

Bond Market Developments in the Second Quarter of 2021

Size and Composition

Emerging East Asia's local currency bond market expanded in the second quarter of 2021 to reach a size of USD21.1 trillion at the end of June.

The outstanding amount of local currency (LCY) bonds in emerging East Asia climbed to USD21.1 trillion at the end of June.² Overall growth quickened to 2.9% quarter-on-quarter (q-o-q) in the second quarter (Q2) of 2021 from 2.2% q-o-q in the first quarter (Q1) (Figure 1a).

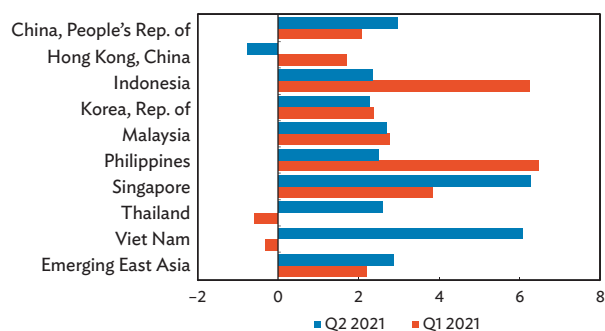
The faster expansion was driven primarily by higher growth in the government bond segment, as most governments in the region renewed bond issuance to support additional stimulus measures amid the resurgence of COVID-19 outbreaks.

All of the region's bond markets except for Hong Kong, China posted positive q-o-q growth rates in Q2 2021. Among those that recorded an expansion, the markets of Singapore and Viet Nam posted the fastest q-o-q growth in Q2 2021, while the markets of Indonesia and the Republic of Korea showed the weakest q-o-q growth. Compared with Q1 2021, the q-o-q growth rate accelerated in four of the region's nine markets.

On a year-on-year (y-o-y) basis, emerging East Asia's LCY bond market grew at a weaker pace of 13.6% in Q2 2021 versus 15.9% in Q1 2021 (Figure 1b). Five of the region's nine markets experienced a slowdown in y-o-y growth in Q2 2021 compared to the previous quarter. Nonetheless, all nine markets posted positive y-o-y growth in Q2 2021. Indonesia and Viet Nam posted the fastest y-o-y expansions, while Hong Kong, China and Thailand had the weakest y-o-y growth rates.

The bond market of the People's Republic of China (PRC) remained the largest in the region at the end of June with outstanding bonds of USD16.5 trillion. The PRC's share of the regional market inched up to 78.1% at the end of June from 78.0% at the end of March. Overall expansion in the PRC's bond market accelerated to 3.0% q-o-q in Q2 2021

Figure 1a: Growth of Local Currency Bond Markets in the First and Second Quarters of 2021 (q-o-q, %)



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

Notes:

1. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.
2. Calculated using data from national sources.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. Emerging East Asia growth figures are based on 30 June 2021 currency exchange rates and do not include currency effects.

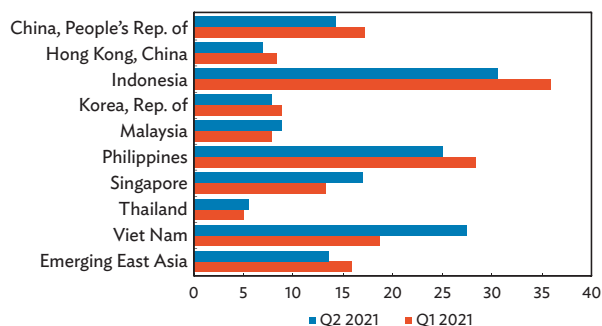
Sources: People's Republic of China (CEIC); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange); Republic of Korea (KG Zeroin Corporation and The Bank of Korea); Malaysia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

from 2.1% q-o-q in Q1 2021. Growth was mainly driven by strong issuance of Treasury and other government bonds, which expanded 35.8% q-o-q in Q2 2021, as the central and local governments resumed debt issuance to support domestic economic recovery. Growth in the PRC's corporate bond stock slowed to 2.3% q-o-q in Q2 2021 from 2.9% q-o-q in Q1 2021. On a y-o-y basis, the PRC's bond market expanded 14.4% in Q2 2021, down from 17.3% in the previous quarter.

The Republic of Korea's LCY bond market remained the second-largest in the region in Q2 2021, with its outstanding bonds reaching USD2.4 trillion at the end of June. Its share of the regional total was steady from Q1 2021 to Q2 2021 at 11.6%. Overall growth in the Republic of Korea's LCY bond market slowed to 2.3% q-o-q in Q2 2021 from 2.4% q-o-q in the previous

² Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

Figure 1b: Growth of Local Currency Bond Markets in the First and Second Quarters of 2021 (y-o-y, %)



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

Notes:

1. For Singapore, corporate bonds outstanding are based on *AsianBondsOnline* estimates.
2. Calculated using data from national sources.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. Emerging East Asia growth figures are based on 30 June 2021 currency exchange rates and do not include currency effects.

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

quarter. Government bonds outstanding increased 3.2% q-o-q in Q2 2021, down from 4.0% q-o-q growth in Q1 2021. Growth in this market segment was driven mainly by an expansion in outstanding central government bonds, as the government continued to issue debt to frontload expenditures for 2021 and bolster domestic economic recovery. The stock of corporate bonds rose 1.6% q-o-q in Q2 2021, up from 1.2% q-o-q growth in the prior quarter. On a y-o-y basis, the Republic of Korea's bond market growth moderated to 7.9% in Q2 2021 from 8.9% in Q1 2021.

The size of the LCY bond market in Hong Kong, China stood at USD312.5 billion at the end of June. Total bonds outstanding contracted 0.8% q-o-q in Q2 2021, reversing the 1.7% q-o-q growth in the previous quarter. The negative growth was driven primarily by a contraction in the corporate bond segment, which shrank 3.7% q-o-q in Q2 2021 due to maturities and weak issuance during the review period. Growth in the outstanding stock of government bonds jumped to 2.4% q-o-q in Q2 2021 from 0.2% q-o-q in Q1 2021, boosted mainly by strong

growth in outstanding Hong Kong Special Administrative Region Bonds. Robust issuance, which included HKD20.0 billion of inflation-linked iBonds, contributed to this growth. On a y-o-y basis, the bond market of Hong Kong, China expanded 7.0% in Q2 2021, down from 8.4% in the previous quarter.

The aggregate amount of LCY bonds outstanding among member economies of the Association of Southeast Asian Nations (ASEAN) stood at USD1.9 trillion at the end of June.³ Overall growth rose to 3.5% q-o-q in Q2 2021 from 3.0% q-o-q in Q1 2021. The total government bond stock reached USD1.3 trillion, while corporate bonds outstanding stood at USD0.5 trillion at the end of June. Thailand's LCY bond market remained the largest among all ASEAN members, while Singapore's bond market surpassed that of Malaysia in Q2 2021 to become the second-largest ASEAN market.

The outstanding amount of Thailand's LCY bonds totaled USD443.4 billion at the end of June. The bond market expanded 2.6% q-o-q in Q2 2021, reversing the 0.6% q-o-q drop in the previous quarter. Both the government and corporate segments rebounded in Q2 2021, contributing to the overall expansion. Government bonds outstanding rose 1.7% q-o-q in Q2 2021 versus a 0.8% q-o-q drop in the prior quarter. Strong issuance supported this growth, as the government issued debt during the review period to help support its fiscal deficit and fund relief measures amid a new wave of COVID-19 outbreaks. The stock of outstanding corporate bonds rose 5.1% q-o-q in Q2 2021, reversing the 0.1% q-o-q decline in Q1 2021. On an annual basis, growth in the Thai LCY bond market climbed to 5.6% in Q2 2021 from 5.1% in the previous quarter.

Singapore's LCY bonds outstanding reached USD412.5 billion at the end of June, with growth jumping to 6.3% q-o-q in Q2 2021 from 3.8% q-o-q in Q1 2021. Government bonds outstanding expanded 4.8% q-o-q in Q2 2021, as all components of the government bond market recorded an expansion, led by a 9.0% q-o-q rise in outstanding Monetary Authority of Singapore (MAS) bills and notes. The growth in MAS bills was spurred in part by the issuance of floating-rate notes tied to the Singapore overnight rate average in June, which was part of the MAS's ongoing move from the London Interbank Offered Rate to a benchmark alternative. Growth in the corporate

³ LCY bond statistics for ASEAN include the markets of Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.

bond segment surged 9.3% q-o-q in Q2 2021, following a contraction of 0.3% q-o-q in the previous quarter, driven by strong issuance as firms took advantage of the low-interest-rate environment. On a y-o-y basis, growth in Singapore's LCY bond market quickened to 17.1% in Q2 2021 from 13.4% in Q1 2021.

Malaysia's LCY bonds outstanding amounted to USD408.1 billion at the end of June. Overall growth inched down to 2.7% q-o-q in Q2 2021 from 2.8% q-o-q in Q1 2021. Growth in the government bond segment eased to 3.9% q-o-q in Q2 2021 from 4.3% q-o-q in the previous quarter. The expansion in government bonds stemmed primarily from strong growth in central government bonds, as outstanding central bank bills fell during the review period. Growth in corporate bonds outstanding rose to 1.3% q-o-q in Q2 2021 from 1.0% q-o-q in the prior quarter. On a y-o-y basis, Malaysia's LCY bond market growth climbed to 8.9% in Q2 2021 from 7.9% in Q1 2021.

Malaysia is home to the largest *sukuk* (Islamic bond) market in emerging East Asia, with a total of USD256.7 billion of *sukuk* outstanding at the end of June. *Sukuk* accounted for 62.9% of Malaysia's LCY bond market. At the end of June, the outstanding stock of government *sukuk* totaled USD105.7 billion, or 47.5% of Malaysia's government bond market. Outstanding corporate *sukuk* stood at USD151.0 billion, or 81.4% of the corporate bond market.

The outstanding amount of Indonesia's LCY bonds reached USD338.8 billion at the end of June, with growth moderating to 2.4% q-o-q in Q2 2021 from 6.2% q-o-q in the previous quarter. Expansion in the government bond segment drove overall growth, as the corporate bond segment contracted during the review period. The stock of outstanding government bonds rose 2.8% q-o-q in Q2 2021, driven by growth in the outstanding stock of central government bonds and Bank Indonesia instruments. The corporate bond market contracted 2.4% in Q2 2021, reversing the 1.7% q-o-q growth in the prior quarter, as issuance continued to decline amid the risk-off sentiment brought about by a new wave of COVID-19 outbreaks. On a y-o-y basis, Indonesia's LCY bond market growth eased to 30.6% in Q2 2021 from 36.0% in Q1 2021.

The Philippine LCY bond market reached a size of USD191.6 billion at the end of June. Overall growth

weakened to 2.5% q-o-q in Q2 2021 from 6.5% q-o-q in Q1 2021. The stock of outstanding government bonds expanded 3.9% q-o-q in Q2 2021 after rising 8.4% q-o-q in the prior quarter. Growth in outstanding Treasury bonds and Bangko Sentral ng Pilipinas securities contributed to the growth, as the government continued to issue debt to support the economy against the protracted impact of the pandemic. The contraction in the LCY corporate bond market steepened, declining 3.9% q-o-q in Q2 2021 after a 2.0% q-o-q drop in Q1 2021, as market sentiment remained subdued amid prolonged social distancing measures. On an annual basis, growth in the Philippine LCY bond market moderated to 25.1% y-o-y in Q2 2021 from 28.4% y-o-y in the previous quarter.

The LCY bond market in Viet Nam remained the smallest in emerging East Asia with an outstanding bond stock of USD76.5 billion at the end of June. Viet Nam's LCY bond market rebounded in Q2 2021, rising 6.1% q-o-q after a 0.3% q-o-q contraction in the prior quarter. The growth stemmed from the corporate bond segment, which expanded 36.6% q-o-q during the review period. The stock of outstanding government bonds continued to contract, declining 0.5% q-o-q in Q2 2021 after a 1.1% q-o-q drop in Q1 2021, due to a relatively high volume of maturities that outpaced robust issuance. On a y-o-y basis, Viet Nam's LCY bond market growth accelerated to 27.5% in Q2 2021 from 18.7% in Q1 2021.

