a 5-year bond worth USD400 million. Other PRC-based companies that issued HKD-denominated bonds were CBDL Funding 2 (USD210.3 million) and Petro-king Oilfield Services (USD3.4 million).

Almost half of the institutions that issued cross-border bonds in Q2 2020 were from Hong Kong, China. Their aggregate issuance volume reached the equivalent of USD735.9 million, accounting for about a quarter of the regional total, which was 59.2% q-o-q higher than the USD462.2 million raised in the previous quarter. The bulk of the issuances were denominated in Chinese renminbi, led by a 3-year bond worth USD212.3 million issued by the Bank of China Group. The second-largest issuance was a short-term bond worth USD141.5 million issued by China Travel Services Group. State-owned railway company, MTR Corporation, raised the equivalent of USD101.9 million with two issuances of 1-year bonds in June. AMTD International was the only firm from Hong Kong, China that issued in Singapore dollars, raising USD35.9 million worth of perpetual bonds.

Figure 4: Origin Economies of Intra-Emerging East Asian Bond Issuance in the Second Quarter of 2020



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

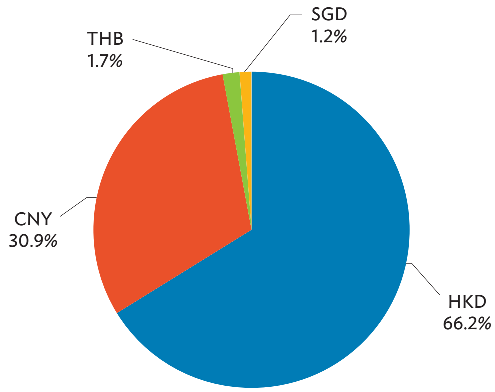
In Q2 2020, only three institutions from the Republic of Korea issued intra-regional bonds worth a total of USD501.9 million, which comprised 16.8% of the regional total. Cross-border bonds issued in the Republic of Korea were denominated in Chinese renminbi, Hong Kong dollars, and Thai baht. State-owned Korea Development Bank issued USD257 million worth of HKD-denominated bonds and CNY-denominated bonds. The other banks that issued intra-regional bonds in Q2 2020 were the Export–Import Bank of Korea (USD195 million) and Woori Bank (USD50 million).

In Singapore, only two institutions issued cross-border bonds in Q2 2020, both of which were denominated in Hong Kong dollars. These were Korea Development Bank Singapore (USD32.3 million) and DBS Bank (USD0.3 million).

The top 10 issuers of cross-border bonds in Q2 2020 had an aggregate issuance volume of USD2.7 billion and accounted for 90.7% of the regional total. The list mostly comprised firms from the PRC and Hong Kong, China. Two banks from the Republic of Korea made up the remainder of the list. The top three issuers were from the PRC, and they each issued HKD-denominated bonds.

The Hong Kong dollar continued to be the predominant currency of intra-regional bonds issued in Q2 2020 with a total volume equivalent to USD2.0 billion and accounting for 66.2% of the regional total (**Figure 5**). Institutions from the three economies issued bonds in this currency. The second most widely used currency was the Chinese renminbi with a share of 30.9% and total issuance equivalent to USD918.3 million from firms in Hong Kong, China and the Republic of Korea. Other currencies used in cross-border issuances included the Thai baht (1.7%, USD51.1 million) and the Singapore dollar (1.2%, USD35.9 million).

Figure 5: Currency Shares of Intra-Emerging East Asian Bond Issuance in the Second Quarter of 2020



CNY = Chinese renminbi, HKD = Hong Kong dollar, SGD = Singapore dollar, THB = Thai baht.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

G3 Currency Issuance

Total G3 currency bond issuance in emerging East Asia amounted to USD217 billion in January–July.

The value of G3 currency bonds issued in emerging East Asia from January to July totaled USD217.0 billion, an increase of 3.0% y-o-y from USD210.7 billion in the same period in 2019 (**Table 4**).[5] The expansion was driven by higher G3 issuance volume in most of the region's economies with similar issuances in 2019.

Of all G3 currency bonds issued during the review period, 93.5% was denominated in US dollars, 5.6% was in euros, and 0.9% was in Japanese yen. In January–July, a total of USD202.9 billion worth of bonds denominated in US dollars was issued in emerging East Asia, representing a jump of 4.3% y-o-y. The equivalent of USD12.2 billion of EUR-denominated bonds was issued during the review period, an increase of 22.3% y-o-y, as more economies issued such bonds. Bonds issued in Japanese yen totaled USD2.0 billion, a decline of 68.2% y-o-y from a high base that was largely driven by Malaysia's samurai bond issuance in March 2019.

The PRC continued to dominate the issuance of G3 currency bonds, totaling USD122.9 billion during the January–July period, mainly supported by issuances in US dollars. This was followed by Indonesia with USD23.7 billion and the Republic of Korea with USD18.5 billion, both issuing mainly in US dollars as well.

In the first 7 months of 2020, G3 currency bond issuance increased on a y-o-y basis in the Philippines (180.4%), Thailand (173.7%), Indonesia (57.7%), Malaysia (43.3%), and Singapore (34.0%). Issuance of G3 currency bonds from January to July declined on a y-o-y basis in Hong Kong, China (–13.0%); the PRC (–10.2%); and the Republic of Korea (–2.5%). Cambodia issued G3 currency bonds during the January–July period after not issuing any during the same period in 2019. On the other hand, Viet Nam chose not to issue any G3 currency bonds in January–July 2020 after issuing in January–July 2019.

