Market Summaries

People's Republic of China

Yield Movements

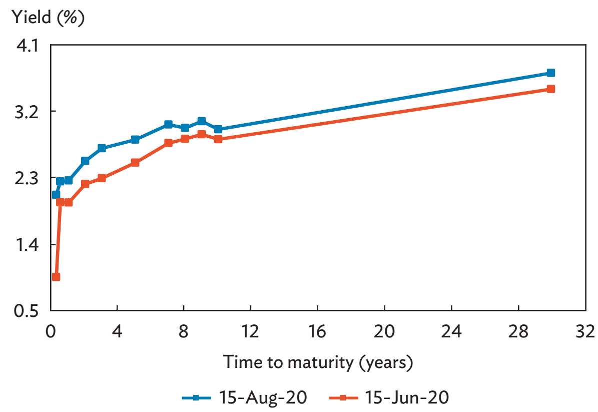
The People's Republic of China's (PRC) yield curve for local currency (LCY) bonds shifted upward between 15 June and 15 August (**Figure 1**). Yields rose more at the shorter-end of the curve, with tenors of 1 year or less rising by 56 basis points (bps). For tenors of between 2 years and 7 years, yields rose an average of 32 bps while yields rose an average of 17 bps for the remaining tenors. As a result, the spread for the 2-year versus 10-year yields fell to 42 bps from 60 bps between 15 June and 15 August.

Yields largely rose as economic data showed the PRC undergoing an economic recovery. The PRC's gross domestic product (GDP) grew 3.2% year-on-year (y-o-y) in the second quarter (Q2) of 2020 after a 6.8% y-o-y decline in the first quarter (Q1) of 2020. Among emerging East Asian economies, the PRC was only one of two markets that posted positive GDP growth in Q2 2020 and the only one that showed an improvement in GDP growth in the second quarter.

Industrial production in the PRC also showed improvement. After a 1.1% y-o-y decline in March, industrial production posted 4 months of positive growth, culminating in a 4.8% y-o-y expansion in July. Retail sales growth continued to be negative, but the declines have slowed. In March, retail sales declined 15.8% y-o-y, but in the succeeding months, the declines slowed, with a 1.8% y-o-y decline in June and a 1.1% y-o-y decline in July. Inflation also showed an uptick, with a 2.7% y-o-y inflation rate in July, up from 2.5% y-o-y in June. Producer prices also moved out of deflation, posting a 0.6% y-o-y increase in July after declining 0.1% in June.

Further contributing to the rise in yields was the People's Bank of China (PBOC) not engaging in broad-based monetary easing since it last adjusted its medium-term lending facility and other interest rates last April. However, fiscal stimulus measures are still ongoing as the central government targeted a higher budget deficit target in 2020 and directed local governments to issue more bonds and ensure they are quickly utilized. The expected increased supply of bonds also put upward pressure on yields.

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



Source: Based on data from Bloomberg LP.

Size and Composition

The PRC's outstanding LCY bonds rose 5.6% quarter-on-quarter (q-o-q) in Q2 2020, after rising 4.9% q-o-q in Q1 2020, to reach CNY93.2 trillion (USD13.2 trillion). LCY bonds grew 17.9% y-o-y in Q1 2020 (**Table 1**).

Government bonds. Growth in the LCY government bond market in the PRC accelerated to 5.4% q-o-q in Q2 2020 from 3.5% q-o-q in Q1 2020. Growth was driven by an increase in Treasury bonds and other government bonds and in local government bonds. Treasury bonds and other governments rose 5.5% q-o-q after a decline of 0.9% in the previous quarter, while local government bonds outstanding grew 6.2% q-o-q, nearly the same pace as the 6.6% q-o-q growth in the previous quarter.

The rise in government bonds outstanding was due to the PRC's efforts to stabilize the economy through fiscal stimulus measures. The budget deficit is projected to

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

	Outstanding Amount (billion)						Growth Rates (%)			
	Q2 2019		Q1 2020		Q2 2020		Q2 2019		Q2 2020	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**79,049**	**11,512**	**88,270**	**12,464**	**93,187**	**13,189**	**4.0**	**16.7**	**5.6**	**17.9**
Government	51,135	7,447	55,852	7,886	58,867	8,332	4.2	15.9	5.4	15.1
Treasury Bonds and Other Government Bonds	15,461	2,252	16,850	2,379	17,775	2,516	3.9	11.7	5.49	15.0
Central Bank Bonds	4	1	19	3	15	2	166.7	–	(18.9)	275.0
Policy Bank Bonds	15,213	2,215	15,985	2,257	16,662	2,358	3.0	8.6	4.2	9.5
Local Government Bonds	20,457	2,979	22,999	3,247	24,415	3,456	5.4	25.7	6.2	19.3
Corporate	27,914	4,065	32,418	4,577	34,320	4,857	3.6	18.3	5.9	22.9
Policy Bank Bonds										
China Development Bank	8,580	1,250	8,875	1,253	9,138	1,293	3.0	10.8	3.0	6.5
Export–Import Bank of China	2,533	369	2,858	404	3,086	437	3.6	7.0	8.0	21.8
Agricultural Devt. Bank of China	4,100	597	4,252	600	4,438	628	2.4	5.3	4.4	8.2

( ) = negative, – = not applicable, 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.

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)			Growth Rate (%)			
				Q2 2019		Q2 2020	
	Q2 2019	Q1 2020	Q2 2020	q-o-q	y-o-y	q-o-q	y-o-y
Financial Bonds	5,042	6,364	6,803	1.1	30.8	6.9	34.9
Enterprise Bonds	3,834	3,707	3,771	1.0	(8.8)	1.7	(1.6)
Listed Corporate Bonds	7,024	8,328	8,996	1.1	22.0	8.0	28.1
Commercial Paper	2,197	2,671	2,825	1.0	26.2	5.8	28.6
Medium-Term Notes	5,919	6,829	7,300	1.0	17.1	6.9	23.3
Asset-Backed Securities	1,924	2,388	2,406	1.1	65.3	0.8	25.0

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

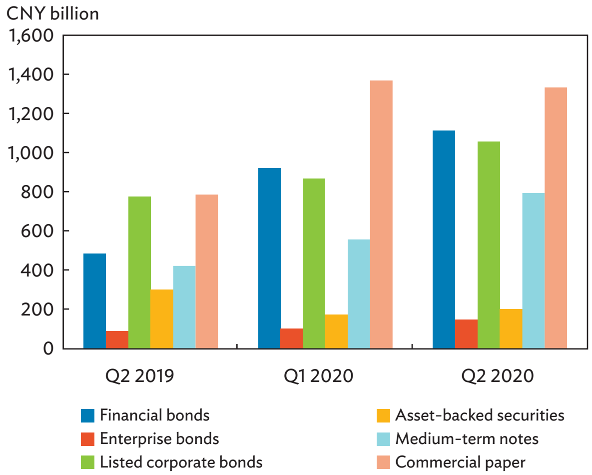
be at least CNY1.0 trillion higher in 2020 than in 2019, with the budget deficit expected to exceed 3.6% of GDP, up from 2.8%. In addition, the PRC announced that it will issue CNY1.0 trillion of special government bonds specifically earmarked for coronavirus disease (COVID-19) measures; these bonds are considered off-book and not counted as part of the government's budget. The PRC also set a target of CNY3.75 trillion for local government bond issuance in 2020, which is CNY1.6 trillion higher than last year.

Corporate bonds. The PRC's corporate bond market growth decelerated to 5.9% in Q2 2020 from 7.3% q-o-q in Q1 2020. Financial bonds grew the fastest, rising 6.9% q-o-q (**Table 2**). While growth slowed in Q2 2020, it was still relatively high as the PRC has sought to make issuances of bonds easier in 2020. In addition, better economic conditions in the PRC helped improve the environment for issuing corporate bonds as well.

As a result, issuance of all major corporate bond categories increased in Q2 2020, except for commercial paper, which fell 2.7% q-o-q (**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 2020, the top 30 corporate bond issuers accounted for a combined CNY9.4 trillion worth of corporate

Figure 2: Corporate Bond Issuance in Key Sectors



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

bonds outstanding, or about 27.4% of the total market. Of the top 30, the 10 largest issuers accounted for an aggregate CNY6.1 trillion. China Railway, the top issuer, had nearly four times the outstanding amount of bonds as Agricultural Bank of China, the second-largest issuer. The top 30 issuers included 15 banks, which continued to generate funding to strengthen their capital bases, improve liquidity, and lengthen their maturity profiles given the ongoing uncertainty.

Table 4 lists the largest corporate bond issuances in Q2 2020. The top issuers consisted largely of financial institutions as they seek to improve their capital base and liquidity in light of the ongoing economic impact of COVID-19.

Investor Profile

Government bonds. Among the major government bond categories, banks were the single-largest holder at the end of June (**Figure 3**), with banks owning 72.7% of all outstanding government bonds. The concentration of bank ownership was the highest for local government bonds (87.9%), as banks have been asked by the central government to help support the funding efforts of local governments, followed by policy banks as the next largest holder of local government bonds. Unincorporated products are the second-largest holder of policy bank bonds after banks.[6]

Liquidity

The volume of interest rate swaps fell 10.2% q-o-q in Q2 2020. The 7-day repurchase remained the most used interest rate swap, comprising a 79.2% share of the total interest rate swap volume during the quarter (**Table 5**).

Policy, Institutional, and Regulatory Developments

The People's Bank of China Issues Central Bank Bills in Hong Kong, China

In June and August, the PBOC issued renminbi-denominated bills in Hong Kong, China to help manage offshore liquidity and control the renminbi yield curve. The issuance comprised of (i) CNY10 billion 6-month central bank bills at a yield of 2.21% in June, and (ii) CNY20 billion 3-month central bank bills at a yield of 2.70%, and (iii) CNY10 billion of 1-year bills at a yield of 2.70% in August.

[6] 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	2,243.5	317.5	Yes	No	Transportation
2.	Agricultural Bank of China	645.1	91.3	Yes	Yes	Banking
3.	Bank of China	530.6	75.1	Yes	Yes	Banking
4.	Industrial and Commercial Bank of China	517.6	73.3	Yes	Yes	Banking
5.	Central Huijin Investment	476.0	67.4	Yes	No	Asset Management
6.	Bank of Communications	391.6	55.4	No	Yes	Banking
7.	Shanghai Pudong Development Bank	353.7	50.1	No	Yes	Banking
8.	State Grid Corporation of China	352.5	49.9	Yes	No	Public Utilities
9.	China Construction Bank	307.1	43.5	Yes	Yes	Banking
10.	China National Petroleum	294.9	41.7	Yes	No	Energy
11.	Industrial Bank	273.4	38.7	No	Yes	Banking
12.	China Minsheng Banking	264.0	37.4	No	Yes	Banking
13.	China CITIC Bank	223.2	31.6	No	Yes	Banking
14.	State Power Investment	210.6	29.8	Yes	No	Energy
15.	Ping An Bank	193.7	27.4	No	Yes	Banking
16.	PetroChina	180.0	25.5	Yes	Yes	Energy
17.	Tianjin Infrastructure Construction and Investment Group	170.0	24.1	Yes	No	Industrial
18.	China Southern Power Grid	167.0	23.6	Yes	No	Energy
19.	Huaxia Bank	165.0	23.4	Yes	No	Banking
20.	China Everbright Bank	163.8	23.2	Yes	Yes	Banking
21.	Postal Savings Bank of China	155.0	21.9	Yes	Yes	Banking
22.	China Merchants Bank	151.4	21.4	Yes	Yes	Banking
23.	CITIC Securities	147.7	20.9	Yes	Yes	Brokerage
24.	Datong Coal Mine Group	139.4	19.7	Yes	No	Coal
25.	Shaanxi Coal and Chemical Industry Group	137.5	19.5	Yes	No	Energy
26.	China Three Gorges Corporation	114.0	16.1	Yes	No	Power
27.	Shougang Group	113.4	16.1	Yes	No	Steel
28.	China Datang	105.1	14.9	Yes	Yes	Energy
29.	China Cinda Asset Management	103.0	14.6	Yes	Yes	Asset Management
30.	Bank of Beijing	102.9	14.6	No	Yes	Banking
Total Top 30 LCY Corporate Issuers		**9,392.5**	**1,329.4**			
Total LCY Corporate Bonds		**34,319.6**	**4,857.4**			
Top 30 as % of Total LCY Corporate Bonds		**27.4%**	**27.4%**			

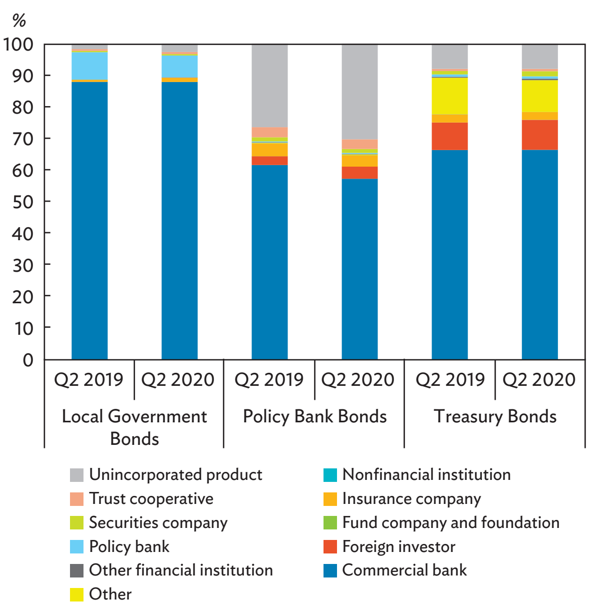
CNY = Chinese yuan, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 30 June 2020.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Table 4: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China State Railway Group		
1-year bond	1.64	15
1-year bond	1.74	10
5-year bond	3.07	20
5-year bond	3.07	20
5-year bond	3.07	20
10-year bond	3.58	12
10-year bond	3.58	12
10-year bond	3.58	12
20-year bond	3.97	8
Central Huijin Investment		
3-year bond	2.15	15
3-year bond	2.28	15
3-year bond	2.92	15
5-year bond	2.71	6
5-year bond	3.29	6
5-year bond	2.61	6
Agricultural Bank of China		
3-year bond	1.99	20
10-year bond	3.10	40
Industrial Bank		
3-year bond	2.17	23
3-year bond	2.58	22
5-year bond	2.67	7
5-year bond	2.95	5
Shanghai Pudong Development Bank		
3-year bond	2.08	50

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

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



Q2 = second 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 2020

Interest Rate Swap Benchmarks	Notional Amount (CNY billion) Q2 2020	Share of Total Notional Amount (%) Q2 2020	Growth Rate (%) q-o-q
7-Day Repo Rate	2.0	0.0	0.0
7-Day Repo Rate (Deposit Institutions)	33,950.5	79.2	3.7
Overnight SHIBOR	234.0	0.5	170.5
3-Month SHIBOR	7,799.3	18.2	(45.2)
1-Year Lending Rate	728.5	1.7	77.8
5-Year Lending Rate	25.6	0.1	39.7
10-Year Treasury Yield	62.0	0.1	(61.1)
10-Year Bond Yield/10-Year Government Bond Yield	61.0	0.1	(34.1)
Total	**42,862.9**	**100.0**	**(10.2)**

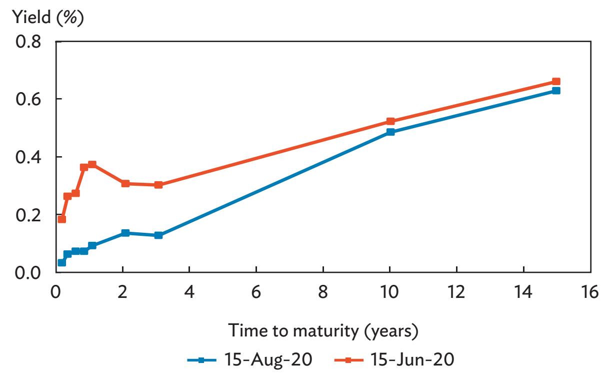
( ) = negative, CNY = Chinese yuan, q-o-q = quarter-on-quarter, Q2 = second quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.
Note: Growth rate computed based on notional amounts.
Sources: *AsianBondsOnline* and *ChinaMoney*.

Hong Kong, China

Yield Movements

Between 15 June and 15 August, local currency (LCY) bond market yields in Hong Kong, China fell across all tenors, shifting the yield curve downward (**Figure 1**). The downward shift was more evident at the shorter-end of the curve, as tenors with maturities of 1 year or less shed an average of 22 basis points (bps). Bond yields for maturities of 2 years or more fell an average of 10 bps, with the 15-year yield showing the smallest dip at 3 bps. During the review period, the spread between 2-year and 10-year bond yields widened from 22 bps to 35 bps.

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



Source: Based on data from Bloomberg LP.

Hong Kong, China's government bond yields tracked United States (US) Treasury yields during the review period. US Treasury yields fell an average of 4 bps from 15 June to 15 August: yields for maturities of 1 year or below fell an average of 6 bps, while those for maturities of 2 years and longer dropped an average of 4 bps. The fall in US Treasury yields was partly driven by weakened investor sentiment regarding the US economy amid the coronavirus disease (COVID-19) pandemic, the slow progress of the latest fiscal relief package in the US Congress, and uncertainties over the upcoming election. Moreover, the Federal Reserve continued its bond-buying policy to keep rates low.

Demand for the Hong Kong dollar surged during the review period, fueled by carry trade and equity-related activities. The heightened demand for the Hong Kong dollar pushed the strong-side of its trading band against the US dollar in July, prompting the Hong Kong Monetary Authority (HKMA) to spend a total of HKD23.2 billion to maintain the Hong Kong dollar's peg to the US dollar. The HKMA's interventions brought the aggregate balance—an indicator of liquidity in the financial system—from HKD122.1 billion (USD15.8 billion) to HKD187.7 billion (USD24.2 billion) during the review period.

Declining yields also reflected the continuing contraction in Hong Kong, China's economy. Based on advanced estimates, Hong Kong, China's gross domestic product plunged 9.0% year-on-year (y-o-y) in the second quarter (Q2) of 2020 following a 9.1% y-o-y drop in the first quarter (Q1). The economy has been in a technical recession since the third quarter of 2019. Depressed domestic and external demand continued to batter the economy. Private consumption slid further, dropping 14.5% y-o-y in Q2 2020 after a 10.6% y-o-y decrease in the previous quarter. Exports of goods dropped 2.1% y-o-y, while exports of services plummeted 46.6% y-o-y in Q2 2020. Gross fixed capital formation dropped 20.6% y-o-y in Q2 2020 following a 15.8% y-o-y decline in the previous quarter. Due to increased spending on fiscal stimulus to combat the effects of COVID-19 on the economy, government consumption rose 9.6% y-o-y in Q2 2020 after rising 8.8% y-o-y in the prior quarter.

Heightened downside risks—brought about by the combined effects of political unrest, COVID-19, and worsening trade and political tensions between the People's Republic of China and the US—was exacerbated by the new security law that came into effect in Q2 2020. Uncertainties remain as to how the new security law will affect Hong Kong, China's financial system in the long run.

Hong Kong, China posted deflation of 2.3% y-o-y in July, the largest negative reading since November 2003. July's deflation, which reversed the 0.7% y-o-y uptick in June, stemmed mainly from the government's public housing rental payments. Netting out the effects of government one-off relief measures, consumer price inflation in July rose 0.2% y-o-y, which was down from 1.2% y-o-y in June. On a seasonally adjusted month-on-month basis, the average monthly inflation from May to July was –0.1%.