At the end of March, government bonds continued to account for the majority of emerging East Asia's total LCY bond stock, representing a 62.1% share. In nominal terms, the outstanding amount of government bonds in the region climbed to USD13.1 trillion at the end of June (**Table 1**). Except for Viet Nam, all government bond markets in the region posted positive q-o-q growth in Q1 2021. The q-o-q growth of the region's government bond stock quickened to 3.3% q-o-q in Q2 2021 from 2.1% q-o-q in Q1 2021, as most governments raised debt to fund additional relief measures amid the resurgence of COVID-19 cases generated by the delta variant. On a y-o-y basis, growth in the region's LCY government bond market moderated to 15.9% in Q2 2021 from 18.0% in the previous quarter.

The PRC and the Republic of Korea maintained their positions as the first- and second-largest government bond markets in the region, respectively, with a combined

Table 1: Size and Composition of Local Currency Bond Markets

	Q2 2020		Q1 2021		Q2 2021		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q2 2020		Q2 2021		Q2 2020		Q2 2021	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of														
Total	13,189	100.0	15,799	100.0	16,507	100.0	5.6	17.9	3.0	14.4	5.8	14.6	4.5	25.2
Government	8,332	63.2	10,102	63.9	10,591	64.2	5.4	15.1	3.3	16.2	5.6	11.9	4.8	27.1
Corporate	4,857	36.8	5,697	36.1	5,917	35.8	5.9	22.9	2.3	11.3	6.1	19.5	3.9	21.8
Hong Kong, China														
Total	293	100.0	315	100.0	313	100.0	0.6	(0.7)	(0.8)	7.0	0.6	0.04	(0.7)	6.8
Government	149	51.0	153	48.6	157	50.1	(1.1)	(0.7)	2.4	5.1	(1.1)	0.1	2.5	4.9
Corporate	144	49.0	162	51.4	156	49.9	2.4	(0.8)	(3.7)	8.9	2.4	(0.02)	(3.6)	8.7
Indonesia														
Total	264	100.0	330	100.0	339	100.0	6.6	14.9	2.4	30.6	21.9	13.7	2.5	28.5
Government	234	88.6	301	91.0	310	91.4	8.0	16.6	2.8	34.8	23.4	15.5	3.0	32.6
Corporate	30	11.4	30	9.0	29	8.6	(3.0)	3.0	(2.4)	(1.6)	10.9	2.0	(2.2)	(3.2)
Korea, Rep. of														
Total	2,123	100.0	2,382	100.0	2,447	100.0	3.1	9.5	2.3	7.9	4.5	5.2	2.8	15.3
Government	863	40.7	992	41.6	1,028	42.0	4.6	9.7	3.2	11.6	6.0	5.3	3.7	19.1
Corporate	1,260	59.3	1,390	58.4	1,419	58.0	2.1	9.4	1.6	5.4	3.5	5.0	2.1	12.6
Malaysia														
Total	363	100.0	398	100.0	408	100.0	1.8	4.5	2.7	8.9	2.6	0.7	2.6	12.5
Government	193	53.3	215	54.0	223	54.6	3.2	6.4	3.9	11.5	4.0	2.6	3.8	15.2
Corporate	169	46.7	183	46.0	185	45.4	0.2	2.4	1.3	6.0	1.0	(1.3)	1.2	9.5
Philippines														
Total	150	100.0	188	100.0	192	100.0	5.2	11.5	2.5	25.1	7.1	14.8	1.9	27.6
Government	119	79.0	155	82.7	160	83.8	6.8	11.6	3.9	32.7	8.7	14.9	3.3	35.4
Corporate	32	21.0	33	17.3	31	16.2	(0.4)	11.0	(3.9)	(3.6)	1.4	14.3	(4.5)	(1.6)
Singapore														
Total	340	100.0	388	100.0	412	100.0	2.9	12.4	6.3	17.1	5.0	9.2	6.2	21.2
Government	219	64.5	260	66.9	272	65.9	4.4	16.5	4.8	19.7	6.5	13.2	4.7	24.0
Corporate	121	35.5	129	33.1	141	34.1	0.3	5.7	9.3	12.3	2.4	2.6	9.2	16.3
Thailand														
Total	435	100.0	443	100.0	443	100.0	2.1	3.2	2.6	5.6	42.1	56.6	0.1	1.9
Government	315	72.4	325	73.3	322	72.7	4.1	4.4	1.7	6.1	39.3	51.4	(0.8)	2.4
Corporate	120	27.6	118	26.7	121	27.3	(2.6)	(0.03)	5.1	4.4	49.9	72.1	2.6	0.8
Viet Nam														
Total	59	100.0	72	100.0	76	100.0	(1.2)	11.7	6.1	27.5	0.7	12.2	6.3	28.5
Government	51	85.8	59	82.3	59	77.2	(7.6)	5.0	(0.5)	14.7	(5.9)	5.4	(0.2)	15.6
Corporate	8	14.2	13	17.7	17	22.8	70.3	81.8	36.6	104.5	73.6	82.6	36.9	106.2
Emerging East Asia														
Total	17,216	100.0	20,315	100.0	21,138	100.0	5.0	15.6	2.9	13.6	6.4	13.3	4.1	22.8
Government	10,475	60.8	12,561	61.8	13,122	62.1	5.1	13.9	3.3	15.9	6.6	11.9	4.5	25.3
Corporate	6,742	39.2	7,754	38.2	8,017	37.9	4.7	18.3	2.2	10.0	5.9	15.7	3.4	18.9
Japan														
Total	11,082	100.0	11,604	100.0	11,520	100.0	0.4	1.3	(0.4)	7.0	0.02	1.2	(0.7)	4.0
Government	10,288	92.8	10,793	93.0	10,691	92.8	0.4	1.0	(0.6)	7.0	0.1	0.9	(0.9)	3.9
Corporate	794	7.2	811	7.0	829	7.2	(0.1)	4.9	2.6	7.5	(0.4)	4.9	2.3	4.4

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

Notes:

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

2. Corporate bonds include issues by financial institutions.

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

4. For LCY base, emerging East Asia growth figures based on 30 June 2021 currency exchange rates and do not include currency effects.

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

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

share of 88.5% of the region's total government bond stock at the end of June. ASEAN economies accounted for 10.3% of the region's government bonds outstanding. Among ASEAN economies, the largest government bond markets were those of Thailand, Indonesia, and Singapore.

LCY corporate bonds outstanding in emerging East Asia reached USD8.0 trillion at the end of June. On a q-o-q basis, growth in the region's corporate bond market dipped to 2.2% in Q1 2021 from 2.4% in the previous quarter. Compared with Q1 2021, growth in the corporate bond segment slowed in the PRC, while corporate bond markets contracted in Hong Kong, China; Indonesia; and the Philippines. On a y-o-y basis, growth in the region's LCY corporate bond stock moderated to 10.0% in Q2 2021 from 12.6% in Q1 2021.

The PRC and the Republic of Korea accounted for the majority of emerging East Asia's corporate bond stock with a combined share of 91.5% at the end of June. ASEAN economies accounted for 6.5% of emerging East Asia's corporate bond stock. Within ASEAN, Malaysia had the largest corporate bond market at the end of June, followed by Singapore and Thailand.

The aggregate amount of LCY bonds outstanding in emerging East Asia was equivalent to 96.2% of the region's gross domestic product (GDP) at the end of June, which was barely changed from 96.4% at the end of March but up from 91.9% at the end of June 2020 (Table 2). Economies continued to borrow from the bond market to support growth as a resurgence of COVID-19 infections disrupted economic activities across the region. The GDP equivalent of government bonds was barely changed at 59.7% in Q2 2021 from 59.6% in Q1 2021, as well as for corporate bonds at 36.5% from 36.8% over the same period.

All markets in the region saw their bond market's share of GDP decline from Q1 2020 to Q2 2021 except for the Republic of Korea and Singapore, which both posted increases, and Thailand, where the share was practically unchanged. In Q2 2021, the Republic of Korea's bond market had the largest share of GDP in the region at 147.2%, followed by Malaysia (121.9%) and Singapore (112.8%). The rest of the markets in the region all had shares below 100%, with Viet Nam having the smallest share at 22.8%.

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

	Q2 2020	Q1 2021	Q2 2021
China, People's Rep. of			
Total	94.8	97.7	97.5
Government	59.9	62.5	62.5
Corporate	34.9	35.2	34.9
Hong Kong, China			
Total	82.8	89.5	87.2
Government	42.2	43.4	43.7
Corporate	40.6	46.0	43.5
Indonesia			
Total	24.0	31.0	30.8
Government	21.2	28.2	28.1
Corporate	2.7	2.8	2.6
Korea, Rep. of			
Total	138.3	146.1	147.2
Government	56.2	60.8	61.9
Corporate	82.1	85.2	85.4
Malaysia			
Total	113.8	122.9	121.9
Government	60.7	66.3	66.5
Corporate	53.1	56.6	55.4
Philippines			
Total	39.8	51.1	50.6
Government	31.4	42.2	42.4
Corporate	8.4	8.8	8.2
Singapore			
Total	97.0	110.9	112.8
Government	62.5	74.1	74.4
Corporate	34.4	36.7	38.4
Thailand			
Total	82.9	88.7	88.8
Government	60.0	65.0	64.6
Corporate	22.9	23.6	24.3
Viet Nam			
Total	22.5	23.5	22.8
Government	19.3	19.3	17.6
Corporate	3.2	4.2	5.2
Emerging East Asia			
Total	91.9	96.4	96.2
Government	55.9	59.6	59.7
Corporate	36.0	36.8	36.5
Japan			
Total	219.1	239.4	235.0
Government	203.4	229.7	218.1
Corporate	15.7	16.7	16.9

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

Notes:

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

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

For government bonds, Singapore had the highest share of GDP in the region at 74.4% in Q2 2021, while Viet Nam had the lowest at 17.6%. For corporate bonds, the Republic of Korea had the highest share at 85.4%, while Indonesia had the smallest at 2.6%.

Foreign Investor Holdings

Movements in the shares of foreign investor holdings of local currency government bonds differed across emerging East Asian markets in Q2 2021.

The foreign investor holdings' share increased in the LCY bond markets of the PRC, the Philippines, and Thailand between Q1 2021 and Q2 2021, while it marginally declined in Indonesia (**Figure 2**). The shares in Malaysia and Viet Nam were almost unchanged over the same period. Differences in the stage of economic recovery and the associated risks among economies in the region largely influenced the portfolio management of foreign investors.

Foreign investors remained keen on PRC government bonds in Q2 2021, as denoted by the foreign holdings' share reaching 10.3% at the end of June from 10.1% at the end of March. The underlying appeal of PRC government bonds—yield premium, easy market access, and inclusion in global bond indexes—remained strong,

which prompted offshore investors to flock to the PRC's debt market. From the earliest data available in June 2014, when foreign holdings comprised only 2.0% of outstanding government bonds, this share had increased more than five times by the end of June 2021.

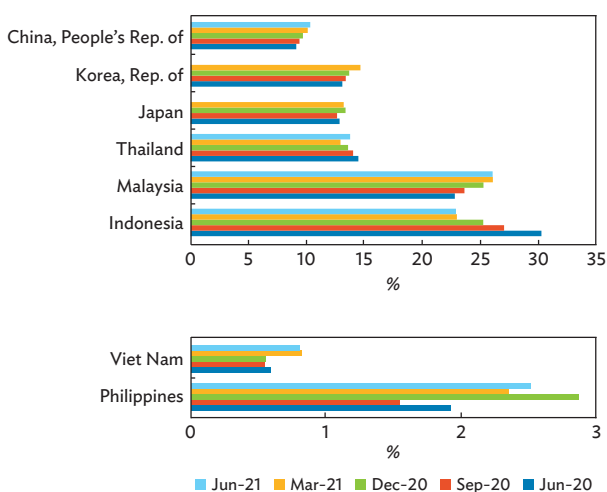
In the Philippines, foreign participants increased their exposure to government bonds, with the foreign holdings' share rising 0.2 percentage points in Q2 2021 to 2.5% at the end of June. This was in contrast to Q1 2021 when this share experienced a quarterly drop of 0.5 percentage point to 2.3%. The increase in foreign holdings in Q2 2021 was supported by fund inflows amid relatively few COVID-19 cases at that time, which in turn persuaded the government to hasten the reopening of the economy.

In Thailand, the foreign holdings' share of government bonds registered a quarterly increase in Q2 2021 to 13.7% at the end of June from 12.9% at the end of March, ending the downtrend in place since Q1 2019. Foreign investors took profits from government bonds in 2019 and since then had cut their exposure to the Thai market due to low returns. A turnaround was seen in Q2 2021, as Thai sovereign bonds' appeal to foreign investors was restored by the yield differential with United States (US) Treasuries favoring local bonds, expectations of the Thai baht's appreciation, and low inflationary pressures.