The PRC accounted for 56.6% of all G3 currency issuance in emerging East Asia in January–July, issuing USD118.8 billion in US dollars and the equivalent of USD4.2 billion in euros. In May, state-owned oil and gas enterprise Sinopec Group issued a total of USD3.0 billion of USD-denominated callable bonds in three tranches with tenors of 5 years, 10 years, and 30 years. The bond offering benefited from an optimistic outlook that oil prices would rebound as global economies exited from lockdowns caused by the COVID-19 pandemic. Multinational conglomerate Tencent Holdings extended its yield curve with the issuance of a 40-year callable bond denominated in US dollars. The bond was part of a four-tranche issuance totaling USD6.0 billion, with the three other tranches having tenors of 6 years, 10 years, and 30 years. The issuance was the largest from an issuer in the PRC in 2020. Proceeds from the issuance of Sinopec Group and Tencent Holdings will be used to refinance existing obligations and for general corporate purposes.

The Republic of Korea accounted for an 8.5% share of all G3 currency bonds issued during the review period: USD14.6 billion in US dollars and the equivalent of USD3.9 billion in euros. From May to July, Korea Development Bank issued 11 USD-denominated bonds totaling USD1.6 billion with tenors ranging from 1 year to 5 years and carrying various coupon rates. The Export–Import Bank of Korea issued five USD-denominated bonds totaling USD0.4 billion with tenors of 2–5 years and carrying varying coupon rates ranging from 0.645% to 1.3265%.

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

Table 4: G3 Currency Bond Issuance

2019			January–July 2020		
Issuer	Amount (USD billion)	Issue Date	Issuer	Amount (USD billion)	Issue Date
Cambodia	**0.0**		**Cambodia**	**0.4**	
China, People's Rep. of	**225.2**		**China, People's Rep. of**	**122.9**	
Tencent Holdings 3.975% 2029	3.0	11-Apr-19	Bank of China 3.60% Perpetual	2.8	4-Mar-20
People's Republic of China (Sovereign) 0.125% 2026	2.2	12-Nov-19	Tencent Holdings 2.39% 2030	2.3	3-Jun-20
People's Republic of China (Sovereign) 1.950% 2024	2.0	3-Dec-19	Scenery Journey 11.50% 2022	2.0	24-Jan-20
Others	218.0		Others	115.9	
Hong Kong, China	**31.9**		**Hong Kong, China**	**18.0**	
Celestial Miles 5.75% Perpetual	1.0	31-Jan-19	AIA Group 3.375% 2030	1.0	7-Apr-20
Hong Kong, China (Sovereign) 2.50% 2024	1.0	28-May-19	Sino Biopharmaceutical 0.000% 2025	0.9	17-Feb-20
AIA Group 3.60% 2029	1.0	9-Apr-19	NWD Finance BVI 5.250% Perpetual	0.9	22-Jun-20
Others	28.9		Others	15.3	
Indonesia	**22.4**		**Indonesia**	**23.7**	
Perusahaan Penerbit SBSN *Sukuk* 4.45% 2029	1.3	20-Feb-19	Indonesia (Sovereign) 3.85% 2030	1.7	15-Apr-20
Indonesia (Sovereign) 1.40% 2031	1.1	30-Oct-19	Indonesia (Sovereign) 4.20% 2050	1.7	15-Apr-20
Indonesia (Sovereign) 3.70% 2049	1.0	30-Oct-19	Indonesia (Sovereign) 2.85% 2030	1.2	14-Jan-20
Others	19.0		Others	19.2	
Korea, Rep. of	**29.4**		**Korea, Rep. of**	**18.5**	
Republic of Korea (Sovereign) 2.500% 2029	1.0	19-Jun-19	Korea Housing Finance Corporation 0.010% 2025	1.2	5-Feb-20
Export–Import Bank of Korea 0.375% 2024	0.8	26-Mar-19	Korea Development Bank 1.250% 2025	1.0	3-Jun-20
LG Display 1.500% 2024	0.7	22-Aug-19	Export–Import Bank of Korea 0.829% 2025	0.8	27-Apr-20
Others	26.8		Others	15.5	
Lao People's Democratic Republic	**0.2**		**Lao People's Democratic Republic**	**0.0**	
Malaysia	**13.7**		**Malaysia**	**11.7**	
Malaysia (Sovereign) 0.530% 2029	1.8	15-Mar-19	Petronas Capital 4.55% 2050	2.8	21-Apr-20
Resorts World Las Vegas 4.625% 2029	1.0	16-Apr-19	Petronas Capital 3.50% 2030	2.3	21-Apr-20
Others	10.9		Others	6.7	
Philippines	**6.7**		**Philippines**	**11.2**	
Philippines (Sovereign) 3.750% 2029	1.5	14-Jan-19	Philippines (Sovereign) 2.950% 2045	1.4	5-May-20
Philippines (Sovereign) 0.875% 2027	0.8	17-May-19	Philippines (Sovereign) 2.457% 2030	1.0	5-May-20
Others	4.4		Others	8.8	
Singapore	**9.7**		**Singapore**	**7.0**	
DBS Group 2.85% 2022	0.8	16-Apr-19	BOC Aviation 3.25% 2025	1.0	29-Apr-20
BOC Aviation 3.50% 2024	0.8	10-Apr-19	DBS Group Holdings 3.30% Perpetual	1.0	27-Feb-20
Others	8.2		Others	5.0	
Thailand	**6.4**		**Thailand**	**3.6**	
Bangkok Bank/Hong Kong 3.733% 2034	1.2	25-Sep-19	PTT Treasury 3.70% 2070	0.7	16-Jul-20
Kasikornbank 3.343% 2031	0.8	2-Oct-19	Thaioil Treasury 3.75% 2050	0.6	18-Jun-20
Others	4.4		Others	2.3	
Viet Nam	**1.0**		**Viet Nam**	**0.0**	
Emerging East Asia Total	**346.6**		**Emerging East Asia Total**	**217.0**	
Memo Items:			**Memo Items:**		
India	**21.9**		**India**	**9.4**	
Indian Oil Corporation 4.75% 2024	0.9	16-Jan-19	Bharti Airtel 1.5% 2025	**1.0**	17-Jan-20
Others	21.0		Others	8.4	
Sri Lanka	**4.9**		**Sri Lanka**	**0.4**	
Sri Lanka (Sovereign) 7.55% 2030	1.5	28-Jun-19	Sri Lanka (Sovereign) 6.57% 2021	0.1	30-Jul-20
Others	3.4		Others	**0.3**	

