Market Summaries

People's Republic of China

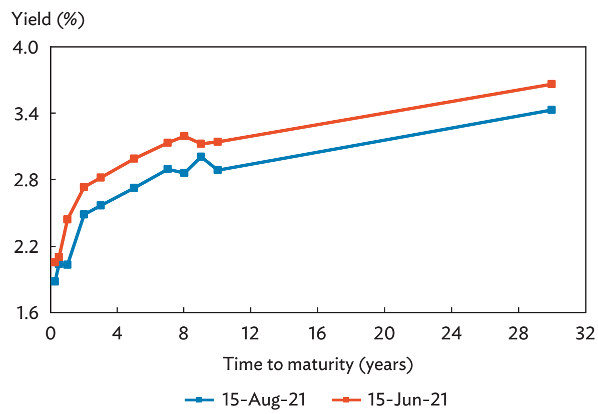
Yield Movements

The entire yield curve of the People's Republic of China's (PRC) local currency (LCY) bond market shifted downward between 15 June and 15 August (**Figure 1**). The largest decline was for the 1-year tenor, which declined 41 basis points (bps), while the smallest declines were for the 6-month tenor (6 bps) and 9-year tenor (12 bps). All other tenors fell between 17 bps and 33 bps during the review period. The 2-year versus 10-year yield spread was barely changed between 15 June and 15 August, falling marginally from 41 bps to 40 bps.

The PRC's yield curve continues to decline despite continued economic growth. The decline was largely due to concerns that the PRC's growth momentum would slow due to headwinds in the global economy, owing once again to rising COVID-19 cases. The PRC's gross domestic product (GDP) grew 7.9% year-on-year (y-o-y) in the second quarter (Q2) of 2021 after gaining 18.3% y-o-y in the first quarter (Q1). While all major sectors posted slower growth, the largest decline was in the secondary sector, where growth fell to 7.5% y-o-y in Q2 2021 from 24.4% y-o-y in Q1 2021. The next largest decline was in the tertiary sector, which grew 8.3% y-o-y after expanding 15.6% y-o-y in the previous quarter. The growth rate in the primary sector was more stable, with a growth rate of 7.6% y-o-y versus 8.1% y-o-y during the same review period.

Other more recent economic indicators also indicate a potential slowdown in momentum. The PRC's industrial production grew 6.4% y-o-y in July, falling from the 8.3% y-o-y expansion posted in June. The PRC's manufacturing Purchasing Managers Index dipped to 50.4 in July from 50.9 in June, while inflation also seems to have leveled off. The PRC reported consumer price inflation of 1.0% y-o-y in July versus 1.1% y-o-y in June and 1.3% y-o-y in May. Producer prices recorded a 9.0% y-o-y gain in July, compared with 8.8% y-o-y in June and 9.0% y-o-y in May.

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



Source: Based on data from Bloomberg LP.

Market sentiment was influenced by statements from the State Council on 7 July suggesting a shift toward policy easing via monetary tools such as reserve requirement ratio cuts to help support the economy, particularly smaller businesses. On 9 July, the People's Bank of China (PBOC) announced a 50-bps cut to its reserve requirement ratio, fueling market speculation that a cut in interest rates such as the 1-year loan prime rate would be next. However, the PBOC has so far left unchanged its benchmark interest rates.

Size and Composition

Growth in the PRC's outstanding LCY bonds accelerated to 3.0% quarter-on-quarter (q-o-q) in Q2 2021 from 2.1% q-o-q in Q1 2021, reaching a size of CNY106.6 trillion (USD16.5 trillion) (**Table 1**). On a y-o-y basis, the growth rate for Q2 2021 was slightly lower at 14.4% versus 17.3% in the previous quarter. The faster q-o-q growth for Q2 2021 was largely due to an increase in local government bonds.

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

	Outstanding Amount (billion)						Growth Rates (%)			
	Q2 2020		Q1 2021		Q2 2021		Q2 2020		Q2 2021	
	CNY	USD	CNY	USD	CNY	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**91,285**	**13,189**	**103,528**	**15,799**	**106,590**	**16,507**	**5.6**	**17.9**	**3.0**	**14.4**
Government	58,867	8,332	66,198	10,102	68,384	10,591	5.4	15.1	3.3	16.2
Treasury Bonds and Other Government Bonds	17,775	2,516	21,032	3,210	21,548	3,337	5.5	15.0	2.5	21.2
Central Bank Bonds	15	2	15	2	15	2	(18.9)	0.0	0.0	0.0
Policy Bank Bonds	16,662	2,358	18,382	2,805	18,658	2,890	4.2	9.5	1.5	12.0
Local Government Bonds	24,415	3,456	26,769	4,085	28,163	4,362	6.2	19.3	5.2	15.4
Corporate	34,320	4,857	37,329	5,697	38,207	5,917	5.9	22.9	2.3	11.3

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.

Government bonds. The PRC's government bonds outstanding rose 3.3% q-o-q in Q2 2021 to CNY68.4 trillion after gaining 1.6% q-o-q in Q1 2021. The faster growth was largely due to an increase in local government bonds outstanding as local governments sought to utilize their bond quotas.

Issuance of Treasury bonds declined 4.5% q-o-q, but fewer maturities during the quarter led to Treasury bonds and other government bonds outstanding rising 2.5% q-o-q to CNY21.5 trillion. The larger increase was partly due to a low base effect resulting from the PRC's focus on risk control, which led to only a 0.5% q-o-q increase in Treasury and other government bonds outstanding in Q1 2021. This was visible in the decline in the y-o-y growth rate in Treasury and other government bonds from 24.8% in Q2 2020 to 21.2% in Q2 2021. Similarly, policy bank bond issuance fell 9.6% q-o-q in Q2 2021, resulting in policy bank bonds outstanding rising 1.5% q-o-q to CNY18.7 trillion after gaining 1.9% q-o-q in the previous quarter.

On the other hand, there was a rise in the issuance of local government bonds, which rose 173.5% q-o-q in Q2 2021, resulting in a 5.2% q-o-q increase in local government bonds outstanding to CNY28.2 trillion at the end of June. This was due to a low base effect as local government issuance was down in Q1 2021 due to a delay in the release of local government bond quotas. Despite this, the overall quota for local bonds outstanding in 2021 was reduced to CNY3.65 trillion from CNY3.75 trillion in 2020. Overall, local government issuance for the first half of 2021 was down 4.2% from the same period in 2020.

On a y-o-y basis, local government bonds outstanding grew 15.4%, up from 16.4% in Q1 2021.

Corporate bonds. Corporate bonds outstanding in the PRC rose 2.3% q-o-q in Q2 2021, which was down from Q1 2021's 2.9% q-o-q growth on dampened sentiment due to government efforts to rein in credit risk and rising corporate defaults this year. The PRC has also tempered issuance of debt by local government financing vehicles. While corporate bond issuance in the PRC grew 1.3% q-o-q to USD699 billion in Q2 2021 after a decline of 3.0% q-o-q in Q1 2021, corporate bond issuance was down 5.8% y-o-y.

The value of commercial paper outstanding fell 2.8% q-o-q and 19.3% y-o-y in Q2 2021 to CNY2.3 trillion at the end of June, as companies preferred to lock in lower rates with longer-dated debt (**Table 2**). Concerns regarding credit risk and rising defaults also led most major corporate bond sectors to post q-o-q declines or weak growth rates. Enterprise bonds declined 1.4% q-o-q, while medium-term notes rose 1.0% q-o-q. Listed corporate bonds and financial bonds rose 3.6% q-o-q and 3.8% q-o-q, respectively.

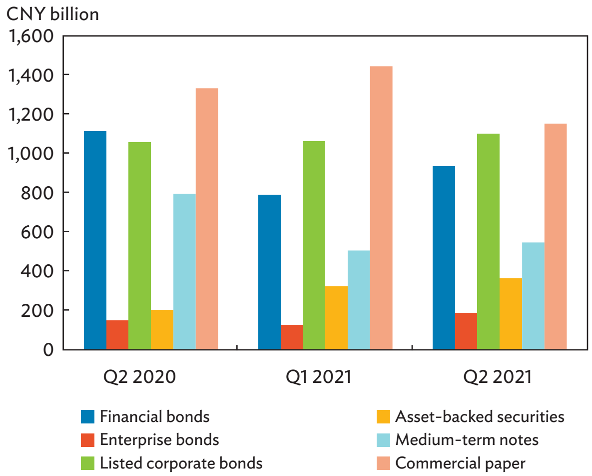
Most major corporate bond segments showed a q-o-q increase in issuance, excluding commercial paper, which declined 20.3% q-o-q (**Figure 2**). However, versus the same period a year earlier, issuance of nearly all major categories of corporate bonds exhibited a decline, excluding asset-backed securities, enterprise bonds, and listed corporate bonds.

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)			Growth Rate (%)			
				Q2 2020		Q2 2021	
	Q2 2020	Q1 2021	Q2 2021	q-o-q	y-o-y	q-o-q	y-o-y
Financial Bonds	6,803	7,746	8,038	1.4	34.9	3.8	18.2
Enterprise Bonds	3,771	3,860	3,808	1.0	(1.4)	(1.4)	1.0
Listed Corporate Bonds	8,996	10,603	10,986	1.4	3.6	3.6	22.1
Commercial Paper	2,825	2,344	2,279	1.3	(2.8)	(2.8)	(19.3)
Medium-Term Notes	7,300	7,382	7,457	1.3	1.0	1.0	2.1
Asset-Backed Securities	2,406	2,942	3,075	1.4	4.5	4.5	27.8

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

Figure 2: Corporate Bond Issuance in Key Sectors



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

The top 30 issuers' share of total LCY corporate bonds outstanding fell to 28.5% in Q2 2021 from 28.7% in Q1 2021 (**Table 3**). By the end of June, the bonds outstanding of the top 30 issuers reached CNY10.9 trillion. Of the top 30, the 10 largest issuers accounted for an aggregate CNY7.1 trillion. China Railway remained the largest issuer, accounting for 24.3% of the total bonds outstanding of the top 30 issuers.

Table 4 lists the largest corporate bond issuances in Q2 2021. Of the five top issuances, four were from financial institutions that sought to increase their liquidity and funding during the quarter. To help raise funds, the Bank of Communications and the Industrial and Commercial Bank issued perpetual bonds.

Investor Profile

Government bonds. Commercial banks remained the dominant investor in the PRC's government bond market in Q2 2021, albeit with a declining share of the total (**Figure 3**). Banks are the most significant holders of local government bonds by far, holding a share of 87.0% in Q2 2021, down slightly from 87.9% in Q2 2020.

Banks are also significant holders of Treasury bonds, holding 65.0% of the total stock at the end of Q2 2021, down somewhat from 66.5% at the end of Q2 2020. Banks also held 55.5% of policy bank bonds at the end of June 2021, down from 57.3% in June 2020.

Foreign investors saw their share of government bond holdings increase the most. Their share of Treasury bonds increased to 11.1% in Q2 2021, up from 9.5% in Q2 2020, while the foreign holdings' share of policy bank bonds also rose to 5.5% from 3.8% in the same review period.

Liquidity

The volume of interest rate swaps rose 6.1% q-o-q in Q2 2021 after a 0.4% q-o-q gain in the previous quarter, reflecting increased demand (**Table 5**).