Foreign holdings of Indonesian government bonds continued to decline in Q2 2021, albeit only slightly to 22.8% at the end of June from 22.9% at the end of March. While there were fund flows into the market from overseas investors, these were not large enough to offset the outflows and reverse the declining trend. Concerns over Indonesia's economic recovery against the backdrop of rising COVID-19 cases negatively affected foreign sentiment.

The shares of foreign holdings in the government bond markets of Malaysia and Viet Nam barely changed in Q2 2021. In Malaysia, the share was 26.0% at the end of June, supported by continued inflows of foreign funds, albeit in an abated manner due to heightened risk aversion. Despite this, Malaysia's foreign holdings' share remained the highest among all emerging East Asian markets, having overtaken Indonesia's in Q1 2021. In Viet Nam, foreign participation in the government bond market registered a share of 0.8% in Q2 2021, the lowest in the region.

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



Note: Data for Japan and the Republic of Korea are as of 31 March 2021.
Source: AsianBondsOnline.

In the Republic of Korea, the foreign holdings' share climbed to 14.6% of the government bond market at the end of March from 13.6% at the end of December 2020. The increase was backed by the entry of foreign funds into the market in Q1 2021, as investors reinvested capital after a large amount of maturities toward the end of 2020. The Republic of Korea's strong growth recovery and shorter timeframe toward monetary policy normalization prompted foreigners to increase their exposure to the Korean LCY bond market in pursuit of better returns.

Foreign Fund Flows into Bond Markets

Foreign buying of government bonds occurred in all emerging East Asian markets in Q2 2021.

LCY bond markets in emerging East Asia received total net inflows of USD36.8 billion in Q2 2021 (Figure 3). In contrast to previous quarters where at least one market experienced a foreign sell-off, all six markets in the region for which data are available drew in net foreign funds in Q2 2021. Investor sentiment toward emerging East Asian markets improved as the region's economic recovery

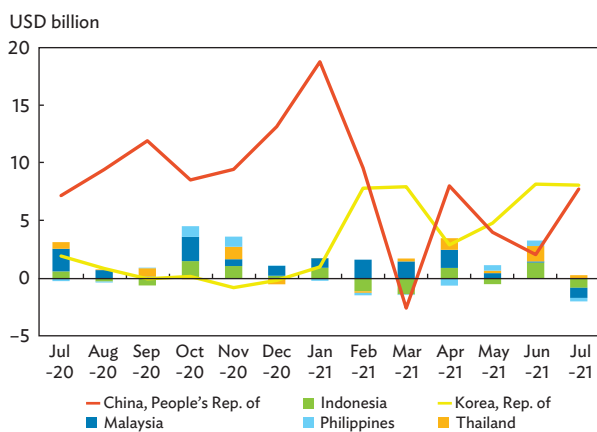
was fairly gaining traction with progress being made in vaccination drives. Low inflation and yield gap against US Treasuries in favor of emerging East Asian markets also encouraged foreign fund flows into the region. However, foreign fund net inflows in Q2 2021 were lower compared to the USD44.6 billion of inflows in Q1 2021.

The resurgence of COVID-19 cases driven by the more transmissible delta variant remained a key risk that could derail the region's recovery and dampen investor confidence. Declining inflows in Q2 2021 compared to the previous 2 quarters were indicative of investor cautiousness. Investors may have been remanaging their portfolios, likely by directing capital toward the US given its better prospects for economic recovery and shorter time to policy normalization. In Q2 2021, the largest monthly inflows occurred in April (USD13.8 billion) before slowing in May (USD9.4 billion) and rebounding in June (USD13.5 billion).

In the PRC, foreign fund inflows amounted to USD14.1 billion in Q2 2021. Attractive returns generated demand for PRC government bonds as an important part of foreign investors' portfolios. The PRC's inclusion in major global bond indexes, such as the FTSE World Government Bond Index starting in October, also drove the influx of overseas funds into its government bond market. While the PRC's bond market continued to attract offshore funds, the inflows during Q2 2021 were nearly half that in Q1 2021. After experiencing net outflows in March as rising US Treasury yields dimmed PRC government bonds' appeal, foreign investors returned to the domestic market with a net USD8.0 billion of inflows in April. Inflows slowed in May (USD4.0 billion) and declined further in June (USD2.1 billion). The monthly numbers in Q2 2021 suggested the decreased momentum of fund inflows, which could have been due to disappointment among investors over an extension of the FTSE World Government Bond Index inclusion period to 3 years from 1 year. And while there remained a yield premium over developed economies, the difference has been narrowing.

The Republic of Korea drew in USD15.9 billion of foreign funds in Q2 2021, down from USD16.8 billion in Q1 2021. Although inflows into the Korean government bond market slowed during the quarter, they surpassed those into the PRC market, making the Republic of Korea emerging East Asia's largest recipient of foreign funds during Q2 2021. The government bond market sustained

Figure 3: Foreign Capital Flows in Local Currency Bond Markets in Emerging East Asia



USD = United States dollar.

Notes:

1. The Republic of Korea and Thailand provided data on bond flows. For the People's Republic of China, Indonesia, Malaysia, and the Philippines, month-on-month changes in foreign holdings of LCY government bonds were used as a proxy for bond flows.
2. Data as of 31 July 2021.
3. Figures were computed based on 31 July 2021 exchange rates to avoid currency effects.

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

its investment appeal because of high yields and the strength of the Korean won, owing to the economy's resilient growth recovery and current account surplus. Expectations of a sooner hike in the Bank of Korea's policy rate also prompted foreign buying of Korean government bonds during the quarter. In Q2 2021, monthly inflows into the government bond market were highest in June (USD8.2 billion) and lowest in April (USD2.9 billion).

Foreign fund inflows into the Malaysian government bond market slowed to USD2.1 billion in Q2 2021 from USD3.9 billion in Q1 2021. While offshore investors remained net buyers of government bonds, their interest in the Malaysian market appeared to be faltering. In April, the bond market received a net USD1.6 billion of foreign funds, but this fell to USD0.5 billion in May and to USD0.1 billion in June. Reduced foreign investor appetite can be attributed to increased risk aversion generated by the rising number of COVID-19 infections that clouded the economic recovery.

Indonesia, the Philippines, and Thailand each saw improved foreign fund flows in Q2 2021 from the preceding quarter. In Indonesia, outflows in Q1 2021 were reversed in Q2 2021 when it attracted a net USD1.8 billion of inflows. Indonesia managed to draw in foreign capital despite a spike in COVID-19 cases that gave it the highest number of infections in the region. On a monthly basis, the Indonesian government bond market received net inflows in April (USD0.9 billion) and June (USD1.4 billion), which were partially countered by outflows in May of USD0.5 billion.

Foreign appetite for Philippine government bonds also recovered from the previous quarter as the market received a net USD0.3 billion of inflows in Q2 2021. The foreign selling streak in place since the start of the year continued through April, which saw USD0.6 billion in net outflows, the biggest fund withdrawal since May 2020. A rebound in foreign fund inflows occurred in May and June with USD0.5 billion each. The turnaround can be attributed to the continued reopening of the economy on the back of looser mobility restrictions as the reported number of COVID-19 infections were relatively low during these months.

In Thailand, foreign investors bought a net USD2.5 billion of Thai government bonds in Q2 2021, up from only USD0.1 billion in Q1 2021, which signaled restored investor confidence in the local bond market. The net

overseas buying was traced to attractive returns largely due to the expected appreciation of the Thai baht and a low inflation rate. Capital inflows amounted to USD1.0 billion in April, USD0.2 billion in May, and USD1.3 billion in June.

In July, emerging East Asia's government bond market recorded net foreign fund inflows of USD14.1 billion. Compared with the prior month, July's inflows were higher even when three out of the six markets for which data are available experienced a foreign sell-off. The PRC largely drove July's increase as foreign investors bought USD7.7 billion of its government bonds, nearly quadruple the amount in June. Other markets that saw net inflows in July were the Republic of Korea (USD8.1 billion) and Thailand (USD0.3 billion). On the other hand, net outflows were recorded in Indonesia (-USD0.8 billion), Malaysia (-USD0.9 billion), and the Philippines (-USD0.3 billion), all of which can be attributed to risk-off sentiment among foreign investors as the number of COVID-19 cases in those economies accelerated.

LCY Bond Issuance

LCY bond issuance in emerging East Asia rose to USD2.2 trillion in Q2 2021.

Q2 2021 saw more active issuance from emerging East Asia, as total LCY bond issuance reached USD2.2 trillion, up from USD2.0 trillion in Q1 2021 (**Table 3**). Overall growth quickened to 14.6% q-o-q, reversing the 1.6% q-o-q decline in Q1 2021. The high volume of issuance was driven largely by governments needing to support relief and recovery programs as the spread of COVID-19 variants in some markets continued to pummel economic growth. Issuance volume remained high relative to pre-COVID-19 levels, reflecting the region's resilience and capacity to fund vast amounts of spending through LCY borrowing.

All bond segments recorded faster q-o-q increases in issuance in Q2 2021. The issuance of central bank bonds and corporate bonds rebounded from declines in Q1 2021, while Treasury and other government bonds posted robust growth. Issuance accelerated in seven out of nine regional markets in Q2 2021, led by the PRC and the Republic of Korea, which are home to the two largest bond markets in emerging East Asia. The two markets that had less issuance in Q2 2021 were the Philippines and Hong Kong, China.

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

	Q2 2020		Q1 2021		Q2 2021		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q2 2021		Q2 2021	
							q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of										
Total	1,414	100.0	1,255	100.0	1,492	100.0	17.1	(3.6)	18.9	5.5
Government	736	52.1	575	45.8	793	53.1	35.8	(1.6)	37.8	7.7
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	736	52.1	575	45.8	793	53.1	35.8	(1.6)	37.8	7.7
Corporate	678	47.9	680	54.2	699	46.9	1.3	(5.8)	2.8	3.1
Hong Kong, China										
Total	138	100.0	143	100.0	140	100.0	(2.2)	2.1	(2.1)	1.9
Government	107	77.9	105	73.5	110	78.5	4.5	2.9	4.6	2.7
Central Bank	106	77.1	105	73.3	106	75.9	1.4	0.5	1.5	0.3
Treasury and Other Govt.	1	0.8	0.3	0.2	4	2.6	944.4	243.9	945.7	243.3
Corporate	30	22.1	38	26.5	30	21.5	(20.8)	(0.8)	(20.7)	(1.0)
Indonesia										
Total	30	100.0	34	100.0	39	100.0	12.0	30.9	12.2	28.7
Government	29	97.9	33	95.9	37	96.6	12.9	29.2	13.1	27.1
Central Bank	8	26.4	12	34.5	21	55.3	79.7	174.0	80.0	169.6
Treasury and Other Govt.	21	71.5	21	61.4	16	41.3	(24.6)	(24.3)	(24.5)	(25.5)
Corporate	0.6	2.1	1	4.1	1	3.4	(8.5)	108.3	(8.3)	104.9
Korea, Rep. of										
Total	208	100.0	205	100.0	235	100.0	14.2	5.8	14.7	13.0
Government	96	46.4	91	44.3	101	43.2	11.1	(1.5)	11.7	5.2
Central Bank	33	16.0	29	14.3	31	13.3	6.4	(12.2)	6.9	(6.2)
Treasury and Other Govt.	63	30.3	62	30.1	70	29.9	13.4	4.2	14.0	11.3
Corporate	112	53.6	114	55.7	134	56.8	16.6	12.2	17.2	19.8
Malaysia										
Total	22	100.0	24	100.0	24	100.0	1.0	7.4	0.9	11.0
Government	14	63.7	14	56.9	13	55.3	(1.8)	(6.7)	(1.8)	(3.6)
Central Bank	0.2	1.1	0	0.0	0	0.0	-	(100.0)	-	(100.0)
Treasury and Other Govt.	14	62.6	14	56.9	13	55.3	(1.8)	(5.1)	(1.8)	(1.9)
Corporate	8	36.3	10	43.1	11	44.7	4.7	32.1	4.6	36.4
Philippines										
Total	14	100.0	44	100.0	42	100.0	(4.0)	195.4	(4.5)	201.5
Government	13	96.0	43	97.3	41	97.7	(3.5)	200.6	(4.0)	206.8
Central Bank	0	0.0	23	51.2	26	60.8	14.0	-	13.4	-
Treasury and Other Govt.	13	96.0	20	46.0	16	36.9	(23.0)	13.6	(23.4)	15.9
Corporate	0.6	4.0	1	2.7	1	2.3	(20.2)	70.6	(20.6)	74.1
Singapore										
Total	136	100.0	169	100.0	194	100.0	15.3	38.4	15.3	43.4
Government	131	96.8	166	98.4	185	95.4	11.8	36.4	11.8	41.3
Central Bank	106	78.2	142	84.2	155	80.0	9.6	41.7	9.5	46.7
Treasury and Other Govt.	25	18.6	24	14.2	30	15.4	25.2	14.5	25.1	18.6
Corporate	4	3.2	3	1.6	9	4.6	228.3	98.9	228.1	106.0
Thailand										
Total	79	100.0	63	100.0	69	100.0	11.4	(9.5)	8.7	(12.7)
Government	71	89.6	54	85.1	54	78.4	2.6	(20.8)	0.1	(23.6)
Central Bank	59	75.2	34	53.1	35	51.0	7.0	(38.6)	4.4	(40.8)
Treasury and Other Govt.	11	14.4	20	32.0	19	27.4	(4.7)	72.6	(7.1)	66.6
Corporate	8	10.4	9	14.9	15	21.6	61.9	87.4	57.9	80.8