Size and Composition

Hong Kong, China's LCY bond outstanding reached HKD2,267.6 billion at the end of June, up from HKD2,255.5 at the end of March (**Table 1**). The 0.5% quarter-on-quarter (q-o-q) growth in Q2 2020 reversed the 0.5% q-o-q decline in Q1 2020. The q-o-q growth was primarily driven by a 2.3% q-o-q rise in the corporate bond segment as the government bond segment contracted 1.1% q-o-q in Q2 2020, the same rate of decline in Q1 2020. On a y-o-y basis, aggregate bonds outstanding dropped 0.8% in Q2 2020, reversing the tepid 0.3% growth in the prior quarter. Government bonds accounted for a 51.0% share of total LCY bonds outstanding at the end of June.

Government bonds. At the end of June, LCY government bonds outstanding amounted to HKD1,156.2 billion, down from HKD1,169.5 billion at the end of March. The stock of government bonds dropped 1.1% q-o-q in Q2 2020 due to the combined reduction in outstanding Exchange Fund Bills (EFBs) and Exchange Fund Notes (EFNs), which outpaced the growth of outstanding Hong Kong Special Administrative Region (HKSAR) bonds. On an annual basis, outstanding LCY government bonds dropped 0.7% y-o-y in Q2 2020, reversing the 0.7% y-o-y growth in Q1 2020. Government bond issuance contracted 0.8% q-o-q in Q2 2020, mainly due to a contraction in EFB issuance, which outpaced the expansion in EFN and HKSAR bond issuance.

Exchange Fund Bills. The outstanding stock of EFBs stood at HKD1,041.9 billion in Q2 2020, down from HKD1,059.7 billion in Q1 2020. The 1.7% q-o-q contraction in Q2 2020 reversed the modest 0.4% q-o-q gain posted in the previous quarter. Issuance of EFBs amounted to HKD821.6 billion in Q2 2020, contracting 1.5% q-o-q.

Exchange Fund Notes. Since 2015, the HKMA has limited its issuance of EFNs to 2-year tenors. In May, the HKMA issued a 2-year EFN worth HKD1.2 billion. Due to maturities, the amount of outstanding EFNs dropped 3.0% q-o-q and 12.2% y-o-y to reach HKD25.8 billion at the end of June.

HKSAR bonds. HKSAR bonds outstanding rose 6.4% q-o-q to reach HKD88.5 billion at the end of Q2 2020. The government issued a 3-year bond worth HKD4.0 billion in April, a 5-year bond worth HKD2.5 billion in May, and a 10-year bond worth HKD1.7 billion in June under the Institutional Bond Issuance Programme.

Corporate bonds. Corporate bonds outstanding reached HKD1,111.3 billion at the end of June. Growth in the corporate bond segment accelerated to 2.3% q-o-q in Q2 2020 from 0.2% q-o-q in Q1 2020. On a y-o-y basis, corporate bonds outstanding declined 0.9% in Q2 2020 following a 0.2% contraction in the previous quarter.

Hong Kong, China's top 30 nonbank issuers had a combined HKD249.9 billion of LCY bonds outstanding at the end of June, accounting for 22.5% of the total corporate bond market (**Table 2**). Government-owned Hong Kong Mortgage Corporation maintained

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2019		Q1 2020		Q2 2020		Q2 2019		Q2 2020	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,285**	**293**	**2,255**	**291**	**2,268**	**293**	**1.6**	**5.1**	**0.5**	**(0.8)**
Government	1,164	149	1,170	151	1,156	149	0.2	0.5	(1.1)	(0.7)
Exchange Fund Bills	1,042	133	1,060	137	1,042	134	0.6	2.3	(1.7)	0.003
Exchange Fund Notes	29	4	27	3	26	3	(5.8)	(16.0)	(3.0)	(12.2)
HKSAR Bonds	93	12	83	11	89	11	(2.1)	(11.4)	6.4	(4.5)
Corporate	1,121	144	1,086	140	1,111	143	3.1	10.3	2.3	(0.9)

( ) = negative, – = not applicable, 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.

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

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (HKD billion)	LCY Bonds (USD billion)			
1.	Hong Kong Mortgage Corporation	38.7	5.0	Yes	No	Finance
2.	Sun Hung Kai & Co.	18.0	2.3	No	Yes	Finance
3.	The Hong Kong and China Gas Company	15.2	2.0	No	Yes	Utilities
4.	MTR Corporation	13.6	1.8	Yes	Yes	Transportation
5.	Link Holdings	12.9	1.7	No	Yes	Finance
6.	New World Development	12.1	1.6	No	Yes	Diversified
7.	Henderson Land Development	11.6	1.5	No	Yes	Real Estate
8.	Hongkong Land	11.3	1.5	No	No	Real Estate
9.	Swire Pacific	10.3	1.3	No	Yes	Diversified
10.	Hang Lung Properties	8.2	1.1	No	Yes	Real Estate
11.	Hongkong Electric	8.1	1.0	No	No	Utilities
12.	CLP Power Hong Kong Financing	7.7	1.0	No	No	Finance
13.	Swire Properties	7.6	1.0	No	Yes	Diversified
14.	Wharf Real Estate Investment	6.9	0.9	No	Yes	Real Estate
15.	Smart Edge	6.8	0.9	No	No	Finance
16.	Airport Authority Hong Kong	6.6	0.9	Yes	No	Transportation
17.	AIA Group	6.3	0.8	No	Yes	Insurance
18.	Hysan Development Corporation	6.3	0.8	No	Yes	Real Estate
19.	CK Asset Holdings	6.2	0.8	No	Yes	Real Estate
20.	Guotai Junan International Holdings	5.9	0.8	No	Yes	Finance
21.	The Wharf Holdings	5.8	0.7	No	Yes	Finance
22.	Future Days	5.5	0.7	No	No	Transportation
23.	Lerthai Group	3.0	0.4	No	Yes	Real Estate
24.	China Dynamics Holdings	2.4	0.3	No	Yes	Automotive
25.	Champion REIT	2.3	0.3	No	Yes	Real Estate
26.	South Shore Holdings	2.2	0.3	No	Yes	Industrial
27.	Emperor Capital Group	2.2	0.3	No	Yes	Finance
28.	Emperor International Holdings	2.2	0.3	No	Yes	Finance
29.	Cathay Pacific	2.1	0.3	No	Yes	Transportation
30.	IFC Development	2.0	0.3	No	No	Finance
Total Top 30 Nonbank LCY Corporate Issuers		**249.9**	**32.2**			
Total LCY Corporate Bonds		**1,111.3**	**143.4**			
Top 30 as % of Total LCY Corporate Bonds		**22.5%**	**22.5%**			

HKD = Hong Kong dollar, LCY = local currency, REIT = real estate investment trust, USD = United States dollar.
Notes:
1. Data as of 30 June 2020.
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.

its position as the top issuer with bonds outstanding amounting to HKD38.7 billion at the end of June. Sung Hung Kai & Co., a finance firm, also retained its position as the second-largest issuer with bonds outstanding of HKD18.0 billion at the end of Q2 2020. The Hong Kong and China Gas Company became the third-largest issuer in Q2 2020 with an outstanding amount of HKD15.2 billion, overtaking MTR Corporation, which had HKD13.6 billion of outstanding bonds. The top 30 issuers were predominantly finance and real estate companies. A majority of them were listed in the Hong Kong Stock Exchange and only three were state-owned companies.

Corporate bond issuance reached HKD234.5 billion at the end of June. Issuance growth moderated to 9.8% q-o-q in Q2 2020 from 44.3% q-o-q in Q1 2020. Among the largest issuances during the quarter were bonds issued by the Airport Authority Hong Kong, Hong Kong Mortgage Corporation, and Hong Kong and China Gas Company. The Airport Authority Hong Kong, the state-owned operator of Hong Kong International Airport, issued bonds amounting to HKD5.2 billion, including a 5-year bond with a 1.62% coupon worth HKD0.7 billion, a 7-year bond with a 1.95% coupon worth HKD0.80 billion, and a 10-year bond with a 2.30% coupon worth HKD0.9 billion (**Table 3**).

Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD million)
Airport Authority Hong Kong		
5-year bond	1.62	0.70
7-year bond	1.95	0.80
10-year bond	2.30	0.90
Hong Kong Mortgage Corporation		
1-year bond	0.00	1.00
3-year bond	0.97	1.00
4-year bond	1.31	0.25
The Hong Kong and China Gas Company		
30-year bond	2.57	1.51
30-year bond	2.57	0.41
Hongkong Electric		
15-year bond	2.59	0.56
30-year bond	2.59	1.24
Goutai Junan International Holdings		
1-year bond	2.53	0.83
1-year bond	2.50	0.50
MTR Corporation		
35-year bond	2.55	0.50

HKD = Hong Kong dollar.
Source: Bloomberg LP.

Government-owned Hong Kong Mortgage Corporation's issuances included a zero coupon 1-year bond worth HKD1.0 billion, a 3-year bond with a 0.97% coupon worth HKD1.0 billion, and a 4-year bond with a 1.31% coupon worth HKD0.25 billion.

Goutai Junan International Holdings, a financial firm, issued a total of HKD4.0 billion worth of bonds including a 1-year bond with a 2.53% coupon worth HKD0.8 billion and a 1-year bond with a 2.50% coupon worth HKD0.5 billion.

There were several issuances of long-dated bonds in Q2 2020, including two 30-year bonds issued by the Hong Kong and China Gas Company, which carried coupons of 2.57% each and were worth a total of HKD1.92 billion. Among Hong Kong Electric's issuances during the quarter was a 30-year bond with a 2.59% coupon worth HKD1.24 billion. MTR Corporation issued the longest-dated bond during the quarter: a 35-year bond with a 2.55% coupon worth HKD0.5 billion.

Policy, Institutional, and Regulatory Developments

The People's Bank of China, Hong Kong Monetary Authority, and Monetary Authority of Macao Launch Cross-Boundary Wealth Management Pilot Scheme

On 29 June, the People's Bank of China, the HKMA, and the Monetary Authority of Macao launched a pilot scheme for cross-boundary wealth management in the Greater Bay Area. Wealth Management Connect is an arrangement wherein residents in the Greater Bay Area can undertake cross-boundary investment in wealth management products managed by banks in the Greater Bay Area. The arrangement will be governed by the respective laws and regulations on retail wealth management products applicable in the three areas as well as international standards and practices. Cross-boundary remittances under the scheme will be carried out in renminbi, with currency conversion conducted in the offshore markets. Relevant regulators in the People's Republic of China; Hong Kong, China; and Macau, China will agree on supervisory cooperation to protect investor interests and maintain fair trading.

Hong Kong Monetary Authority Keeps Countercyclical Capital Buffer at 1.0%

On 7 July, the HKMA decided to hold the countercyclical capital buffer (CCyB) at 1.00%. The HKMA noted that the latest data based on Q1 2020 indicators signal a higher CCyB at 2.25%. However, the HKMA gauged that economic recovery will be protracted given the high level of uncertainty. The HKMA decided to hold the CCyB steady at 1.00% and continue monitoring the economic situation. A lower CCyB provides additional funds for banks, allowing them to extend credit to support financing needs in various sectors of the economy. 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

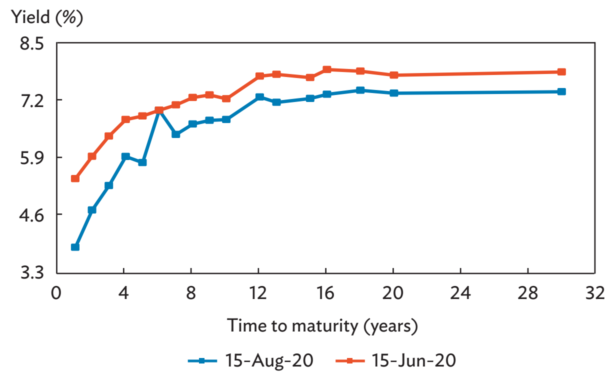
Yield Movements

Between 15 June and 15 August, local currency (LCY) government bond yields in Indonesia fell for all tenors except the 6-year maturity, which was unchanged (**Figure 1**). Bond yields declined more at the shorter-end of the curve than at the longer-end. Yields shed an average of 116 basis points (bps) for maturities of 1 year to 5 years, while they fell an average of 52 bps for maturities of 7 years to 30 years. The spread between the 2-year and 10-year tenors widened from 130 bps on 15 June to 205 bps on 15 August.

The overall decline in yields was largely influenced by Bank Indonesia's accommodative monetary stance. During the review period, Bank Indonesia reduced its key policy rate by 25 bps once in June and again in July, which brought the 7-day reverse repurchase rate to a 4-year low of 4.0%. Bank Indonesia said that the moves were in line with efforts to preserve economic stability and support economic growth. The central bank had reduced its policy rate by a cumulative 100 bps since the start of the year through the middle of August. Bank Indonesia was among emerging East Asia's central banks that have reduced policy rates substantially this year. In its Board of Governors meeting held on 18–19 August, the central bank decided to leave the 7-day reverse repurchase rate at its current level. It also left unchanged the deposit facility rate at 3.25% and the lending facility rate at 4.75%. Bank Indonesia noted that the current level was appropriate and that it would work on other measures to promote economic recovery by improving liquidity conditions.

The drop in bond yields was also driven by the bleak economic outlook amid the coronavirus disease (COVID-19) outbreak. Economic activities were halted due to lockdowns and social restrictions to curb the transmission of the virus. As a result, the Indonesian economy recorded a contraction in the second quarter (Q2) of 2020, with real gross domestic product (GDP) growth falling 5.3% year-on-year (y-o-y) after rising 3.0% y-o-y in the first quarter (Q1) of 2020. In August, the Ministry of Finance revised downward its economic growth projection for 2020 to a range of between –1.1% to 0.2% from an earlier estimate of –0.4% to 2.3%.

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



Source: Based on data from Bloomberg LP.

Investment sentiment remained weak over concerns of an increased debt supply as well as debt monetization. A wider budget deficit set at a ceiling of 6.34% of GDP is expected to help fund the government's large-scale stimulus and recovery measures. Regulations allowing the central bank to purchase bonds directly from the government also raised investor concerns. Since April, the government has allowed Bank Indonesia to purchase government bonds during weekly Treasury auctions.

These factors also contributed to the overall weakness in the Indonesian rupiah during the review period. The rupiah recorded the fastest depreciation among emerging East Asian currencies. Despite the overall weakness of the United States dollar since May of this year, the Indonesian rupiah weakened by 4.6% versus the dollar between 15 June and 15 August.

Size and Composition

Indonesia's LCY bond market surged to a size of IDR3,585.2 trillion (USD251.3 billion) at the end of June, with growth accelerating to 7.8% quarter-on-quarter (q-o-q) from only 0.4% q-o-q in Q1 2020 (**Table 1**). Indonesia posted the fastest q-o-q growth among emerging East Asian LCY bond markets at the end of June. Growth was largely driven by increases in the stock of government bonds, particularly Treasury bills and Treasury bonds. Central bank instruments also

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2019		Q1 2020		Q2 2020		Q2 2019		Q2 2020	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**3,069,867**	**217**	**3,324,692**	**204**	**3,585,233**	**251**	**(0.5)**	**17.6**	**7.8**	**16.8**
Government	2,652,610	188	2,881,782	177	3,155,519	221	(0.3)	20.1	9.5	19.0
Central Govt. Bonds	2,531,039	179	2,833,359	174	3,105,895	218	0.1	15.2	9.6	22.7
of which: *Sukuk*	420,064	30	478,152	29	579,263	41	(1.7)	18.6	21.1	37.9
Central Bank Bonds	121,571	9	48,423	3	49,624	3	(7.7)	915.9	2.5	(59.2)
of which: *Sukuk*	21,938	2	36,173	2	38,874	3	(11.9)	83.3	7.5	77.2
Corporate	417,257	30	442,909	27	429,715	30	(1.6)	3.7	(3.0)	3.0
of which: *Sukuk*	24,133	2	30,200	2	29,382	2	(1.9)	64.3	(2.7)	21.8

( ) = 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 2020 stood at IDR176.1 trillion.
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; and Bloomberg LP.

contributed to overall growth but to a lesser extent, while corporate bonds posted contractions during the quarter. On an annual basis, LCY bond market growth accelerated to 16.8% y-o-y in Q2 2020 from 7.8% y-o-y in Q1.

The LCY bond market in Indonesia is dominated by government bonds, which accounted for a share of 88.0% of the aggregate bond total at the end of June. Corporate bonds accounted for the remaining 12.0% share. Conventional bonds accounted for a majority share of the total bond stock, representing 81.9% of the total bond stock at the end of June. The share of *sukuk* (Islamic bonds) inched up to 18.1% in the same period.

Government bonds. The total stock of government bonds at the end of June stood at IDR3,155.5 trillion on growth of 9.5% q-o-q and 19.0% y-o-y. Much of the growth stemmed from expansions in the stock of central government bonds during the review period.

Central government bonds. At the end of June, the size of central government bonds reached IDR3,105.9 trillion, as growth quickened to 9.6% q-o-q and 22.7% y-o-y in Q2 2020 from 2.9% q-o-q and 12.1% y-o-y in Q1 2020. The Ministry of Finance issued Treasury instruments during the quarter at an increased pace to help fund the government's wider budget deficit.

In Q2 2020, issuance of Treasury bills and Treasury bonds totaled IDR326.2 trillion, higher by 84.5% q-o-q and 116.9% y-o-y. The government accepted more bids than its targeted amount in most of its Treasury auctions during the quarter. In addition to the weekly Treasury auctions, the government undertook private placements of select conventional bonds and *sukuk* during the quarter.

Central bank bonds. Central bank bonds outstanding, which comprised Sertifikat Bank Indonesia and Sukuk Bank Indonesia, tallied IDR49.6 trillion at the end of June. This represented a hike of 2.5% q-o-q but was down by 59.2% y-o-y. Issuance of central bank instruments during Q2 2020 totaled IDR113 trillion, slightly down from IDR115 trillion in Q1 2020.

Corporate bonds. At the end of June, the total corporate bond stock reached IDR429.7 trillion on a decline of 3.0% q-o-q but an increase of 3.0% y-o-y. The amount of corporate bonds outstanding declined on weak issuance since the start of this year.

The aggregate bond stock of Indonesia's 30 largest corporate bond issuers slipped to IDR318.7 trillion at the end of June (**Table 2**). This was down from IDR330.3 trillion recorded at the end of March. Together, the top 30 issuers represented a 74.2% share of the total bond stock at the end of June. Out of the 30 firms on the list, 17 institutions were from the banking and financial industry. Other corporates on the list were from the telecommunications, construction, and transportation sectors. Similar to Q1 2020, 17 firms from the top 30 list were state-owned companies, and 17 institutions were listed on the Indonesia Stock Exchange.