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	2,648.5	410.17	Yes	No	Transportation
2.	Industrial and Commercial Bank of China	711.4	110.17	Yes	Yes	Banking
3.	Bank of China	658.1	101.92	Yes	Yes	Banking
4.	Agricultural Bank of China	650.3	100.71	Yes	Yes	Banking
5.	Bank of Communications	544.5	84.33	No	Yes	Banking
6.	Shanghai Pudong Development Bank	485.9	75.25	Yes	Yes	Banking
7.	Shanghai Pudong Development Bank	433.5	67.14	No	Yes	Banking
8.	China Construction Bank	388.1	60.10	Yes	Yes	Banking
9.	China Citic Bank	315.0	48.78	No	Yes	Banking
10.	China Securities Finance	302.5	46.85	Yes	No	Finance
11.	State Grid Corporation of China	296.5	45.92	Yes	No	Public Utilities
12.	China Minsheng Bank	290.0	44.91	No	Yes	Banking
13.	Industrial Bank	286.3	44.33	No	Yes	Banking
14.	China National Petroleum	274.9	42.58	Yes	No	Energy
15.	State Power Investment	253.3	39.22	Yes	No	Power
16.	China Merchants Bank	229.2	35.50	No	Yes	Banking
17.	China Everbright Bank	215.9	33.44	No	Yes	Banking
18.	Ping An Bank	185.0	28.65	No	Yes	Banking
19.	Huaxia Bank	180.0	27.88	No	Yes	Banking
20.	China Southern Power Grid	177.5	27.49	Yes	No	Public Utilities
21.	CITIC Securities	164.3	25.45	Yes	Yes	Brokerage
22.	Postal Savings Back of China	160.0	24.78	Yes	Yes	Banking
23.	Shaanxi Coal and Chemical Industry Group	156.0	24.16	Yes	Yes	Coal
24.	China Merchants Securities	150.9	23.37	No	No	Brokerage
25.	Tianjin Infrastructure Investment Group	147.4	22.83	Yes	No	Capital Goods
26.	Huatai Securities	141.7	21.94	No	Yes	Brokerage
27.	China Datang	115.7	17.91	Yes	No	Power
28.	China Three Gorges	115.0	17.81	Yes	No	Power
29.	GF Securities	113.9	17.64	No	Yes	Brokerage
30.	China Bohai Bank	113.0	17.49	No	No	Banking
Total Top 30 LCY Corporate Issuers		**10,904.2**	**1,688.7**			
Total LCY Corporate Bonds		**38,206.6**	**5,917.0**			
Top 30 as % of Total LCY Corporate Bonds		**28.5%**	**28.5%**			

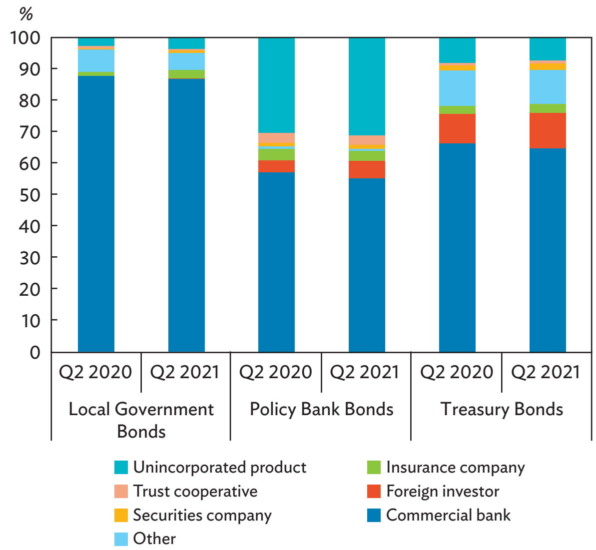
CNY = Chinese yuan, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 30 June 2021.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Table 4: Notable Local Currency Corporate Bond Issuances in the Second Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China Securities Finance[a]		
1-year bond	3.90	20.0
1-year bond	3.88	20.0
1-year bond	3.85	20.0
1-year bond	3.93	20.0
1-year bond	3.87	20.0
Bank of Communications		
1-year bond	3.40	40.0
Perpetual bond	4.06	41.5
Industrial and Commercial Bank		
Perpetual Bond	4.04	70.0
China Everbright Bank[a]		
1-year bond	2.82	3.0
1-year bond	2.82	8.0
1-year bond	2.86	4.0
1-year bond	2.84	3.0
1-year bond	2.80	2.5
1-year bond	2.98	6.0
2-year bond	2.88	3.0
2-year bond	2.93	5.0
2-year bond	3.09	3.0
2-year bond	3.13	6.0
2-year bond	3.23	4.5
2-year bond	3.20	4.5
China State Railway Group[a]		
10-year bond	3.54	5.0
10-year bond	3.54	5.0
10-year bond	3.54	5.0
20-year bond	3.80	5.0
20-year bond	3.84	5.0
20-year bond	3.80	5.0
20-year bond	3.80	5.0

CNY = Chinese yuan.
[a] Multiple issuance of the same tenor indicates issuance on different dates.
Source: Based on data from Bloomberg LP.

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



Q2 = second quarter.
Source: CEIC.

Table 5: Notional Values of the People's Republic of China's Interest Rate Swap Market in the Second Quarter of 2021

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	Share of Total Notional Amount (%)	Growth Rate (%)
	Q2 2021		q-o-q
7-Day Repo Rate	4,847.3	85.2	1.1
7-Day Repo Rate (Deposit Institutions)	2.2	0.04	8.9
Overnight SHIBOR	10.3	0.2	0.5
3-Month SHIBOR	800.1	14.1	1.2
1-Year Lending Rate	12.0	0.2	0.5
5-Year Lending Rate	1.9	0.0	0.3
10-Year Treasury Yield	5.3	0.1	0.5
China Development Bank 10-Year Bond Yield	4.8	0.1	0.4
10-Year Bond Yield/10-Year Government Bond Yield	4.5	0.1	0.4
3-Year AAA Short-Term Notes/ Government Debt	0.1	0.001	0.3
Total	**5,688.4**	**100.0**	**6.1**

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*.

Policy, Institutional, and Regulatory Developments

People's Bank of China Reduces Reserve Requirement Ratios

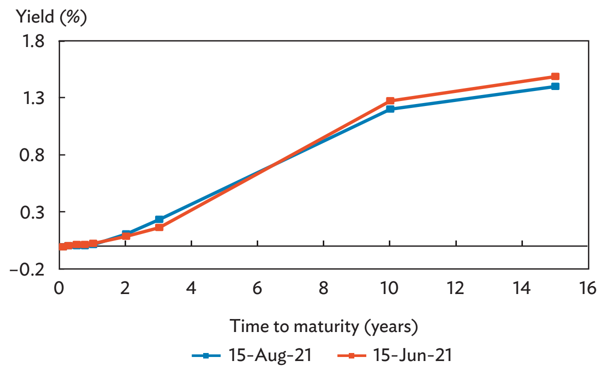
Effective 15 July, the PBOC reduced the reserve requirement ratio of financial institutions by 50 bps (excluding institutions with an existing 5% reserve requirement ratio). The PBOC estimated that the move would reduce the weighted average reserve requirement ratios of financial institutions to 8.9%. The PBOC's stated goal was to reduce borrowing costs and support the economy.

Hong Kong, China

Yield Movements

Hong Kong, China's local currency (LCY) bond yield curve exhibited mixed movements between 15 June and 15 August (**Figure 1**). The curve hardly moved at the shorter-end: yields were unchanged for bonds with maturities of 3 months or less, while yields dipped 1 basis point (bp) for bonds with maturities of between 6 months and 1 year. In contrast, the 2-year and 3-year tenors gained 2 bps and 7 bps, respectively. Yields fell an average of 8 bps for bonds with maturities of 10 years or more, shifting the curve slightly downward at the longer-end. On average, bond yields fell 1 bp across the curve. The spread between the 2-year and 10-year yields narrowed from 118 bps on 15 June to 109 bps on 15 August.

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



Source: Based on data from Bloomberg LP.

The yield movements of Hong Kong, China's LCY medium- to long-term government bonds broadly tracked the rate movements of the corresponding United States Treasuries during the review period. For both economies, risk-off sentiment drove long-term government bond yields down as the spread of the delta variant threatened the nascent economic recovery.

Hong Kong, China's inflation remained subdued as economic activities were still below pre-pandemic levels. Consumer price inflation accelerated to 3.7% year-on-year (y-o-y) in July from 0.7% y-o-y in June. The uptick in inflation in July was mainly due to a low base of comparison a year earlier, when a third wave of COVID-19 infections prompted government subsidies that drove prices down.

Hong Kong, China's gross domestic product expanded 7.6% y-o-y in the second quarter (Q2) of 2021 after rebounding to grow 8.0% y-o-y in the first quarter (Q1) of 2021. Consumption and investment demand gained momentum in Q2 2021 as the easing of social distancing measures revived consumer and investor sentiment. Private consumption rose 6.8% y-o-y in Q2 2021 versus 2.1% in Q1 2021. Investment growth jumped to 23.8% y-o-y in Q2 2021 from 4.8% y-o-y in the previous quarter. Exports of goods continued to be a main driver of economic growth, expanding 20.2% y-o-y in Q2 2021 after a 30.1% y-o-y rise in Q1 2021. Exports of services exhibited a modest recovery, rising 2.6% y-o-y in Q2 2021 after contracting 7.3% y-o-y in the prior quarter.

Hong Kong, China's track to economic recovery remains reliant on several factors, including the ongoing geopolitical tensions between the People's Republic of China and the United States, and the highly volatile trajectory of the global pandemic.

Size and Composition

Hong Kong, China's outstanding LCY bonds totaled HKD2,426.9 billion (USD312.5 billion) at the end of June (**Table 1**). The LCY bond market contracted 0.8% quarter-on-quarter (q-o-q) in Q2 2021, reversing the 1.7% q-o-q gain in Q1 2021. The contraction in the stock of outstanding bonds was driven by a decline in the corporate bond segment that outpaced the growth in the government bond segment. Government bonds accounted for 50.1% of total LCY bonds outstanding at the end of June, up from 48.6% at the end of March. On a y-o-y basis, growth in Hong Kong, China's LCY bond market moderated to 7.0% in Q2 2021 from 8.4% in the previous quarter.

Government bonds. LCY government bonds outstanding reached HKD1,215.7 billion at the end of June, with growth accelerating to 2.4% q-o-q in Q2 2021 from 0.2% q-o-q in Q1 2021. The growth was driven primarily by a 23.6% q-o-q expansion of Hong Kong Special Administrative Region (HKSAR) bonds. The stock of Exchange Fund Bills (EFBs) inched up 0.1% q-o-q, while the stock of Exchange Fund Notes (EFNs) fell 3.2% q-o-q

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2020		Q1 2021		Q2 2021		Q2 2020		Q2 2021	
	HKD	USD	HKD	USD	HKD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,269**	**293**	**2,446**	**315**	**2,427**	**313**	**0.6**	**(0.7)**	**(0.8)**	**7.0**
Government	1,156	149	1,187	153	1,216	157	(1.1)	(0.7)	2.4	5.1
Exchange Fund Bills	1,042	134	1,043	134	1,044	134	(1.7)	(0.003)	0.1	0.2
Exchange Fund Notes	26	3	25	3	24	3	(3.0)	(12.2)	(3.2)	(6.2)
HKSAR Bonds	89	11	119	15	147	19	6.4	(4.5)	23.6	66.4
Corporate	1,112	144	1,258	162	1,211	156	2.4	(0.8)	(3.7)	8.9

( ) = negative, HKD = Hong Kong dollar, HKSAR = Hong Kong Special Administrative Region, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period local currency–USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.

Source: Hong Kong Monetary Authority.

during the review period. On a y-o-y basis, growth in LCY government bonds outstanding quickened to 5.1% in Q2 2021 from 1.5% in Q1 2021.

Issuance of government bonds totaled HKD854.9 billion in Q2 2021 with the 4.5% q-o-q growth reversing the 5.6% q-o-q decline in the previous quarter. Strong issuance of HKSAR bonds largely drove the overall expansion in LCY government bond issuance.

Exchange Fund Bills. EFBs outstanding reached HKD1,044.2 billion at the end of June on growth of 0.1% q-o-q and 0.2% y-o-y. Issuance of EFBs totaled HKD825.5 billion in Q2 2021, rising 1.4% q-o-q.

Exchange Fund Notes. Since 2015, the Hong Kong Monetary Authority (HKMA) has limited its issuance of EFNs to 2-year tenors. In May, the HKMA issued 2-year EFNs worth HKD1.2 billion. Due to maturities, outstanding EFNs declined 3.2% q-o-q in Q2 2020, amounting to HKD24.2 billion at the end of June.

HKSAR bonds. Due to strong issuance, HKSAR bonds outstanding expanded 23.6% q-o-q in Q2 2021 to reach HKD147.3 billion at the end of June. The government issued a 4-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. The government also issued HKD20.0 billion of 3-year, inflation-linked retail bonds in June. On a y-o-y basis, HKSAR bonds outstanding expanded 66.4% in Q2 2021, up from 43.2% in the previous quarter.

Corporate bonds. Corporate bonds outstanding reached HKD1,211.2 billion at the end of June after a 3.7% q-o-q drop in Q2 2021 due to maturities and a decline in issuance. On a y-o-y basis, growth in the outstanding stock of corporate bonds moderated to 8.9% in Q2 2021 from 15.9% in Q1 2021.