continued on next page

Table 3 continued

	Q2 2020		Q1 2021		Q2 2021		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	Q2 2021		Q2 2021	
							q-o-q	y-o-y	q-o-q	y-o-y
Viet Nam										
Total	6	100.0	3	100.0	9	100.0	271.1	57.1	272.0	58.4
Government	2	39.6	2	67.8	4	47.7	160.9	89.2	161.6	90.8
Central Bank	0	0.0	0	0.0	0	0.0	-	-	-	-
Treasury and Other Govt.	2	39.6	2	67.8	4	47.7	160.9	89.2	161.6	90.8
Corporate	4	60.4	0.8	32.2	5	52.3	503.0	36.0	504.5	37.1
Emerging East Asia										
Total	2,046	100.0	1,940	100.0	2,245	100.0	14.6	2.2	15.7	9.7
Government	1,201	58.7	1,082	55.8	1,340	59.7	23.0	4.8	23.8	11.6
Central Bank	313	15.3	344	17.7	375	16.7	9.3	18.5	9.0	19.9
Treasury and Other Govt.	888	43.4	738	38.1	965	43.0	29.3	0.3	30.7	8.7
Corporate	845	41.3	858	44.2	905	40.3	4.2	(1.3)	5.5	7.0
Japan										
Total	406	100.0	664	100.0	505	100.0	(23.7)	28.0	(24.0)	24.3
Government	370	91.1	640	96.4	462	91.5	(27.6)	28.5	(27.8)	24.8
Central Bank	20	5.0	0	0.0	10	1.9	-	(51.8)	-	(53.2)
Treasury and Other Govt.	350	86.1	640	96.4	452	89.6	(29.1)	33.2	(29.3)	29.4
Corporate	36	8.9	24	3.6	43	8.5	79.7	22.3	79.1	18.8

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

Notes:

1. Corporate bonds include issues by financial institutions.

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

3. For LCY base, emerging East Asia growth figures are based on 30 June 2021 currency exchange rates and do not include currency effects.

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

Although positive, the region's growth in bond issuance slipped to 2.2% y-o-y in Q2 2021 from 8.6% y-o-y in Q1 2021, with most regional markets posting a growth moderation or decline. On the other hand, the Philippines and Singapore saw faster y-o-y increases in issuance while the Republic of Korea and Viet Nam recorded positive y-o-y growth in Q2 2021 compared to Q1 2021.

Much of the issuance was dominated by government bonds, which accounted for 59.7% of the regional total in Q2 2021. This represented an uptick from the 55.7% share recorded in the previous quarter as corporate bond issuance remained muted. Total issuance of government bonds reached USD1,340.1 billion in Q2 2021, as growth swelled to 23.0% q-o-q from a marginal hike of 0.3% q-o-q in Q1 2021. On a y-o-y basis, government bond issuance eased to 4.8% in Q2 2021 from 10.8% in the preceding quarter.

Treasury securities and other government bonds accounted for 72.0% of the government bond issuance total during Q2 2021. This was up from the 68.5% share

recorded in Q1 2021. Growth in Treasury and other government bond issuance accelerated to 29.3% q-o-q in Q2 2021 from only 0.5% q-o-q in Q1 2021, due largely to the resurgence of issuance by the PRC; Hong Kong, China; Singapore; and Viet Nam. All four markets recorded contractions in issuance of Treasury and other government bonds in Q1 2021. On the other hand, issuance declined in Indonesia, Malaysia, the Philippines, and Thailand during the quarter compared with Q1 2021. While remaining positive, growth in Treasury and other government bonds in the Republic of Korea moderated in Q2 2021 from Q1 2021.

Regional issuance of central bank instruments rebounded in Q2 2021 on growth of 9.3% q-o-q, compared with a decline of 0.4% q-o-q in Q1 2021, to reach USD375.2 billion. The higher issuance volume during the quarter was fueled by increased issuance from the MAS as well as the Hong Kong Monetary Authority, Bank Indonesia, the Bank of Korea, and Bank of Thailand. On the other hand, the Bangko Sentral ng Pilipinas tapered its issuance, while Bank Negara Malaysia and the

State Bank of Vietnam have yet to resume issuance of central bank instruments. On a y-o-y basis, central bank issuance rose 18.5% in Q2 2021 versus 7.0% in Q1 2021.

Corporate bond issuance in emerging East Asia also recovered, with growth rising to 4.2% q-o-q in Q2 2021 following a decline of 3.9% q-o-q in Q1 2021. Growth was buoyed by higher bond sales in six markets in Q2 2021 compared with the previous quarter. Only the markets of Indonesia; the Philippines; and Hong Kong, China saw q-o-q declines in the issuance of corporate bonds in Q2 2021. On an annual basis, corporate bond sales in the region contracted 1.3% y-o-y in Q2 2021 versus a 5.9% y-o-y hike in the preceding quarter.

Total bond issuance in the PRC reached USD1,491.8 billion in Q2 2021, with growth rebounding strongly to 17.1% q-o-q from a contraction of 2.6% q-o-q in the prior quarter. The rapid growth in issuance in the PRC was largely due to increased sales of government bonds, which rose 35.8% q-o-q in Q2 2021 to USD792.8 billion after a 2.2% q-o-q decline in Q1 2021. The uptick in government bond issuance was largely due to increased issuance in local government bonds. Owing to the PRC's economic recovery and, correspondingly, improved revenue collection, Treasury bond issuance fell 4.5% q-o-q. Risk control measures also led to a 9.6% q-o-q decline in policy bank bond issuance. Compared with the same period in 2020, the PRC's LCY bond issuance declined 3.6% y-o-y in Q2 2021, a turnaround from the 8.0% y-o-y expansion in Q1 2021.

Much of the growth in government bond issuance stemmed from local government bonds, with issuance rising 173.5% q-o-q. The exponential increase was due to a low base effect, as local government bond issuance was curtailed in Q1 2021 due to a delay in the granting of local government bond quotas. Local governments subsequently issued more in Q2 2021 to make up for the shortfall and meet their respective quotas. However, the Government of the PRC remained focused on risk control as the aggregate local government bond issuance quota of CNY3.65 trillion for 2021 was less than the 2020 quota of CNY6.75 trillion. Furthermore, local government bond issuance for the first half of 2021 fell 4.2% y-o-y. On a y-o-y basis, total government bond issuance fell 1.6% in Q2 2021.

In contrast, corporate bonds grew 1.3% q-o-q in Q2 2021 to reach USD699.0 billion, after contracting

3.0% q-o-q in the prior quarter, as the improved economic outlook encouraged issuance. However, the PRC's risk control strategy dampened sentiments, as Q2 2021 issuance was down 5.8% y-o-y. The PRC also tightened restrictions on the issuance of debt by local government financing vehicles.

In the Republic of Korea, total bond sales tallied USD235.1 billion in Q2 2021, as growth surged to 14.2% q-o-q from only 1.6% q-o-q in Q1 2021. Corporate bond issuance contributed to much of the growth, rising 16.6% q-o-q in Q2 2021 and reversing the 9.9% q-o-q decline in the previous quarter as corporates took advantage of the low-interest-rate environment. Government bonds also contributed to the overall issuance growth as Treasury and other government bonds expanded 13.4% q-o-q in Q2 2021 in line with the government's frontloading policy. Central bank issuance was also up 6.4% q-o-q in Q2 2021. On an annual basis, LCY bond issuance in the Republic of Korea grew 5.8% y-o-y in Q2 2021 after declining 3.6% y-o-y in the preceding quarter.

LCY bond issuance in Hong Kong, China totaled USD140.2 billion in Q2 2021, a further contraction of 2.2% q-o-q following a 2.0% q-o-q decline in Q1 2021. The q-o-q contraction was due to reduced issuance of corporate bonds during the quarter in contrast to Q1 2021 when the government bond segment dragged down the overall issuance growth. Corporate bond sales slumped 20.8% q-o-q in Q2 2021 after rising 9.6% q-o-q in Q1 2021. On the other hand, government bonds posted growth of 4.5% q-o-q, buoyed by a tenfold increase in the issuance of Hong Kong Special Administrative Region Bonds. In June, the Hong Kong Monetary Authority issued a HKD20.0 billion inflation-linked retail bond, or iBond, the eighth of a series since the first issuance in 2011. Issuance of Exchange Fund Bills and Exchange Fund Notes rose a modest 1.4% q-o-q. On an annual basis, growth in issuance of LCY bonds in Hong Kong, China moderated to 2.1% y-o-y in Q2 2021 from 5.9% in Q1 2021.

Collectively, LCY bond issuance of ASEAN member economies reached USD377.7 billion in Q2 2021, representing a 16.8% share of emerging East Asia's issuance total. This, however, was a decline from the 17.1% share logged in Q1 2021 due to robust issuance in both the PRC and the Republic of Korea in Q2 2021. Overall bond issuance growth in ASEAN markets soared to 12.6% q-o-q in Q2 2021 from a marginal hike of

0.4% q-o-q in Q1 2021. All ASEAN member economies posted higher bond sales during the quarter vis-à-vis Q1 2021 except for the Philippines. The most active issuers were in Singapore, Thailand, and the Philippines, which accounted for 51.4%, 18.2%, and 11.2%, respectively, of the ASEAN issuance total in Q2 2021. On an annual basis, ASEAN issuance grew 30.7% y-o-y in Q2 2021, up from 21.7% y-o-y in Q1 2021.

Total LCY bond issuance in Singapore reached USD194.3 billion in Q2 2021 on growth of 15.3% q-o-q. This was stronger than the previous quarter's 4.7% q-o-q gain. Both government and corporate bond issuance growth accelerated on a q-o-q basis, but the larger gain was for corporate bonds. Corporate bond issuance grew 228.3% q-o-q in Q2 2021 after declining 17.9% q-o-q in Q1 2021, as companies issued longer-term maturities to lock in lower interest rates. Government bonds also contributed to the growth, with issuance rising 11.8% q-o-q in Q2 2021, up from a 5.1% q-o-q hike in the prior quarter. Issuance of Singapore Government Securities bills and bonds rose 25.2% q-o-q, after declining 3.9% q-o-q in the prior quarter, as the government reopened more tenors. Central bank issuance had a strong showing in Q2 2021, rising 9.6% q-o-q as the government continued to promote the use of MAS floating-rate notes, which use the Singapore overnight rate average for benchmark pricing. On a y-o-y basis, growth in LCY bond sales in Singapore accelerated to 38.4% in Q2 2021 from 27.5% in Q1 2021.

In Thailand, LCY bond issuance grew 11.4% q-o-q in Q2 2021 to USD68.9 billion after declining 11.1% q-o-q in Q1 2021. While both government bond and corporate bond issuance was stronger than in the previous quarter, market growth was largely driven by corporate bond issuance, which rose 61.9% q-o-q in Q2 2021 versus 6.4% q-o-q in the previous quarter. Thailand's government bond issuance grew 2.6% q-o-q to USD54.0 billion after falling 13.6% q-o-q in Q1 2021. Growth in government bonds was solely due to gains in central bank issuance, which rose 7.0% q-o-q in Q2 2021 after declining 29.0% q-o-q in Q1 2021. In March, the Bank of Thailand started issuing a floating-rate bond that is linked to the Thai Overnight Repurchase Rate. In contrast, Treasury bonds and other government bonds issuance fell 4.7% q-o-q, reversing the 34.5% q-o-q hike in the preceding quarter. On a y-o-y basis, LCY bond issuance in Thailand contracted 9.5% in Q2 2021 versus a 16.3% decline in Q1 2021.