USD = United States dollar.
Notes:
1. Data exclude certificates of deposits.
2. G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.
3. Bloomberg LP end-of-period rates are used.
4. Emerging East Asia comprises Cambodia; the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; the Lao People's Democratic Republic; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
5. Figures after the issuer name reflect the coupon rate and year of maturity of the bond.

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

Hong Kong, China accounted for an 8.3% share of G3 currency bond issuance in January–July. By currency, USD16.6 billion was issued in US dollars, while EUR-denominated and JPY-denominated bonds amounted to USD0.9 billion and USD0.5 billion, respectively. Property developer Sun Hung Kai Properties issued USD0.5 billion of 10-year callable, USD-denominated bonds with a coupon rate of 2.75%. The issuance came as other real estate companies offered US dollar bonds in expectation of an economic rebound following the COVID-19 pandemic. CLP Power sold a USD1.0 billion dual-tranche bond in US dollars with tenors of 10 years and 15 years. The issuance was a defensive move by the utilities company amid political risks brought by the new national security law in Hong Kong, China.

G3 currency bond issuance among ASEAN member economies increased 68.1% y-o-y to USD57.2 billion in January–July from USD34.0 billion in the same period in 2019 as all ASEAN economies, except Viet Nam, ramped up issuance during the period. As a share of emerging East Asia's total during the review period, ASEAN's G3 currency bond issuance accounted for 26.4%, up from 16.2% during the same period in 2019. Indonesia and Malaysia led all ASEAN members in terms of G3 currency bond issuance, followed by the Philippines, Singapore, and Thailand, with issuances amounting to USD11.2 billion, USD7.0 billion, and USD3.6 billion, respectively.

Indonesia's G3 currency bond issuance in January–July accounted for 10.9% of the total in emerging East Asia, comprising USD21.6 billion in US dollars, the equivalent of USD1.2 billion in euros, and the equivalent of USD0.9 billion in Japanese yen. In June, Perusahaan Penerbit SBSN Indonesia III, a special purpose vehicle of the Government of Indonesia that issues Shariah-compliant securities in foreign currencies, issued a three-tranche bond denominated in US dollars totaling USD2.5 billion and with tenors of 5 years, 10 years, and 30 years. The bonds was structured following the *wakalah* principle wherein the Islamic bonds are backed by an agreement between an investor and an agent, and the bondholders are entitled to profits as agreed upon by the two parties. Guided by the government's green *sukuk* framework, proceeds from the 5-year tenor will be used in financing eligible green projects. In July, the Government of Indonesia issued USD0.9 billion worth of samurai bonds in five tranches with tenors ranging from 3 years to 20 years. Proceeds from the issuance will be used to cover the government's budget deficit and fund efforts to battle the COVID-19 pandemic.

G3 currency bonds issued in Malaysia accounted for 5.4% of emerging East Asia's total, including USD-denominated bonds worth USD11.1 billion and JPY-denominated bonds worth USD0.6 billion. In June, Malayan Banking (Maybank) raised USD0.2 billion via a 40-year zero-coupon, callable bond denominated in US dollars. The issuance was made under the bank's USD15.0 billion multicurrency medium-term note program, the proceeds from which will be used for Maybank's working capital and other general business purposes. In July, Maybank issued another USD-denominated bond worth USD0.02 billion with a tenor of 3 years and a coupon rate 1.08675%.

The Philippines accounted for 5.2% of total G3 currency bond issuance in emerging East Asia during the January–July period, comprising bonds denominated in US dollars and euros amounting to USD9.8 billion and USD1.4 billion, respectively. In May, the Government of the Philippines issued two tranches of USD-denominated bonds worth USD2.4 billion and with tenors of 10 years and 25 years. Proceeds from the issuance will be used for general purposes including budgetary support. Jollibee Worldwide issued a dual-tranche, USD-denominated callable bond worth USD0.6 billion. Proceeds from the issuance will be used to support activities that may be affected by the COVID-19 pandemic.

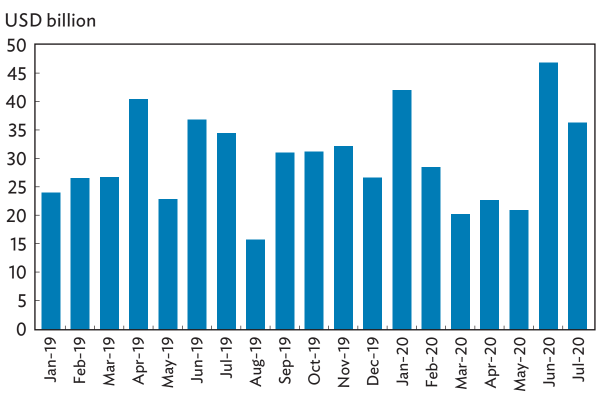
Singapore's share of G3 currency bond issuance in emerging East Asia was 3.2% in January–July, comprising USD7.0 billion in US dollars and the equivalent of USD0.1 billion in euros. Global aircraft operating company BOC Aviation expanded its USD-denominated bonds with a 3.5-year bond worth USD0.8 billion and with a coupon rate of 2.75%. Proceeds from the issuance will be used for new capital expenditure, general corporate purposes, and debt financing. Telecommunications conglomerate Singtel Group raised USD0.8 billion through the issuance of a 10-year callable bond with a coupon rate of 1.875%. Proceeds from the issuance will be used to fund regular business activities.