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

	Issuers	Outstanding Amount LCY Bonds (IDR billion)	Outstanding Amount LCY Bonds (USD billion)	State-Owned	Listed Company	Type of Industry
1.	Perusahaan Listrik Negara	34,412	2.41	Yes	No	Energy
2.	Indonesia Eximbank	32,110	2.25	Yes	No	Banking
3.	Bank Rakyat Indonesia	23,282	1.63	Yes	Yes	Banking
4.	Sarana Multi Infrastruktur	21,866	1.53	Yes	No	Finance
5.	Bank Tabungan Negara	18,197	1.28	Yes	Yes	Banking
6.	Sarana Multigriya Finansial	15,596	1.09	Yes	No	Finance
7.	Indosat	14,437	1.01	No	Yes	Telecommunications
8.	Bank Mandiri	14,000	0.98	Yes	Yes	Banking
9.	Bank Pan Indonesia	13,427	0.94	No	Yes	Banking
10.	Waskita Karya	12,960	0.91	Yes	Yes	Building Construction
11.	Bank CIMB Niaga	10,350	0.73	No	Yes	Banking
12.	Telekomunikasi Indonesia	8,995	0.63	Yes	Yes	Telecommunications
13.	Permodalan Nasional Madani	8,439	0.59	Yes	No	Finance
14.	Adira Dinamika Multifinance	8,232	0.58	No	Yes	Finance
15.	Pupuk Indonesia	7,945	0.56	Yes	No	Chemical Manufacturing
16.	Semen Indonesia	7,078	0.50	Yes	Yes	Cement Manufacturing
17.	Astra Sedaya Finance	6,958	0.49	No	No	Finance
18.	Hutama Karya	6,500	0.46	Yes	No	Nonbuilding Construction
19.	Medco-Energi Internasional	6,183	0.43	No	Yes	Petroleum and Natural Gas
20.	Perum Pegadaian	6,151	0.43	Yes	No	Finance
21.	Federal International Finance	5,910	0.41	No	No	Finance
22.	Bank Maybank Indonesia	5,423	0.38	No	Yes	Banking
23.	Bank Pembangunan Daerah Jawa Barat Dan Banten	5,000	0.35	Yes	Yes	Banking
24.	Mandiri Tunas Finance	4,120	0.29	No	No	Finance
25.	Adhi Karya	4,027	0.28	Yes	Yes	Building Construction
26.	Kereta Api	4,000	0.28	Yes	No	Transportation
27.	Maybank Indonesia Finance	3,550	0.25	No	No	Finance
28.	XL Axiata	3,413	0.24	No	Yes	Telecommunications
29.	Chandra Asri Petrochemicals	3,139	0.22	No	Yes	Petrochemicals
30.	Tower Bersama Infrastructure	3,038	0.21	No	Yes	Telecommunications Infrrastructure Provider
Total Top 30 LCY Corporate Issuers		**318,735**	**22.34**			
Total LCY Corporate Bonds		**429,715**	**30.12**			
Top 30 as % of Total LCY Corporate Bonds		**74.2%**	**74.2%**			

IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 30 June 2020.
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.

The composition of the top five firms on the list was unchanged from that at the end of March. State-owned energy firm Perusahaan Listrik Negara (PLN) remained in the top spot with outstanding bonds of IDR34.4 trillion. The second through fifth spots were occupied by state-owned firms from the banking and financial sector: Indonesia Eximbank (IDR32.1 trillion), Bank Rakyat Indonesia (IDR23.3 trillion), Sarana Multi Infrastruktur (IDR21.9 trillion), and Bank Tabungan Negara (IDR18.2 trillion).

Total corporate bond issuance reached IDR8.6 trillion in Q2 2020, down by 54.6% q-o-q and 70.2% y-o-y. Some companies reconsidered their issuance plans given the economic slowdown resulting from the COVID-19 outbreak. In addition, market conditions were not yet conducive for issuing bonds due to higher costs. While Bank Indonesia has reduced policy rates, government bond yields, which are used as benchmark reference pricing, remain elevated.

During the quarter, 15 firms raised funds from the bond market, adding 29 new bond series to the corporate bond stock. Of the new bond series, only two were *sukuk*, both of which were issued by state-owned Perum Pegadaian and structured as *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership). The longest-dated new corporate bond issue in Q2 2020 was PLN's 10-year bond issue.

Leading the list of new corporate issuance during the quarter was PLN, with issuance valued at IDR1,737.1 billion in four tranches (**Table 3**). It was followed by Indah Kiat Pulp and Paper, with issuance totaling IDR1,391.1 billion in three tranches. Taking the third spot was Bank Mandiri's aggregate issuance worth IDR1,000 billion in two tranches.

Investor Profile

Heightened risk aversion brought about by the COVID-19 outbreak led to net outflows of foreign funds from the LCY government bond market in the first half of 2020; however, net inflows were noted in May and June. As a result, the foreign investors' share, which used to comprise the largest share of government bonds, fell to 30.2% at the end of June from 39.1% a year earlier (**Figure 2**). The total amount of bonds held by foreign investors fell to IDR937.0 trillion from IDR988.8 trillion at the end of June 2019.

Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Perusahaan Listrik Negara		
3-year bond	7.92	316.70
5-year bond	8.25	99.16
7-year bond	8.55	312.18
10-year bond	9.10	1,009.10
Indah Kiat Pulp & Paper		
370-day bond	9.00	495.50
3-year bond	10.25	883.48
5-year bond	11.00	12.10
Bank Mandiri		
5-year bond	7.75	350.00
7-year bond	8.30	650.00
SMART		
3-year bond	8.50	608.50
5-year bond	9.00	166.50
Toyota Astra Financial		
370-day bond	7.10	206.00
3-year bond	8.25	539.05

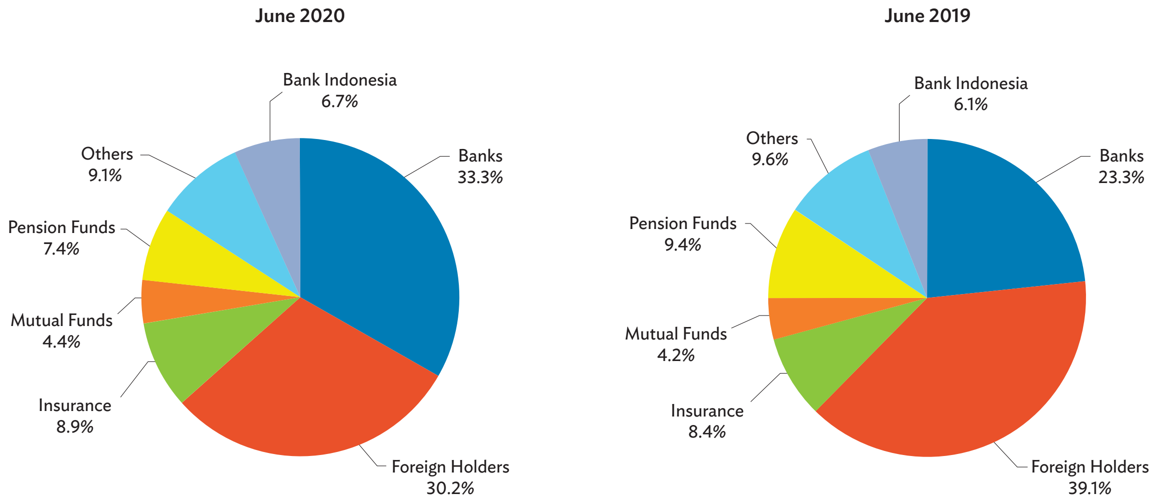
IDR = Indonesian rupiah.
Source: Indonesia Stock Exchange.

A relatively larger share of foreign investor holdings of government bonds is in longer-term maturities (**Figure 3**). Among foreign investor holdings, the share of bonds with maturities longer than 10 years stood at 36.4% at the end of June 2020. Bonds with maturities of between 5 years and 10 years were the second most popular, comprising 28.6% of foreign holdings. Only 3.3% of bonds held by foreign investors carried a maturity of less than a year.

As a result of the foreign investor outflows, banks became the dominant holder of government bonds, with their share rising from 23.3% at the end of June 2019 to 33.3% at the end of June 2020. Banks were aggressive buyers, with the total amount of government bonds held rising to IDR1,034.3 trillion at the end of June 2020 from IDR588.8 trillion a year earlier.

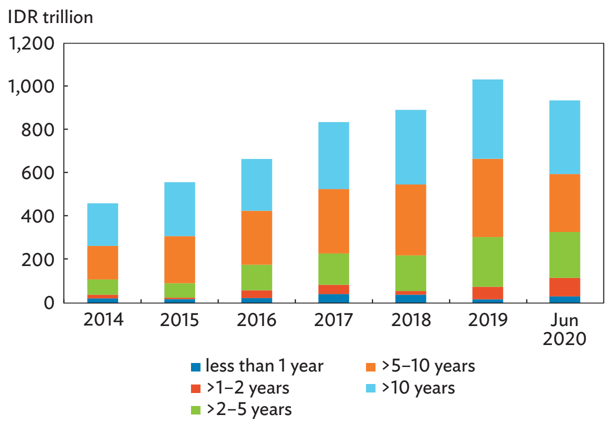
Other domestic investors that posted increases in their holdings of government bonds during the review period were insurance firms, mutual funds, and Bank Indonesia. The government bond holdings of insurance firms inched up to a share of 8.9% of the total at the end of June 2020 from 8.4% in the same period a year earlier. Mutual fund holdings of government bonds rose to a share of 4.4% from 4.2% in the same period, while Bank Indonesia's share rose to 6.7% from 6.1%.

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.

The share of other investors fell to 9.1% at the end of June 2020 from 9.6% at the end of June 2019. The share of pension funds declined, falling to 7.4% from 9.4% in the same review period as pension funds reduced their holdings of government bonds to IDR230.2 trillion from IDR237.0 trillion.

Ratings Update

On 10 August, Fitch Ratings (Fitch) affirmed the sovereign credit rating of Indonesia at BBB. The rating was given a stable outlook. Fitch cited the sovereign's favorable growth outlook in the medium term and low debt-to-GDP ratio as the factors for the rating affirmation. The rating agency also noted the challenges faced by Indonesia including (i) high dependence on external financing, (ii) low government revenue, and (iii) lagging structural features compared with other similarly-rated sovereigns.

Policy, Institutional, and Regulatory Developments

2020 State Budget Deficit Estimated to Reach 6.34% of Gross Domestic Product

In June, a second revision to the 2020 state budget was signed into law, which called for increased spending and a wider budget deficit to support the economy amid the COVID-19 outbreak. The second revision to the 2020 state budget estimates a deficit amounting to IDR1.03 quadrillion, which is equivalent to 6.34% of GDP, up from an earlier revision announced in April of a deficit equivalent to 5.07% of GDP. The government expects state spending to hit IDR2.73 quadrillion in 2020, while state revenue is projected to be IDR1.69 quadrillion.

Bank Indonesia and the Ministry of Finance of Japan Establish Framework for Cooperation

On 31 August, Bank Indonesia and the Ministry of Finance of Japan launched a framework for cooperation on the use of the Indonesian rupiah and the Japanese yen in the settlement of bilateral trade and direct investment. The establishment of the framework was part of the memorandum of cooperation between the two parties, which was signed on 5 December 2019. Under the framework, direct quotation between the Indonesian rupiah and the Japanese yen will be made available, and certain regulations will be relaxed, to encourage the use of the two currencies. Certain banks were also selected to serve as the appointed cross-currency dealers.

Republic of Korea

Yield Movements

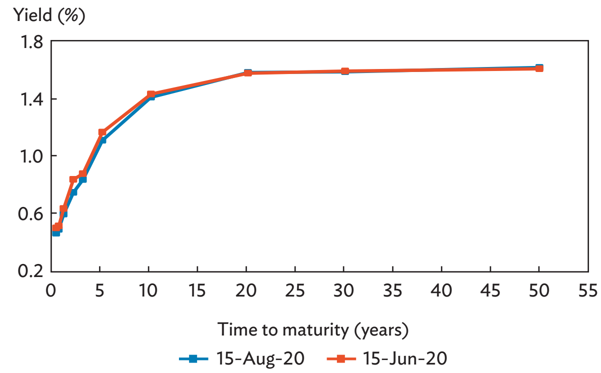
The Republic of Korea's local currency (LCY) government bond yields remained range-bound between 15 June and 15 August (**Figure 1**). The yields for short-term tenors from 3 months to 1 year fell 3 basis points (bps) on average. The 2-year tenor fell the most, dipping 9 bps, while for tenors of 3–10 years the average decline was 4 bps. Yields for long-term tenors of 20–50 years moved either up or down by less than 1 bp. The spread between the 2-year and 10-year yields slightly rose to 66 bps from 59 bps during the review period.

Yields moved marginally during the review period given market expectations that the Bank of Korea would maintain the base rate at its 16 July meeting following a 50-bps rate cut in May. In particular, the prior rise in yields for long-term paper observed from March to May tapered during the current review period as increased bond supply concerns, generated by the passage of the first two supplementary government budgets, abated. The rise in yields were tempered by expectations of a Bank of Korea bond purchase program to address the oversupply of bonds in the market. However, a rise in yields at the long-end of the curve was observed in August due to talks over a fourth supplementary budget and as the market anticipated the release of the 2021 fiscal budget.

On 16 July, the Bank of Korea decided to leave its base rate unchanged at 0.50%. The central bank noted a moderate rebound in global economic growth and a reduction in financial market volatility, while also noting the ongoing effects of the coronavirus disease (COVID-19) pandemic. Domestic economic growth remained weak despite the rebound in consumption, as exports continued to contract. Given this, the Bank of Korea stated that growth for 2020 is projected to be below the May forecast of 0.2% year-on-year (y-o-y). Consumer price inflation is expected to be in the lower 0% level as a result of low global oil prices and weak demand.

The contraction of the Republic of Korea's real gross domestic product (GDP) accelerated to 3.2% quarter-on-quarter (q-o-q) in the second quarter (Q2) of 2020 from 1.3% q-o-q in the first quarter (Q1), based on preliminary estimates from the Bank of Korea. The sharper decline

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



Source: Based on data from Bloomberg LP.

of 16.1% q-o-q in exports in Q2 2020 from 1.4% q-o-q in Q1 2020 drove the Republic of Korea into a technical recession, highlighting the economic impact of the pandemic. Gross fixed capital formation also contracted 0.4% q-o-q in Q2 2020 after a marginal increase of 0.5% q-o-q in the previous quarter, while government spending growth slowed to 1.1% q-o-q from 1.4% q-o-q. Meanwhile, private consumption rebounded in Q2 2020, posting growth of 1.5% q-o-q after a decline of 6.5% q-o-q in Q1 2020. The Republic of Korea's economy fell 2.7% y-o-y in Q2 2020 following growth of 1.4% y-o-y in the previous quarter. Consumer prices fell 0.3% y-o-y in May, were flat in June, and increased 0.3% y-o-y in July.

The Republic of Korea continued to register monthly net foreign inflows from May to July. Foreign demand remained strong, as the economy is considered a safe haven relative to its peers, and on the back of government policies to reduce volatility in financial markets and maintain a stable Korean won. Moreover, LCY government bonds continued to offer higher yields compared to other markets in the region and similarly rated developed markets.

The Korean won strengthened during the review period, appreciating 2.7% to KRW1,198.47 per USD1 as of 15 August. This was primarily due to the weakness of the United States (US) dollar, and the additional support from the extended currency swap agreement between the Bank of Korea and the US Federal Reserve.

Size and Composition

The Republic of Korea's LCY bond market grew 3.1% q-o-q to KRW2,553.7 trillion (USD2,123.3 billion) at the end of June (**Table 1**), up from the 2.8% q-o-q growth posted in Q1 2020. Growth in the domestic bond market continued to be driven by the rising stock of government bonds, particularly central government bonds. Corporate bonds also posted growth but at a slower pace. The Republic of Korea's LCY bond market expanded 9.5% y-o-y in Q2 2020, up from the 8.7% y-o-y growth posted in Q1 2020.

Government bonds. The Republic of Korea's LCY government bonds outstanding were up 4.6% q-o-q and 9.7% y-o-y at the end of June, breaching the KRW1,000 trillion level to reach KRW1,038.1 trillion. Growth continued to stem from the rising stock of central government bonds, which were up 5.1% q-o-q on a sustained increase in issuance in Q2 2020. Government agency bonds outstanding also posted rapid growth of 5.3% q-o-q to KRW190.2 trillion as they have been part of the government's funding source for COVID-19 economic response programs. Monetary Stabilization Bonds issued by the Bank of Korea inched up 1.9% q-o-q to KRW168.9 trillion.

The issuance pace of central government bonds slowed in Q2 2020 but still rose to KRW49.1 trillion from KRW42.5 trillion in Q1 2020. The sustained high level of issuance was needed to fund the larger annual fiscal budget and the two supplementary budgets approved in the first half of the year. The same trend is expected to continue in the remainder of the year to finance the third supplementary budget passed in July and other programs to boost economic growth.

Corporate bonds. The Republic of Korea's LCY corporate bond market posted marginal growth of 2.1% q-o-q to reach a size of KRW1,515.6 trillion at the end of June as issuance for the quarter remained tepid. **Table 2** lists the top 30 LCY corporate bond issuers in the Republic of Korea with aggregate total bonds outstanding of KRW936.7 trillion at the end of Q2 2020, which comprised 61.8% of the LCY corporate bond market. Financial companies such as banks and securities and investment firms continued to dominate the list of the 30 largest corporate bond issuers. State-owned Korea Housing Finance Corporation remained the largest issuer with outstanding bonds of KRW137.8 trillion. Private firm Mirae Asset Daewoo Corporation was the second largest with bonds outstanding of KRW72.6 trillion.

Issuance of corporate bonds in the Republic of Korea remained tepid in Q2 2020, particularly in April and May, declining 4.1% q-o-q due to the contraction in economic activity as a result of the COVID-19 pandemic. **Table 3** lists notable corporate bond issuances in Q2 2020, which mainly came from financial institutions such as NongHyup Bank, Sinbo Securitization, and Kookmin Bank.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2019		Q1 2020		Q2 2020		Q2 2019		Q2 2020	
	KRW	USD	KRW	USD	KRW	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,331,705**	**2,019**	**2,476,170**	**2,032**	**2,553,743**	**2,123**	**2.4**	**5.0**	**3.1**	**9.5**
Government	946,417	820	992,346	814	1,038,139	863	1.7	1.0	4.6	9.7
Central Government Bonds	599,552	519	645,928	530	679,020	565	2.7	1.7	5.1	13.3
Central Bank Bonds	171,580	149	165,710	136	168,870	140	0.3	(1.7)	1.9	(1.6)
Others	175,285	152	180,708	148	190,249	158	(0.3)	1.2	5.3	8.5
Corporate	1,385,288	1,200	1,483,824	1,218	1,515,604	1,260	2.9	7.9	2.1	9.4

( ) = 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	137,831	114.6	Yes	No	No	Housing Finance
2.	Mirae Asset Daewoo Co.	72,611	60.4	No	Yes	No	Securities
3.	Korea Investment and Securities	65,838	54.7	No	No	No	Securities
4.	Industrial Bank of Korea	64,280	53.4	Yes	Yes	No	Banking
5.	KB Securities	54,861	45.6	No	No	No	Securities
6.	Hana Financial Investment	51,210	42.6	No	No	No	Securities
7.	NH Investment & Securities	44,743	37.2	Yes	Yes	No	Securities
8.	Samsung Securities	34,966	29.1	No	Yes	No	Securities
9.	Korea Land & Housing Corporation	29,641	24.6	Yes	No	No	Real Estate
10.	Korea Electric Power Corporation	29,060	24.2	Yes	Yes	No	Electricity, Energy, and Power
11.	Shinhan Bank	28,762	23.9	No	No	No	Banking
12.	Korea Expressway	24,210	20.1	Yes	No	No	Transport Infrastructure
13.	The Export-Import Bank of Korea	24,135	20.1	Yes	No	No	Banking
14.	Shinhan Investment Corporation	23,145	19.2	No	No	No	Securities
15.	Woori Bank	19,770	16.4	Yes	Yes	No	Banking
16.	Shinyoung Securities	19,471	16.2	No	Yes	No	Securities
17.	Korea Rail Network Authority	19,070	15.9	Yes	No	No	Transport Infrastructure
18.	Kookmin Bank	18,324	15.2	No	No	No	Banking
19.	NongHyup Bank	17,450	14.5	Yes	No	No	Banking
20.	Hanwha Investment and Securities	16,814	14.0	No	No	No	Securities
21.	KEB Hana Bank	16,200	13.5	No	No	No	Banking
22.	Korea SMEs and Startups Agency	15,888	13.2	Yes	No	No	SME Development
23.	Shinhan Card	15,375	12.8	No	No	No	Credit Card
24.	Meritz Securities	15,101	12.6	No	Yes	No	Securities
25.	Hyundai Capital Services	14,355	11.9	No	No	No	Consumer Finance
26.	KB Kookmin Bank Card	13,600	11.3	No	No	No	Consumer Finance
27.	Standard Chartered Bank Korea	13,170	10.9	No	No	No	Banking
28.	Korea Deposit Insurance Corporation	12,720	10.6	Yes	No	No	Insurance
29.	Korea Gas Corporation	12,129	10.1	Yes	Yes	No	Gas Utility
30.	NongHyup	11,980	10.0	Yes	No	No	Banking
Total Top 30 LCY Corporate Issuers		**936,710**	**778.8**				
Total LCY Corporate Bonds		**1,515,604**	**1,260.1**				
Top 30 as % of Total LCY Corporate Bonds		**61.8%**	**61.8%**				

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 2020.
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.