LCY bond issuance in the Philippines fell 4.0% q-o-q in Q2 2021 to USD42.1 billion, a reversal from the 53.5% q-o-q gain in Q1 2021. Both government bond and corporate bond issuance posted q-o-q declines. The Government of the Philippines' bond issuance fell 3.5% q-o-q to USD41.2 billion due to a 23.0% q-o-q decline in Treasury and other government bonds from a high base in Q1 2021 that was driven by the issuance of a USD9.3 billion Retail Treasury Bond in March. A 14.0% q-o-q rise in central bank issuance partially offset the decline in Treasury and other government bond issuance. Philippine corporate bond issuance declined 20.2% q-o-q to USD1.0 billion in Q2 2021, following a 0.2% decline in Q1 2021, as the reimposition of movement restrictions in March led to negative sentiment among corporates. On an annual basis, Philippine LCY bond issuance surged 195.4% y-o-y in Q2 2021 after a gain of 147.4% y-o-y in Q1 2021.

LCY bond issuance in Indonesia reached USD38.6 billion in Q2 2021, as growth rebounded to 12.0% q-o-q from a 24.6% q-o-q contraction in Q1 2021. Government bonds rose 12.9% q-o-q, driven solely by an increase in the issuance of Sukuk Bank Indonesia. Central bank issuance during the quarter was limited to Sukuk Bank Indonesia as the central bank ceased issuance of Sertifikat Bank Indonesia in April (the last issuance was in March). The government also tapered its issuance of Treasury bills and bonds due to excess funds from borrowing in 2020 and improved revenue collection in the first half of 2021. Issuance of Treasury instruments declined 24.6% q-o-q in Q2 2021 after falling 30.9% q-o-q in Q1 2021. Corporate bonds further contracted by 8.5% q-o-q in Q2 2021 from a 4.4% q-o-q decline in the prior quarter. On a y-o-y basis, LCY bond issuance growth in Indonesia moderated to 30.9% in Q2 2021 from 61.0% in Q1 2021.

Malaysia's LCY bond issuance was relatively stable in Q2 2021, with bond issuance rising 1.0% q-o-q to USD24.4 billion in Q2 2021 after an 11.7% q-o-q gain in Q1 2021. The sole driver of growth came from corporate bonds, with issuance rising 4.7% q-o-q in Q2 2021. Malaysia's government bond issuance declined marginally by 1.8% q-o-q in Q2 2021 after rising 81.0% q-o-q in Q1 2021. The Government of Malaysia kept the overall issuance of government bonds stable to fund pandemic measures due to the reimposition of Movement Control Orders in response to the rise in COVID-19 cases. On an annual basis, bond issuance growth in Malaysia eased to 7.4% y-o-y in Q2 2021 from 8.2% y-o-y in Q1 2021.

Viet Nam's LCY bond issuance totaled USD9.3 billion in Q2 2021, gaining 271.1% q-o-q after declining 66.2% q-o-q in Q1 2021. This was due to both government and corporate bond segments posting triple-digit growth rates, albeit from a low base. Government bond issuance rose 160.9% q-o-q from a decline of 68.7% q-o-q in Q1 2021. Viet Nam did not issue any central bank bills in Q2 2021, with all the issuances stemming from Treasury bonds and other government bonds. Corporate bond issuance rose 503.0% q-o-q to USD4.9 billion in Q2 2021 after a 59.2% q-o-q decline in the previous quarter. On an annual basis, issuance rose 57.1% y-o-y in Q2 2021 after declining 68.3% y-o-y in Q1 2021.

Cross-Border Bond Issuance

Emerging East Asia's cross-border bond issuance reached USD7.5 billion in Q2 2021.

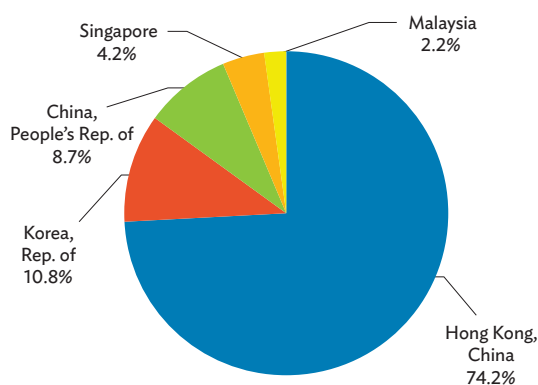
Emerging East Asia's cross-border bond issuance registered a 32.8% q-o-q increase in Q2 2021 to reach USD7.5 billion, up from USD5.6 billion in the previous quarter. Institutions from five economies issued cross-border bonds in Q2 2021, led by firms from Hong Kong, China who together accounted for 74.2% of the regional total (**Figure 4**). Other economies with cross-border bond issuance in Q2 2021 were the PRC, the Republic of Korea, Malaysia, and Singapore. Monthly issuance volumes amounted to USD2.3 billion, USD1.5 billion, and USD3.8 billion for the months of April, May, and June, respectively. On an annual basis, total intraregional bond issuance increased 25.8% y-o-y.

Hong Kong, China accounted for most intraregional bond issuance in emerging East Asia in Q2 2021, reaching an aggregate volume of USD5.6 billion. This was a 44.1% q-o-q increase from the USD3.9 billion raised in Q1 2021 and a 41.9% y-o-y rise from the same period in 2020. The growth can be attributed to the increased attractiveness of issuing dim sum bonds for companies in Hong Kong, China, which has been driven by the strengthening of the Chinese yuan. A total of 23 firms issued cross-border bonds in Q2 2021, which were all denominated in Chinese yuan except for one that was in Singapore dollars. Financial companies led the issuance of intraregional bonds, comprising almost half of the total volume. China Everbright and China Mengniu Dairy were the two largest issuers from Hong Kong, China in Q2 2021 at USD619.5 million each. China Everbright, also had the single-largest issuance with a 3-year bond, while Mengniu Dairy issued multi-tenor short-term bonds. Another notable cross-border bond issuance during the quarter was from government-owned Hong Kong Mortgage Corporation, which raised USD494 million via a multitranche bond. Real estate developer Henderson Land also issued USD418.1 million worth of 2-year and 3-year bonds.

In Q2 2021, the Republic of Korea registered the second-largest cross-border bond issuance volume in the region. The total amount raised reached USD809.7 million, a 49.9% q-o-q increase from USD540.1 million in Q1 2021 and a 55.7% y-o-y increase from USD520.2 million in Q2 2020. Cross-border bond issuances in the Republic of Korea were denominated in Chinese yuan, Hong Kong dollars, and Indonesian rupiah. Four banks issued intraregional bonds, led by the Export-Import Bank of Korea with aggregate issuance of USD323.9 million via 2-year and 3-year bonds. State-owned Korea Development Bank issued USD129.2 million worth of 1-year and 2-year bonds. Other banks include Hana Bank (USD116.6 million) and Kookmin Bank (USD85.2 million). The only nonbank that issued cross-border bonds in the Republic of Korea in Q2 2021 was energy and petrochemical firm Hanhwa Solutions, which raised USD154.9 million via a 3-year bond.

Best Path Global was the sole issuer of intraregional bonds in the PRC in Q2 2021, raising USD648.8 million worth of 1-year HKD-denominated bonds, which was also the region's single-largest issuance during the quarter.

Figure 4: Origin Economies of Intra-Emerging East Asian Bond Issuance in the Second Quarter of 2021



Source: AsianBondsOnline calculations based on Bloomberg LP data.

In Singapore, three institutions raised funds in Q2 2021 through the issuance of cross-border bonds totaling USD313 million. China Construction Bank Corporation of Singapore raised USD309.7 million worth of 2-year CNY-denominated bonds, DBS Bank issued USD3.0 million of HKD-denominated bonds, and Nomura International Fund raised USD0.3 million via issuance of 5-year CNY-denominated bonds.

In Malaysia, only two institutions issued intraregional bonds in Q2 2021 with an aggregate amount of USD163.7 million denominated in Chinese yuan and Hong Kong dollars. This included Malayan Banking (USD85.1 million) and CIMB Bank (USD78.6 million).

In Q2 2021, the top 13 issuers of intraregional bonds in emerging East Asia (four issuers shared the 10th spot) had an aggregate issuance volume of USD5.5 billion and comprised 73.5% of the regional total. Ten of the firms were from Hong Kong, China with a total issuance volume of USD4.2 billion. This included China Everbright, Mengniu Dairy, and Hong Kong Mortgage Corporation. The region's top issuer in Q2 2021 was Best Path Global from the PRC. Other firms that were included in the list were from the Republic of Korea and Singapore.

The Chinese yuan remained the predominant currency of cross-border bond issuance in emerging East Asia

in Q2 2021 with a total volume of USD5.9 billion and a share of 78.7% of the regional total (**Figure 5**).

The continued increase in the issuance of bonds denominated in Chinese yuan was mainly driven by the appreciation of the currency and expectations of its further strengthening. Firms that issued in Chinese yuan came from Hong Kong, China; the Republic of Korea; Malaysia; and Singapore. Other issuance currencies were the Hong Kong dollar (USD1.1 billion, 14.4%), Singapore dollar (USD371.6 million, 5%), and the Indonesian rupiah (USD146.5 million, 2.0%).

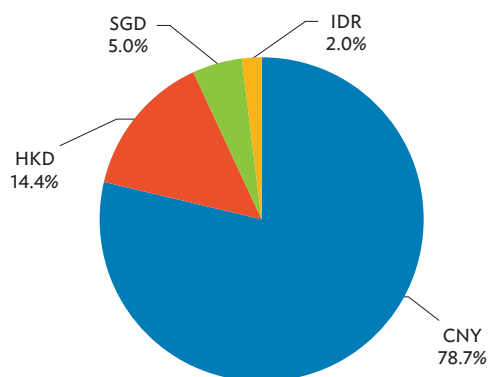
G3 Currency Issuance

Issuance of G3 currency bonds in emerging East Asia in January–July totaled USD246.7 billion.

The total amount of G3 currency bond issuance in emerging East Asia was USD246.7 billion in January–July, an expansion of 13.4% y-o-y from the USD217.5 billion recorded during the same period in 2020 (**Table 4**).⁴ The growth was due to an increased volume of G3 issuances in most of the region's economies compared to the prior year. Taking advantage of a low-yield environment, some issuers fast-tracked their funding strategies, cautiously expecting that rates might increase in the near future. Sustainable bond issuance increased on a y-o-y basis during the first half of 2021, and this trend was expected to continue during the second half of the year.

Out of the total issuance of G3 currency bonds in the first 7 months of 2021, 93.5% was denominated in US dollars, 5.8% in euros, and 0.7% in Japanese yen. During the review period, USD230.7 billion worth of bonds in US dollars was issued in emerging East Asia, increasing 13.5% y-o-y from a year earlier, spurred by high levels of issuance from the Republic of Korea and Hong Kong, China. A total of USD14.3 billion worth of EUR-denominated bonds was issued in January–July, an increase of 17.1% y-o-y, driven by well-received fundraising efforts in the PRC, Indonesia, the Philippines, and Singapore. Bond issuance in Japanese yen amounted to USD1.7 billion, a contraction of 17.4% y-o-y as JPY-denominated bond issuance in Hong Kong, China and Indonesia dropped, and Malaysia decided not to issue any such bonds during the review period.

Figure 5: Currency Shares of Intra-Emerging East Asian Bond Issuance in the Second Quarter of 2021



CNY = Chinese yuan, HKD = Hong Kong dollar, IDR = Indonesian rupiah, SGD = Singapore dollar.
Source: AsianBondsOnline calculations based on Bloomberg LP data.