During the January–July period, 1.7% of all G3 currency bonds issued in the region were from Thailand, comprising USD3.1 billion worth of bonds denominated in US dollars and USD0.5 billion in euros. Thaioil Treasury issued a dual-tranche, USD-denominated bond worth USD1.0 billion with tenors of 10 years and 30 years, and coupon rates of 2.50% and 3.75%, respectively. In July, state-owned oil and gas company PTT raised USD0.7 billion with a 50-year callable bond denominated in US dollars. The issuance, with a coupon rate of 3.7%, took advantage of global demand for long-dated debt securities. Proceeds from the issuance will be used for general corporate purposes.

Cambodia issued USD0.4 billion worth of G3 currency bonds in July, contributing a 0.2% share of such bonds issued in the region during the review period. The USD-denominated bond issuance from casino and resort operator Nagacorp has a tenor of 4 years and a coupon rate of 7.95%. Proceeds from the issuance will be used to redeem part of the company's outstanding bonds.

Monthly G3 currency issuance trends from May through July were the same as those observed from the same period in 2019 wherein issuances slowed in July after spiking in June (**Figure 6**). The relatively high level of issuance in June–July 2020 was mainly due to the PRC's increased pace after its limited G3 currency bond issuance activities in April and May. Also contributing to the jump in issuances during the months of June and July were Indonesia, the Philippines, and Thailand. The rebound in issuances may be attributed to companies taking advantage of low interest rates as advanced economy central banks implemented monetary policy easing to cope with the deleterious effects of the COVID-19 pandemic.

Figure 6: G3 Currency Bond Issuance in Emerging East Asia



USD = United States dollar.
Notes:
1. Emerging East Asia comprises Cambodia; the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; the Lao People's Democratic Republic; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
2. G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.
3. Figures were computed based on 31 July 2020 currency exchange rates and do not include currency effects.

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

Government Bond Yield Curves

Government bond yields in emerging East Asia fell for most markets as the COVID-19 outbreak continued to dampen economic activities and governments sought to buttress their economies.

Between 15 June and 15 August, economic weakness in nearly all markets in emerging East Asia led to a continued decline in yields in most markets.

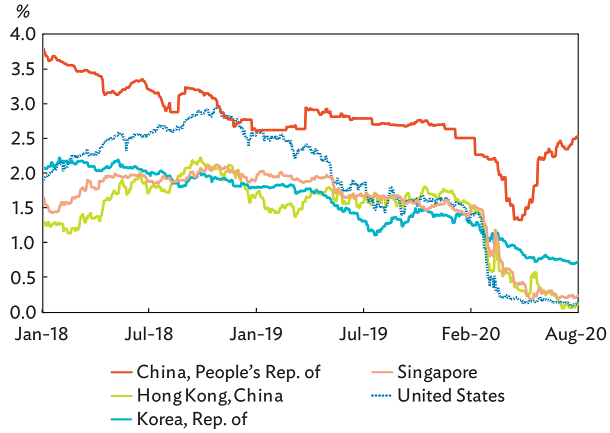
In the US, the Federal Reserve held monetary policy steady during its meetings on 9–10 June and 28–29 July. Forecasts from members of the Federal Open Market Operations showed that the current level of policy rates was expected to remain until 2022. Likewise, the European Central Bank and the Bank of Japan also left its existing monetary policy unchanged.

All three central banks indicated that they stood ready to act further as the economic situation warrants. However, monetary policy was largely left unchanged in advanced economies as past monetary easing was judged to be sufficient while financial volatility abated. Also, as quarantine measures are eased, some economic recovery is expected but is likely to be limited given the ongoing effects of the pandemic.

In emerging East Asia, economic weakness continued to drive yields downward, with some central banks implementing additional easing measures. This was most visible in 2-year yield movements, which trended downward across the region, with the sole exception being the PRC (**Figure 7a**). The rise in yields in the PRC was driven by its economic recovery that resulted from being one of the first economies to remove quarantine measures. While Thailand's 2-year yield trended downward (**Figure 7b**), concerns regarding an increased debt supply dampened the trend.

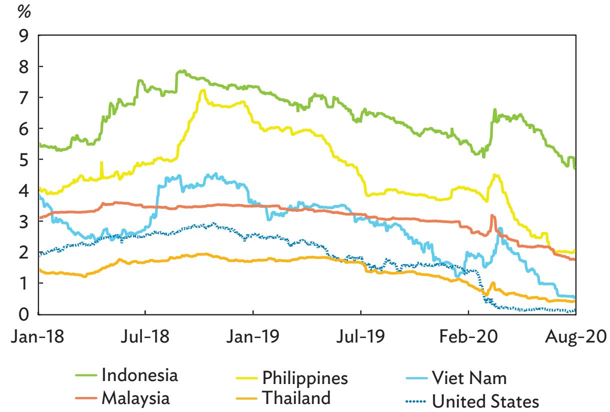
Across most of the region, 10-year yields followed a similar downward trend (**Figure 8a**). The PRC was once again an exception as domestic economic growth bolstered yield gains. While there was a downward trend in the 10-year yield in Hong Kong, China; the Republic of Korea;