Investor Profile

Insurance companies and pension funds remained the largest investor group in the Republic of Korea's LCY government bond market at the end of March with a share of 35.1%, up from a 34.6% share a year earlier (**Figure 2**). Banks surpassed the general government as the second-largest holder of government bonds with a share of 17.7%, which was only marginally changed from 17.2% in March 2019. The share of the general government fell to 16.9% from 18.1% during the same period. The share of other financial institutions slightly fell to 14.5% from 14.9%, while that of foreign investors rose to 12.8% from 11.0%.

At the end of March 2020, other financial institutions topped insurance companies and pension funds as the largest investor group in the Republic of Korea's LCY corporate bond market, with its share rising to 37.5% from

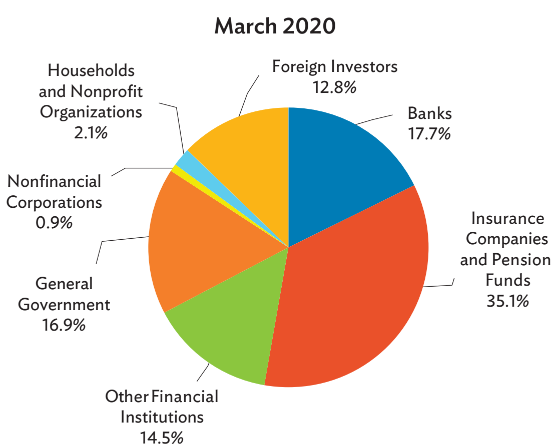
Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
NongHyup Bank		
5-month bond		400
1-year bond	0.89	700
1-year bond	0.91	330
1-year bond	1.01	550
1-year bond	1.03	250
3-year bond	1.19	360
Sinbo Securitization		
2-year bond	1.34	250
3-year bond	1.28	675
3-year bond	1.28	315
3-year bond	1.35	491
3-year bond	1.39	412
Kookmin Bank		
1-year bond	0.76	350
1-year bond	1.15	400
2-year bond	0.99	400
10-year bond	2.13	450

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
HMM Company		
30-year bond	3.00	720
Kia Motors		
3-year bond	2.02	480
Hana Financial Group		
Perpetual Bonds	3.20	450
Citibank Korea		
2-year bond	1.13	410
Standard Chartered		
1-year bond	0.85	400
Hyundai Motor		
3-year bond	1.74	390
Lotte Shopping		
3-year bond	2.33	350
SK Energy		
3-year bond	1.95	340

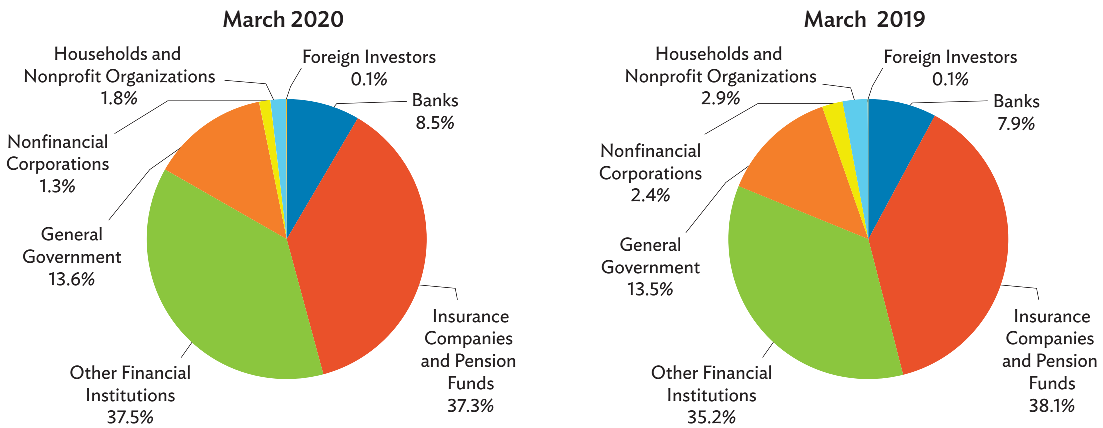
KRW = Korean won.
Source: Based on data from Bloomberg LP.

Figure 2: Local Currency Government Bonds Investor Profile



Sources: *AsianBondsOnline* and the Bank of Korea.

Figure 3: Local Currency Corporate Bonds Investor Profile

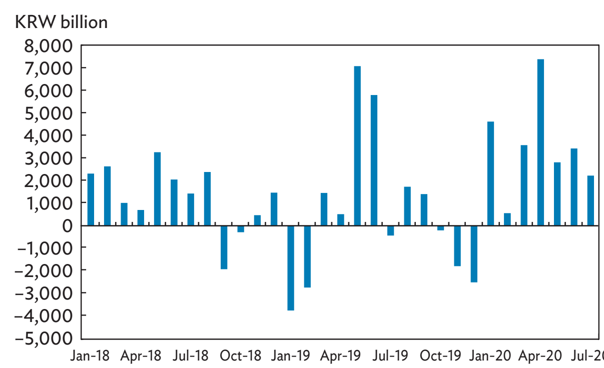


Sources: *AsianBondsOnline* and the Bank of Korea.

35.2% in March 2019 (**Figure 3**). The share of insurance companies and pension funds declined to 37.3% from 38.1% during the same period. The share of the general government was barely changed at 13.6%, while that of banks was up to 8.5% from 7.9%. Foreign holdings of LCY corporate bonds remained negligible at 0.1%.

Strong net foreign flows into the Republic of Korea's LCY bond market continued in May, June, and July, with monthly totals reaching KRW2,821 billion, KRW3,436 billion, and KRW2,235 billion, respectively (**Figure 4**). The Republic of Korea was among the markets in the region that attracted strong foreign demand amid a surge in global liquidity, a result of the easing of central banks in response to the COVID-19 pandemic. The economy's high credit rating and robust external balances, the stable Korean won, and higher yields relative to its peers continued to be the main drivers of the strong foreign inflows.

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



KRW = Korean won.
Source: Financial Supervisory Service.

Policy, Institutional, and Regulatory Developments

The Republic of Korea's National Assembly Passes Third Supplementary Budget

On 3 July, the National Assembly of the Republic of Korea passed the third supplementary budget worth KRW35.1 trillion. The amount approved was lower than the proposed KRW35.3 trillion, yet it was still the largest of the three supplementary budgets passed in 2020 in response to the economic impact of the COVID-19 pandemic, bringing the aggregate amount of supplementary budgets to KRW54.4 trillion and the total policy package to KRW277 trillion.

The Bank of Korea and the Federal Reserve Announces Extension of Currency Swap Agreement

On 29 July, the Bank of Korea and the US Federal Reserve announced the extension of the USD60 billion currency swap agreement for another 6 months until 31 March 2021. The swap agreement is expected to continue to aid in the stabilization of financial markets, including the foreign exchange market, as it will provide more dollar funding to businesses and households in the Republic of Korea.

The Government of the Republic of Korea Submits 2021 Fiscal Budget

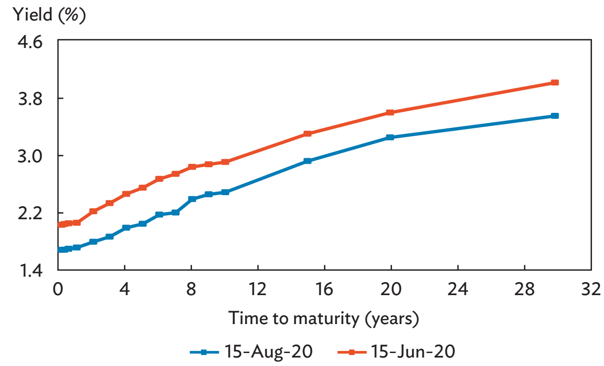
On 3 September, the Government of the Republic of Korea submitted the 2021 fiscal budget proposal totaling KRW555.8 trillion, primarily to aid in economic recovery and support the Korean New Deal. The 2021 budget is 8.5% higher than the original 2020 budget and 1.6% higher than the final 2020 budget that included three supplementary budgets in response to the COVID-19 pandemic. Government revenues in 2021 are projected to grow 1.2% to KRW483 trillion. A fiscal deficit equal to 5.4% of GDP and aggregate government debt equal to 46.7% of GDP are expected. In addition, the government also submitted to the National Assembly its 2020–2024 fiscal management plan.

Malaysia

Yield Movements

Between 15 June and 15 August, Malaysia's local currency (LCY) government bond yields declined across all tenors (**Figure 1**). The shorter-end of the yield curve (from 1 month to 1 year) declined an average of 36 basis points (bps). Yields for longer-term tenors (from 2 years to 30 years) decreased an average of 45 bps. The yield spread between 2-year and 10-year government bonds expanded from 69 bps to 70 bps during the review period.

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



Source: Based on data from Bloomberg LP.

The movement of the yield curve in Malaysia was driven by Bank Negara Malaysia's (BNM) decision to further cut its overnight policy rate in July. The increased demand in the Malaysian debt market was also bolstered by attractive real yields amid persistent consumer price deflation. The deflationary environment and shrinking economy has led analysts to believe that BNM will reduce its policy rate by another 25 bps before the year ends.

On 7 July, BNM reduced its overnight policy rate by 25 bps to 1.75% during its monetary policy committee meeting. It was the fourth time in 2020 that BNM has reduced the policy rate, with the reductions this year totaling 125 bps. The decision came amid persistently weak domestic and global economic conditions brought about by the coronavirus disease (COVID-19) pandemic. Domestically, Malaysia's economy contracted in the second quarter (Q2) of 2020 on a year-on-year (y-o-y) basis. Consumer price inflation is also expected to remain low in 2020. The monetary policy easing aims to stimulate the economy to accelerate Malaysia's recovery.

Malaysia's economy contracted 17.1% y-o-y in Q2 2020 after increasing 0.7% y-o-y in the first quarter (Q1) of 2020, as economic activities stopped in April due to the implementation of Movement Control Order (MCO) measures. BNM expects the economy to gradually recover in the second half of 2020 given the slow resumption of economic activities beginning in May. As global economic conditions remained subdued, BNM revised its economic growth forecast for full-year 2020 to between –5.5% y-o-y and –3.5% y-o-y in August from between –2.0% y-o-y and –0.5% y-o-y in April. However, the central bank sees the economy rebounding in 2021, growing between 5.5% y-o-y and 8.0% y-o-y.

Prices of basic goods and services in Malaysia posted a slower decline of –1.9% y-o-y in June, driven by higher domestic fuel prices. This came after the economy recorded consumer price inflation of –2.9% y-o-y in both April and May, which was in line with BNM's expectation of negative inflation for full-year 2020 due to falling global oil and other commodity prices.

In June, the Government of Malaysia launched the Short-Term Economic Recovery Plan worth MYR35.0 billion to aid the recovery of the economy from the detrimental effects of the COVID-19 pandemic. This was on top of the MYR295.0 billion economic stimulus package launched in March and April. The recovery plan is part of the Government of Malaysia's six-staged strategy for emerging from the pandemic: resolve, resilience, restart, recover, revitalize, and reform. The first three stages have passed with the implementation of the MCO, injection of stimulus, and gradual reopening of the economy. The MCO, which started on 18 March, was a preventive measure to arrest the spread of COVID-19. On 4 May, Malaysia transitioned to conditional MCO where restrictions were loosened to allow some industries to reopen. On 10 June, Malaysia entered the recovery MCO phase wherein some interstate travel and social gatherings were allowed.

Size and Composition

Malaysia's LCY bond market expanded 1.8% quarter-on-quarter (q-o-q) in Q2 2020 to reach a size of MYR1,554.8 billion (USD362.7 billion), up from MYR1,527.8 billion at the end of Q1 2020 (**Table 1**). The growth corresponds to a 4.5% y-o-y jump from MYR1,488.1 billion at the end of Q2 2019. The growth in the LCY bond market in Q2 2020 was supported by expansions in both LCY government and corporate bonds, which accounted for 53.3% and 46.7%, respectively, of total LCY bonds outstanding at the end of June. Total outstanding *sukuk* (Islamic bonds) at the end of the review period stood at MYR976.2 billion on growth of 1.0% q-o-q from MYR966.7 billion at the end of the previous quarter, spurred by increased stocks of government and corporate *sukuk*.

Issuance of LCY bonds in Q2 2020 increased 1.7% q-o-q to MYR94.2 billion from MYR92.6 billion in Q1 2020, driven by increased government bond issuance.

Government bonds. The LCY government bond market grew 3.2% q-o-q to MYR829.0 billion in Q2 2020, up from MYR803.5 billion in the previous quarter. The growth was due to the 4.0% q-o-q increase in outstanding central government bonds, which comprised 96.2% of total outstanding LCY government bonds. This may be attributed to the government's funding needs for fiscal stimulus. Outstanding central bank bills, which comprised a 0.6% share of total LCY government bonds outstanding at the end of June, contracted 50.0% q-o-q as most bills matured and some were redeemed early amid minimal central bank bill issuance during the quarter. The outstanding stock of Sukuk Perumahan Kerajaan (3.2% of total outstanding LCY government bonds) remained unchanged from the previous quarter.

LCY government bonds issued in Q2 2020 jumped 15.4%, spurred by robust issuance of government bonds and Treasury bills. These were more than enough to offset the decline in BNM bills. Issuance of Malaysian Government Securities increased while Government Investment Issues slightly declined from the previous quarter.

Corporate bonds. LCY corporate bonds outstanding expanded 0.2% q-o-q to MYR725.8 billion in Q2 2020 from MYR724.3 billion in Q1 2020. Outstanding corporate *sukuk* rose 0.9% q-o-q to MYR582.3 billion at the end of June from MYR576.8 billion in the prior quarter.

The top 30 corporate bond issuers in Malaysia accounted for an aggregate MYR439.6 billion of corporate bonds outstanding at the end of Q2 2020, or 60.6% of the total corporate bond market (**Table 2**). Government institutions Danainfra Nasional, Prasarana, and Cagamas continued to dominate all issuers with outstanding LCY corporate bonds amounting to MYR67.6 billion (9.3% of total LCY corporate bonds outstanding), MYR34.5 billion (4.8%), and MYR33.1 billion (4.6%), respectively. By industry, finance comprised the largest share (53.6%) of

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2019		Q1 2020		Q2 2020		Q2 2019		Q2 2020	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,488**	**360**	**1,528**	**354**	**1,555**	**363**	**3.3**	**8.7**	**1.8**	**4.5**
Government	779	189	804	186	829	193	1.8	7.8	3.2	6.4
Central Government Bonds	742	180	767	177	797	186	3.0	9.8	4.0	7.4
of which: *Sukuk*	333	81	362	84	367	86	2.0	13.0	1.5	10.1
Central Bank Bills	9	2	10	2	5	1	(46.8)	(49.7)	(50.0)	(45.7)
of which: *Sukuk*	2	0.4	2	0.3	0	0	(71.2)	(72.7)	(100.0)	(100.0)
Sukuk Perumahan Kerajaan	28	7	27	6	27	6	0.0	(1.8)	0.0	(3.9)
Corporate	709	172	724	168	726	169	5.0	9.7	0.2	2.4
of which: *Sukuk*	555	134	577	133	582	136	6.8	13.5	0.9	5.0

( ) = negative, 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.

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	67.6	15.8	Yes	No	Finance
2.	Prasarana	34.5	8.0	Yes	No	Transport, Storage, and Communications
3.	Cagamas	33.1	7.7	Yes	No	Finance
4.	Project Lebuhraya Usahasama	29.4	6.9	No	No	Transport, Storage, and Communications
5.	Urusharta Jamaah	27.6	6.4	Yes	No	Finance
6.	Lembaga Pembiayaan Perumahan Sektor Awam	24.7	5.8	Yes	No	Property and Real Estate
7.	Perbadanan Tabung Pendidikan Tinggi Nasional	21.6	5.0	Yes	No	Finance
8.	Pengurusan Air	18.4	4.3	Yes	No	Energy, Gas, and Water
9.	Khazanah	14.2	3.3	Yes	No	Finance
10.	CIMB Bank	14.1	3.3	Yes	No	Finance
11.	Sarawak Energy	13.0	3.0	Yes	No	Energy, Gas, and Water
12.	Maybank Islamic	13.0	3.0	No	Yes	Banking
13.	Maybank	11.4	2.7	No	Yes	Banking
14.	CIMB Group Holdings	11.3	2.6	Yes	No	Finance
15.	Jimah East Power	9.0	2.1	Yes	No	Energy, Gas, and Water
16.	Danga Capital	8.0	1.9	Yes	No	Finance
17.	Danum Capital	8.0	1.9	No	No	Finance
18.	Public Bank	7.9	1.8	No	No	Banking
19.	GENM Capital	7.6	1.8	No	No	Finance
20.	Bank Pembangunan Malaysia	7.2	1.7	Yes	No	Banking
21.	GOVCO Holdings	7.2	1.7	Yes	No	Finance
22.	Tenaga Nasional	7.0	1.6	No	Yes	Energy, Gas, and Water
23.	Bakun Hydro Power Generation	6.3	1.5	No	No	Energy, Gas, and Water
24.	YTL Power International	6.1	1.4	No	Yes	Energy, Gas, and Water
25.	Telekom Malaysia	5.8	1.4	No	Yes	Telecommunications
26.	Rantau Abang Capital	5.5	1.3	Yes	No	Finance
27.	Turus Pesawat	5.3	1.2	Yes	No	Transport, Storage, and Communications
28.	EDRA Energy	5.1	1.2	No	Yes	Energy, Gas, and Water
29.	1Malaysia Development	5.0	1.2	Yes	No	Finance
30.	Sunway Treasury Sukuk	4.8	1.1	No	No	Finance
Total Top 30 LCY Corporate Issuers		**439.6**	**102.6**			
Total LCY Corporate Bonds		**725.8**	**169.3**			
Top 30 as % of Total LCY Corporate Bonds		**60.6%**	**60.6%**			

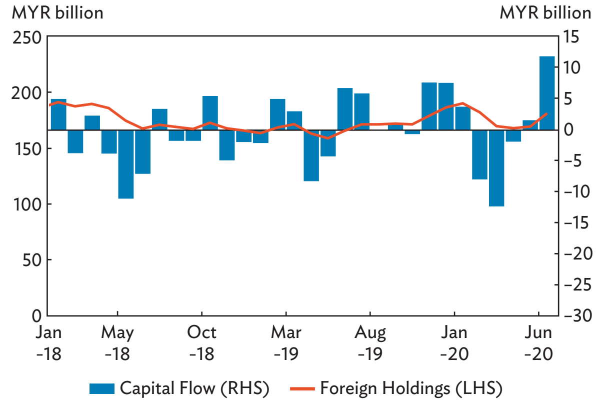
LCY = local currency, MYR = Malaysian ringgit, USD = United States dollar.
Notes:
1. Data as of 30 June 2020.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering data.

Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR billion)
Danainfra Nasional		
7-year Islamic MTN	2.86	0.40
10-year Islamic MTN	3.01	0.60
15-year Islamic MTN	3.27	0.60
20-year Islamic MTN	3.57	0.60
30-year Islamic MTN	3.89	0.60
Danum Capital		
5-year Islamic MTN	2.97	0.50
7-year Islamic MTN	3.14	0.50
10-year Islamic MTN	3.29	1.00
Cagamas		
1-year MTN	2.55	0.05
1-year MTN	2.65	0.03
2-year MTN	3.10	0.50
2-year MTN	2.75	0.07
2-year MTN	2.70	0.06

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

Figure 2: Foreign Holdings and Capital Flows in the Malaysian Local Currency Government Bond Market



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.

the top 30 issuers with MYR235.6 billion in outstanding LCY corporate bonds at the end of June. This was followed by the transport, storage, and communications industry with MYR69.2 billion, which represented 15.7% of total LCY corporate bonds outstanding at the end Q2 2020.

Issuance of LCY corporate bonds declined 15.7% q-o-q in Q2 2020. Corporations had been cautious in their LCY bond issuances since March, with monthly issuances progressively decreasing as the Malaysian economy continued to grapple with the effects of the COVID-19 pandemic.

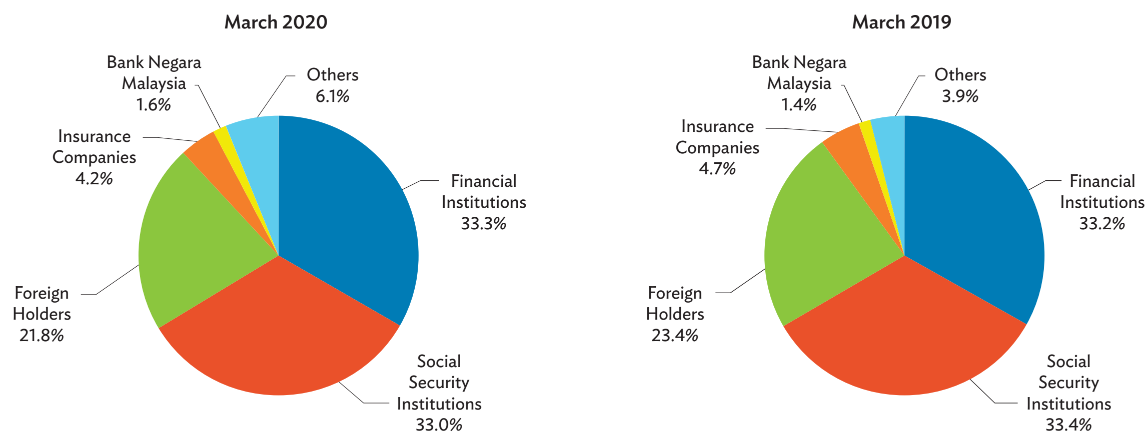
Danainfra Nasional issued the most tranches of Islamic medium-term notes (MTN), issuing five tranches with tenors ranging from 7 years to 30 years (**Table 3**). The 10-year to 30-year tranches were each worth MYR0.6 billion and had coupon rates of between 3.01% and 3.89%. Investment company Danum Capital issued three tranches of Islamic MTNs totaling MYR2.0 billion, with tenors ranging from 5 years to 10 years and coupon rates from 2.97% to 3.29%. Proceeds from the issuance will be used for Shariah-compliant general investments and refinancing current obligations. Cagamas, the national mortgage corporation of Malaysia, issued 1-year and 2-year MTNs. Its largest issuance was a MYR0.5 billion 2-year MTN with a 3.10% coupon rate. The financial institution will use proceeds from the issuance for its working capital and other general corporate purposes.

Investor Profile

Foreign holdings of LCY government bonds in Q2 2020 declined to MYR518.5 billion from MYR542.2 billion in Q1 2020, albeit monthly holdings showed an increasing trend (**Figure 2**). A total of MYR11.4 billion in net capital inflows were recorded in Q2 2020, with most of the inflows coming in June. This came as yields of Malaysian Government Securities increased at the start of June amid the government's additional economic stimulus measures as part of its Short-Term Economic Recovery Plan. The inflows reversed the capital outflows of MYR16.7 billion recorded in the previous quarter amid heightened concerns over the global economic impact of the COVID-19 pandemic. As a share of LCY government bonds, foreign holdings increased to 22.7% at the end of Q2 2020 from 22.2% at the end of Q1 2020.

At the end of Q1 2020, financial institutions and social security institutions led all investors in LCY government bond holdings with 33.3% and 33.0% of the total, respectively (**Figure 3**). Financial institutions had a higher share than social security institutions at the end of March compared to the same month in 2019. Foreign holders decreased their share of total holdings to 21.8% from 23.4% during the review period. The share of insurance

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.

companies likewise fell to 4.2% from 4.7% between Q1 2019 and Q1 2020, while the share of total holdings of BNM increased to 1.6% from 1.4%.

Ratings Update

On 26 June, S&P Global Ratings reaffirmed Malaysia's long-term issuer credit rating of A– but downgraded its outlook to negative from stable. The negative outlook implies that Malaysia is seen as susceptible to negative changes in its economic conditions but still has strong capacity to meet its debt obligations. With this outlook, the rating may be lowered over the medium term. The decision was driven by COVID-19's negative effects on the economic growth and fiscal position of Malaysia. Nevertheless, with its track record of good fiscal management, the Government of Malaysia pledged to commit to its fiscal reform agenda over the medium and long term. It also affirmed its commitment to fiscal consolidation efforts upon the recovery of the global economy.

Policy, Institutional, and Regulatory Developments

Banks to Continue Flexible Loan Repayment for Borrowers

On 29 July, BNM assured individuals and small and medium-sized enterprises affected by the COVID-19 pandemic that banks are committed to aid them as they repay their loans. As the blanket moratorium ends on 30 September, banks stand ready to accommodate flexible loan repayment plans and other arrangements specific to a person's or company's situation. As movement controls eased and most businesses have been able to restart repaying their loans, a targeted moratorium extension and provision for flexible repayment will be provided by the banking industry to individuals who lost their jobs in 2020 and have yet to find a new one. Assistance will also be provided to employed individuals whose salary has been affected by the pandemic. Based on a person's or business' circumstances, they may be given the option to pay just the interest portion of their loan for the meantime, increase the duration of their loan, or discuss with the bank other more flexible options until they regain financial stability.

The Fintech Booster Programme Launched to Support Malaysian Companies

On 4 August, the Fintech Booster Programme of the Malaysia Digital Economy Corporation was launched. In cooperation with BNM, the program aims to help financial technology companies based in Malaysia in their capacity building. Participating companies are introduced to the following aspects of the financial technology industry: legal and compliance, business model, and technology. As a centralized hub, the program fosters collaboration between industry players—such as consultants, advisors, and solution providers—in supporting the industry's growth, development, and innovation.

Philippines

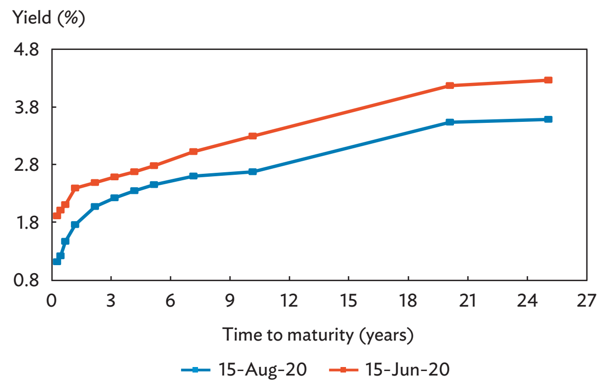
Yield Movements

The yields of local currency (LCY) government bonds in the Philippines fell for all tenors, shifting the yield curve downward, between 15 June and 15 August (**Figure 1**). Yields of bonds with shorter maturities (1-month to 1-year tenors) dropped the most, averaging a decline of 71 basis points (bps). Yields for securities with 10- to 25-year tenors dropped an average of 64 bps. Relatively smaller yield declines, averaging 37 bps, were observed for securities with 2- to 7-year maturities. The yield spread between the 2-year and 10-year tenors narrowed during the review period from 80 bps to 60 bps.

The downward bias of yield movement remains, reflecting a flight to safety amid a weak economic outlook and uncertainty posed by the coronavirus disease (COVID-19) pandemic, as well as abundant liquidity in the market as the Bangko Sentral ng Pilipinas (BSP) has been accommodative in its policy stance through rate and reserve requirement cuts to support the economy. With the pandemic ongoing, risk aversion will persist, resulting in higher buying interest for government securities and lower rates. Broader yield declines at the short-end of the curve indicate investors' preference for short-dated securities as they are on the lookout for market leads.

A deeper-than-expected contraction in the Philippines' gross domestic product (GDP) occurred in the second quarter (Q2) of 2020. The economy plunged 16.5% year-on-year (y-o-y) after declining 0.7% y-o-y in the first quarter (Q1). It was the largest quarterly drop since 1981 and put the economy into recession after nearly 3 decades of uninterrupted growth.[7] Strict lockdown measures implemented in Q2 2020 curtailed the typical growth drivers, household consumption and investment, leading to declines of 15.5% y-o-y and 53.5% y-o-y, respectively. Exports and imports also saw double-digit y-o-y declines in Q2 2020. On the other hand, government expenditure accelerated 22.1% y-o-y as a result of massive fiscal measures to keep the economy afloat.

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



Source: Based on data from Bloomberg LP.

The BSP kept its policy rate steady at 2.25% in its monetary policy meeting on 20 August as inflation remained benign and within the government's target of 2.0%–4.0%. The BSP also stated that the pause will enable the rate reductions and other monetary relief measures to fully take effect in the economy. On June 25, the central bank unexpectedly cut its overnight reverse repurchase facility rate by 50 bps. This brought down the key policy rate to a record low of 2.25% with an accumulated 175-bps cut thus far in 2020 to prop up the economy amid expectations of a protracted domestic and global recovery. The BSP also reduced the reserve requirement rates of thrift banks, and rural and cooperative banks by 100 bps each to 3.0% and 2.0%, respectively, effective 31 July. The move is expected to release PHP10 billion (USD204 million) in the system.

Consumer price inflation remained benign, which is also a factor that kept yields at bay. The inflation rate in August slowed to 2.4% y-o-y after upticks in June (2.5% y-o-y) and July (2.7% y-o-y). The decrease was largely driven by the deceleration in food prices. The year-to-date inflation rate is 2.5% y-o-y and still falls within the government target. The BSP sees inflation to tilt toward the downside amid weak domestic demand and disruptions in economic activities caused by the pandemic.

[7] Philippine Statistics Authority. 2020. GDP Growth Rate Drops by 16.5 Percent in the Second Quarter of 2020. 6 August. http://www.psa.gov.ph/press-releases/id/162842.

The Philippine peso has shown record strength despite the recession and rising COVID-19 cases. The peso traded at PHP48.76 against the United States (US) dollar on 15 August, marking a 3-year high. The domestic currency owed its strength to the weak demand for US dollars due to the slowdown in global economic activities. The issuance of Retail Treasury Bonds (RTBs) in July also drew in strong demand for pesos. The gradual resumption of domestic economic activities and sound financial buffers, including high gross international reserves, also contributed to the strength of the peso.

Size and Composition

The size of the LCY bond market in the Philippines continued to expand in Q2 2020, reaching PHP7,477 billion (USD150 billion) at the end of June on growth of 5.2% quarter-on-quarter (q-o-q), which was down from 6.9% q-o-q in Q1 2020 (**Table 1**). The expansion was driven by the government segment given the contraction in the corporate segment during the quarter. On an annual basis, the growth of the bond market was faster in Q2 2020 at 11.5% y-o-y compared with the preceding quarter of 7.9% y-o-y. Government bonds comprised 79.0% of the total bond market at the end of June, with corporate bonds accounting for the rest.

Government bonds. Total LCY government bonds outstanding expanded 6.8% q-o-q to PHP5,904 billion in Q2 2020, which was down from the growth in the previous quarter of 7.5% q-o-q. Treasury bills and Treasury bonds drove the increase in market size as the government boosted its borrowing to fund fiscal stimulus measures to support economic recovery amid the continuing COVID-19 pandemic. A substantial increase in outstanding Treasury bills was seen, with nearly 50% q-o-q growth on the back of higher issuance volume during the quarter. Treasury bonds grew 2.8% q-o-q, although slower compared with 6.8% q-o-q in Q1 2020, while outstanding debt from government-related entities marginally decreased due to bond maturities. On an annual basis, the government bond stock grew 11.6% y-o-y.

Total debt raised by the government in the domestic market declined 6.9% q-o-q to PHP668.6 billion in Q2 2020. The quarterly decline was due to a high base in Q1 2020 when PHP310.8 billion in RTBs were issued. Without the RTBs, bond issuance in Q2 2020 was higher than in Q1 2020 as the government increased its borrowing plan to fund efforts to cushion the economy against the negative impact of the COVID-19 pandemic. Moreover, the government wanted to take advantage of the low interest rate due to high liquidity in the domestic market. In Q2 2020, the Bureau of the Treasury's (BTr) issuances were weighted toward short-term instruments as Treasury bill issuance increased 60.9% q-o-q to PHP488.6 billion. The BTr increased the issuance of short-term securities with the addition of 35-day Treasury bills in its weekly auctions. The auctions were met with

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2019		Q1 2020		Q2 2020		Q2 2019		Q2 2020	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**6,707**	**131**	**7,106**	**140**	**7,477**	**150**	**1.8**	**16.8**	**5.2**	**11.5**
Government	5,290	103	5,526	109	5,904	119	1.7	15.2	6.8	11.6
Treasury Bills	652	13	557	11	797	16	7.4	71.2	43.1	22.1
Treasury Bonds	4,616	90	4,930	97	5,068	102	1.2	10.7	2.8	9.8
Others	22	0.4	40	0.8	40	0.8	(35.5)	(45.9)	(0.02)	83.3
Corporate	1,417	28	1,579	31	1,573	32	2.3	23.3	(0.4)	11.0

( ) = 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 USD) are not included.
Sources: Bloomberg LP and Bureau of the Treasury.

strong demand, prompting the BTr to open its TAP facility to accommodate the investors. Treasury bonds issuance amounted to PHP180 billion, declining 56.6%q-o-q due to the aforementioned RTB base effect.

Corporate bonds. Debt outstanding in the corporate sector slightly declined by 0.4% q-o-q in Q2 2020 to PHP1,573 billion after registering an increase 5.0% q-o-q in Q1 2020. The decline can be attributed to the maturation of bonds accompanied by just few a corporate issuers during the quarter.

At the end of June, the banking sector remained the largest holder in the LCY corporate bond market with outstanding debt comprising 41.2% of the total corporate bond stock, up from 34.7% at the end of June 2019 (**Figure 2**). The banking sector and "other" sectors were the only sectors that saw an increase in their shares of corporate bonds compared to a year earlier. All other sectors saw lower shares at the end of June 2020 compared to June 2019, with holding firms experiencing the largest decrease from 18.2% to 14.2%.

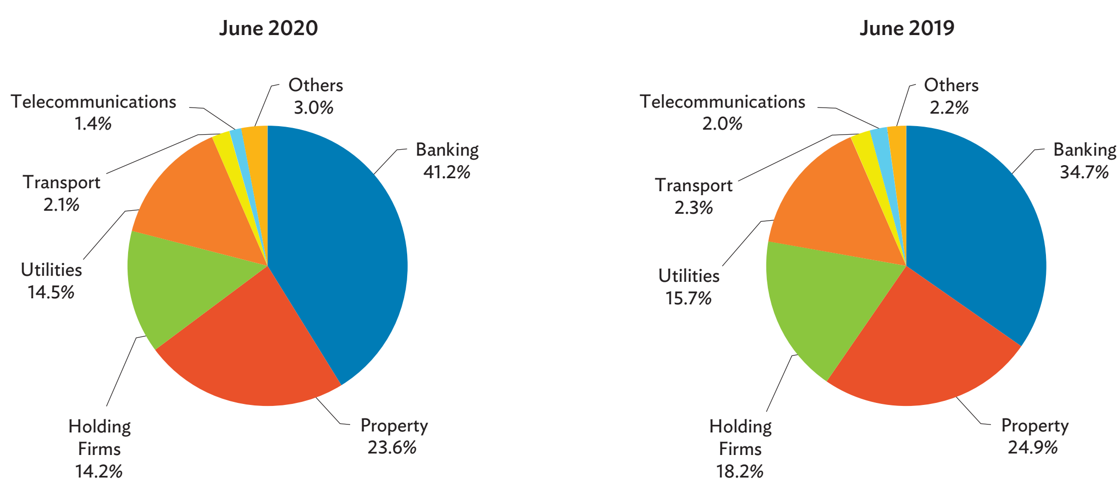
The top 30 corporate issuers had aggregate debt outstanding of PHP1,386.2 billion at the end of June, comprising 88.1% of the total corporate bond market (**Table 2**). The banking sector led the list with outstanding bonds totaling PHP617.3 billion or 44.5% of the total LCY corporate bond market. There were 11 banks on the list, including the two top corporate issuers: Metropolitan Bank and BDO Unibank. Holding firms were the second-largest issuers with PHP298.4 billion of bonds outstanding (21.5% share), led by SM Prime Holdings. Property firms came in third with PHP195.5 billion (14.1% share) led by Ayala Land.

Corporate bond issuance in Q2 2020 declined dramatically, falling 81.3% q-o-q and reversing the double-digit q-o-q growth in Q1 2020. Only three corporates raised funds in Q2 2020, issuing a combined PHP27.6 billion worth of bonds. The weak issuance activity from the corporate sector can be attributed to gloomy economic and business prospects due to the ongoing pandemic. Amid lingering uncertainty and halted economic activities due to the strict quarantine measures in place for the entirety of Q2 2020, firms held off expansion and issuance plans to properly assess the situation, even with low interest rates and the market awash with liquidity. **Table 3** lists all issuances in Q2 2020, which comprised short-tenor securities from the banking and property sectors.