⁴ G3 currency bonds are denominated in either euros, Japanese yen, or US dollars. For the discussion on G3 currency issuance, emerging East Asia comprises Cambodia; the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

Table 4: G3 Currency Bond Issuance

2020			January–July 2021		
Issuer	Amount (USD billion)	Issue Date	Issuer	Amount (USD billion)	Issue Date
Cambodia	0.4		Cambodia	0.0	
China, People's Rep. of	232.3		China, People's Rep. of	134.8	
Industrial and Commercial Bank of China 3.58% Perpetual	2.9	23-Sep-20	China Development Bank 0.380% 2022	2.0	10-Jun-21
Bank of China 3.60% Perpetual	2.8	4-Mar-20	Prosus 3.061% 2031	1.9	13-Jul-21
Bank of Communications 3.80% Perpetual	2.8	18-Nov-20	Tencent Holdings 3.840% 2051	1.8	22-Apr-21
Others	223.8		Others	129.2	
Hong Kong, China	34.8		Hong Kong, China	28.8	
AIA Group 3.200% 2040	1.8	16-Sep-20	NWD Finance BVI 4.125% Perpetual	1.2	10-Jun-21
MTR Corporation 1.625% 2030	1.2	19-Aug-20	Hong Kong (Sovereign) 1.375% 2031	1.0	2-Feb-21
AIA Group 3.375% 2030	1.0	7-Apr-20	Bank of Communications (Hong Kong) 2.304% 2031	1.0	8-Jul-21
Others	30.9		Others	25.6	
Indonesia	27.9		Indonesia	20.4	
Indonesia (Sovereign) 3.85% 2030	1.7	15-Apr-20	Indonesia (Sovereign) 3.05% 2051	2.0	12-Jan-21
Indonesia (Sovereign) 4.20% 2050	1.7	15-Apr-20	Perusahaan Penerbit SBSN Indonesia III 1.50% 2026	1.3	9-Jun-21
Indonesia (Sovereign) 0.90% 2027	1.2	14-Jan-20	Indonesia (Sovereign) 1.85% 2031	1.3	12-Jan-21
Others	23.4		Others	15.9	
Korea, Rep. of	30.0		Korea, Rep. of	30.2	
Korea Housing Finance Corporation 0.010% 2025	1.2	5-Feb-20	Korea Housing Finance Corporation 0.010% 2026	1.2	29-Jun-21
Korea Development Bank 1.250% 2025	1.0	3-Jun-20	Naver 1.500% 2026	1.1	29-Mar-21
Export–Import Bank of Korea 0.829% 2025	0.9	27-Apr-20	SK Hynix 2.375% 2031	1.0	19-Jan-21
Others	26.9		Others	26.9	
Malaysia	17.2		Malaysia	12.1	
Petronas Capital 4.55% 2050	2.8	21-Apr-20	Petronas Capital 3.404% 2061	1.8	28-Apr-21
Petronas Capital 3.50% 2030	2.3	21-Apr-20	Petronas Capital 2.480% 2032	1.3	28-Apr-21
Others	12.2		Others	9.1	
Philippines	15.5		Philippines	7.4	
Philippines (Sovereign) 2.65% 2045	1.5	10-Dec-20	Philippines (Sovereign) 3.20% 2046	2.3	6-Jul-21
Philippines (Sovereign) 2.95% 2045	1.4	5-May-20	Philippines (Sovereign) 1.75% 2041	0.9	28-Apr-21
Others	12.6		Others	4.2	
Singapore	14.7		Singapore	9.6	
United Overseas Bank 0.010% 2027	1.2	1-Dec-20	BOC Aviation 1.625% 2024	1.0	29-Apr-21
Oversea-Chinese Banking Corporation 1.832% 2030	1.0	10-Sep-20	United Overseas Bank 0.100% 2029	0.9	25-May-21
Others	12.5		Others	7.7	
Thailand	5.3		Thailand	2.3	
Bangkok Bank in Hong Kong, China 5.0% Perpetual	0.8	23-Sep-20	GC Treasury 2.98% 2031	0.7	18-Mar-21
PTT Treasury 3.7% 2070	0.7	16-Jul-20	Krung Thai Bank 4.40% Perpetual	0.6	25-Mar-21
Others	3.8		Others	1.0	
Viet Nam	0.1		Viet Nam	1.0	
Emerging East Asia Total	378.1		Emerging East Asia Total	246.7	
Memo Items:			Memo Items:		
India	14.3		India	15.6	
Vedanta Holdings Mauritius II 13.00% 2023	1.4	21-Aug-20	Vedanta Resources 8.95% 2025	1.2	11-Mar-21
Others	12.9		Others	14.4	
Sri Lanka	0.4		Sri Lanka	0.8	
Sri Lanka (Sovereign) 6.57% 2021	0.1	30-Jul-20	Sri Lanka (Sovereign) 7.95% 2024	0.2	3-May-21
Others	0.3		Others	0.6	

USD = United States dollar.

Notes:

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

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

More than half of the region's G3 currency bond issuance came from the PRC, where entities issued a combined USD134.8 billion in January–July. The Republic of Korea followed with USD30.2 billion and Hong Kong, China with USD28.8 billion. For the first 7 months of 2021, y-o-y growth in G3 currency bond issuance was posted in the Republic of Korea (63.0%); Hong Kong, China (59.3%); Singapore (34.3%); the PRC (9.4%); and Malaysia (3.9%). Issuance of G3 currency bonds declined in Thailand (–36.8%), the Philippines (–33.5%), and Indonesia (–14.0%). Cambodia had no issuance of G3 currency bonds during the review period after issuing USD-denominated bonds in January–July 2020. On the other hand, Viet Nam resumed issuance of G3 currency bonds in January–July 2021 after not issuing any during the same period in 2020.

Entities from the PRC accounted for 54.6% of all G3 currency bond issuance in emerging East Asia in January–July 2021: USD128.3 billion was issued in US dollars and USD6.5 billion equivalent was issued in euros. In July, technology company Prosus issued a USD1.9 billion 10-year callable bond denominated in US dollars. It also had a dual-tranche issuance of EUR-denominated bonds with tenors of 8 years and 12 years totaling USD2.2 billion. Proceeds from the issuances will be used to finance the company's offer to buy back some of its existing bonds and for general corporate purposes. Also in July, Sunac China Holdings sold a USD-denominated 3.25-year callable bond worth USD400.0 million. The property developer's issuance took advantage of the People's Bank of China's decision to cut the reserve requirement ratio by 50 basis points. Proceeds from the issuance will be used to refinance the company's existing debts.

The Republic of Korea had a 12.2% share of all G3 currency bond issuance during the review period, comprising USD28.4 billion in US dollars and the equivalent of USD1.9 billion in euros. In May and June, the Export–Import Bank of Korea increased its stock of USD-denominated bonds via issuances with tenors ranging from 3 years to 30 years. Part of the export credit agency's issuance was a USD2.0 billion bond with three tranches (3 years, 6 years, and 20 years) issued in June, the proceeds of which will be used for general corporate purposes. In May, the

Korea Development Bank increased its stock of USD-denominated bonds with an issuance of a 4-year bond worth USD200.0 million.

An 11.7% share of G3 currency bonds issued in January–July 2021 came from Hong Kong, China. In terms of currency, USD28.5 billion was issued in US dollars, while JPY-denominated bonds amounted to USD0.2 billion and EUR-denominated bonds totaled USD0.1 billion. In May and July, Graphex Group, a renewable energy company, issued two 2-year convertible bonds denominated in US dollars. Each issuance had a coupon rate of 5.5% and was worth USD500.0 million. In July, Seaspan, an owner and operator of container ships, issued a USD750.0 million 8-year callable bond with a 5.5% periodic distribution rate denominated in US dollars. Proceeds from the issuance will be used to finance projects that fall under the company's Blue Transition Bond Framework, which promotes Seaspan's sustainability efforts.

ASEAN member economies' issuance of G3 currency bonds in January–July 2021 fell 8.4% y-o-y.⁵ The ASEAN region's G3 currency bond issuance total was USD52.9 billion, down from USD57.7 billion in January–July 2020 due to reduced issuance from most member economies. As a percentage of emerging East Asia's total G3 currency bond issuance, ASEAN issuance in the first 7 months of 2021 was 21.4% versus a 26.5% share during the same period in the prior year. In spite of a drop in its G3 issuance, Indonesia led all ASEAN members in having the largest G3 issuance during the review period. This was followed by Malaysia, Singapore, the Philippines, Thailand, and Viet Nam.

Indonesia issued USD17.7 billion of USD-denominated bonds in January–July 2021, the equivalent of USD1.8 billion in euros, and USD0.9 billion in Japanese yen, which cumulatively accounted for 8.3% of total G3 issuance in emerging East Asia during the review period. In May, the Government of Indonesia issued the equivalent of USD900.0 million in samurai bonds in six tranches with tenors ranging from 3 years to 20 years. Proceeds from the issuance will be used to fund the government's expanded budget deficit caused by expenditures related to COVID-19. In July, the government had a dual-currency issuance (euros and US dollars), with the USD-denominated bond totaling USD600.0 million

⁵ For the discussion on G3 currency issuance, data for ASEAN include Cambodia, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.

and the EUR-denominated bond having about the same equivalent amount. Both were callable bonds. The EUR-denominated bond and the USD-denominated bond had tenors of 8 years and 10 years, respectively. Proceeds from the offering will be used for general budgetary purposes and the funding of COVID-19 relief efforts. In June, Indonesian government's special purpose vehicle Perusahaan Penerbit SBSN Indonesia III issued USD-denominated bonds worth USD3.0 billion in three tranches (5 years, 10 years, and 30 years). Funds raised from the issuance will be used for general purposes, with the 30-year tranche to be used for eligible green projects as outlined in Indonesia's Green Bond and Green Sukuk Framework.

G3 currency bond issuance by Malaysia was 4.9% of emerging East Asia's total during the first 7 months of 2021 with bonds amounting to USD12.1 billion, all of which was denominated in US dollars. May saw Dua Capital issuing a dual-tranche callable bond worth USD1.0 billion. The special purpose vehicle issued the 5-year and 10-year bonds for Khazanah Nasional under the *wakalah* principle wherein the Islamic bonds are backed by an investor and an agent's agreement, and the bondholders are eligible to profits based on the agreement of the two parties. Proceeds raised from the offering will be used for the activities of Khazanah that are Shariah-compliant. Toward the end of June, RHB Bank offered a 5-year bond worth USD500.0 million and with a coupon rate of 1.658%. The issuance was from the bank's USD5.0 billion medium-term note program.

Singapore had a 3.9% share of total G3 currency bond issuance in emerging East Asia during the January–July period, involving USD8.0 billion in US dollars, USD1.5 billion worth of bonds in euros, and the equivalent of USD0.1 billion in Japanese yen. United Overseas Bank issued a EUR-denominated bond in May and a USD-denominated bond in June. The bond denominated in euros amounted to around USD900.0 million and had a tenor of 8 years, while the US dollar issuance was a 5-year bond worth USD150.0 million. The EUR-denominated bond was the first covered bond in Singapore in 2021 and had the longest tenor for a covered bond by a bank in Singapore. GLP, an investment management firm, issued two USD-denominated perpetual securities totaling USD1.2 billion during the last 2 months of the Q2 2021. Both issuances were drawn from GLP's EUR-denominated medium-term note program. Notable among the two issuances was the

USD850.0 million bond issued in May, which is the largest USD-denominated green subordinated perpetual bond offered globally to date. Proceeds from the green issuance will be used to finance eligible green projects based on GLP's Green Finance Framework.

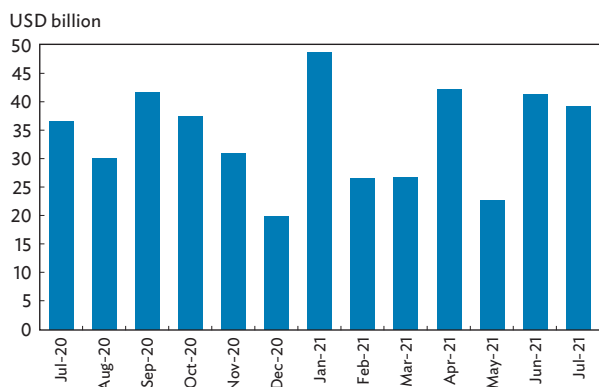
The Philippines accounted for a 3.0% share of total issuance of G3 currency bonds in emerging East Asia during the first 7 months of 2021. Its issuances comprised bonds denominated in US dollars amounting to USD4.5 billion, EUR-denominated bonds worth USD2.5 billion, and USD0.5 billion of bonds in Japanese yen. In July, the Government of the Philippines raised USD3.0 billion from a dual-tranche Dollar Global Bond with tenors of 10.5 years and 25 years. Proceeds from the offering will be used for general purposes, which include budgetary support. In June, SMC Global Power issued a USD600.0 million perpetual bond with a coupon rate of 5.45%. Funds raised from the USD-denominated issuance by the power company will be used mainly for investment in a combined-cycle power plant.

Thailand's share of all G3 currency bonds issued in the region during the review period was 0.9%, with issuance solely in US dollars totaling USD2.3 billion. In July, Minor International, a hospitality, restaurant, and lifestyle company, issued a USD300.0 million perpetual bond with a periodic distribution rate of 2.7%. Proceeds raised from the offering will be used by the company to fund a tender offer for its existing perpetual bond callable on 4 December.