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



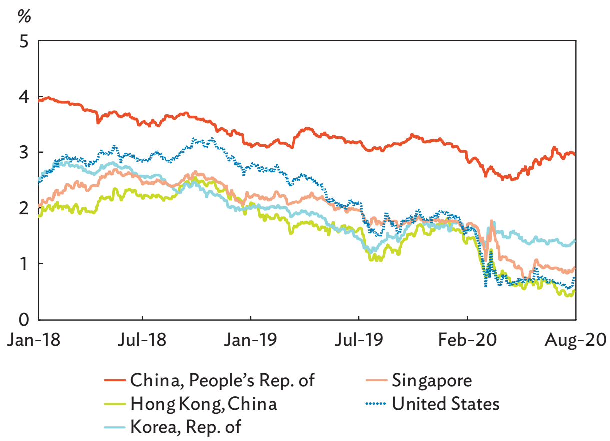
Note: Data as of 15 August 2020.
Source: Based on data from Bloomberg LP.

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



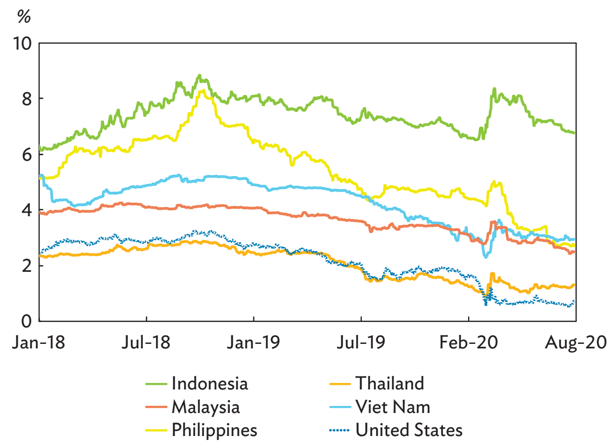
Note: Data as of 15 August 2020.
Source: Based on data from Bloomberg LP.

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



Note: Data as of 15 August 2020.
Source: Based on data from Bloomberg LP.

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

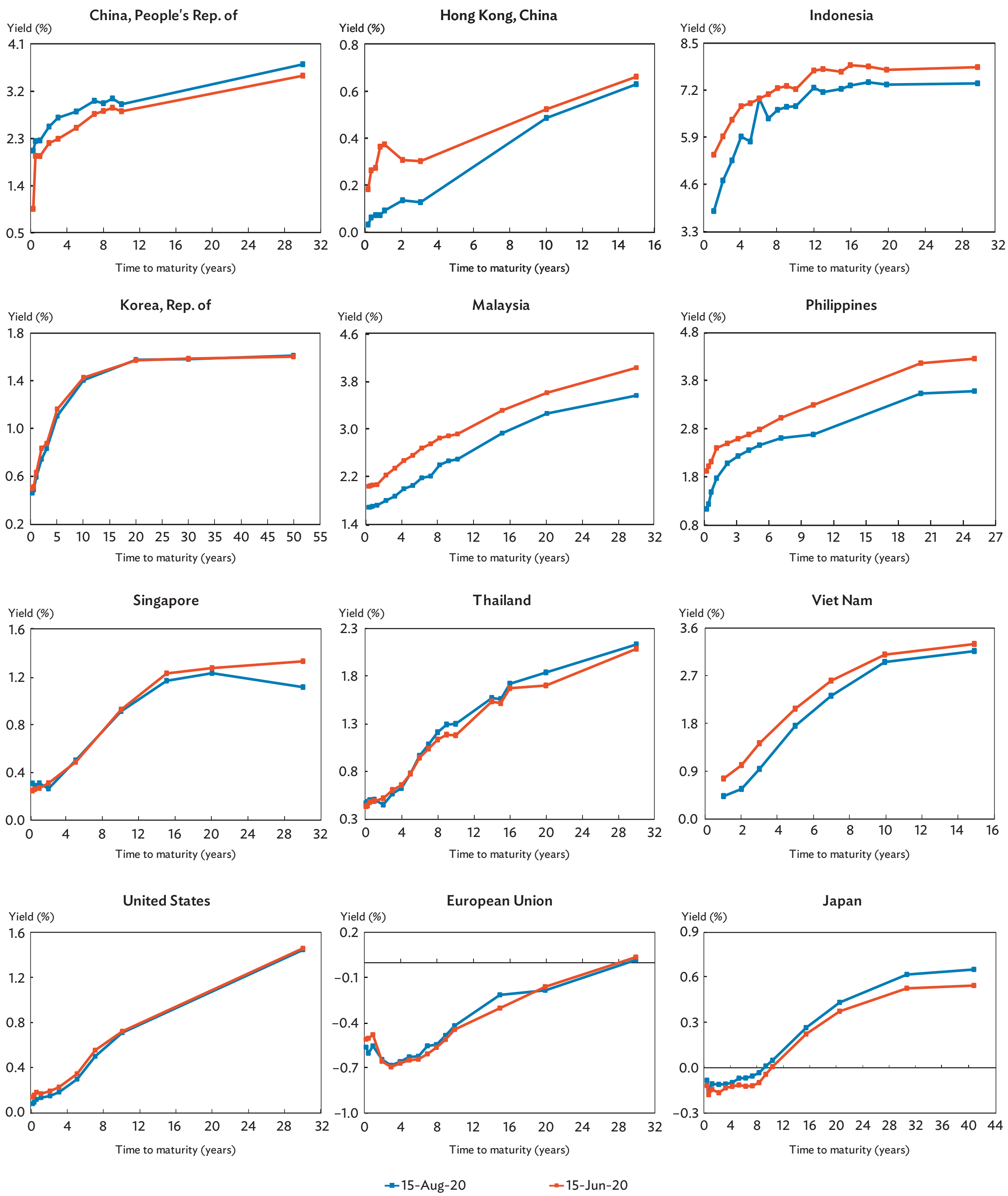


Note: Data as of 15 August 2020.
Source: Based on data from Bloomberg LP.