Hong Kong, China's top 30 nonbank issuers had a combined HKD290.9 billion of bonds outstanding at the end of Q2 2021, accounting for 24.0% of the total LCY corporate bond market (**Table 2**). Hong Kong Mortgage Corporation remained the top issuer with HKD64.9 billion of bonds outstanding at the end of June. Sun Hung Kai & Co. and Hong Kong and China Gas Company were the next largest issuers with outstanding bond of HKD19.1 billion and HKD17.9 billion, respectively. The top 30 issuers were predominantly finance and real estate companies. A majority of the top 30 issuers were listed in the Hong Kong Stock Exchange and only three were government-owned corporations.

Issuance of corporate debt totaled HKD233.6 billion at the end of June. Issuance contracted 20.8% q-o-q in Q2 2021 as uncertainties about the negative impacts of new COVID-19 variants tempered demand for corporate debt.

Table 3 lists the largest corporate issuers in Q2 2021. Hong Kong Mortgage Corporation was the largest issuer with an aggregate HKD15.7 billion from 45 issuances, the largest of which was a 2.5-year bond worth HKD1.0 billion. The next largest issuer was CK Asset Holdings, which raised HKD3.8 billion from an issuance

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	64.9	8.4	Yes	No	Finance
2.	Sun Hung Kai & Co.	19.1	2.5	No	Yes	Finance
3.	The Hong Kong and China Gas Company	17.9	2.3	No	Yes	Utilities
4.	New World Development	16.0	2.1	No	Yes	Diversified
5.	Link Holdings	12.9	1.7	No	Yes	Finance
6.	MTR	12.5	1.6	Yes	Yes	Transportation
7.	Hong Kong Land	12.5	1.6	No	No	Real Estate
8.	Hang Lung Properties	12.4	1.6	No	Yes	Real Estate
9.	Henderson Land Development	12.0	1.5	No	Yes	Real Estate
10.	Swire Pacific	11.6	1.5	No	Yes	Diversified
11.	CK Asset Holdings	10.0	1.3	No	Yes	Real Estate
12.	The Wharf Holdings	9.4	1.2	No	Yes	Finance
13.	Cathay Pacific	9.3	1.2	No	Yes	Transportation
14.	Airport Authority Hong Kong	8.9	1.1	Yes	No	Transportation
15.	Hong Kong Electric	8.5	1.1	No	No	Utilities
16.	CLP Power Hong Kong Financing	7.7	1.0	No	No	Finance
17.	Guotai Junan International Holdings	7.7	1.0	No	Yes	Finance
18.	Swire Properties	7.6	1.0	No	Yes	Diversified
19.	Hysan Development Corporation	5.7	0.7	No	Yes	Real Estate
20.	Future Days	4.2	0.5	No	No	Transportation
21.	Lethai Group	3.0	0.4	No	Yes	Real Estate
22.	AIA Group	2.4	0.3	No	Yes	Insurance
23.	China Dynamics Holdings	2.4	0.3	No	Yes	Diversified
24.	Champion REIT	2.3	0.3	No	Yes	Real Estate
25.	The 13 Holdings	2.2	0.3	No	Yes	Industrial
26.	IFC Development	2.0	0.3	No	No	Finance
27.	Nan Fung	1.8	0.2	No	No	Real Estate
28.	Wheelock and Company	1.5	0.2	No	Yes	Real Estate
29.	Emperor International Holdings	1.4	0.2	No	Yes	Real Estate
30.	Innovative Pharmaceutical Biotech	1.3	0.2	No	Yes	Health Care
Total Top 30 Nonbank LCY Corporate Issuers		**290.9**	**37.5**			
Total LCY Corporate Bonds		**1,211.2**	**156.0**			
Top 30 as % of Total LCY Corporate Bonds		**24.0%**	**24.0%**			

HKD = Hong Kong dollar, LCY = local currency, REIT = real estate investment trust, USD = United States dollar.
Notes:
1. Data as of 30 June 2021.
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.

of a 3-year bond with a 0.62% coupon. Other notable issuers in Q2 2021 included New World Development, Sun Hung Kai & Co., MTR, and Guotai Junan International Holdings. The longest tenor issued during the quarter was a 30-year bond from New World Development.

Policy, Institutional, and Regulatory Developments

Hong Kong Monetary Authority Holds Countercyclical Capital Buffer at 1.0%

On 5 August, the HKMA announced that the countercyclical buffer (CCyB) would remain unchanged at 1.0%. The HKMA noted that while there have been initial signs of recovery, the economy continued to face uncertainties driven by the global pandemic. Thus, holding the CCyB steady and monitoring the economic situation for a few more quarters was deemed more appropriate. The CCyB is an integral part of the Basel III regulatory capital framework designed to increase the resilience of the banking sector during periods of excess credit growth. A lower CCyB releases additional liquidity into the banking system by raising banks' lending capacity to support the economy.

Table 3: Notable Local Currency Corporate Bond Issuances in the Second Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
Hong Kong Mortgage Corporation[a]		
9-month bond	zero	1.00
9-month bond	zero	1.00
1-year bond	0.27	0.70
2.5-year bond	0.70	1.00
3-year bond	0.80	0.70
5-year bond	0.42	0.92
5-year bond	1.07	0.40
10-year bond	1.71	0.30
CK Asset Holdings		
3-year bond	0.62	3.79
New World Development		
10-year bond	3.95	0.78
30-year bond	4.79	1.00
Sun Hung Kai & Co.		
3-year bond	0.70	0.70
7-year bond	1.90	0.80
MTR		
1-year bond	0.19	1.00
Guotai Junan International Holdings[a]		
1-year bond	0.60	0.30
1-year bond	0.80	0.25

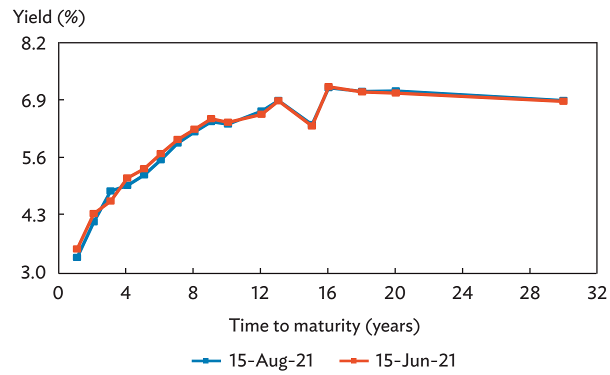
HKD = Hong Kong dollar.
[a] Multiple issuance of the same tenor indicates issuance on different dates.
Source: Bloomberg LP.

Indonesia

Yield Movements

Local currency (LCY) government bond yield movements in Indonesia diverged across tenors between 15 June and 15 August. Excluding the 3-year tenor, bond yields fell from the 1-year through the 10-year maturities, shedding an average of 12 basis points (bps) (**Figure 1**). The largest decline was seen in the 1-year and 2-year tenors, which slipped by 19 bps each during the review period. In contrast, yields edged up marginally by an average of 3 bps for all maturities of 12 years or more except for the 16-year, which slipped 2 bps. The biggest yield uptick was recorded for the 12-year bond, which rose 7 bps. The 2-year and 10-year yield spread widened from 204 bps on 15 June to 219 bps on 15 August.

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



Source: Based on data from Bloomberg LP.

The decline in yields for maturities of 10 years or less largely reflected the weakening economic outlook as economic activities were once again halted by the reintroduction of mobility restrictions in July. The spike in COVID-19 cases due to the emergence of virus variants, particularly the more contagious delta variant, dampened economic recovery and dragged down investor sentiment. The ongoing uncertainties associated with the pandemic also led the Ministry of Finance to revise downward its economic growth projections for 2021 from a range of 4.5%–5.3% in February to 3.7%–4.5% in July.

Bank Indonesia has continued to maintain an accommodative monetary policy stance, similar with other central banks in emerging East Asia, to help propel economic growth. In its meeting on 18–19 August, Bank Indonesia's Board of Governors held steady the 7-day reverse repurchase rate at 3.50%, the deposit facility rate at 2.75%, and the lending facility rate at 4.25%. The central bank also continued to purchase government bonds during primary auctions as well as participate in green shoe options as part of burden-sharing agreement with the government to help fund the state budget. As of 16 August, Bank Indonesia's bond purchases had reached IDR132.0 trillion this year.

In August, Bank Indonesia announced that it will continue with its bond purchases this year, targeting to buy up to IDR215 trillion of tradable government bonds directly from the government. The burden-sharing agreement will also be extended until 2022 with planned bond purchases of up to IDR224 trillion.

Consumer sentiment has weakened, with inflation falling short of Bank Indonesia's target range of 2.0%–4.0% for 2021. Consumer prices rose 1.5% year-on-year (y-o-y) in July, up from 1.3% y-o-y in June.

Economic performance rebounded in the second quarter (Q2) of 2021, with gross domestic product (GDP) expanding for the first time since the outbreak of the pandemic after contracting for 4 quarters in a row. GDP growth climbed to 7.1% y-o-y in Q2 2021, following a 0.7% y-o-y decline in the first quarter (Q1) of 2021. Growth was buoyed by a recovery in private consumption (5.9% y-o-y) and investments(7.5% y-o-y), as well as faster expansions in government spending (8.1% y-o-y), exports (31.8% y-o-y), and imports (31.2% y-o-y). All industry sectors posted positive y-o-y growth in Q2 2021. The faster growth in Q2 2021 was fueled by the easing of mobility restrictions, which allowed for the opening of the economy as well as increased consumer spending related to Muslim religious festivities. However, the economic recovery was disrupted by the reimposition of mobility restrictions in July amid a surge in COVID-19 cases owing to delta variant infections.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2020		Q1 2021		Q2 2021		Q2 2020		Q2 2021	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**3,761,356**	**264**	**4,799,432**	**330**	**4,912,250**	**339**	**6.6**	**14.9**	**2.4**	**30.6**
Government	3,331,641	234	4,366,500	301	4,489,539	310	8.0	16.6	2.8	34.8
Central Govt. Bonds	3,105,895	218	4,155,596	286	4,282,623	295	9.6	22.7	3.1	37.9
of which: *Sukuk*	579,263	41	765,420	53	740,172	51	21.1	37.9	(3.3)	27.8
Central Bank Bonds	49,624	3	54,927	4	58,670	4	2.5	(59.2)	6.8	18.2
of which: *Sukuk*	38,874	3	54,927	4	58,670	4	7.5	77.2	6.8	50.9
Nontradable Bonds	176,122	12	155,977	11	148,246	10	(13.7)	(14.0)	(5.0)	(15.8)
of which: *Sukuk*	37,274	3	35,684	2	33,106	2	(3.9)	(7.7)	(7.2)	(11.2)
Corporate	429,715	30	432,931	30	422,711	29	(3.0)	3.0	(2.4)	(1.6)
of which: *Sukuk*	29,382	2	31,172	2	31,672	2	(2.7)	21.8	1.6	7.8

( ) = 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. *Sukuk* refers to Islamic bonds.

Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; and Bloomberg LP.

Size and Composition

Indonesia's LCY bond market growth decelerated to 2.4% quarter-on-quarter (q-o-q) in Q2 2021 from 6.2% q-o-q in Q1 2021 to reach a size of IDR4,912.3 trillion (USD338.8 billion) (**Table 1**). Central government bonds, comprising both Treasury bills and Treasury bonds, continued to drive growth, as the government issued additional bonds to help fund the budget deficit. Central bank bonds also contributed to the growth but to a smaller extent. In contrast, the stocks of nontradable bonds and corporate bonds posted q-o-q declines in Q2 2021. On a y-o-y basis, Indonesia accounted for the fastest LCY bond market growth in emerging East Asia in Q2 2021, albeit at a moderated pace of expansion of 30.6% versus 36.0% in the preceding quarter.

Among emerging East Asian peers, Indonesia's government bond segment continued to comprise the largest share of total bonds outstanding. At the end of June, government bonds represented a 91.4% share of the LCY bond market of Indonesia. This outsized government bond share vis-à-vis corporate bonds reflects how LCY bond financing remains an important funding source for the government in terms of economic development, infrastructure projects, and COVID-19-related stimulus and relief measures.