In January–July 2021, 0.4% of all G3 currency issuance in emerging East Asia was from entities in Viet Nam, with a combined USD1.0 billion worth of USD-denominated bonds. In May, property developer BIM Land raised USD200.0 million from a 5-year callable bond. The issuance was the first green bond offering by the company, and the capital raised from it will be used to fund the company's eligible green projects. In July, another real estate developer, Novaland, issued a USD300.0 million 5-year convertible bond. Proceeds from the offering will be used to expand its landbank, fund its project developments, and improve the company's debt profile.

Monthly G3 currency bond issuance in emerging East Asia from July 2020 to July 2021 is presented in **Figure 6**. After a high volume of issuance in April, issuance activities temporarily fell across all economies in the region in May

Figure 6: G3 Currency Bond Issuance in Emerging East Asia



USD = United States dollar.

Notes:

1. Emerging East Asia comprises Cambodia; the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; the Lao People's Democratic Republic; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
2. G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.
3. Figures were computed based on 31 July 2021 currency exchange rates and do not include currency effects.

Source: AsianBondsOnline calculations based on Bloomberg LP data.

as news of the more contagious delta variant spread around the world, forcing governments to reinstate border closures and movement restrictions. The region's offerings of G3 currency bonds recovered in June and July, spurred by increased issuance from both the PRC and Hong Kong, China.

Emerging East Asia's local currency government bond yields mostly fell on the back of a worsening global economic outlook driven by rising COVID-19 cases amid the emergence of variants.

Rising COVID-19 cases in some parts of the region led some markets to impose quarantine restrictions, threatening to derail the economic growth trajectory for 2021. Individual market impacts were influenced by government responses as well as the pace of their ongoing vaccination campaigns.

A softening economic outlook has affected not only developing economies but also advanced economies. While the US Federal Reserve has shifted to a more hawkish stance, with its updated forecasts for June showing an expected 50 basis points (bps) rise in its federal funds target range in 2023 and its recent

27–28 July monetary policy statement indicating that substantial progress had been made in economic gains, some economic data have indicated a potential slowdown.

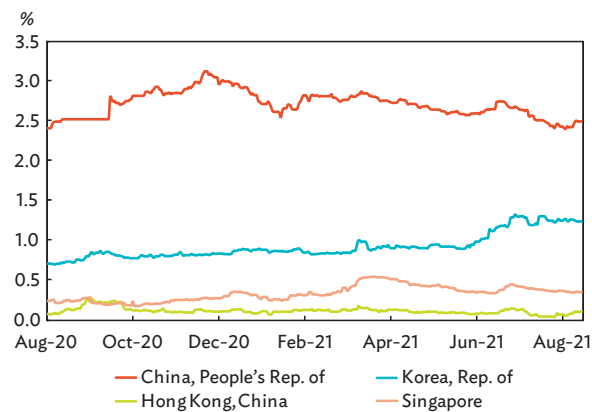
The University of Michigan's consumer sentiment index fell 11 points to 70.3 in August on concerns over rising COVID-19 cases. Consumer price inflation was steady at 5.4% in July and June. US yields at the longer-end exhibited a decline over global growth concerns and risk aversion.

While the Federal Reserve shifted to a more hawkish stance, the European Central Bank (ECB) has turned more dovish. While monetary policy was left unchanged during its 22 July meeting, it revised its forward guidance. The ECB is moving toward a symmetric 2.0% inflation target from a previous "near to 2.0%" inflation target. The move will allow the ECB to tolerate inflation running above the 2.0% target in the short-term. The Bank of Japan also largely left its monetary policy unchanged at its 18 June meeting but extended the end of its purchase program of commercial paper and corporate bonds from September 2021 to March 2022.

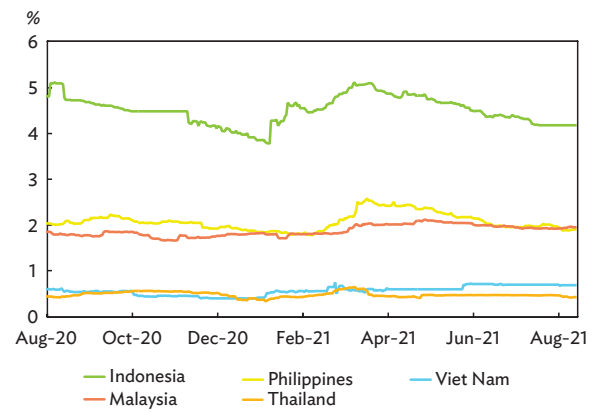
In emerging East Asia, the largest decline in 2-year yields was seen in the PRC between 15 June and 15 August (**Figure 7a**). This occurred despite the PRC's economic recovery as there are concerns that the PRC's growth momentum might slow. Sentiment was also further driven by a reserve requirement ratio cut of 50 bps by the People's Bank of China in July, suggesting a shift in the PRC's monetary stance.

The Republic of Korea was the only market that saw significant upward movement in its 2-year yield, led by expectations of a rate hike by the Bank of Korea due to rising inflationary pressures. On the other hand, 2-year yield movements for markets such as Malaysia, Thailand, and Viet Nam were roughly stable (**Figure 7b**).

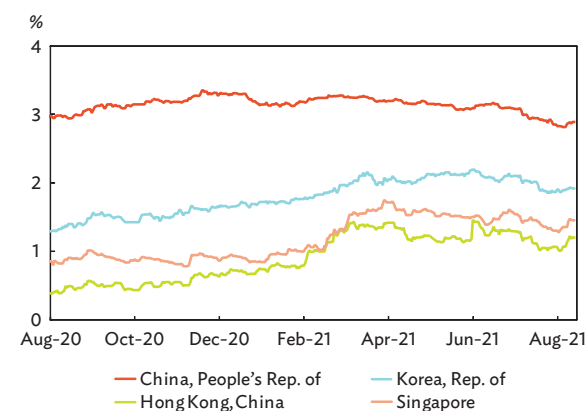
In contrast to its 2-year yield movement, the Republic of Korea's 10-year yield trended downward, tracking global yield trends amid the worsening global outlook (**Figure 8a**). The 10-year yield also fell in the PRC; Hong Kong, China; Singapore; Thailand; and Viet Nam but was relatively stable in Indonesia and Malaysia (**Figure 8b**). In August, 10-year yields spiked in most regional bond markets, tracking US yields and buoyed by a strong recovery in Q2 2021 GDP.

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

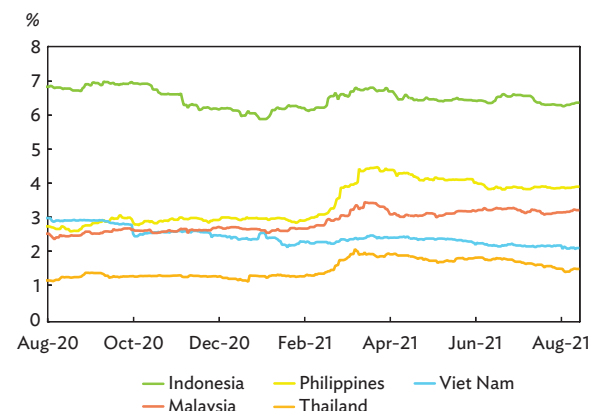
Note: Data coverage is from 1 August 2020 to 15 August 2021.
Source: Based on data from Bloomberg LP.

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

Note: Data coverage is from 1 August 2020 to 15 August 2021.
Source: Based on data from Bloomberg LP.

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

Note: Data coverage is from 1 August 2020 to 15 August 2021.
Source: Based on data from Bloomberg LP.

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

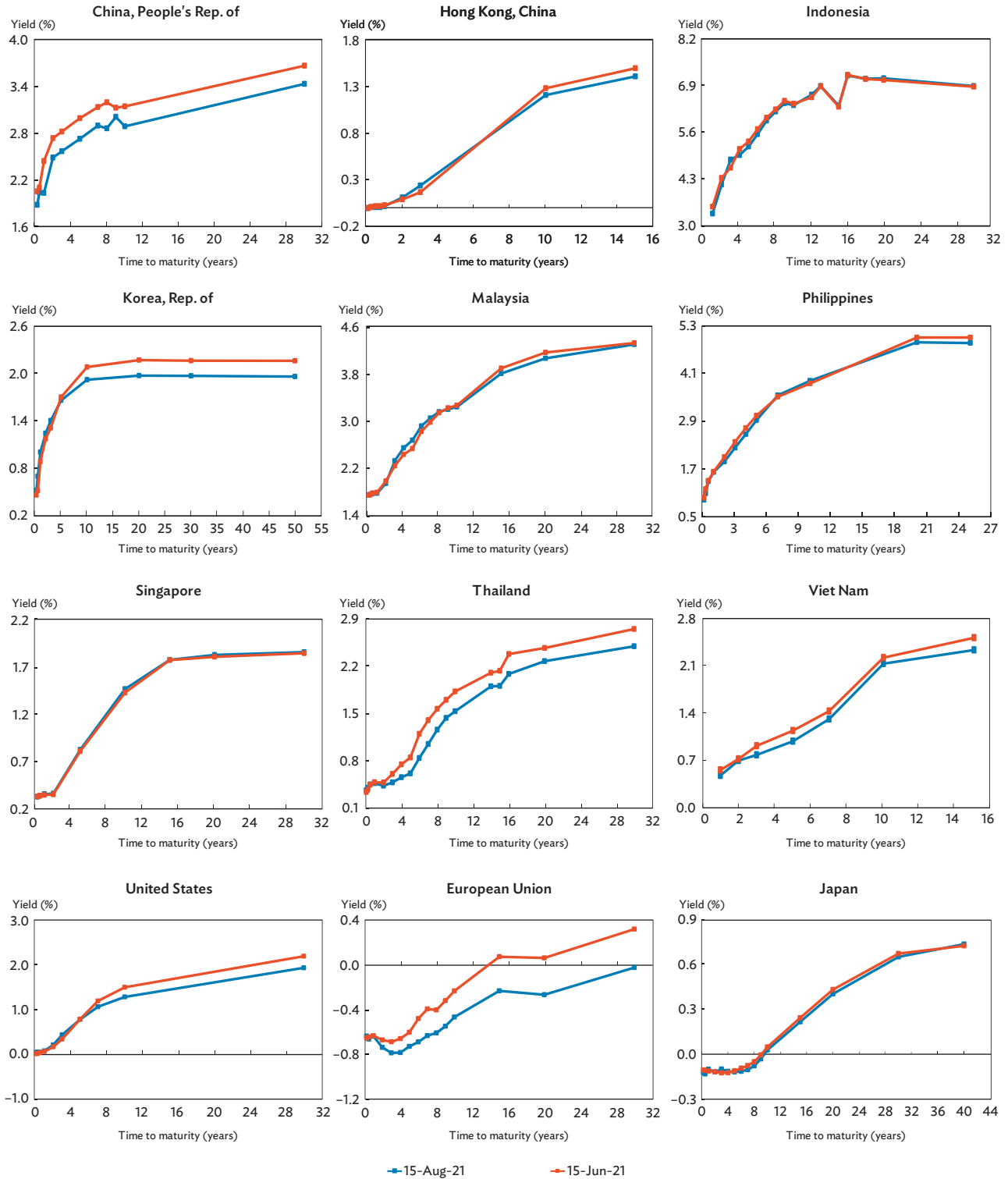
Note: Data coverage is from 1 August 2020 to 15 August 2021.
Source: Based on data from Bloomberg LP.

Similarly, yield curves shifted downward in most emerging East Asian LCY government bond markets between 15 June and 15 August (**Figure 9**). The largest shift was in the PRC's yield curve, which fell an average of 23 bps, with all tenors declining. This was largely due to the previously mentioned reserve requirement ratio cut. Viet Nam was the only other market in the region that showed a decline in all tenors, due to strong financial liquidity and a negative economic outlook amid rising COVID-19 cases. The worsening global economic outlook led to yields falling for most tenors in Hong Kong, China; the Philippines; and Thailand. In Indonesia, Malaysia, and the Republic of Korea were yield

curve movements mixed. Singapore's yield curve was mostly unchanged.