and Singapore, there was a small spike in these markets in August, which tracked closely with the movement of US Treasuries on expectations of improved economic growth following the release of favorable US payroll data in August. The 10-year yield rose in Thailand by 12 bps from 15 June to 15 August over concerns of rising debt supply as well as a lack of policy rate activity (**Figure 8b**).

Similar to movements in the 2-year and 10-year yields, the entire yield curve of the PRC shifted upward between 15 June and 15 August on the recovery of the domestic economy (**Figure 9**). The yield curve shifted downward for all tenors in Hong Kong China; Malaysia; the Philippines; and Viet Nam, and for all tenors except for the 6-year tenor in Indonesia. Excluding Viet Nam, these markets were also the ones whose central banks eased during the review period. The yield curve fell for most tenors in all other markets except in Singapore, where yield curve movements were mixed, and in Thailand, where the yield curve mostly shifted upward. In the case

Figure 9: Benchmark Yield Curves—Local Currency Government Bonds



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

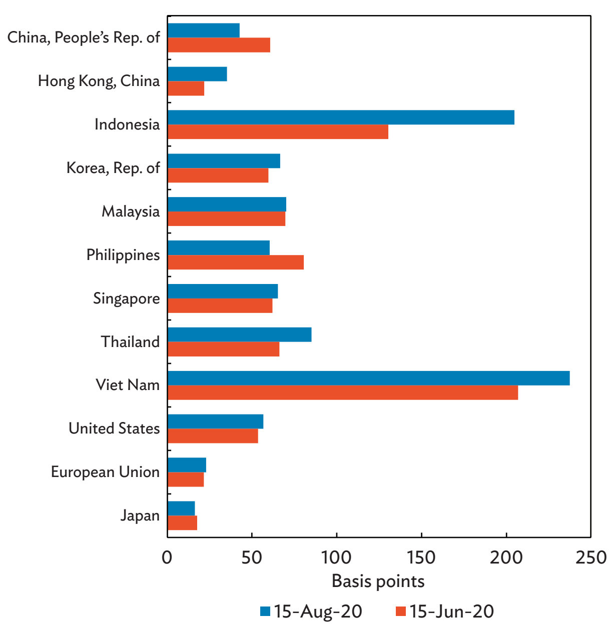
of Thailand, the rise in yields was driven by investor concerns over rising debt levels as the government sought to fund its stimulus program. A lack of easing from the central bank also contributed. The 2-year versus 10-year yield spread fell in the PRC and the Philippines between 15 June and 15 August, but rose in the region's remaining markets (**Figure 10**).

The COVID-19 outbreak led to reduced economic output due to quarantine measures imposed by governments as well as reduced demand from consumers. This resulted in GDP declines in most emerging East Asian economies in Q2 2020.

The PRC is one notable exception as it contained the outbreak earlier in the year and subsequently was able to ease restrictions ahead of most other economies. As a result, the PRC's GDP grew 3.2% y-o-y in Q2 2020 after declining 6.8% y-o-y in Q1 2020. Viet Nam was the only other market to post positive GDP growth in Q2 2020, albeit the expansion of 0.4% y-o-y was lower than the previous quarter's 3.8% y-o-y.

The region's largest decline in output was in Malaysia, where GDP fell 17.1% y-o-y in Q2 2020 after a small gain of 0.7% y-o-y in Q1 2020. The next largest decline was in the Philippines, where GDP fell 16.5% y-o-y in Q2 2020 after falling 0.7% y-o-y in the previous quarter. Singapore and Thailand posted contractions of 13.2% y-o-y and 12.2% y-o-y, respectively, in Q2 2020 after declines of 0.3% y-o-y and 2.0% y-o-y in Q1 2020.

Figure 10: Yield Spreads between 2-Year and 10-Year Government Bonds



Source: Based on data from Bloomberg LP.

Hong Kong, China, which had already been affected by political unrest prior to the COVID-19 outbreak, posted GDP declines of 9.0% y-o-y and 9.1% y-o-y, respectively, in Q2 2020 and Q1 2020. Indonesia's GDP contracted 5.3% y-o-y in Q2 2020 after rising 3.0% y-o-y in Q1 2020. In the Republic of Korea, GDP fell 2.7% y-o-y in Q2 2020 after increasing 1.4% y-o-y in the previous quarter.

While most markets experienced deeper contractions or reversals of GDP growth in Q2 2020, there was some bottoming out of inflation, with most markets showing rising inflation in June after a downward trend previously. However, expectations are that inflation will remain soft through the remainder of the year given the impact of the COVID-19 pandemic.

The two exceptions to the trend of slightly rising inflation were Hong Kong, China, which posted a decline in inflation to −2.3% y-o-y in July from 0.7% y-o-y in June, and Indonesia, where the inflation rate fell to 1.5% y-o-y in July from 2.0% y-o-y in June (**Figure 11a**). The region's remaining markets showed a rise in inflation during the review period, including in the Republic of Korea where inflation of 0.3% y-o-y in July was recorded, up from 0.0% in the previous month (**Figure 11b**).