Investor Profile

The investor landscape for LCY government bonds in June was changed from a year earlier. Contractual savings and tax-exempt institutions were the largest investors in LCY government bonds at the end of Q2 2020, with their market share rising to 39.0% from 23.2% in June 2019 (**Figure 3**). This investor group overtook banks and

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.	Metropolitan Bank	130.8	2.6	No	Yes	Banking
2.	BDO Unibank	121.4	2.4	No	Yes	Banking
3.	Ayala Land	115.0	2.3	No	Yes	Property
4.	SM Prime Holdings	103.6	2.1	No	Yes	Holding Firms
5.	SMC Global Power	80.0	1.6	No	No	Electricity, Energy, and Power
6.	Bank of the Philippine Islands	64.6	1.3	No	Yes	Banking
7.	San Miguel	60.0	1.2	No	Yes	Holding Firms
8.	China Bank	56.2	1.1	No	Yes	Banking
9.	Rizal Commercial Banking Corporation	53.6	1.1	No	Yes	Banking
10.	Security Bank	52.8	1.1	No	Yes	Banking
11.	Philippine National Bank	52.2	1.0	No	Yes	Banking
12.	Vista Land	43.6	0.9	No	Yes	Property
13.	Petron	42.9	0.9	No	Yes	Electricity, Energy, and Power
14.	SM Investments	42.7	0.9	No	Yes	Holding Firms
15.	Ayala Corporation	40.0	0.8	No	Yes	Holding Firms
16.	Aboitiz Equity Ventures	37.0	0.7	No	Yes	Holding Firms
17.	Maynilad	32.8	0.7	No	No	Water
18.	Aboitiz Power	30.5	0.6	No	Yes	Electricity, Energy, and Power
19.	Union Bank of the Philippines	26.6	0.5	No	Yes	Banking
20.	Philippine Savings Bank	25.4	0.5	No	Yes	Banking
21.	Manila Electric Company	23.0	0.5	No	Yes	Electricity, Energy, and Power
22.	Filinvest Land	22.0	0.4	No	Yes	Property
23.	San Miguel Brewery	22.0	0.4	No	No	Brewery
24.	East West Banking	17.7	0.4	No	Yes	Banking
25.	Robinsons Bank	16.0	0.3	No	No	Banking
26.	GT Capital	15.1	0.3	No	Yes	Holding Firms
27.	Doubledragon	15.0	0.3	No	Yes	Property
28.	PLDT	15.0	0.3	No	Yes	Telecommunications
29.	San Miguel Food and Beverage	15.0	0.3	No	Yes	Food and Beverage
30.	NLEX Corporation	13.9	0.3	No	No	Transport
Total Top 30 LCY Corporate Issuers		**1,386.2**	**27.8**			
Total LCY Corporate Bonds		**1,573.4**	**31.6**			
Top 30 as % of Total LCY Corporate Bonds		**88.1%**	**88.1%**			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of 30 June 2020.
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 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
Metropolitan Bank		
1-year bond	3.00	10.50
Ayala Land		
2-year bond	3.00	10.00
Rizal Commercial Banking Corporation		
2-year bond	4.85	7.05

PHP = Philippine peso.
Source: Bloomberg LP.

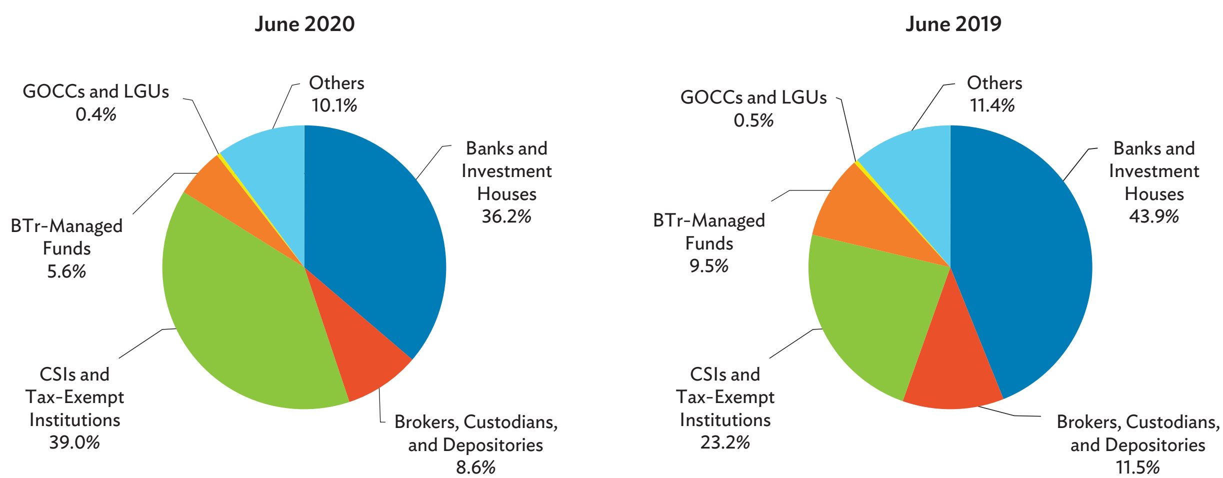
investment houses as the largest investor group, whose market share declined to 36.2% from 43.9% during the review period. Other investor group also outpaced brokers, custodians, and depositories to assume the third-largest market share by the end of Q2 2020. BTr-managed funds and government-owned or -controlled corporations and local government units maintained their respective rankings, albeit with declining holding shares. Only contractual savings and tax-exempt institutions showed an increase between June 2019 and June 2020 in both absolute government bond holdings and the share of total government bonds outstanding.

Ratings Update

On 30 May, Standard and Poor's Global (S&P) maintained the Philippines' sovereign credit rating at BBB+ with a stable outlook. The rating affirmation reflected expectations that the economy would continue to achieve above-average growth over the medium term, supported by sound external settings. S&P expects the economy to bounce back strongly in 2021 following a contraction in 2020. S&P also stated that the government's long track record of fiscal prudence would provide a buffer against the deterioration of its fiscal standing, assuming an economic recovery begins in 2021.

On 11 June, Japan Credit Rating Agency upgraded the Philippines' sovereign credit rating by a notch to A– from BBB+ but also adjusted the outlook to stable from positive. The rating agency cited the Philippines' high and sustainable economic growth performance as the basis for the upgrade. While the COVID-19 pandemic impaired the economy with the imposition of lockdown measures, Japan Credit Rating Agency views that the downturn will be limited given strong economic fundamentals, a resilient external position, and the government's massive stimulus package.

Figure 3: Local Currency Government Bonds Investor Profile



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

Policy, Institutional, and Regulatory Developments

Bangko Sentral ng Pilipinas Cuts Reserve Requirements for Thrift Banks and Rural and Cooperative Banks

In July, the BSP reduced the reserve requirements for thrift banks, and rural and cooperative banks by 100 bps each to 3.0% and 2.0%, respectively. The central bank stated that the move is a part of its omnibus package of reforms to assist the banking public with their liquidity requirements during the ongoing COVID-19 pandemic and to support the transition toward a sustainable recovery after the crisis. The reserve requirement cuts are expected to increase the lending capacity of the banks and release approximately PHP10 billion in cash into the economy, which will support small businesses and rural community-based clients. The reduction is effective 31 July.

Bureau of the Treasury Launches Bonds.PH

In July, the BTr launched Bonds.PH, the first mobile application in Asia for the distribution of government bonds enabled by distributed ledger technology. The system, which utilizes blockchain technology, allows tamper-proof record keeping and can facilitate complex transactions. Such technology supports financial inclusion in the economy as it makes investing, especially to the unbanked, easier and more secure. The BTr's issuance of RTBs in July utilized this technology.

Bangko Sentral ng Pilipinas Approves the Exclusion of Debt Held by Market-Makers from Single Borrower's Limit

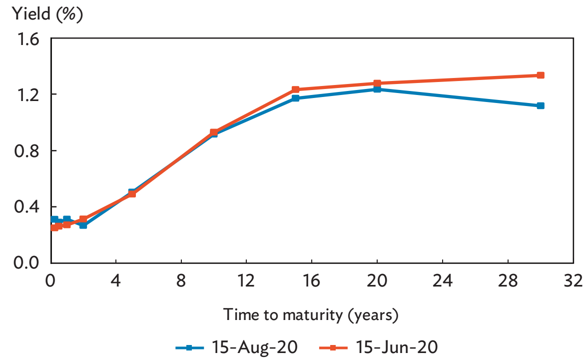
In July, the BSP approved a new policy that excludes debt securities acquired from market-making activities of BSP-supervised financial institutions from the single borrower's limit (SBL) as part of initiatives to develop the capital market. According to the BSP's new policy, market-making activities from 1 August 2020 to 31 July 2021 will be excluded from the SBL computation for 90 calendar days from the time of acquisition of the securities. Beginning 1 August 2021, the debt securities will only be excluded from the SBL computation for a period of up to 60 calendar days. The BSP stated that this policy will promote liquidity and transparency in the market by giving market-makers latitude to continue providing prices for debt securities in the secondary market and to make available an exit mechanism for investors to liquidate their holdings.

Singapore

Yield Movements

Between 15 June and 15 August, movements in Singapore's local currency (LCY) government bond yields were mixed (**Figure 1**). The shorter-end of the yield curve (from 3 months to 1 year) increased an average of 4 basis points (bps). Meanwhile, yields of longer-term tenors (from 2 years to 20 years) shed an average of 3 bps. The 30-year tenor recorded a much steeper decline, dropping 22 bps. The yield spread between 2-year and 10-year government bonds expanded from 62 bps to 65 bps during the review period.

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



Source: Based on data from Bloomberg LP.

Demand for short-term tenors declined as the Monetary Authority of Singapore (MAS) lowered banks' net stable funding ratio requirement in April to ensure bank liquidity and support their lending activities. This was one of the measures undertaken by MAS to support the financial sector amid economic disruptions caused by the coronavirus disease (COVID-19) pandemic. On the other hand, movement at the longer-end of the yield curve in Singapore was driven by MAS' decision in March to reduce the appreciation rate of the Singapore dollar nominal effective exchange rate policy band.

In March 2020, MAS reduced to zero the appreciation rate of the Singapore dollar nominal effective exchange rate policy band given Singapore's low rates of economic growth and consumer price inflation. The decision complemented Singapore's Resilience Budget announced in late March. As the global economic recovery remains uncertain, analysts see MAS maintaining its current exchange rate policy during the second half of 2020.

Singapore's economy contracted 13.2% year-on-year (y-o-y) in the second quarter (Q2) of 2020 after contracting 0.3% y-o-y in the first quarter (Q1) of 2020. The declining economic performance was mainly due to Circuit Breaker measures—that is, limiting movements inside the city-state to prevent the spread of COVID-19—implemented from 7 April to 1 June. In August, the Ministry of Trade and Industry downgraded its full-year 2020 economic growth forecast to between –7.0% and –5.0%. This was a narrower range from its May forecast of between –7.0% and –0.4%. The revised outlook came as Singapore experienced weaker-than-expected external demand and as international borders are expected to open more gradually than expected owing to the resurgence of COVID-19 cases in some economies.

Prices of basic goods and services in Singapore were down 0.5% y-o-y in June, compared with declines of 0.8% y-o-y and 0.7% y-o-y in consumer price inflation in May and April, respectively. The slowing rate of deflation was mainly due to a slower decline in prices of private transport. International and domestic inflationary pressures are expected to remain subdued in the short-term, prompting MAS' inflation projection for full-year 2020 to remain between –1.0% and 0.0%, the same as its forecast in March.

A bright spot in Singapore's economy is the electronics cluster, which saw its output grow 17.3% y-o-y in June. Demand for semiconductors is expected to be sustained in the second half of 2020. Singapore's Purchasing Managers' Index has also improved, reaching 50.2 in July after gradually climbing from a low of 44.7 in April. (A Purchasing Managers' Index reading above 50 indicates expansion in the manufacturing industry, while a value below 50 signifies contraction.) Economists are cautiously optimistic that this recovery can be sustained.

To support the economy amid the COVID-19 pandemic, Singapore rolled out about SGD100.0 billion in stimulus packages over four budgets. Even as the COVID-19 situation in Singapore stabilized, the protection of jobs remained one of Singapore's priorities. As its Jobs Support Scheme was set to end in August, the

Government of Singapore extended the program to March 2021, continuing its wage support to businesses to help them retain workers. This came amid Singapore's reopening after exiting the Circuit Breaker in June. Phase 1 of the reopening, called Safe Reopening, allowed essential economic activities to resume. On 19 June, Singapore entered Phase 2 (Safe Transition) where more activities were permitted as infection rates remained stable and manageable. As the situation develops, the Government of Singapore will look into moving to Phase 3 (Safe Nation), the start of the new normal where gatherings of limited size are allowed.

Size and Composition

Singapore's LCY bond market expanded 2.9% quarter-on-quarter (q-o-q) in Q2 2020 to reach SGD480.6 billion (USD344.9 billion) at the end of June, up from SGD467.2 billion at the end of March (**Table 1**). On an annual basis, growth accelerated to 13.2% y-o-y in Q2 2020 from 8.8% a year earlier. The expansion in the LCY bond market was supported by growth in both government and corporate bonds, which accounted for 63.6% and 36.4%, respectively, of total LCY bonds outstanding at the end of Q2 2020.

Issuance of LCY bonds in Q2 2020 increased 4.1% q-o-q to SGD185.0 billion from SGD177.8 billion in Q1 2020, driven by higher government and corporate bond issuances.

Government bonds. The LCY government bond market grew 4.4% q-o-q to SGD305.7 billion in Q2 2020 from SGD292.8 billion in the previous quarter. The growth was due to an increase in Singapore Government Securities (SGS) bills and bonds, and MAS bills. Outstanding SGS bills and bonds, which comprised 63.7% of total outstanding LCY government bonds, jumped 3.7% q-o-q as 6-month SGS bills have gradually replaced 24-week MAS bills since July 2019. By the end of June, outstanding MAS bills had dropped 16.5% on an annual basis.

LCY government bond issuance in Q2 2020 rose 3.0% q-o-q to SGD179.0 billion as issuance of SGS bills and bonds increased.

Corporate bonds. LCY corporate bonds outstanding increased 0.3% q-o-q in Q2 2020 to reach SGD174.9 billion at the end of June, up from SGD174.4 billion at the end of March, buoyed by the increase in outstanding corporate bonds in the real estate and transportation industry.

The top 30 LCY corporate bond issuers in Singapore accounted for combined outstanding bonds of SGD85.7 billion, or 49.0% of the total LCY corporate bond market at the end of Q2 2020 (**Table 2**). Government institutions such as the Housing & Development Board and the Land Transport Authority continued to be the largest issuers with outstanding LCY corporate bonds amounting to SGD25.2 billion (14.4% of total LCY corporate bonds outstanding) and SGD10.1 billion (5.8% of total LCY corporate bonds outstanding), respectively. By industry type, real estate companies continued to comprise the largest share (43.8%) among the top 30 issuers of LCY corporate bonds with SGD37.6 billion of aggregate LCY corporate bonds outstanding at the end of Q2 2020. The transportation industry had the second-largest share of total LCY corporate bonds outstanding at 21.9% (SGD18.8 billion).

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2019		Q1 2020		Q2 2020		Q2 2019		Q2 2020	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**425**	**314**	**467**	**329**	**481**	**345**	**2.3**	**8.8**	**2.9**	**13.2**
Government	262	194	293	206	306	219	2.7	10.7	4.4	16.5
SGS Bills and Bonds	129	96	188	132	195	140	(0.2)	5.1	3.7	50.5
MAS Bills	133	98	105	74	111	80	5.6	16.7	5.7	(16.5)
Corporate	162	120	174	123	175	126	1.7	5.8	0.3	7.7

( ) = 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 SGS 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.

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	25.2	18.1	Yes	No	Real Estate
2.	Land Transport Authority	10.1	7.2	Yes	No	Transportation
3.	Singapore Airlines	7.9	5.7	Yes	Yes	Transportation
4.	Frasers Property	4.0	2.9	No	Yes	Real Estate
5.	United Overseas Bank	3.3	2.3	No	Yes	Banking
6.	Mapletree Treasury Services	2.7	1.9	No	No	Finance
7.	Keppel Corporation	2.7	1.9	No	Yes	Diversified
8.	Capitaland Treasury	2.7	1.9	No	No	Finance
9.	Temasek Financial	2.6	1.9	Yes	No	Finance
10.	DBS Group Holdings	2.5	1.8	No	Yes	Banking
11.	Sembcorp Financial Services	2.1	1.5	No	No	Engineering
12.	City Developments Limited	1.7	1.2	No	Yes	Real Estate
13.	Oversea-Chinese Banking Corporation	1.5	1.1	No	Yes	Banking
14.	CMT MTN	1.4	1.0	No	No	Finance
15.	Shangri-La Hotel	1.4	1.0	No	Yes	Real Estate
16.	Public Utilities Board	1.3	0.9	Yes	No	Utilities
17.	GLL IHT	1.2	0.8	No	No	Real Estate
18.	Capitaland	1.2	0.8	Yes	Yes	Real Estate
19.	Mapletree Commercial Trust	1.1	0.8	No	Yes	Real Estate
20.	Suntec REIT	1.0	0.7	No	Yes	Real Estate
21.	Singapore Press Holdings	1.0	0.7	No	Yes	Communications
22.	Hyflux	0.9	0.6	No	Yes	Utilities
23.	Ascendas	0.9	0.6	No	Yes	Finance
24.	Olam International	0.8	0.6	No	Yes	Consumer Goods
25.	DBS Bank	0.8	0.6	No	Yes	Banking
26.	SP Powerassets	0.8	0.6	No	No	Utilities
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.	Wing Tai Holdings	0.8	0.6	No	Yes	Real Estate
Total Top 30 LCY Corporate Issuers		**85.7**	**61.5**			
Total LCY Corporate Bonds		**174.9**	**125.5**			
Top 30 as % of Total LCY Corporate Bonds		**49.0%**	**49.0%**			

LCY = local currency, MTN = medium-term note, REIT = real estate investment trust, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of 30 June 2020.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Issuance of LCY corporate bonds soared 50.8% q-o-q to SGD6.0 billion in Q2 2020, bolstered by Singapore Airline's issuance in June.

Singapore Airlines issued the single-largest LCY corporate bond in Q2 2020, issuing a SGD3.5 billion 10-year, zero-coupon mandatory convertible bond (**Table 3**).

Proceeds from the issuance will be used to finance the airline company's capital and operational expenditure requirements. The Housing & Development Board issued a 10-year bond worth SGD800.0 million under its multicurrency medium-term note program to support development programs and finance existing borrowing. The National University of Singapore issued a green bond

Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Singapore Airlines		
10-year bond	0.00	3,496.1
Housing & Development Board		
10-year bond	1.27	800.0
National University of Singapore		
10-year bond	1.57	300.0
Tuan Sing Holdings		
2-year bond	7.75	65.0
DBS Bank		
1-year floating rate note	0.73	20.0

SGD = Singapore dollar.
Source: Bloomberg LP.

worth SGD300.0 million with a tenor of 10 years and coupon rate of 1.565%. The academic institution will use the proceeds for green projects that follow guidelines indicated in its Green Finance Network. Tuan Sing Holdings sold the bond with the highest coupon during the quarter, issuing a SGD65.0 million 2-year bond with a 7.75% coupon rate. Proceeds from the issuance will be used for property development and investment, refinancing of debt obligations, and other corporate needs. In May, DBS Bank issued the first 1-year floating-rate note, which references the Singapore Overnight Rate Average (SORA). This came amid the banking industry's transition from using the Swap Offer Rate to referencing SORA as the benchmark in Singapore's debt market. DBS Bank will utilize the proceeds for its general business needs.

Ratings Update

On 14 August, Fitch Ratings affirmed Singapore's AAA long-term foreign currency issuer default rating with a stable outlook. The affirmation reflects Singapore's strong macroeconomic fundamentals and the government's appropriate fiscal relief measures to mitigate the economic fallout from the COVID-19 pandemic. Despite Singapore's economy contracting and the deflationary environment, Fitch Ratings expects Singapore's economy to gradually bounce back during the second half of 2020 and into 2021.