Conventional bonds continued to dominate Indonesia's LCY bond market, accounting for an 82.4% share of bonds outstanding at the end of June. While Indonesia remained home to the second-largest *sukuk* (Islamic bond) market in the region in Q2 2021, the share of *sukuk* to total bonds was only 17.6% at the end of June, down from 18.5% at the end of March and 18.2% at the end of June 2020.

Government bonds. At the end of June, total government bonds outstanding reached IDR4,489.5 trillion. Government bond market growth, however, moderated to 2.8% q-o-q in Q2 2021 from 6.7% q-o-q in Q1 2021. In the same period, growth also eased on a y-o-y basis to 34.8% from 41.5%.

Central government bonds. Central government bonds outstanding in Indonesia totaled IDR4,282.6 trillion at the end of June. This accounted for 95.4% of the total government bond stock. Growth of central government bonds eased to 3.1% q-o-q in Q2 2021 from 7.4% q-o-q in Q1 2021. Slower growth in bonds outstanding stemmed from the continued decline in issuance since Q1 2021, despite the government's adoption of a frontloading policy as in previous years. Compared with the same period in the previous year, central government bonds outstanding rose 37.9% y-o-y in Q2 2021, down from 46.7% y-o-y in Q1 2021.

Total issuance of Treasury bills and Treasury bonds reached IDR231.4 trillion in Q2 2021, down from IDR307.0 trillion in the preceding quarter. New issuance of central government bonds contracted 24.6% q-o-q in Q2 2021 following a 30.9% q-o-q decline in Q1 2021. The government has tapered its issuance due to excess funds from borrowing in 2020 and improved revenue collection in the first half of 2021. State revenue increased 9.1% y-o-y to IDR886.9 trillion in the first half of 2021, which was equivalent to 50.9% of the target indicated in the state budget.[7] In contrast, state spending totaled IDR1,170.1 trillion in the first half of the year, which was equivalent to 42.5% of the annual state budget. This resulted in a deficit of IDR283.2 trillion, or 1.7% of GDP, compared with the full-year budget deficit target for 2021 of 5.7%.

In August, however, the government revised upward its bond issuance plan for 2021 to support a wider budget deficit. The government estimated debt issuance for the year to reach IDR1,020.0 trillion compared with IDR958.1 trillion projected in July.

Central bank bonds. The outstanding amount of central bank bills and bonds rose to IDR58.7 trillion at the end of June. Growth rebounded to 6.8% q-o-q in Q2 2021, reversing the 0.9% q-o-q contraction in the previous quarter. Total central bank issuance rose to IDR309.5 trillion on growth of 79.7% q-o-q. Issuances during the quarter solely comprised Sukuk Bank Indonesia, as there has been no issuance of Sertifikat Bank Indonesia since April.

Corporate bonds. The outstanding amount of LCY corporate bonds fell to IDR422.7 trillion at the end of June, on contractions of 2.4% q-o-q and 1.6% y-o-y. The decline in the corporate bond stock in Q2 2021 stemmed from the continued slowdown in issuance and a higher volume of maturities during the quarter.

The 31 largest corporate bond issuers in Indonesia at the end of June are provided in **Table 2**.[8] The aggregate bonds outstanding of these 31 corporate entities reached IDR308.7 trillion, down from IDR311.5 trillion issued by the top 30 issuers at the end of March. As a share of total corporate bonds, the largest corporate bond issuers accounted for 73.0% at the end of June, up from 72.0% at the end of March.

Leading the 31 firms on the list were corporates from the banking and financial industry. Other leading issuers included firms from the energy, telecommunications, construction, and manufacturing industries. Also included in the list are 19 state-owned institutions, of which 8 firms are ranked in the top 10, and 18 firms whose shares are listed in the Indonesia Stock Exchange.

At the end of June, the composition of the five-largest corporate bond issuers was similar with the list at the end of March. All five firms were state-owned institutions. Leading the list was energy firm Perusahaan Listrik Negara with bonds outstanding of IDR35.1 trillion, accounting for 8.3% of the total corporate bond stock at the end of June. In the second spot was Indonesia Eximbank with bonds outstanding of IDR23.1 trillion and a 5.5% share of the total. Next was Sarana Multi Infrastruktur with outstanding bonds of IDR20.5 trillion and a 4.9% share of the total. Rounding out the top five firms on the list were Bank Rakyat Indonesia and Sarana Multigriya Finansial.

Corporate bond sales in Q2 2021 totaled IDR18.8 trillion, down 8.5% q-o-q but up 108.3% y-o-y. Due to lingering uncertainties resulting from the COVID-19 pandemic, corporates opted to stay on the sidelines and reconsidered their borrowing plans. A total of 14 firms raised funds from the bond market in Q2 2021, a tad lower than the 16 firms in the prior quarter. This added 32 bond series to the corporate bond total at the end of June. Of this new series, four issues were structured as *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership) and two were structured as *sukuk ijarah* (Islamic bonds backed by lease agreements). The maturity distribution of the new corporate issues was concentrated in 3-year maturities (15 out of 32 new series) and 370-day bonds (11 out of 32 new series). The longest-dated corporate bond issued during the quarter was 7 years.

Two new corporate names also joined the list of bond issuers in Q2 2021. These were Integra Indocabinet and Adhi Commuter Properti. Both issues were priced

[7] *Antaranews*.com. 2021. Indonesia's Budget Deficit Reaches 1.72% of GDP in First Half: Govt. 5 July. https://en.antaranews.com/news/178338/indonesias-budget-deficit-reaches-172-of-gdp-in-first-half-govt.
[8] Two firms tied for the number 30 spot on the list.

Table 2: Top 31 Issuers of Local Currency Corporate Bonds in Indonesia

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (IDR billion)	LCY Bonds (USD billion)			
1.	Perusahaan Listrik Negara	35,121	2.42	Yes	No	Energy
2.	Indonesia Eximbank	23,102	1.59	Yes	No	Banking
3.	Sarana Multi Infrastruktur	20,513	1.41	Yes	No	Finance
4.	Bank Rakyat Indonesia	16,619	1.15	Yes	Yes	Banking
5.	Sarana Multigriya Finansial	16,184	1.12	Yes	No	Finance
6.	Bank Tabungan Negara	14,675	1.01	Yes	Yes	Banking
7.	Bank Mandiri	14,000	0.97	Yes	Yes	Banking
8.	Pegadaian	12,919	0.89	Yes	No	Finance
9.	Indosat	11,149	0.77	No	Yes	Telecommunications
10.	Bank Pan Indonesia	9,927	0.68	No	Yes	Banking
11.	Indah Kiat Pulp & Paper	9,505	0.66	No	Yes	Pulp and Paper
12.	Waskita Karya	9,402	0.65	Yes	Yes	Building Construction
13.	Pupuk Indonesia	9,046	0.62	Yes	No	Chemical Manufacturing
14.	Permodalan Nasional Madani	8,835	0.61	Yes	No	Finance
15.	Astra Sedaya Finance	8,206	0.57	No	No	Finance
16.	Semen Indonesia	7,078	0.49	Yes	Yes	Cement Manufacturing
17.	Tower Bersama Infrastructure	7,040	0.49	No	Yes	Telecommunications Infrastructure Provider
18.	Telkom Indonesia	7,000	0.48	Yes	Yes	Telecommunications
19.	Hutama Karya	6,500	0.45	Yes	No	Nonbuilding Construction
20.	Bank CIMB Niaga	6,484	0.45	No	Yes	Banking
21.	Adira Dinamika Multi Finance	6,328	0.44	No	Yes	Finance
22.	Federal International Finance	6,073	0.42	No	No	Finance
23.	Mandiri Tunas Finance	5,599	0.39	No	No	Finance
24.	Chandra Asri Petrochemical	5,489	0.38	No	Yes	Petrochemicals
25.	Bank Pembangunan Daerah Jawa Barat Dan Banten	5,248	0.36	Yes	Yes	Banking
26.	Wijaya Karya	5,000	0.34	Yes	Yes	Building Construction
27.	Bank Maybank Indonesia	4,849	0.33	No	Yes	Banking
28.	Sinar Mas Agro Resources and Technology	4,500	0.31	No	Yes	Food
29.	Adhi Karya	4,316	0.30	Yes	Yes	Building Construction
30.	Angkasa Pura II	4,000	0.28	Yes	No	Airport Management Services
31.	Kereta Api Indonesia	4,000	0.28	Yes	No	Transportation
Total Top 31 LCY Corporate Issuers		**308,707**	**21.29**			
Total LCY Corporate Bonds		**422,711**	**29.15**			
Top 31 as % of Total LCY Corporate Bonds		**73.0%**	**73.0%**			

IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 30 June 2021.
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.

at the tightest range, with their respective 3-year bonds each having a coupon rate of over 10.0%. Local rating agency Pemeringkatan Efek Indonesia rated the bond by Integra Indocabinet as idA– and that of Adhi Commuter Properti as idBBB. Most other 3-year bonds issued during the quarter had coupon rates of between 6.25% and 8.75%.

Table 3 lists the largest corporate bonds issued in Indonesia in Q2 2021. State-owned pawnshop Perum Pegadaian had the largest total issuance at IDR4.0 trillion issued in four tranches, including two issues of *sukuk mudharabah*. In the second spot was Astra Sedaya Finance with aggregate issuance of IDR2.5 trillion from a dual-tranche bond sale in April. Next was Bank Mandiri Taspen, which raised a total of IDR2.0 trillion from a dual-tranche bond sold in April.

Investor Profile

Foreign flows into the Indonesian bond market turned positive in Q2 2021, with net inflows reaching USD1.8 billion to reverse outflows of USD1.6 billion in Q1 2021. Net inflows were also recorded in April and June, which far exceeded the USD0.5 billion in net outflows posted in May. Foreign investor holdings of LCY government bonds fell to a share of 22.8% of the total market at the end of June from 22.9% at the end of March and from 30.2% at the end of June 2020 (**Figure 2**). In nominal terms, foreign holdings have been largely volatile this year.

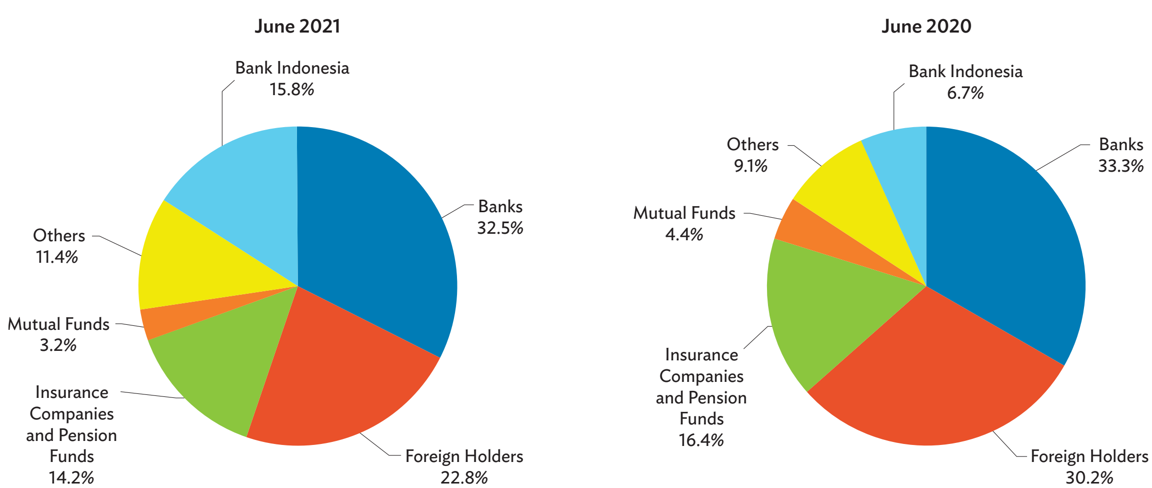
Foreign investor appetite for long-term bonds has waned in 2021 due to uncertainty in the trajectory of economic recovery and volatility in financial markets. Bonds with maturities of more than 10 years accounted for only 26.6% of nonresident bond holdings at the end

Table 3: Notable Local Currency Corporate Bond Issuances in the Second Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Perum Pegadaian		
370-day bond	4.85	2,173
370-day *sukuk mudharabah*	4.85	599
3-year bond	6.20	1,108
3-year *sukuk mudharabah*	6.20	166
Astra Sedaya Finance		
370-day bond	4.85	892
3-year bond	6.35	1,608
Bank Mandiri Taspen		
3-year bond	6.50	800
5-year bond	7.25	1,200
Federal International Finance		
370-day bond	4.60	628
3-year bond	6.25	872
Sinar Mas Agro Resources and Technology		
370-day bond	6.75	600
3-year bond	8.75	600
5-year bond	9.25	300

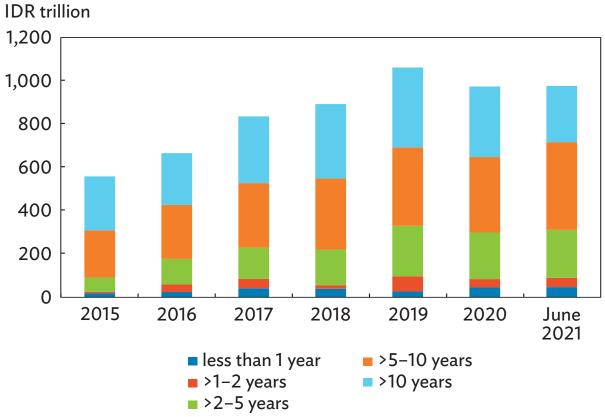
IDR = Indonesian rupiah.
Note: *Sukuk mudharabah* are Islamic bonds backed by a profit-sharing scheme from a business venture or partnership.
Source: Indonesia Stock Exchange.