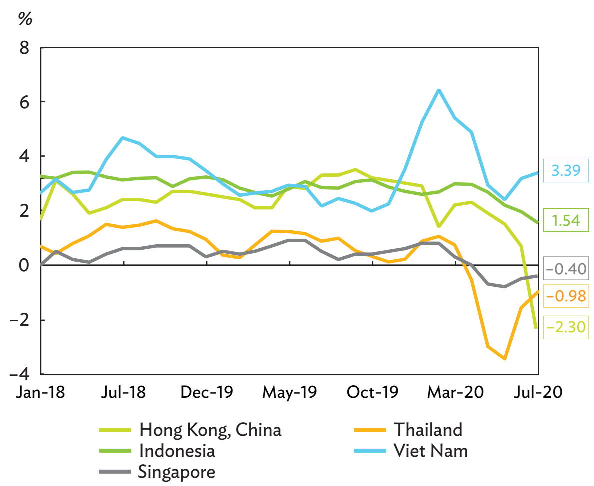
After previous rounds of monetary easing, a number of central banks opted to maintain existing monetary policy to allow the effects of previous easing to make their way through their respective economies. Bucking this trend, Malaysia reduced policy rates by 25 bps to 1.75% during its central bank meeting on 7 July (**Figure 12a**). While Bank Negara Malaysia expects business conditions to improve in the second half of the year, ongoing weaknesses make recovery uncertain. The Philippines likewise reduced by 50 bps its key policy rate to 2.25% on 25 June. The Bangko Sentral ng Pilipinas noted that even if the government eases quarantine policies, considerable uncertainty remains and recovery is likely to be slow. Bank Indonesia was the only central bank in the region that reduced policy rates twice during the period, each time by 25 bps on 18 June and 16 July (**Figure 12b**).

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

The AAA-rated corporate versus government bond yield spread fell in the PRC, the Republic of Korea, and Thailand (**Figure 13a**). In the PRC, the spread declined as the economy showed signs of recovery, while the spread rose in Malaysia over falling oil prices.

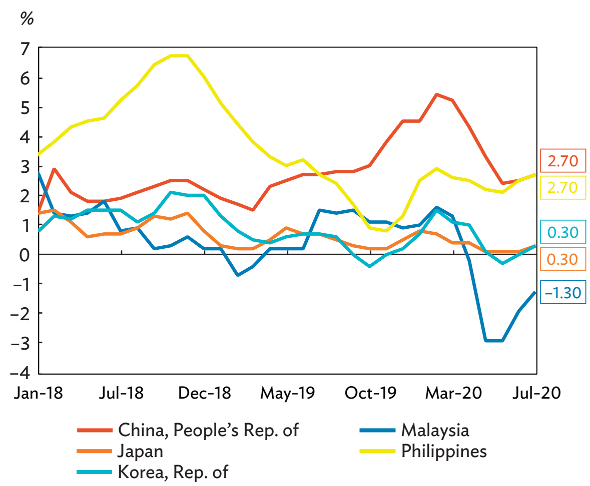
For lower-rated corporate bond yields, spreads rose in the Republic of Korea, Malaysia, and Thailand, but fell in the PRC (**Figure 13b**).

Figure 11a: Headline Inflation Rates



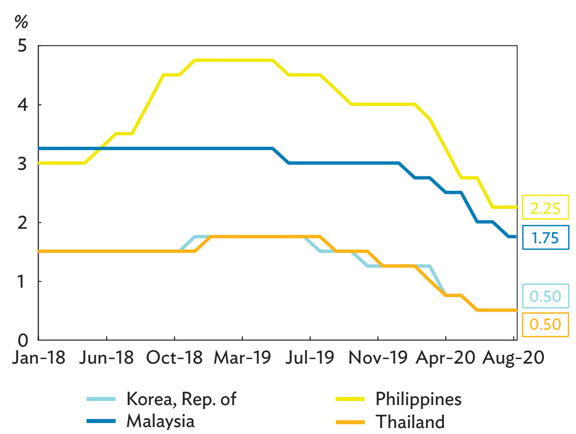
Note: Data as of July 2020.
Source: Based on data from Bloomberg LP.

Figure 11b: Headline Inflation Rates



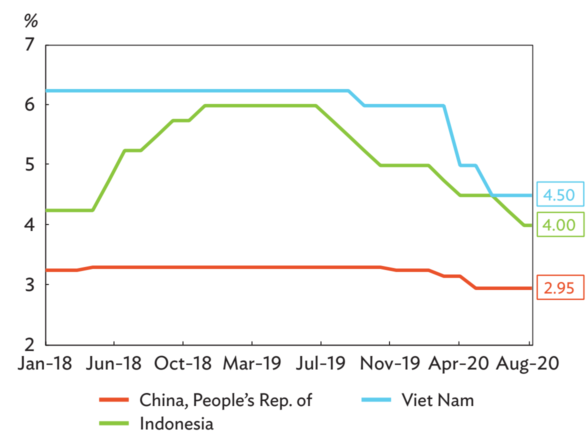
Note: Data as of July 2020.
Source: Based on data from Bloomberg LP.

Figure 12a: Policy Rates



Note: Data as of 15 August 2020.
Source: Based on data from Bloomberg LP.