Policy, Institutional, and Regulatory Developments

Monetary Authority of Singapore and United States Federal Reserve Extend Swap Arrangement

On 30 July, MAS announced that its USD60.0 billion swap facility with the United States (US) Federal Reserve, which was established in March and initially set to run for at least 6 months, had been extended up to 31 March 2021. The swap facility is intended to support banks in maintaining their liquidity position in the US dollar funding market in Singapore amid the COVID-19 pandemic. It also complements MAS' management of the Singapore dollar market. Together, these measures reinforce market confidence and stability in the Singapore financial market.

Monetary Authority of Singapore Announces Initiatives to Support Singapore Overnight Rate Average

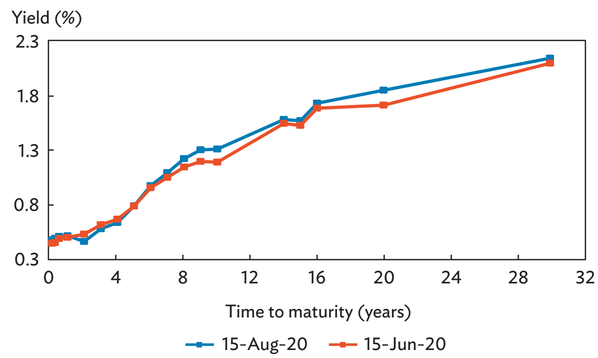
On 5 August, MAS launched initiatives that boost the adoption of SORA as a benchmark in the Singapore financial market. On 21 August, MAS began issuing SORA-based, floating-rate notes on a monthly basis to expand money market instruments and develop the use of SORA as a floating-rate benchmark. MAS will promote transparency by publishing key statistics on various tenors utilizing SORA. To ensure compliance and robustness in the use of SORA, MAS prescribed its use as a benchmark under the Securities and Futures Act. Finally, to meet international best practices and assure market confidence, MAS issued a statement of compliance with International Organization of Securities Commissions principles. These initiatives will help Singapore's financial industry transition from the use of the Swap Offer Rate to SORA.

Thailand

Yield Movements

Between 15 June and 15 August, Thailand's local currency (LCY) government bond yields rose for most tenors, gaining an average of 4 basis points (bps) across all tenors (**Figure 1**). Yields for maturities of 1 year or below inched up 3 bps on average, while for those with maturities of 2–4 years fell an average of 5 bps. The yields for maturities of 5 years and longer rose an average of 6 bps, with the 20-year tenor showing the largest gain at 14 bps. The spread between the 2-year and 10-year tenors widened from 66 bps to 85 bps during 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 rise in yields for most tenors reflected weakened appetite for Thai sovereign bonds as the spread of the coronavirus disease (COVID-19) drove the economy to its deepest contraction since the global financial crisis. Weak investor confidence over the economy's trajectory in the short-term drove up the yields at the short end of the curve. Expectations of a gradual recovery, as Thailand has recorded relatively fewer cases of COVID-19 than its neighboring economies, helped boost yields for tenors with maturities of between 2 and 4 years. The prospect of expanded government debt needed to finance economic recovery programs created upward pressure on yields for tenors with maturities of 5 years and over.

Thailand's gross domestic product (GDP) plunged 12.2% year-on-year (y-o-y) in the second quarter (Q2) of 2020 after declining 1.9% y-o-y in the first quarter (Q1) of 2020. Thailand's economy was among the hardest hit in emerging East Asia due to its heavy reliance on exports and tourism; the deeper contraction in Q2 2020 captured the effects of lockdown measures that restricted domestic travel and most business operations until May. Thailand's borders remained closed to most foreign travelers through the end of the review period.

Private consumption declined 6.6% y-o-y in Q2 2020 following a 2.7% y-o-y drop in Q1 2020. Investment contracted an even larger 8.0% y-o-y in Q2 2020 versus 6.5% y-o-y in Q1 2020. The contraction in exports quadrupled, falling 28.3% in Q2 2020 following a 7.3% y-o-y drop in Q1 2020. The plunge in imports deepened to 23.3% y-o-y in Q2 2020 from 3.1% y-o-y in the previous quarter. Due to stimulus spending, government expenditure expanded 1.4% y-o-y in Q2 2020, reversing the 2.8% y-o-y drop in Q1 2020.

In June, the Bank of Thailand (BOT) revised its full-year 2020 GDP growth forecast to −8.1% from an earlier projection of −5.3%, while raising the 2021 forecast to 5.0% from an earlier estimate of 3.0%. In August, the National Economic and Social Development Council lowered its GDP forecast to a full-year contraction of 7.3%–7.8% from an earlier estimate of a 5.0%–6.0% decline. Political risks emerged toward the end of the review period, as anti-government protests started to gain traction despite social distancing concerns. Moreover, a cabinet reshuffle after the resignation of key ministers posed a threat to the continuity of economic recovery policies.

Consumer price inflation was −0.5% y-o-y in August, remaining in negative territory for the sixth straight month. Low global energy prices and depressed demand due to COVID-19 were the key factors driving deflationary pressures. May posted the biggest drop in prices in nearly 11 years, with headline inflation at −3.4% y-o-y. Deflation has slowed since then, with readings of −1.6% y-o-y in June and −0.1% y-o-y in July, primarily due to a rise in the prices of fresh food products due to heavy rain, as well as high demand for pork due to a pig pandemic in neighboring markets. Nonetheless, headline inflation remained below the BOT's target range of 1.0%–3.0% for 2020.

Thailand's benchmark interest rate remained at a record low as the Monetary Policy Committee of the BOT decided to leave it unchanged at 0.5% in August. The BOT previously cut the policy rate by 25 bps from 0.75% in May. Since the beginning of the year, the BOT has reduced the benchmark rate by a total of 75 bps in response to COVID-19.

Among East Asian currencies, the Thai baht is among those that has depreciated the most against the United States (US) dollar thus far in 2020. Between 1 January and 15 August, the Thai baht depreciated 3.2% against the US dollar amid the negative impacts of COVID-19 on Thailand's export- and tourism-dependent economy. The BOT stressed in its latest policy statement that given the recent depreciation of the US dollar, it will closely monitor developments in the foreign exchange market as a rapid appreciation of the baht would be detrimental to economic recovery.

Size and Composition

Thailand's LCY bonds outstanding reached THB13,448.9 billion (USD435.1 billion) at the end of June on growth of 2.1% quarter-on-quarter (q-o-q) and 3.2% y-o-y (**Table 1**). The q-o-q rise in Q2 2020 reversed the 0.5% q-o-q contraction in Q1 2020, driven by strong growth in the government bond segment as the government issued debt to finance measures to combat the negative effects of COVID-19 on the economy. The annual growth of Thailand's LCY bond market weakened in Q2 2020 compared with the 4.1% y-o-y gain in Q1 2020. The Thai bond market is largely composed of government bonds, which accounted for 72.4% of the total bonds outstanding at the end June, up from 71.0% at the end of March.

Government bonds. The size of the LCY government bond market amounted to THB9,732.5 billion at the end of June, with the 4.1% q-o-q growth reversing the 1.0% q-o-q contraction in Q1 2020. Government bonds and Treasury bills, BOT bonds, and state-owned enterprise and other bonds all showed strong growth in Q2 2020 as the government issued debt to finance relief measures to alleviate the negative effects of COVID-19 on the economy. At the end of June, government bonds and Treasury bills rose 4.5% q-o-q, reaching THB5,306.4 billion, while BOT bonds amounted to THB3,633.4 on growth of 4.0% q-o-q in Q2 2020. State-owned enterprise and other bonds reached THB792.7 billion in Q2 2020, with the 1.4% q-o-q gain reversing the 1.4% q-o-q contraction in the previous quarter. On an annual basis, growth in Thailand's government bond market accelerated to 4.4% y-o-y in Q2 2020 from 2.7% y-o-y in Q1 2020.

Total issuance from the government amounted to THB2,184.7 billion in Q2 2020, as growth more than doubled to 7.5% q-o-q from 3.7% q-o-q in the previous quarter. The growth was solely driven by a sharp increase in the issuance of government bonds and Treasury bills, which rose 117.7% q-o-q in Q2 2020 as the government started issuing Treasury and debt restructuring bills. BOT bond issuance contracted 0.4% q-o-q as the central bank cut its issuance to accommodate the government's financing needs and respond to changes in investor

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2019		Q1 2020		Q2 2020		Q2 2019		Q2 2020	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**13,037**	**425**	**13,169**	**402**	**13,449**	**435**	**3.1**	**9.4**	**2.1**	**3.2**
Government	9,319	304	9,353	286	9,732	315	2.3	7.9	4.1	4.4
Government Bonds and Treasury Bills	4,754	155	5,079	155	5,306	172	(0.4)	4.9	4.5	11.6
Central Bank Bonds	3,772	123	3,492	107	3,633	118	5.4	15.4	4.0	(3.7)
State-Owned Enterprise and Other Bonds	794	26	782	24	793	26	4.7	(4.8)	1.4	(0.1)
Corporate	3,718	121	3,816	117	3,716	120	5.1	13.2	(2.6)	(0.03)

( ) = 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.

sentiment amid the COVID-19 pandemic. Issuance of state-owned enterprise bonds contracted 38.5% q-o-q in Q2 2020. On a y-o-y basis, issuance of government bonds declined 5.8% y-o-y in Q2 2020 after falling 8.8% y-o-y in the previous quarter.

Corporate bonds. Outstanding corporate bonds totaled THB3,716.5 billion at the end of June, down from THB3,815.5 at the end of March. The 2.6% q-o-q contraction in Q2 2020 reversed the tepid 0.8% q-o-q growth in the previous quarter. The contraction of the corporate bond market stemmed from a continuing decline in corporate debt issuance, which fell to –23.7% q-o-q in Q2 2020 from –12.4% q-o-q in the previous quarter. Firms deferred issuance of corporate bonds as lockdown measures to contain the pandemic and ensuing economic recession dented investor confidence.

The LCY bonds outstanding of the top 30 corporate issuers amounted to THB2,142.4 billion at the end of June, accounting for 57.6% of the total corporate bond market (**Table 2**). Food and beverage firms dominated the list, with an outstanding bond stock of amounting to THB422.2 billion from five issuers. Firms in commerce and banking were the next largest issuers, with outstanding bond stocks totaling THB280.8 billion and THB260.4 billion, respectively. The majority of the top 30 issuers were listed on the Thai Stock Exchange, while only four were state-owned. Due to a large issuance during the quarter, Siam Cement overtook Thai Beverage to become the top issuer in the market at the end Q2 2020, with total outstanding bonds worth THB175.0 billion. Thai Beverage's total outstanding bonds amounted to THB173.3 billion in Q2 2020. CP ALL, Bank of Ayudhya, Berli Jucker, True Move H Universal Communication, and Charoen Pokphand Foods were the next largest issuers, each with total outstanding debt over THB100.0 billion at the end of June.

In Q2 2020, Charoen Pokphand Foods and Siam Cement were the largest issuers, with corporate debt issuance of THB25.0 billion each (**Table 3**). Charoen Pokphand Foods raised funds from six issuances of bonds with tenors ranging from 4 years to 15 years and carrying coupons ranging from 3.0% to 4.0%. Siam Cement issued a 4-year bond with a 2.8% coupon. Berli Jucker was the third-largest issuer during the quarter, with issuances amounting to THB18.0 billion from bonds with tenors ranging from 2 years to 10 years and carrying coupons ranging from 2.1% to 3.5%. PTT Global was the next largest issuer, with multitranche issuances ranging from 7-year to 15-year bonds amounting to THB11.7 billion. Another notable issuance during the quarter was property developer Sansiri's THB3.0 billion perpetual bond with an 8.5% coupon. Proceeds from the bond sale will be used for new housing projects.

Investor Profile

Central government bonds. The profile of LCY government bonds investors was broadly stable between June 2019 and June 2020 (**Figure 2**). The combined shares of the four largest holders of government bonds in Thailand was little changed from 90.0% in June 2019 to 90.4% in June 2020. Financial corporations continued to hold the largest share of government bonds, with their share stable at 41.8% from June 2019 to June 2020. The central government's share rose from 14.1% to 17.3%, while BOT's share fell to 3.3% from 4.6% between June 2019 and June 2020. During the same period, nonresidents' share of government bonds dropped from 17.5% to 14.4% amid outflows driven by weak investor confidence as Thailand's economy suffered from the impact of COVID-19 on tourism and exports. The share of other depository corporations was little changed during the review period, inching up to 16.8% from 16.5%.

Central bank bonds. The combined shares of the top four holders of BOT bonds rose to 96.7% in June 2020 from 91.7% in June 2019 (**Figure 3**). Other depository corporations held the largest share of BOT bonds at 45.2%, up from 39.9% a year earlier. The share of financial corporations rose to 28.4% in June 2020 from 27.7% in the previous year. During the review period, BOT holdings rose to 13.2% from 10.8%, while central government holdings dropped to 10.0% from 13.3%. Nonresidents held a marginal amount of BOT bonds at the end of June 2020 at 1.2%, down from 3.5% a year earlier.

Foreign investors in Thailand's LCY bond market recorded net inflows of THB4.6 billion in Q2 2020, following net outflows of THB101.8 billion in Q1 2020 (**Figure 4**). The Thai bond market saw net foreign fund outflows amounting to THB140.3 billion from February to May amid the COVID-19 outbreak. Easing of lockdown and the government's stimulus measures provided a boost to investor confidence, resulting in net foreign inflows of THB31.8 billion in June and THB18.9 billion in July.

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	175.0	5.7	Yes	Yes	Construction Materials
2.	Thai Beverage	173.3	5.6	No	No	Food and Beverage
3.	CP ALL	158.9	5.1	No	Yes	Commerce
4.	Bank of Ayudhya	133.8	4.3	No	Yes	Banking
5.	Berli Jucker	121.9	3.9	No	Yes	Commerce
6.	True Move H Universal Communication	121.0	3.9	No	No	Communications
7.	Charoen Pokphand Foods	116.4	3.8	No	Yes	Food and Beverage
8.	True Corp	89.9	2.9	No	No	Communications
9.	PTT	84.7	2.7	Yes	Yes	Energy and Utilities
10.	Toyota Leasing Thailand	79.8	2.6	No	No	Finance and Securities
11.	Minor International	62.0	2.0	No	Yes	Hospitality and Leisure
12.	Indorama Ventures	61.4	2.0	No	Yes	Petrochemicals and Chemicals
13.	CPF Thailand	61.0	2.0	No	No	Food and Beverage
14.	PTT Global Chemical	51.7	1.7	No	Yes	Petrochemicals and Chemicals
15.	Banpu	48.9	1.6	No	Yes	Energy and Utilities
16.	Krungthai Card	47.2	1.5	Yes	Yes	Banking
17.	Bangkok Commercial Asset Management	44.2	1.4	No	Yes	Finance and Securities
18.	Krung Thai Bank	44.0	1.4	Yes	Yes	Banking
19.	Bangkok Expressway & Metro	41.2	1.3	No	Yes	Transportation and Logistics
20.	Global Power Synergy	40.0	1.3	No	Yes	Energy and Utilities
21.	Muangthai Capital	39.7	1.3	No	Yes	Finance and Securities
22.	TPI Polene	39.3	1.3	No	Yes	Property and Construction
23.	Bangchak Corp PCL	39.0	1.3	No	Yes	Energy and Utilities
24.	Mitr Phol Sugar	38.4	1.2	No	No	Food and Beverage
25.	Land & Houses	37.6	1.2	No	Yes	Property and Construction
26.	TMB Bank	35.4	1.1	No	Yes	Banking
27.	Sansiri	33.3	1.1	No	Yes	Property and Construction
28.	Thai Union Group	33.1	1.1	No	Yes	Food and Beverage
29.	dtac TriNet	33.0	1.1	No	Yes	Communications
30.	CH Karnchang	32.9	1.1	No	Yes	Property and Construction
Total Top 30 LCY Corporate Issuers		**2,142.4**	**69.3**			
Total LCY Corporate Bonds		**3,716.5**	**120.2**			
Top 30 as % of Total LCY Corporate Bonds		**57.6%**	**57.6%**			

LCY = local currency, THB = Thai baht, USD = United States dollar.
Notes:
1. Data as of 30 June 2020.
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 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
Charoen Pokphand Foods		
4-year bond	3.00	2.7
4-year bond	3.00	8.4
7-year bond	3.40	2.6
7-year bond	3.40	7.2
12-year bond	3.75	0.9
15-year bond	4.00	3.1
Siam Cement		
4-year bond	2.80	25.0
Berli Jucker		
2-year bond	2.10	1.7
4-year bond	3.00	12.3
10-year bond	3.50	4.0
PTT Global		
7-year bond	2.60	1.5
12-year bond	3.29	4.4
15-year bond	3.50	5.8
Sansiri		
Perpetual bond	8.50	3.0

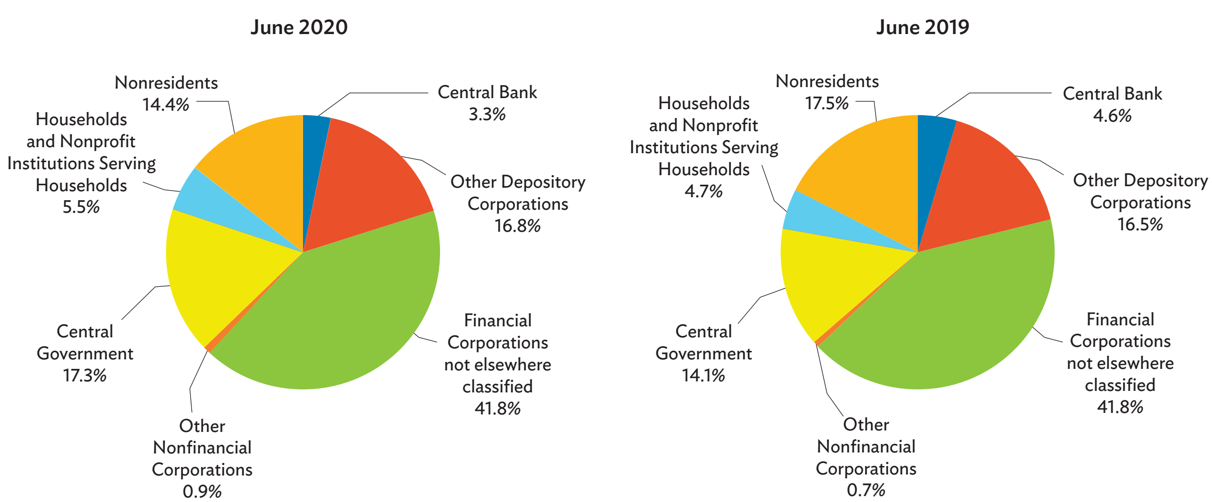
THB = Thai baht.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

Public Debt Management Office Launches THB1 Savings Bonds via Blockchain

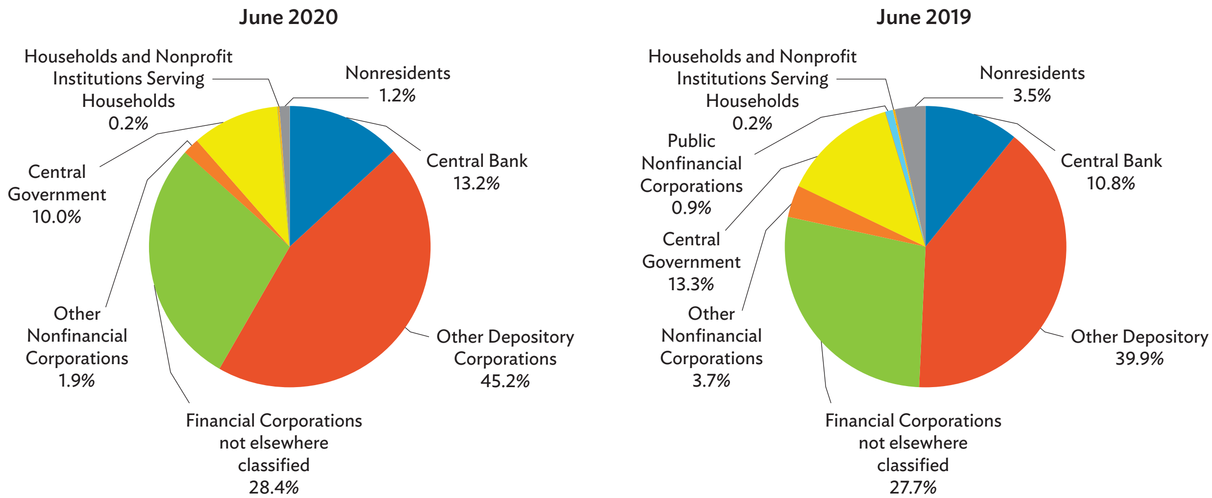
On June 24, the Ministry of Finance issued THB200 million worth of savings bonds at an unprecedented face value of THB1 each through Krungthai Bank's blockchain-based e-wallet. Using the blockchain system, the Public Debt Management Office was able to lower the amount of the savings bond face value from the regular THB1,000. The small-ticket bonds were part of the government's plan to encourage low-income earners to invest in risk-free assets. The bonds were divided into 5-year and 10-year tenors, with the 5-year bond carrying a coupon of 2.4% and the 10-year bond carrying a coupon of 3.0%. The bonds were sold in under 2 minutes, prompting the Public Debt Management Office to issue a second batch worth THB5,000 million on 25 August.