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.

of June (**Figure 3**). A steady decline in their holdings has been noted since January, at which time the maturity bucket of more than 10 years accounted for 34.1% of foreign holdings. In contrast, the share of bonds with maturities of more than 5 years to 10 years steadily rose to 41.6% at the end of June from only 35.4% at the end of January. This reflects the shift in foreign investor risk appetite for medium-dated tenors. Nonetheless, bonds with maturities of 1 year or less only accounted for 4.7% of total nonresident holdings at the end of June.

Among domestic investors, banking institutions had the largest holdings of government bonds. However, their holdings share slipped to 32.5% at the end of June from 33.3% a year earlier. Insurance companies and mutual funds also reduced their holdings of government bonds with their shares of outstanding bonds falling to 14.2% and 3.2%, respectively, at the end of June from 16.4% and 4.4% at the end of June 2020.

Bank Indonesia increased its holdings of government bonds during the review period. The central bank continued to purchase government bonds as part of a burden-sharing agreement with the government to help fund the state budget. Aside from bond purchases, Bank Indonesia also injected liquidity into the banking sector by lowering the reserve requirement ratio and engaging in monetary expansion. Central bank holdings of government bonds surged to 15.8% of the total at the end of June from 6.7% in the same period from a year earlier.

The only other investor group aside from Bank Indonesia that saw an increase in their holdings share of government bonds during the review period were individuals and other investors not elsewhere classified. Collectively, their holdings rose by 2.4 percentage points to 11.4% at the end of June from 9.1% a year earlier.

Policy, Institutional, and Regulatory Developments

Bank Indonesia Broadens Local Currency Settlement Framework with Bank Negara Malaysia and the Ministry of Finance, Japan

Effective 2 August, Bank Indonesia and Bank Negara Malaysia expanded their LCY settlement framework to encourage the use of Indonesian rupiah and Malaysian ringgit for the settlement of trade and direct investment transactions between Indonesia and Malaysia. The new policies in the expanded settlement framework are as follows: (i) inclusion of direct investments, income, and transfers as eligible transactions; (ii) inclusion of individuals as eligible participants; and (iii) simplified documentary requirements for tapping the framework. Both central banks also appointed additional banks to facilitate the LCY settlement framework.

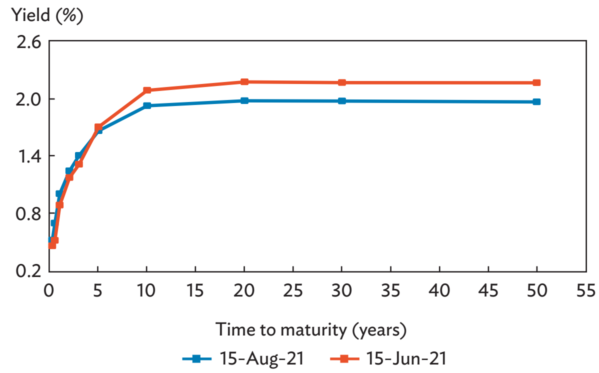
Effective 5 August, Bank Indonesia and the Ministry of Finance, Japan relaxed some policies related to their existing Indonesian rupiah and Japanese yen settlement framework. This move was made to further support trade and investment activities between Indonesia and Japan. The policies that were relaxed include the (i) use of cross-currency swap and domestic nondeliverable forward transactions as hedging tools, (ii) removal of underlying documents for transactions of up to USD500,000 from the previous USD25,000, and (iii) expansion of eligible criteria for hedging transactions and extension of hedging maturities to more than 1 year.

Republic of Korea

Yield Movements

The Republic of Korea's local currency (LCY) government bond yield curve slightly flattened between 15 June and 15 August as yields for short-term to medium-term tenors rose, while those for long-term tenors fell (**Figure 1**). Correspondingly, the spread between the 2-year and 10-year tenors fell to 68 basis points (bps) from 91 bps during the review period. Yields for the 3-month and 6-month tenors rose 6 bps and 18 bps, respectively. Yields between the 1-year and 3-year tenors rose 9 bps on average, while that of the 5-year tenor fell 4 bps. Yields for long-term tenors of between 10 years and 50 years fell 19 bps on average.

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



Source: Based on data from Bloomberg LP.

Yields at the shorter-end of the curve rose on increased expectations of a rate hike by the Bank of Korea before the year ends. The expectations were driven by increased inflationary pressures as inflation has hovered above 2.0% since April, reaching a high of 2.6% in May and July. In addition, the need to arrest the rise in household debt and housing prices also contributed to market expectations of a rate hike. Subsequently on 26 August, the Bank of Korea decided to raise the base rate by 25 bps to 0.75%.

Meanwhile, yields at the longer-end of the curve fell, tracking the global downward trend in long-term yields on weakening optimism and expectations of a slowdown in the global economic recovery amid the rise in cases of the more transmissible delta variant of COVID-19. The resurgence in domestic cases and the slow vaccination rollout has resulted in the tightening and extension of social distancing measures in the Republic of Korea and is expected to dampen consumption. In addition, bond supply concerns eased as the government announced in June that the funding of the second supplementary budget for 2021 will not involve the issuance of additional government bonds. The National Assembly on 24 July passed a second supplementary budget of KRW34.9 trillion to support small businesses, households, and local governments, and for the procurement of additional vaccines.

On 26 August, the Bank of Korea decided to raise the base rate to 0.75%, after leaving it unchanged on its 15 July monetary policy meeting. The central bank noted the continued recovery in the domestic economy and maintained its economic growth forecast for 2021 at 4.0%. Meanwhile, 2021 inflation forecast was revised upward to 2.1% from May projection of 1.8%. Given these conditions, the Monetary Board stated that it will gradually adjust the degree of monetary policy accommodation, taking into consideration developments in COVID-19, risk of a buildup in financial imbalances, and monetary policy changes in advanced economies.

The Republic of Korea's economic growth accelerated to 6.0% y-o-y in the second quarter (Q2) of 2021 from 1.9% y-o-y in the first quarter (Q1), based on preliminary estimates by the Bank of Korea. The higher growth was driven by private consumption, government spending, and an acceleration in export growth. However, on a quarter-on-quarter (q-o-q) basis, domestic economic growth slowed to 0.8% in Q2 2021 from 1.7% in Q1 2021.

The Republic of Korea's LCY bond market continued to register high levels of foreign inflows in Q2 2021, with net inflows of KRW3,346 billion and KRW5,516 billion in the months of April and May, respectively. Foreign inflows surged to a record KRW9,387 billion in June and further to KRW9,290 billion in July. Investor confidence in the Republic of Korea's economic recovery and favorable external balances, and the high interest rate differential over United States (US) Treasuries drove this trend.

The Korean won was one of the weakest currencies in the region during the review period, depreciating

4.5% to KRW1,169.02 per USD1.0 as of 15 August. The resurgence in domestic cases and foreign selling of Korean equities contributed to the depreciation of the currency.

Size and Composition

The size of the Republic of Korea's LCY bond market increased to KRW2,756.4 trillion at the end of June on growth of 2.3% quarter-on-quarter (q-o-q) (**Table 1**), which is slightly lower than the 2.4% q-o-q expansion registered in the previous quarter. Growth for the quarter was largely driven by the government sector, while the corporate sector grew at a slower pace. From the same period in 2020, the Republic of Korea's bond market grew 7.9% y-o-y, slower than the 8.9% y-o-y growth posted in Q1 2021.

Government bonds. The outstanding size of the Republic of Korea's LCY government bond market rose 3.2% q-o-q to KRW1,158.3 trillion. Growth stemmed from the 5.0% q-o-q expansion in the stock of central government bonds to KRW807.7 trillion, which more than offset the decline in central bank bonds. Monetary Stabilization Bonds issued by the Bank of Korea declined 1.9% q-o-q to KRW154.2 trillion. Meanwhile, outstanding bonds issued by other government-owned entities inched up 0.3% q-o-q to KRW196.3 trillion.

Issuance of government bonds was up 11.1% q-o-q in Q2 2021 to KRW114.3 trillion, led by central government bonds, which rose 17.3% q-o-q to KRW59.1 trillion. This was consistent with the frontloading policy of the government, which announced plans to spend 67% of its 2021 budget in the first half of the year. The higher issuance for the quarter may also be attributed to the funding of the first supplementary budget of 2021 (KRW14.9 trillion) passed on March.

Corporate bonds. The Republic of Korea's LCY corporate bond market grew 1.6% q-o-q to KRW1,598.2 trillion at the end of June, with growth accelerating from the 1.2% q-o-q increase posted in Q1 2021. **Table 2** lists the top 30 LCY corporate bond issuers in the Republic of Korea at the end of June. The top 30's bonds outstanding reached an aggregate size of KRW955.4 trillion and comprised 59.8% of the total LCY corporate bond market. Financial companies such as banks and securities and investment firms continued to dominate the Top 30 list with a collective share of 64.1%. Korea Housing Finance Corporation remained the single-largest corporate bond issuer in the market with total bonds outstanding of KRW152.6 trillion and a 16.0% share of the top 30's aggregate bonds. Industrial Bank of Korea and Mirae Asset Securities were the next largest LCY corporate bond issuers with total bonds outstanding of KRW71.5 trillion and KRW62.6 trillion, respectively.

The higher q-o-q growth in the Republic of Korea's corporate bonds outstanding in Q2 2021 was driven by the 16.6% q-o-q surge in issuance to KRW150.5 trillion from KRW129.1 trillion in Q1 2021. Higher issuance volumes were registered in all categories—special public entities, financial debentures, and private companies—as institutions ramped up their issuance amid increased expectations of a rate hike before the year ends.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2020		Q1 2021		Q2 2021		Q2 2020		Q2 2021	
	KRW	USD	KRW	USD	KRW	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,553,743**	**2,123**	**2,695,546**	**2,382**	**2,756,445**	**2,447**	**3.1**	**9.5**	**2.3**	**7.9**
Government	1,038,139	863	1,122,368	992	1,158,252	1,028	4.6	9.7	3.2	11.6
Central Government Bonds	679,020	565	769,339	680	807,725	717	5.1	13.3	5.0	19.0
Central Bank Bonds	168,870	140	157,230	139	154,230	137	1.9	(1.6)	(1.9)	(8.7)
Others	190,249	158	195,799	173	196,297	174	5.3	8.5	0.3	3.2
Corporate	1,515,604	1,260	1,573,178	1,390	1,598,193	1,419	2.1	9.4	1.6	5.4

( ) = 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: KG Zeroin Corporation and The Bank of Korea.