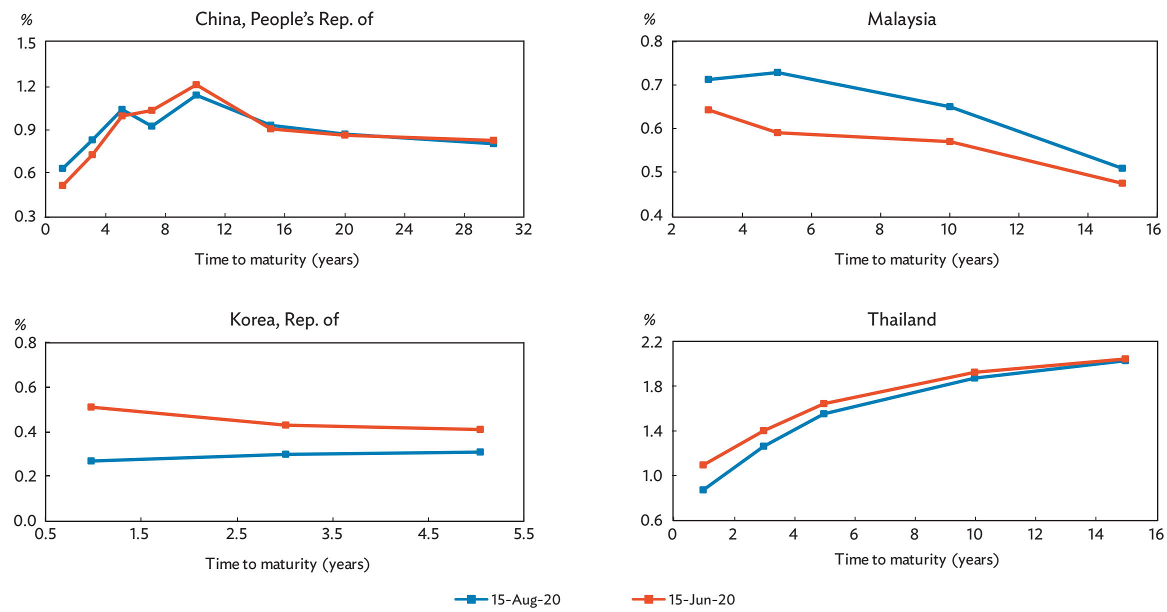
Figure 12b: Policy Rates



Notes:
1. Data as of 15 August 2020.
2. For the People's Republic of China, data used in the chart is the 1-year medium-term lending facility rate. While the 1-year benchmark lending rate is the official policy rate of the People's Bank of China, market players are using the 1-year medium-term lending facility rate as a reference guide for the monetary policy direction of the People's Bank of China.

Source: Based on data from Bloomberg LP.

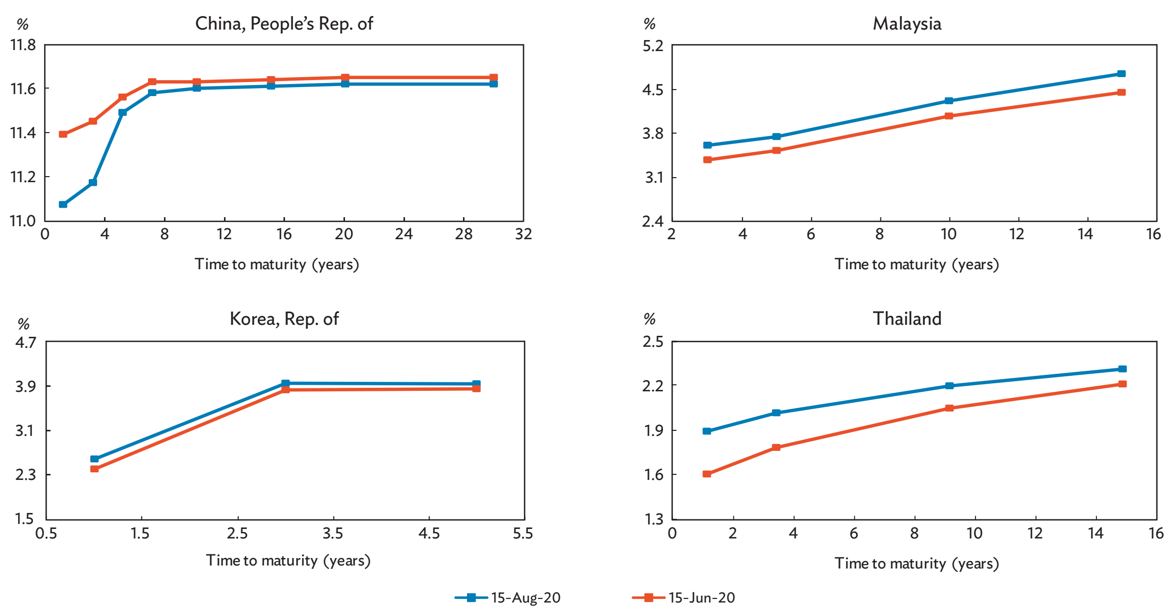
Figure 13a: Credit Spreads—Local Currency Corporates Rated AAA vs. Government Bonds



Notes:
1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
2. For Malaysia, data on corporate bonds yields are as of 12 June 2020 and 14 August 2020.

Sources: People's Republic of China (Bloomberg LP); Republic of Korea (*EDAILY BondWeb*); Malaysia (Fully Automated System for Issuing/Tendering Bank Negara Malaysia); and Thailand (Bloomberg LP).

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



Notes:
1. For the People's Republic of China and the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB+.
2. For Malaysia, data on corporate bonds yields are as of 12 June 2020 and 14 August 2020.

Sources: People's Republic of China (Bloomberg LP); Republic of Korea (*EDAILY BondWeb*); Malaysia (Fully Automated System for Issuing/Tendering Bank Negara Malaysia); and Thailand (Bloomberg LP).