Figure 2: Local Currency Government Bonds Investor Profile



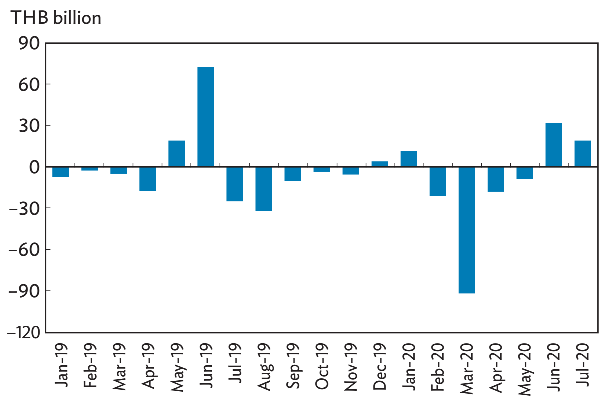
Notes:
1. Government bonds include Treasury bills and bonds.
2. Local Government not presented in the chart due to its relatively small shares of 0.0000002% in June 2019 and 0.0000003% in June 2020.
Sources: *AsianBondsOnline* and Bank of Thailand.

Figure 3: Local Currency Central Bank Securities Investor Profile



Source: Bank of Thailand.

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



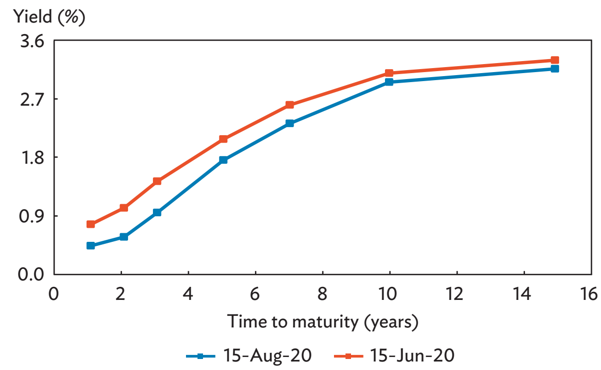
THB = Thai baht.
Source: Thai Bond Market Association.

Viet Nam

Yield Movements

The yields of local currency (LCY) government securities in Viet Nam fell across the board between 15 June and 15 August (**Figure 1**). Yields on bonds with maturities from 1 year to 7 years averaged declines of 37 basis points (bps), while the 3-year tenor dropped the most at 48 bps. Smaller declines were observed for bonds at the longer-end of the curve, particularly 10- and 15-year tenors, whose yields fell 14 bps and 13 bps, respectively. The yield spread between the 2-year and 10-year tenors widened from 207 bps to 237 bps during the review period.

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



Source: Based on data from Bloomberg LP.

Strong demand from investors for government securities amid abundant liquidity was the main driver of the fall in bond yields. Lower yields in short- to medium-term paper, relative to longer tenors, indicate that investors remain on the sidelines in search for market leads amid the uncertainty.

In the context of new cases of the coronavirus disease (COVID-19) reported in Viet Nam, the pandemic continues and the market remains weighed with risks. As risk aversion persists, safe-haven assets such as government securities are benefiting from strong demand, which is driving yields down.

The low-interest-rate environment, following a policy rate cut from the State Bank of Vietnam that reduced the refinancing rate to 4.5% from 5.0% on 13 May, is affecting the yield movements.

Inflationary pressures are also weak. Price increases for consumer goods in Viet Nam subsided to 0.07% month-on-month (m-o-m) in August from 0.4% m-o-m in July, marking the second month of consecutive slowdown. All commodity groups showed slight price increases except for garments; postal services and telecommunication; and culture, entertainment, and tourism where prices fell. On a year-on-year (y-o-y) basis, prices increased 3.2% in August. The inflation rate in the first 8 months of 2020 increased to 4.0% y-o-y.

The Vietnamese economy managed to grow in the second quarter (Q2) of 2020 despite the gloomy global economic forecast. Viet Nam's gross domestic product posted growth of 0.4% y-o-y during the quarter, the slowest expansion in over 30 years, following growth of 3.8% y-o-y in the first quarter (Q1). The economy was hard hit in Q2 2020 by the measures put in place to contain the spread of COVID-19. The services sector dragged down Q2 2020 growth with its 1.8% q-o-q decline, while the agriculture, forestry, and fishing sector; and the industry and construction sector both expanded.

The Vietnamese dong traded at VND23,176 per USD1 on 15 August, appreciating by about 2.0% from its weakest value against the United States dollar in 2020 thus far of VND23,637 at the end of March. The strength of the dong owed to the favorable macroeconomic conditions and rising foreign exchange reserves.

Size and Composition

Viet Nam's total LCY bonds outstanding declined 1.7% q-o-q to VND1,349 trillion (USD58.2 billion) at the end of Q2 2020, reversing the previous quarter's expansion (**Table 1**). On an annual basis, the bond market expanded 9.4% y-o-y in Q2 2020, although this was slower compared to Q1 2020. The quarterly contraction in market size was due to lower outstanding debt in the government sector even as the corporate bond stock increased. Government bonds accounted for a larger share of Viet Nam's bond market at 86.2% versus corporate bonds with a 13.8% share.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2019		Q1 2020		Q2 2020		Q2 2019		Q2 2020	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,233,519	53	1,373,100	58	1,349,263	58	2.6	4.1	(1.7)	9.4
Government	1,127,565	48	1,260,477	53	1,162,754	50	3.2	2.9	(7.8)	3.1
Treasury Bonds	932,040	40	970,436	41	1,019,096	44	1.4	8.7	5.0	9.3
Central Bank Bills	32,999	1	136,986	6	0	0	573.5	(43.5)	–	–
Government-Guaranteed and Municipal Bonds	162,526	7	153,055	6	143,658	6	(3.4)	(9.8)	(6.1)	(11.6)
Corporate	105,954	5	112,623	5	186,509	8	(3.4)	18.7	65.6	76.0

– = 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.

Government bonds. Total LCY government outstanding bonds in Viet Nam decreased 7.8% q-o-q to VND1,163 trillion at the end of June. The absence of outstanding central bank bills was one of the main drivers of the decline. Outstanding central bank bills matured in Q2 2020 from VND137 trillion in the previous quarter, while there was no new issuance from the State Bank of Vietnam to support liquidity in the market.

Fewer outstanding government-guaranteed and municipal bonds at the end of Q2 2020 also drove the decline. Together, they amounted to VND144 trillion, dipping 6.1% q-o-q.

Among all types of government securities, only Treasury bonds registered positive growth in Q2 2020. Treasury bonds outstanding increased 5.0% q-o-q to VND1,019 trillion at the end of June after marginally declining in Q1 2020. While Treasury bonds generally comprise the largest share of Viet Nam's bond market, this increase did not offset the declines in other bond segments.

On an annual basis, total government debt outstanding grew 3.1% y-o-y.

The increase in Treasury bonds outstanding came on the back of a higher volume of bond offerings and issuance by the State Treasury of Viet Nam during Q2 2020 compared to the previous quarter. The Treasury issued VND54.1 trillion during the quarter, which was 61.5% q-o-q higher than the issuance in Q1 2020. The low-interest-rate environment has also been conducive for the State Treasury to accelerate fund mobilization to support the government's fiscal stimulus measures against the adverse economic impact of the COVID-19 pandemic. Despite low yields, Treasury bonds' attractiveness to investors reflects portfolio diversification to include safe-haven assets amid the pandemic and also indicates confidence in Viet Nam's economic prospects.

Corporate bonds. Corporate bonds posted growth of 65.6% q-o-q and 76.0% y-o-y in Q2 2020, bringing the total outstanding amount to VND187 trillion at the end of June. The significant increase was due to more data sources on Viet Nam's corporate bond market being used by *AsianBondsOnline*.[8] At the same time, corporates were active in mobilizing funds through bond issuance during the quarter as they reopened operations after pandemic restrictions were lifted. Also, an upcoming regulation that will raise the standards in the corporate bond market and result to stricter issuance guidelines made issuers rush to the bond market before it becomes effective on 1 September.

The aggregate bonds outstanding of the top 30 LCY corporate issuers amounted to VND147.1 trillion, or 78.9% of the total corporate bond market, at the end of June (**Table 2**). The top 30 corporate issuers were largely from the banking industry with cumulative outstanding bonds equal to VND62.7 trillion or nearly half of the top 30's outstanding debt. Firms from the property sector were

[8] *AsianBondsOnline* now includes corporate bond data from Vietnam Bond Market Association in addition to Bloomberg data.

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.	Vinhomes	21,390	0.92	No	Yes	Property
2.	Bank for Investment and Development of Vietnam	16,691	0.72	Yes	Yes	Banking
3.	Masan Group	9,500	0.41	No	Yes	Finance
4.	Asia Commercial Joint Stock Bank	8,300	0.36	No	Yes	Banking
5.	Vietnam Joint Stock Commercial Bank for Industry and Trade	8,250	0.36	Yes	Yes	Banking
6.	Ho Chi Minh City Development Commercial Joint Stock Bank	7,855	0.34	No	Yes	Banking
7.	Vinpearl	7,500	0.32	No	No	Hotel Operator
8.	Vingroup	7,000	0.30	No	Yes	Property
9.	Vietnam International Commercial Joint Stock Bank	4,203	0.18	No	Yes	Banking
10.	Sovico Group	4,050	0.17	No	Yes	Diversified Operations
11.	Vietnam Prosperity Joint-Stock Commercial Bank	3,900	0.17	No	Yes	Banking
12.	Sun Ha Long Co., Ltd.	3,500	0.15	No	No	Property
13.	Bac A Commercial Joint Stock Bank	3,240	0.14	No	Yes	Banking
14.	Lien Viet Post Joint Stock Commercial Bank	3,100	0.13	No	Yes	Banking
15.	Hoang Anh Gia Lai	3,000	0.13	No	Yes	Property
16.	Vietnam Technological and Commercial Joint Stock Bank	3,000	0.13	No	Yes	Banking
17.	TNL Investment and Leasing Joint Stock Company	2,926	0.13	No	No	Property
18.	Nui Phao Mining and Processing Co., Ltd.	2,920	0.13	No	No	Mining
19.	Binh Hai Golf Investment and Development Joint Stock Company	2,745	0.12	No	No	Leisure
20.	Ho Chi Minh City Infrastructure Investment	2,470	0.11	No	Yes	Infrastructure
21.	Hoan My Medical	2,330	0.10	No	No	Healthcare Services
22	Refrigeration Electrical	2,318	0.10	No	Yes	Manufacturing
23.	Vincommerce General Trading Service Joint Stock Company	2,300	0.10	No	No	Retail
24.	Ho Chi Minh City Infrastructure Investment Joint Stock Company	2,220	0.10	No	Yes	Construction
25.	Tien Phong Commercial Joint Stock Bank	2,167	0.09	No	Yes	Banking
26.	Hong Phong 1 Energy	2,150	0.09	No	No	Utility
27.	Masan Consumer Holdings	2,100	0.09	No	No	Diversified Operations
28.	Agro Nutrition International	2,000	0.09	No	No	Agriculture
29.	Joint Stock Commercial Bank for Foreign Trade of Vietnam	2,000	0.09	Yes	Yes	Banking
30.	Saigon Glory Company Limited	2,000	0.09	No	No	Property
Total Top 30 LCY Corporate Issuers		**147,124**	**6.34**			
Total LCY Corporate Bonds		**186,509**	**8.04**			
Top 30 as % of Total LCY Corporate Bonds		**78.9%**	**78.9%**			

LCY = local currency, USD = United States dollar, VND = Vietnamese dong.
Notes:
1. Data as of 30 June 2020.
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.

next with VND39.8 trillion. Vinhomes held on to the top spot with VND21.4 trillion outstanding bonds in Q2 2020, almost double the amount at the end of Q1 2020.

Issuance from the corporate sector in Q2 2020 amounted to VND82.5 trillion, led by the banking sector with VND35.9 trillionin total issuances during the quarter from 65 banks. Property firms came next with VND27.9 trillion from 103 issuers. The combined issuances from the banking and property sectors comprised 77.4% of total corporate bond issuance in Q2 2020. **Table 3** lists selected bond issuances during the quarter. Vinhomes had the single-largest issuance (VND3,095 billion) followed by the Masan Group (VND3,000 billion).

Investor Profile

Pension funds and banks were the major holders of LCY government bonds at the end of June, with combined holdings of almost 90% of the total government bond stock (**Figure 2**). Pension funds holdings rose to a 45.0% share, up from 43.0% in June 2019. This increase outpaced banks whose share of government bond holdings, fell to 43.3% from 45.4% during the review period. The rankings of the remaining investor groups held steady and their shares were practically unchanged between June 2019 and June 2020. Foreign investors held only 0.6% of government securities at the end of June 2020, which is the smallest foreign holdings share among

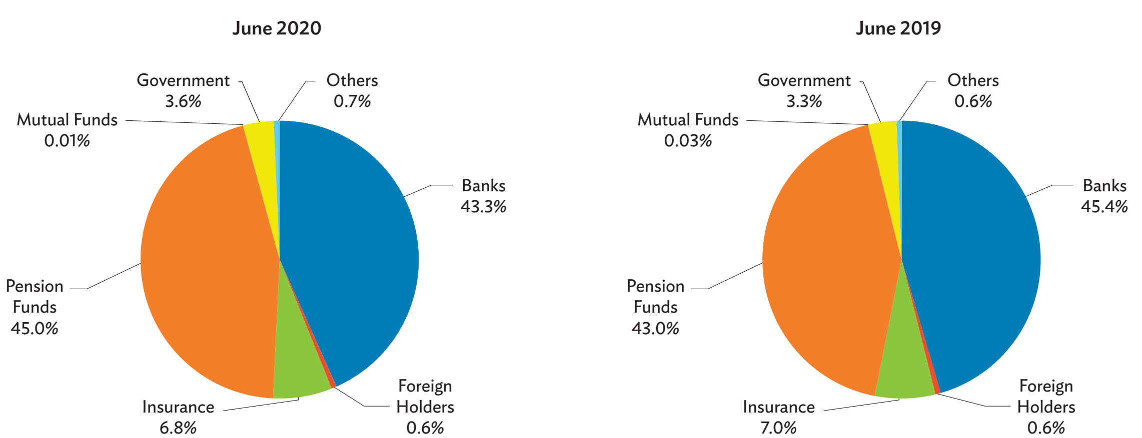
Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (VND billion)
Vinhomes		
3-year bond	Floating	3,095
3-year bond	Floating	2,185
1.5-year bond	Floating	3,040
Masan Group		
3-year bond	Floating	3,000
Bank for Investment and Development of Vietnam		
7-year bond	Floating	1,000
7-year bond	Floating	1,000
7-year bond	Floating	1,000
6-year bond	Floating	2,300
6-year bond	Floating	1,000

Corporate Issuers	Coupon Rate (%)	Issued Amount (VND billion)
Ho Chi Minh City Development Commercial Joint Stock Bank		
3-year bond	3.00	2,000
3-year bond	3.00	1,000
3-year bond	3.00	1,000
3-year bond	2.00	1,000
3-year bond	3.00	1,000
Bac A Commercial Joint Stock Bank		
2-year bond	6.30	1,000
2-year bond	6.30	1,000
Sovico Group		
3-year bond	Floating	1,000

VND = Vietnamese dong.
Source: Bloomberg LP.

Figure 2: Local Currency Government Bonds Investor Profile



Source: Viet Nam Ministry of Finance.

all emerging East Asian economies. Mutual funds have the smallest holdings share in Viet Nam's LCY government bond market at 0.01%.

Policy, Institutional, and Regulatory Developments

Ministry of Finance Amends Decree to Tighten the Trading of Privately Placed Corporate Bonds

In July, Viet Nam's Ministry of Finance amended several points under Decree No. 163/2018/ND-CP to tighten the trading of privately placed corporate bonds in the domestic market. In the new version, depository organizations must provide information about corporate bond trading within 1 working day of the trade being completed. Regular updates about bond registration and depository must be provided to the stock exchange monthly, quarterly, and yearly. The amended decree will take effect on 1 September 2020.[9]

Viet Nam Government Issues New Decree to Raise the Standards in the Corporate Bond Market

In July, the Government of Viet Nam issued Government Decree No. 81 to raise standards in the corporate bond market and ensure information transparency. In particular, the decree will limit private issuance to minimize risks for individual investors and will impose more responsibility on underwriters when evaluating the financial capacity of issuers. The decree also states that the total bond issuance of a company cannot exceed its equity capital by five times and that the gap between two bond issuances must be at least 6 months. The issuer must also declare the purpose of the funds and provide a business plan for proper monitoring by investors. The new decree takes effect on 1 September.[10]

[9] Ministry of Finance, Government of Viet Nam. *New Regulations about Corporate Bond Issuance*. https://www.mof.gov.vn/webcenter/portal/vclvcstcen/r/m/page190214/ft_chitiet66?dDocName=MOFUCM179280&_afrLoop=105313418565750659#!%40%40%3F_afrLoop%3D105313418565750659%26dDocName%3DMOFUCM179280%26_adf.ctrl-state%3D1bxz51o5rj_282.

[10] Viet Nam News. *Decree Takes Effect in September to Raise Standards for Corporate Bond Market*. https://vietnamnews.vn/economy/770204/decree-takes-effect-in-september-to-raise-standards-for-corporate-bond-market.html.