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	152,640	135.5	Yes	No	No	Housing Finance
2.	Industrial Bank of Korea	71,530	63.5	Yes	Yes	No	Banking
3.	Mirae Asset Securities Co.	62,584	55.6	No	Yes	No	Securities
4.	Korea Investment and Securities	58,252	51.7	No	No	No	Securities
5.	KB Securities	50,252	44.6	No	No	No	Securities
6.	Hana Financial Investment	49,716	44.1	No	No	No	Securities
7.	NH Investment & Securities	35,070	31.1	Yes	Yes	No	Securities
8.	Shinhan Investment Corporation	33,479	29.7	No	No	No	Securities
9.	Korea Land & Housing Corporation	31,516	28.0	Yes	No	No	Real Estate
10.	Samsung Securities	30,251	26.9	No	Yes	No	Securities
11.	Shinhan Bank	29,612	26.3	No	No	No	Banking
12.	Korea Electric Power Corporation	26,800	23.8	Yes	Yes	No	Electricity, Energy, and Power
13.	Korea Expressway	25,150	22.3	Yes	No	No	Transport Infrastructure
14.	Meritz Securities Co.	24,486	21.7	No	Yes	No	Securities
15.	The Export-Import Bank of Korea	23,675	21.0	Yes	No	No	Banking
16.	Woori Bank	21,310	18.9	Yes	Yes	No	Banking
17.	KEB Hana Bank	20,665	18.3	No	No	No	Banking
18.	Kookmin Bank	20,164	17.9	No	No	No	Banking
19.	Korea National Railway	19,450	17.3	Yes	No	No	Transport Infrastructure
20.	NongHyup Bank	18,530	16.5	Yes	No	No	Banking
21.	Hanwha Investment and Securities	18,433	16.4	No	No	No	Securities
22.	Korea SMEs and Startups Agency	18,418	16.4	Yes	No	No	SME Development
23.	Shinyoung Securities	18,365	16.3	No	Yes	No	Securities
24.	Shinhan Card	16,505	14.7	No	No	No	Credit Card
25.	Hyundai Capital Services	14,425	12.8	No	No	No	Consumer Finance
26.	KB Kookmin Bank Card	14,290	12.7	No	No	No	Consumer Finance
27.	Standard Chartered Bank Korea	13,250	11.8	No	No	No	Banking
28.	NongHyup	13,160	11.7	Yes	No	No	Banking
29.	Samsung Card Co.	12,048	10.7	No	Yes	No	Credit Card
30.	Korea Gas Corporation	11,369	10.1	Yes	Yes	No	Gas Utility
Total Top 30 LCY Corporate Issuers		**955,394**	**848.3**				
Total LCY Corporate Bonds		**1,598,193**	**1,419.0**				
Top 30 as % of Total LCY Corporate Bonds		**59.8%**	**59.8%**				

KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, KRW = Korean won, LCY = local currency, SMEs = small and medium-sized enterprises, USD = United States dollar.
Notes:
1. Data as of 30 June 2021.
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 KG Zeroin Corporation data.

Table 3: Notable Local Currency Corporate Bond Issuances in the Second Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Shinhan Bank[a]		
1-year bond	0.77	600
1-year bond	0.12	310
1-year bond	0.81	220
1-year bond	0.82	200
1-year bond	0.88	170
1-year bond	0.82	150
2-year bond	1.07	430
2-year bond	2.58	400
2-year bond	1.07	260
3-year bond	1.15	350
3-year bond	1.20	300
Woori Bank[a]		
1-year bond	0.81	500
1-year bond	0.12	500
1-year bond	0.89	430
1-year bond	0.79	200
2-year bond	1.07	500
2-year bond	1.01	400
2-year bond	1.05	350
10-year bond	2.64	300

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Nonghyup Bank[a]		
1-year bond	1.14	490
1-year bond	0.80	370
1-year bond	zero	360
1-year bond	zero	200
2-year bond	1.26	400
2-year bond	1.08	210
3-year bond	1.31	400
5-year bond	1.83	240
29-year bond	2.32	140
Sinbo Securitization Specialty[a]		
2-year bond	1.237	149
2-year bond	1.26	148
2-year bond	1.64	119
3-year bond	1.47	493
3-year bond	1.45	400
3-year bond	1.78	392
3-year bond	1.45	171
3-year bond	1.47	108

KRW = Korean won.
[a] Multiple issuance of the same tenor indicates issuance on different dates.
Source: Based on data from Bloomberg LP.

Table 3 lists the notable corporate bond issuances in Q2 2021. Financial firms such as Shinhan Bank, Woori Bank, Nonghyup Bank, and Sinbo Securitization had some of the largest aggregate issuance totals during the quarter.

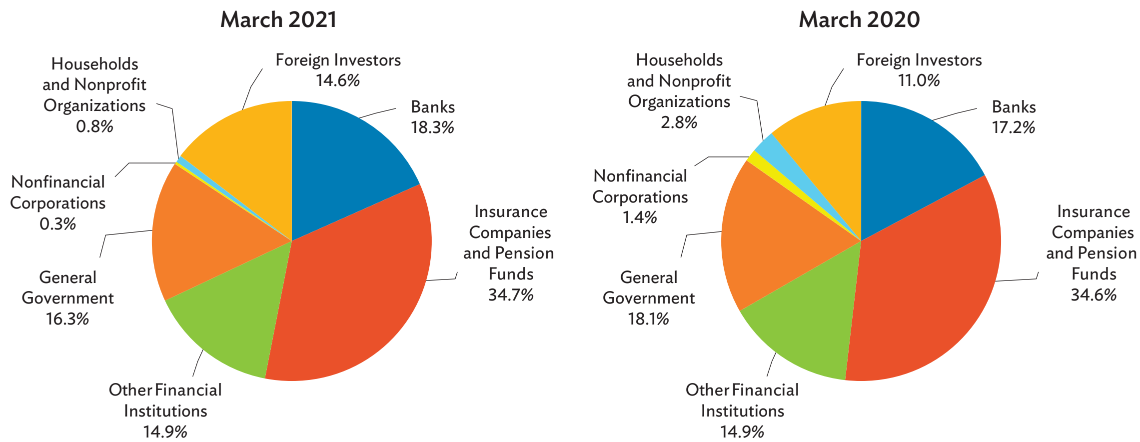
Investor Profile

Insurance companies and pension funds continued to be the largest investor group in the Republic of Korea's LCY government bond market at the end of March 2021 with a share of 34.7%, which was almost at par with their 34.6% share in March 2020 (**Figure 2**). Banks surpassed the general government as the second-largest investor group at the end of March 2021. The share of banks rose to 18.3% (from 17.2% in March 2020) and the general government's share declined to 16.3% (from 18.1%). The share of other financial institutions remained the same at 14.9%, while nonfinancial corporations and households registered sharp declines. Foreign holdings of LCY government bonds registered the highest percentage increase during the review period, rising to 14.6% from 11.0%, as foreign bond inflows surged in Q1 2021.

Other financial institutions held the largest share of the Republic of Korea's LCY corporate bonds at the end of Q2 2021 with their share rising to 38.9% from 37.5% in the same period in 2020 (**Figure 3**). Meanwhile, the share of insurance companies and pension funds fell during the review period to 36.3% from 37.3%. The share of the general government was almost unchanged at 13.5% versus 13.6%, while the share of foreign holders remained negligible.

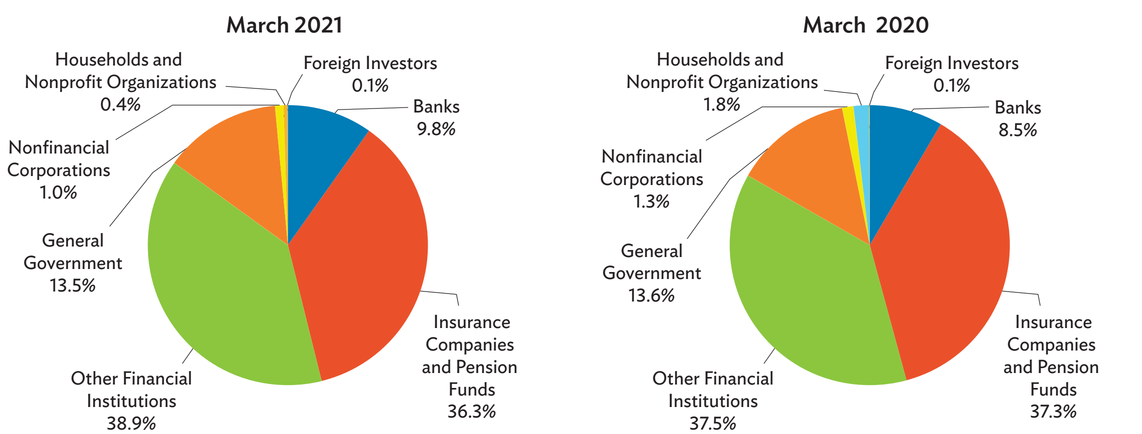
Foreign demand for the Republic of Korea's LCY bonds continued to remain high in Q2 2021, posting net inflows of KRW3,346 billion and KRW5,516 billion in the months of April and May, respectively, and reaching KRW9,387 billion in June and further to KRW9,290 billion in July (**Figure 4**). Strong foreign demand has been driven by the high interest rate differential of Korean LCY bonds over United States Treasuries. This was primarily due to a rise in domestic government bond yields, particularly for tenors of between 1 year and 5 years, on expectations of a rate hike later this year. Domestic bonds with remaining maturities of 1–5 years also registered the highest net foreign inflows during the review period (**Figure 5**). The Republic of Korea continued to be a safe haven relative

Figure 2: Local Currency Government Bonds Investor Profile



Source: *AsianBondsOnline* and The Bank of Korea.

Figure 3: Local Currency Corporate Bonds Investor Profile



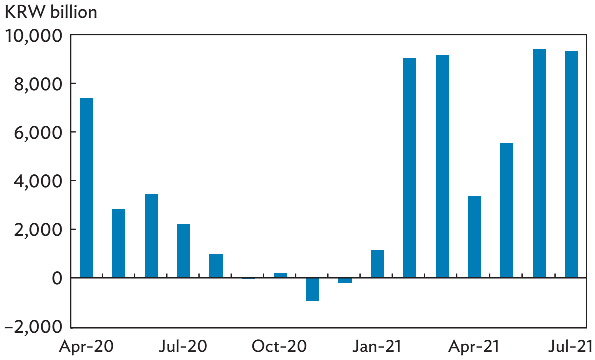
Source: *AsianBondsOnline* and The Bank of Korea.

to other bond markets in the region due to its strong domestic economic recovery and favorable external balances. The decline in the 5-year credit default swap spread from a peak of 26.0 bps in January to 18.5 bps at the end of July reflected strong investor confidence.

Ratings Update

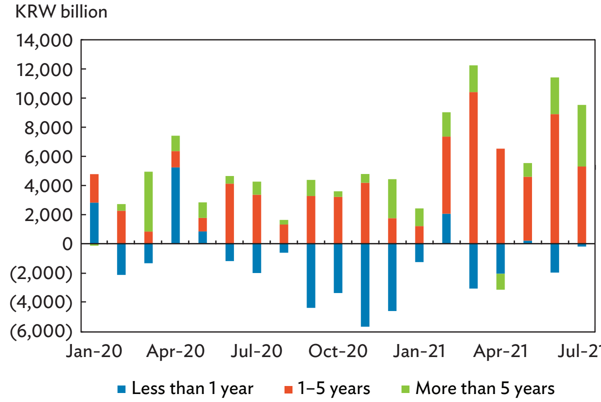
On 21 July, Fitch Ratings affirmed the Republic of Korea's sovereign credit ratings at AA− with a stable outlook. The rating agency cited the Republic of Korea's "robust external finances, resilient macroeconomic performance, and modest fiscal headroom" as the reasons behind the rating affirmation. Downside risks remained following a recent rise in domestic COVID-19 cases; however, the expanded vaccine rollout is expected to mitigate any new outbreak. In addition, the second supplementary budget is expected to support the recovery in consumption. Fitch Rating forecast that 2021 gross domestic product (GDP) growth will reach 4.5%. Meanwhile, the fiscal deficit is expected to widen to 4.4% of GDP in 2021. Despite the rise in government debt, the Republic of Korea's record of fiscal prudence, along with the government's proposal for a debt ceiling of 60% of GDP and an annual fiscal deficit limit of 3% of GDP, is expected to further support fiscal management. The rating agency also expects the Bank of Korea to hike policy rates by 25 bps in the second half of 2021 and by another 50 bps in 2022.

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



KRW = Korean won.
Source: Financial Supervisory Service.