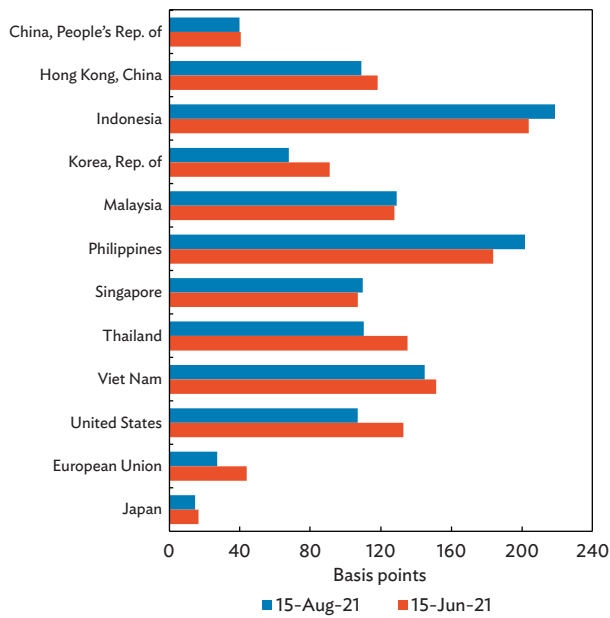
In Indonesia, yields fell for maturities of 10 years or less due to continued bond purchases by Bank Indonesia, slower growth expectations over mobility restrictions, and rising risk aversion. In contrast, yields at the longer-end rose due to reduced demand for longer-dated securities from investors, particularly foreign investors. In the Republic of Korea, there was a rise at the shorter-end of the curve driven by expectations of a rate hike by the Bank of Korea, while yields at the longer-end followed declining global yield trends. Subsequently, on 26 August,

Figure 9: Benchmark Yield Curves—Local Currency Government Bonds



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

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



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

the Bank of Korea raised by 25 bps the 7-day reverse repo rate to 0.75%.

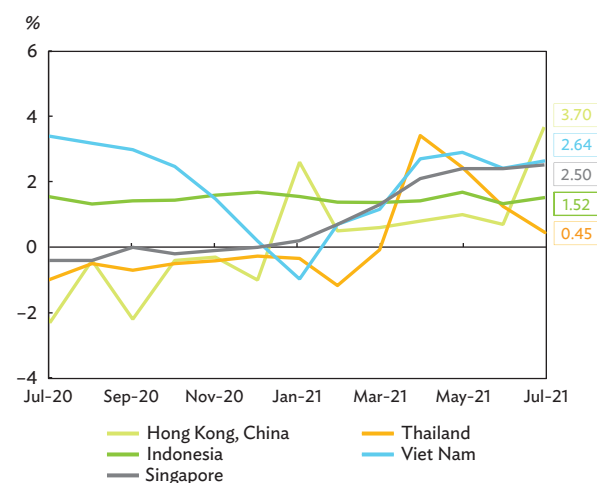
Most emerging East Asian markets experienced a flattening of the yield curve, consistent with the more pessimistic economic outlook. The 2-year versus 10-year yield spread fell between 15 June and 15 August in the

PRC; Hong Kong, China; the Republic of Korea; Thailand; and Viet Nam (Figure 10).

All emerging East Asian economies posted positive GDP growth rates in Q2 2021, with nearly all posting either accelerated growth or a rebound from negative GDP growth in Q1 2021. The exceptions were the PRC and Hong Kong, China, which exhibited a slowdown in their respective growth momentums, with the PRC posting Q2 2021 growth of 7.9% y-o-y (from 18.3% y-o-y) and Hong Kong, China reporting 7.6% y-o-y growth (from 8.0% y-o-y). The following economies posted a rebound in y-o-y growth in Q2 2021 following a contraction in Q1 2021: Indonesia (7.1% from -0.7%), Malaysia (16.1% from -0.5%), the Philippines (11.8% from -3.9%), and Thailand (7.5% from -2.6%). The following economies recorded an acceleration in y-o-y growth between Q1 2021 and Q2 2021: the Republic of Korea (6.0% from 1.9%), Singapore (14.7% from 1.5%), and Viet Nam (6.6% from 4.7%).

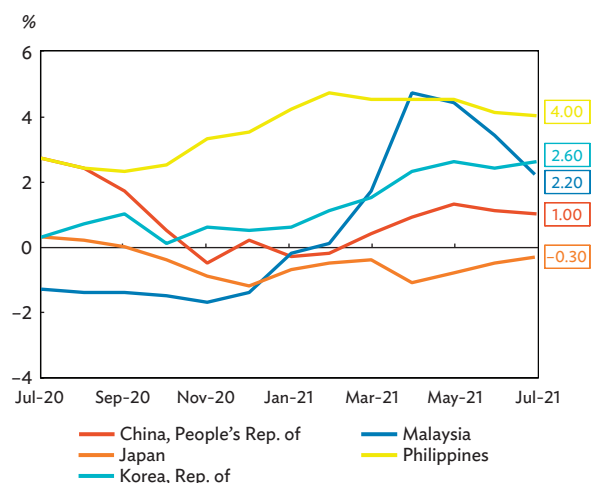
After emerging East Asia posted a strong GDP performance in Q2 2021, inflation largely trended upward in July. The exceptions were Thailand (Figure 11a), and the PRC, Malaysia, and the Philippines (Figure 11b). A steep increase in inflation was noted in Hong Kong, China in July. The accelerated inflation in Hong Kong, China was mainly due to a low base in the previous year. Inflationary pressures prompted the Bank of Korea to raise its policy rate in August (Table 5).

Figure 11a: Headline Inflation Rates



Note: Data coverage is from July 2020 to July 2021. Source: Based on data from Bloomberg LP.

Figure 11b: Headline Inflation Rates



Note: Data coverage is from July 2020 to July 2021. Source: Based on data from Bloomberg LP.

Table 5: Policy Rate Changes

Economy	Policy Rate 1-Sep-2020 (%)	Rate Change (%)												Policy Rate 27-Aug-2021 (%)	Change in Policy Rates (basis points)
		Sep- 2020	Oct- 2020	Nov- 2020	Dec- 2020	Jan- 2021	Feb- 2021	Mar- 2021	Apr- 2021	May- 2021	Jun- 2021	Jul- 2021	Aug- 2021		
United States	0.25													0.25	0
Euro Area	(0.50)													(0.50)	0
Japan	(0.10)													(0.10)	0
China, People's Rep. of	2.95													2.95	0
Indonesia	4.00			↓0.25			↓0.25							3.50	↓ 50
Korea, Rep. of	0.50											↑0.25		0.75	↑ 25
Malaysia	1.75													1.75	0
Philippines	2.25			↓0.25										2.00	↓ 25
Thailand	0.50													0.50	0
Viet Nam	4.50		↓0.50											4.00	↓ 50

(-) = negative.

Notes:

1. Data coverage is from 1 September 2020 to 27 August 2021.

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

Sources: Various central bank websites.

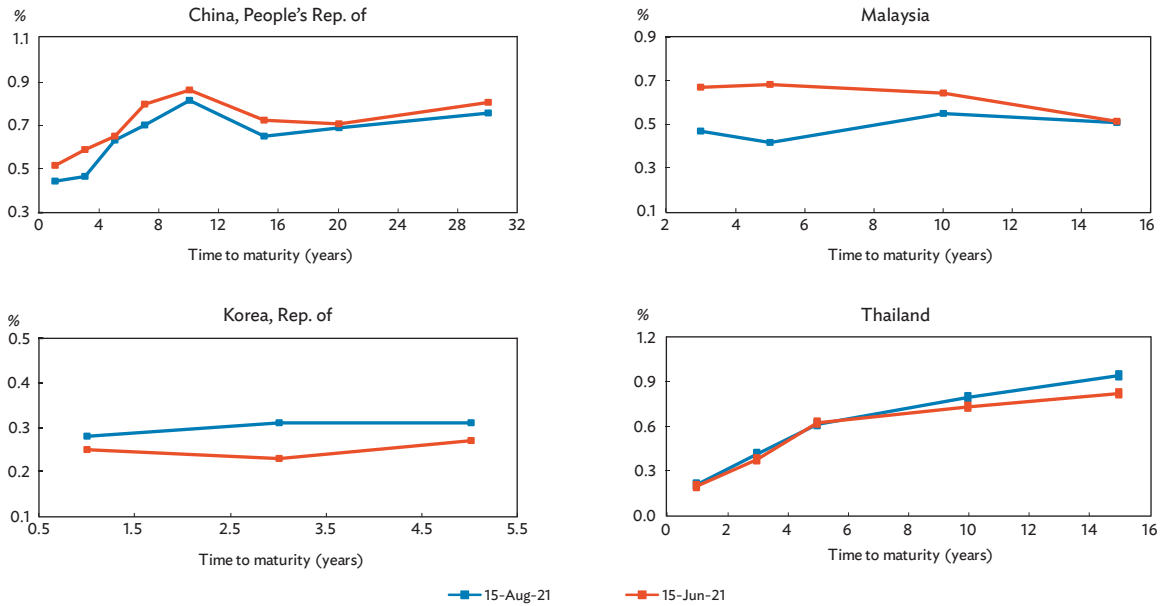
However, the need to ensure a durable economic recovery left the remaining central banks in the region largely maintaining their accommodative monetary policy stances. In the PRC, while the People's Bank of China has yet to adjust policy rates, it reduced the reserve requirement ratio in July.

AAA-rated corporate spreads fell in the PRC and Malaysia but rose in the Republic of Korea and Thailand.

The spread between AAA-rated yields and government yields fell in the PRC, following a rise in corporate defaults that led to increased demand for better-rated securities, and in Malaysia (**Figure 12a**). The spread rose in the Republic of Korea and Thailand.

The rise in corporate bond defaults led to a worsening spread for lower-rated corporates in the PRC (**Figure 12b**). The spread fell in Malaysia but was roughly unchanged in the Republic of Korea and Thailand.

Figure 12a: Credit Spreads—Local Currency Corporates Rated AAA versus Government Bonds

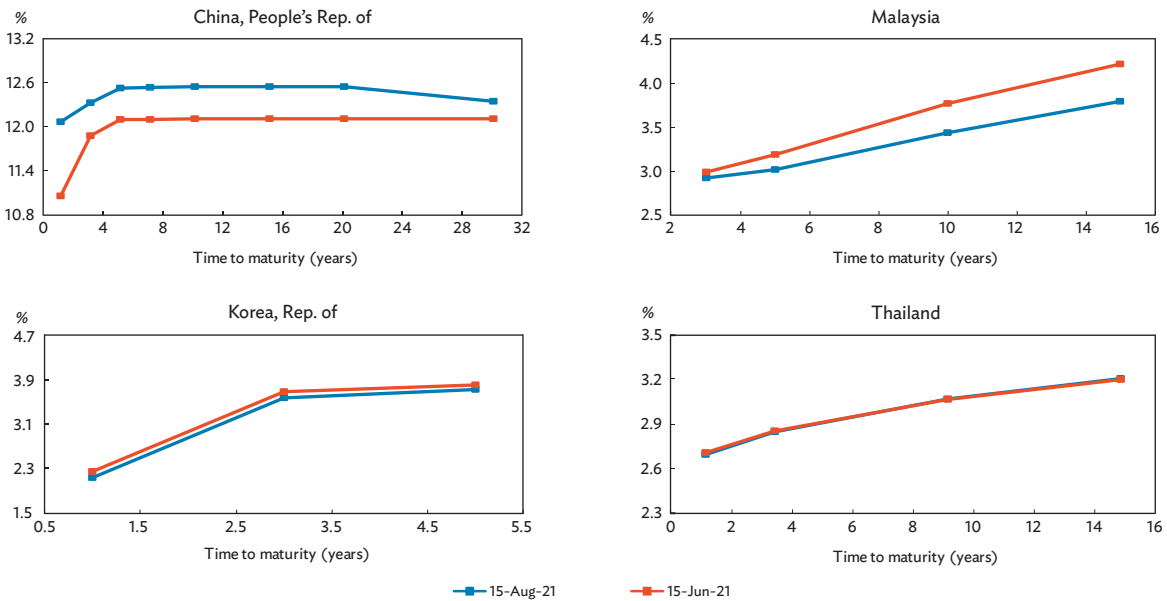


Notes:

1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
2. For the Republic of Korea, data on corporate bond yields are as of 15 June and 13 August 2021.
3. For Malaysia, data on corporate bonds yields are as of 14 June and 13 August 2021.

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

Figure 12b: Credit Spreads—Lower-Rated Local Currency Corporates versus AAA



Notes:

1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
2. For the Republic of Korea, data on corporate bond yields are as of 15 June and 13 August 2021.
3. For Malaysia, data on corporate bonds yields are as of 14 June and 13 August 2021.

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