# Highlights

## Key Trends

- From 15 June to 11 September, 2-year and 10-year bond yields fell in nearly all emerging East Asian markets due to monetary easing by the region's central banks and slowing economic growth.[1]
- Global investment sentiment recovered and financial conditions in emerging East Asia improved, resulting from accommodative monetary stances and relatively better coronavirus disease (COVID-19) containment efforts in the region. During the review period, most emerging East Asian equity markets rallied, most bond yield spreads and credit default swaps narrowed, and most emerging East Asian currencies strengthened against the United States dollar.
- Although the shares of foreign holdings in regional bond markets fell in the first quarter, they stabilized in some markets toward the end of the second quarter of 2020. Other markets saw continued declines in their government bond foreign holdings share.
- Emerging East Asia's local currency bond market expanded to USD17.2 trillion at the end of the second quarter of 2020, rising 5.0% quarter-on-quarter and 15.5% year-on-year, up from 4.2% quarter-on-quarter and 14.0% year-on-year in the prior quarter. The growth was largely driven by the increased financing needs of both the public and private sectors as they sought to mitigate the impact of the COVID-19 pandemic. Government bonds comprised 60.8% of the region's total local currency bonds outstanding at the end of June.

## Risks to Financial Stability

- Risks remain tilted to the downside. The overriding risk is a possible worsening of the COVID-19 pandemic and/or it lasting longer than expected.
- Other risks include ongoing trade tensions between the People's Republic of China and the United States, as well as heightened social unrest due to the economic impact of COVID-19.

[1] 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.