Figure 5: Net Foreign Investment in Local Currency Bonds in the Republic of Korea by Remaining Maturity



KRW = Korean won.
Source: Financial Supervisory Service.

Policy, Institutional, and Regulatory Developments

National Assembly Passes Second Supplementary Budget

On 24 July, the National Assembly passed the second supplementary budget for 2021 worth KRW34.9 trillion, which was KRW1.9 trillion higher than the proposed amount. This was the sixth supplementary budget related to the government's response to the pandemic since 2020: KRW14.9 trillion was allotted for pandemic relief packages, KRW12.6 trillion for local economic support and subsidies to local governments, KRW4.9 trillion for vaccine purchases and disease prevention efforts, and KRW2.5 trillion for employment support and low-income household aid. The supplementary budget brought the overall budget for 2021 to KRW604.9 trillion from an original amount of KRW558 trillion. The new 2021 budget is expected to produce a fiscal deficit equal to 4.4% of GDP and cumulative government debt equal to 47.2% of GDP.

The Bank of Korea Announces Changes to Monetary Stabilization Bonds Issuance System

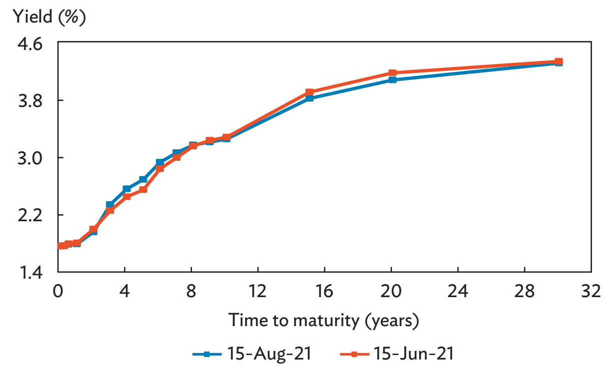
On 2 August, the Bank of Korea announced changes to the issuance system of Monetary Stabilization Bonds (MSBs) to enhance liquidity management efficiency. Regular auctions of 182-day MSBs will be suspended given the introduction of 3-year MSBs. Meanwhile, the issuance of 1-year, 2-year, and 3-year MSBs will be held once a month. Issuance of 91-day MSBs—at auctions to be held once a week—will be slightly expanded to around KRW1 trillion. Finally, the issuance of 1-year and 2-year MSBs will be significantly reduced due to the issuance of 3-year MSBs. The new system will be implemented effective 1 September.

Malaysia

Yield Movements

Movements in Malaysia's local currency (LCY) government bond yields were mixed between 15 June and 15 August (**Figure 1**). Yields for the 1-month and 3-month tenors barely moved, increasing 0.3 basis points (bps) and 0.1 bps, respectively. At the shorter-end of the curve, the 6-month tenor and 1-year tenor declined 1 bp each, while the 2-year yield decreased 4 bps. Yields on tenors of 3 years to 7 years jumped an average of 10 bps, with the 5-year yield rising the most among all tenors with a 14-bps gain during the review period. The longer-end of the yield curve (9 years to 30 years) recorded declines, with the 20-year yield declining the most at 10 bps. During the review period, the yield spread between 2-year and 10-year government bonds slightly increased from 128 bps to 129 bps.

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



Source: Based on data from Bloomberg LP.

The mixed movement in yields reflected investors' cautious view of the economy as Malaysia and its neighboring economies continued to reel from the effects of the COVID-19 pandemic, with the spread of the delta variant and an increasing number of COVID-19 cases remaining a threat to the domestic and global economic recovery. Uncertainty in Malaysia's political landscape also affected Malaysia's financial markets, and the selling pressure in the belly of the yield curve may be attributed to risk-off sentiment among investors. On the other hand, the low long-term yields may be ascribed to the low-interest-rate environment as Bank Negara Malaysia (BNM) kept the overnight policy rate at 1.75% in July.

Aggravated by political uncertainty, the Malaysian ringgit weakened 2.8% against the United States (US) dollar during the review period to close at MYR4.2375 per USD1.0 dollar on 15 August.

On 8 July, the monetary policy committee of BNM maintained its policy rate at 1.75%. The decision came as the global economy continued to recover from the COVID-19 pandemic. On the domestic front, Malaysia's economic growth in the first quarter (Q1) of 2021 was better than expected, although this growth was slightly dampened in the second quarter (Q2) of 2021 as the economy was placed under another Movement Control Order to curb the spread of COVID-19 infections. Malaysia's stimulus packages and strong external position are helping to support economic growth.

Malaysia's economy grew 16.1% year-on-year (y-o-y) on Q2 2021, reversing 4 straight quarters of contraction. Gross domestic product (GDP) growth was supported by expansions in the manufacturing and services sectors. At the same time, the significant growth in Q2 2021 was buoyed by a low base effect from Q2 2020 when GDP growth plunged owing to the first Movement Control Order implemented in March 2020 to curb the spread of COVID-19. On a quarter-on-quarter (q-o-q) basis, economic growth fell 2.0% during the quarter. In Q2 2021, the value of Malaysia's GDP remained lower than its pre-pandemic level in the fourth quarter of 2019. In August, BNM revised its expected full-year 2021 economic growth to 3.0%–4.0% from 6.0%–7.5%, mainly due to the effects of COVID-19 containment measures.

Consumer price inflation followed a downtrend, though remained elevated, during Q2 2021. From 4.7% y-o-y in April, prices of basic goods and services increased at a slower pace in May and June, recording inflation of 4.4% y-o-y and 3.4% y-o-y, respectively. Prices in April and May were elevated as increased demand from consumers coincided with Muslim festivities. The elevated inflation rates were also due to a low base effect from low retail fuel prices in 2020 and a lag in the effects of the government's tiered rebate of the electricity tariff implemented from April to December 2020. By July, inflation fell to 2.2% y-o-y. Malaysia's central bank expects consumer price inflation will fall between 2.5% and 4.0% for full-year 2021.

In June, the Government of Malaysia unveiled the National Recovery Plan, an exit strategy from the COVID-19 crisis. The plan consists of four phases. Movement from one phase to another is based on three thresholds: (i) number of daily COVID-19 infections, (ii) bed utilization rates in intensive care unit wards, and (iii) the percentage of the population that is fully vaccinated. Various restrictions on economic and social activities will be implemented during each phase, relaxing as the economy moves to latter phases. Malaysia was in Phase 1, the strictest phase, in June as a full Movement Control Order was implemented to curb rising COVID-19 cases. As of 4 August, seven states remained in Phase 1, while six states were in Phase 2, and three states had moved to Phase 3. By the end of October, 60% of Malaysia's population is expected to be fully vaccinated through the National COVID-19 Immunization Programme.

Size and Composition

The LCY bond market of Malaysia expanded 2.7% q-o-q in Q2 2021 to reach a size of MYR1,693.3 billion (USD408.1 billion) at the end of June, up from MYR1,648.9 billion at the end of Q1 2021 (**Table 1**). The Q2 2021 expansion was slightly slower than the 2.8% q-o-q growth recorded in Q1 2021. On an annual basis, the LCY bond market grew 8.9% y-o-y in Q2 2021, which was faster than the 7.9% y-o-y growth posted in the prior quarter. The growth may be attributed to expansions in both LCY government and corporate bonds, which accounted for 54.6% and 45.4%, respectively, of total LCY bonds outstanding at the end of June. At the end of the review period, total outstanding *sukuk* (Islamic bonds) reached MYR1,065.1 billion on growth of 2.3% q-o-q that was supported by increased stocks of government and corporate *sukuk*.

Issuance of LCY bonds in Q2 2021 increased 1.0% q-o-q to MYR101.2 billion from MYR100.2 billion in Q1 2021, driven by increased corporate bond issuance. The growth was partially offset by a decline in issuance of government bonds.

Government bonds. The LCY government bond market grew 3.9% q-o-q to a size of MYR924.1 billion at the end of Q2 2021 from MYR889.6 billion at the end of March. The Q2 2021 expansion was slower than the growth of 4.3% q-o-q in the previous quarter. The increase was due to the increase of 4.1% q-o-q in outstanding central government bonds, which comprised 97.4% of total outstanding LCY government bonds at the end of June, spurred by the increased stock of government bonds and Treasury bills. There were no outstanding central bank bills at the end of June, while the amount of outstanding

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2020		Q1 2021		Q2 2021		Q2 2020		Q2 2021	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,555**	**363**	**1,649**	**398**	**1,693**	**408**	**1.8**	**4.5**	**2.7**	**8.9**
Government	829	193	890	215	924	223	3.2	6.4	3.9	11.5
Central Government Bonds	797	186	865	209	900	217	4.0	7.4	4.1	12.9
of which: *Sukuk*	367	86	403	97	415	100	1.5	10.1	2.9	12.9
Central Bank Bills	5	1	1	0	0	0	(50.0)	(45.7)	(100.0)	(100.0)
of which: *Sukuk*	0	0	0	0	0	0	(100.0)	(100.0)	–	–
Sukuk Perumahan Kerajaan	27	6	24	6	24	6	0.0	(3.9)	0.0	(10.1)
Corporate	726	169	759	183	769	185	0.2	2.4	1.3	6.0
of which: *Sukuk*	582	136	614	148	626	151	0.9	5.0	2.0	7.6

( ) = negative, – = not applicable, MYR = Malaysian ringgit, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second quarter, USD = United States dollar, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period local currency–USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. *Sukuk* refers to Islamic bonds.
5. 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.

Sukuk Perumahan Kerajaan, which comprised 2.6% of total outstanding LCY government bonds at the end of Q2 2021, was unchanged from Q1 2021.

LCY government bond issuance in Q2 2021 declined 1.8% q-o-q to MYR56.0 billion from MYR57.0 billion in Q1 2021. The reduced issuance was due to slightly lower issuances of government bonds and Treasury bills.

The total issuance of Malaysian Government Securities (conventional bonds) and Government Investment Issues (Islamic bonds) during the first half of 2021 increased compared to the first half of 2020 as Movement Control Orders restricted economic activities, and fiscal support was needed in response.

Corporate bonds. Outstanding LCY corporate bonds outstanding grew 1.3% q-o-q to MYR769.2 billion at the end of June from MYR759.3 billion at the end of March. Growth in Q2 2021 was faster than the 1.0% q-o-q growth logged in Q1 2021. The amount of outstanding corporate *sukuk* grew 2.0% q-o-q to MYR626.4 billion in Q2 2021 from MYR614.4 billion in Q1 2021, with growth also accelerating from 0.9% q-o-q in the previous quarter.

Malaysia's top 30 corporate bond issuers accounted for MYR456.4 billion of outstanding corporate bonds at the end of Q2 2021, representing 59.3% of the total LCY corporate bond market (**Table 2**). Government-owned Danainfra Nasional led all issuers with LCY corporate bonds outstanding amounting to MYR76.0 billion. Financial institutions had the largest sectoral share (52.9%) among all sectors represented in the top 30 list with MYR241.2 billion in LCY corporate bonds outstanding at the end of the review period.

LCY corporate bonds issued in Q2 2021 jumped 4.7% q-o-q to MYR45.2 billion from MYR43.2 billion in Q1 2021. The growth in Q2 2021 was a reversal from the decline of 25.8% q-o-q posted in the prior quarter. The expansion may be attributed to companies taking advantage of the low-interest-rate environment as BNM kept its overnight policy rate at 1.75% in July 2021 and the economy is expected to recover during the second half of the year.

In April, Infracap Resources, a special purpose vehicle of the Sarawak state government, issued a total of MYR5.8 billion of *sukuk murabahah*, an Islamic bond in which bondholders are entitled to a share of the revenues generated by the assets (**Table 3**). The issuance had 11 tranches with tenors ranging from 1 year to 15 years. Proceeds from the issuance will be used by the company to fund various Shariah-compliant purposes. Cagamas, the national mortgage corporation of Malaysia, issued three 2-year conventional medium-term notes during the quarter. A dual-tranche bond, both tranches with a coupon rate of 2.5%, was issued in May and its proceeds will be used in funding purchases from the financial system of housing loans. Cagamas' various Islamic medium-term notes were issued under its Medium-Term Note Programme. In May, Danainfra Nasional, which funds projects of the Government of Malaysia, issued five tranches of *sukuk murabahah* totaling MYR2.0 billion and with tenors ranging from 7 years to 30 years. Proceeds from this issuance will be used to fund Shariah-compliant expenses related to the Klang Valley Mass Rapid Transit Project.

Investor Profile

Foreign holdings of LCY government bonds in the Malaysian market rose throughout Q2 2021, with foreign investors holding MYR231.4 billion worth of LCY government bonds in April, MYR233.4 billion in May, and MYR233.8 billion in June (**Figure 2**). Net capital inflows into the bond market in April were MYR6.6 billion, declining to MYR2.0 billion and MYR0.4 billion in the succeeding 2 months. The tapered pace of buying from foreign investors may be attributed to investors' risk aversion due to the resurgence of COVID-19 infections in Malaysia and neighboring economies, which in turn lead the Government of Malaysia to institute again a nationwide Movement Control Order in June. Economic and political uncertainties contributed to foreigners' tepid enthusiasm for Malaysian government bonds. As a share of LCY government bonds, foreign holdings increased from 26.0% at the end of March to 26.6% at the end of April before gradually easing to 26.0% at the end of June.

At the end of March, investors in LCY government bonds were led by financial and social security institutions, holding 34.0% and 27.2% of the total, respectively (**Figure 3**). The holdings of financial institutions increased while those of social security institutions declined compared to the same month in 2020. The share of foreign holders increased to 25.6% during the review period from 21.8% a year prior. The holdings of insurance companies and BNM increased to 4.8% and 1.9% from 4.2% and 1.6%, respectively, between March 2020 and March 2021.

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	76.0	18.3	Yes	No	Finance
2.	Prasarana	37.0	8.9	Yes	No	Transport, Storage, and Communications
3.	Lembaga Pembiayaan Perumahan Sektor Awam	34.2	8.2	Yes	No	Property and Real Estate
4.	Cagamas	30.3	7.3	Yes	No	Finance
5.	Project Lebuhraya Usahasama	28.9	7.0	No	No	Transport, Storage, and Communications
6.	Urusharta Jamaah	27.3	6.6	Yes	No	Finance
7.	Perbadanan Tabung Pendidikan Tinggi Nasional	24.3	5.9	Yes	No	Finance
8.	Pengurusan Air	18.3	4.4	Yes	No	Energy, Gas, and Water
9.	CIMB Bank	13.4	3.2	Yes	No	Finance
10.	Maybank Islamic	13.0	3.1	No	Yes	Banking
11.	Malayan Banking	12.1	2.9	No	Yes	Banking
12.	Sarawak Energy	12.0	2.9	Yes	No	Energy, Gas, and Water
13.	Khazanah	11.9	2.9	Yes	No	Finance
14.	CIMB Group Holdings	11.6	2.8	Yes	No	Finance
15.	Tenaga Nasional	10.3	2.5	No	Yes	Energy, Gas, and Water
16.	Danga Capital	10.0	2.4	Yes	No	Finance
17.	Jimah East Power	8.9	2.2	Yes	No	Energy, Gas, and Water
18.	Danum Capital	8.4	2.0	No	No	Finance
19.	Public Bank	6.9	1.7	No	No	Banking
20.	Bank Pembangunan Malaysia	6.8	1.6	Yes	No	Banking
21.	Sapura TMC	6.4	1.5	No	No	Finance
22.	YTL Power International	6.1	1.5	No	Yes	Energy, Gas, and Water
23.	Bakun Hydro Power Generation	5.9	1.4	No	No	Energy, Gas, and Water
24.	Infracap Resources	5.8	1.4	Yes	No	Finance
25.	GOVCO Holdings	5.7	1.4	Yes	No	Finance
26.	Turus Pesawat	5.3	1.3	Yes	No	Transport, Storage, and Communications
27.	GENM Capital	5.3	1.3	No	No	Finance
28.	EDRA Energy	5.1	1.2	No	Yes	Energy, Gas, and Water
29.	1Malaysia Development	5.0	1.2	Yes	No	Finance
30.	Kuala Lumpur Kepong	4.6	1.1	No	Yes	Energy, Gas, and Water
Total Top 30 LCY Corporate Issuers		**456.4**	**110.0**			
Total LCY Corporate Bonds		**769.2**	**185.4**			
Top 30 as % of Total LCY Corporate Bonds		**59.3%**	**59.3%**			

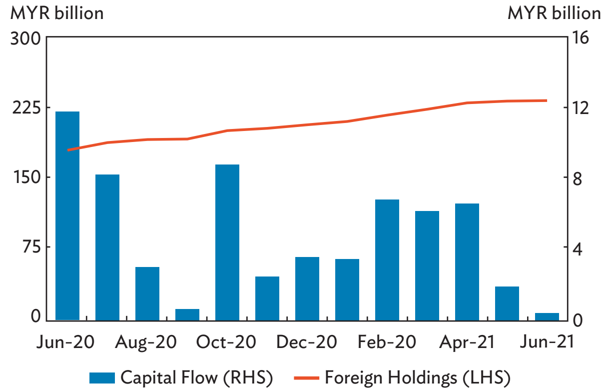
LCY = local currency, MYR = Malaysian ringgit, USD = United States dollar.
Notes:
1. Data as of 30 June 2021.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering data.

Table 3: Notable Local Currency Corporate Bond Issuances in the Second Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Infracap Resources		
1-year *sukuk murabahah*	2.83	900
3-year *sukuk murabahah*	3.11	350
5-year *sukuk murabahah*	3.69	450
7-year *sukuk murabahah*	4.12	500
8-year *sukuk murabahah*	4.23	400
10-year *sukuk murabahah*	4.40	600
11-year *sukuk murabahah*	4.50	300
12-year *sukuk murabahah*	4.60	400
13-year *sukuk murabahah*	4.70	300
14-year *sukuk murabahah*	4.80	450
15-year *sukuk murabahah*	4.90	1,100
Cagamas		
2-year Islamic MTN	2.48	600
2-year Islamic MTN	2.41	200
2-year MTN	2.50	700
2-year MTN	2.50	800
2-year MTN	2.41	700
3-year Islamic MTN	2.78	400
5-year Islamic MTN	3.15	350
Danainfra Nasional		
7-year *sukuk murabahah*	3.25	300
15-year *sukuk murabahah*	4.10	400
20-year *sukuk murabahah*	4.47	400
25-year *sukuk murabahah*	4.56	400
30-year *sukuk murabahah*	4.64	500

MTN = medium-term note, MYR = Malaysian ringgit.
Notes:
1. *Sukuk murabahah* are Islamic bonds in which bondholders are entitled to a share of the revenues generated by the assets.
2. Multiple issuances of the same tenor indicates issuance on different dates.
Source: Bank Negara Malaysia Bond Info Hub.

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



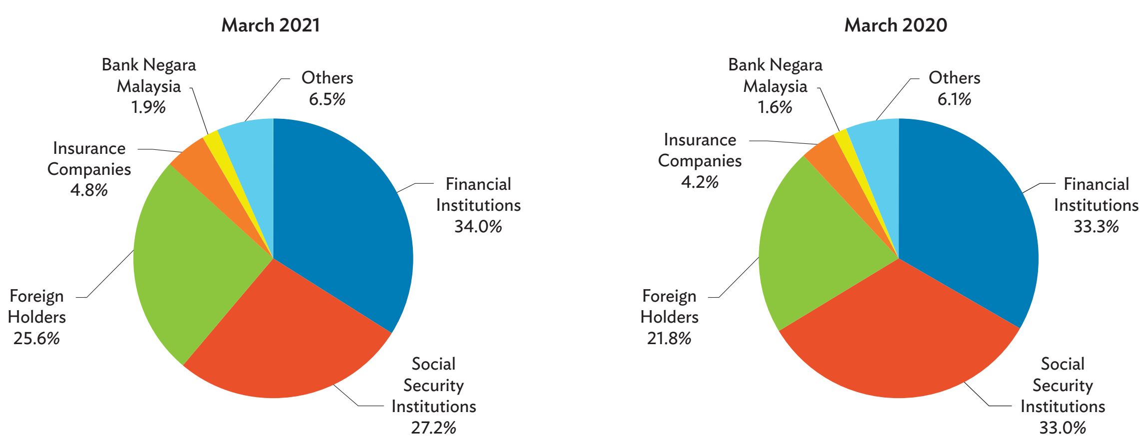
LHS = left-hand side, MYR = Malaysian ringgit, RHS = right-hand side.
Notes:
1. Figures exclude foreign holdings of Bank Negara Malaysia bills.
2. Month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.
Source: Based on data from Bloomberg LP.

Ratings Update

Rating and Investment Information Affirms Malaysia's Credit Rating with Stable Outlook

On 2 June, Rating and Investment Information affirmed Malaysia's A+ foreign and local currency issuer ratings with a stable outlook for both ratings. The affirmation came as the rating agency expects Malaysia's economy to recover this year supported by

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.

its relatively advanced diversified industries. R&I also viewed Malaysia's government debt ratio as manageable albeit at an elevated level. Finally, R&I affirmed the credit ratings due to the economy's external stability as evidenced by current account surpluses and ample international reserves.

S&P Global Ratings Affirms Malaysia's Credit Rating with Negative Outlook

On 22 June, S&P Global Ratings affirmed the foreign currency long-term issuer rating of A– for Malaysia with a negative outlook. The affirmation of the rating was attributed to Malaysia's strong external position, flexible monetary policy, and the government's track record of having the ability to sustain economic growth and demonstrating resiliency during economic downturns. The rating agency attributes the negative outlook to Malaysia's high fiscal deficit and debt ratio. A slow economic recovery and political uncertainties are seen to prevent the government's ability to consolidate its finances.

Fitch Ratings Affirms Malaysia's Credit Rating with Stable Outlook

On 18 July, Fitch Ratings affirmed the long-term foreign currency issuer default rating of Malaysia at BBB+, maintaining its stable outlook. The affirmation came as the rating agency sees the economy recovering in 2021 from the contraction recorded in 2020. Despite increased government debt due to expenses related to the COVID-19 response, Malaysia's debt ratio is expected to decline starting in 2022. Fitch Ratings also sees a gradual reduction in the fiscal deficit. Supporting the affirmation are Malaysia's consistent annual current account surplus and the central bank's monetary policy, which the rating agency views as supportive of economic activities.

Policy, Institutional, and Regulatory Developments

Bank Negara Malaysia and Bank Indonesia Expand Local Currency Settlement Framework

On 2 August, BNM and Bank Indonesia expanded their LCY settlement framework. The framework aims to encourage investors to use Malaysian ringgit and Indonesian rupiah in settlements of financial transactions between the two economies. Aside from trade settlement, the expanded framework included in its list of eligible transactions direct investments, income, and transfer settlements. Individuals were included in the expanded framework's eligible users. Its foreign exchange policy has also been streamlined to attract more investors. With the expanded framework, the central banks of Malaysia and Indonesia included in their list more qualified banks that are allowed to execute the framework.

Bank Negara Malaysia Revises Reference Rate Framework

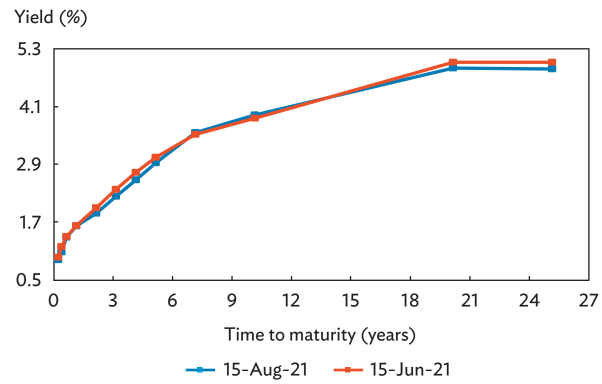
On 11 August, BNM released its revised Reference Rate Framework, effective 1 August 2022. In the revised version, all financial institutions will use a common rate, the standardized base rate, as the reference rate for new issuances of floating-rate notes and refinancing of existing loans in Malaysia. This replaces the current use of a base rate that differs across financial institutions. Furthermore, the standardized base rate will be linked to the overnight policy rate. The revision allows consumers to understand better the changes in their loan repayments. This will also facilitate the transmission of the policy rate to the broader economy.

Philippines

Yield Movements

The yields of local currency (LCY) government bonds in the Philippines fell for all tenors between 15 June and 15 August except for bonds with 7-year and 10-year maturities (**Figure 1**). On average, yields dropped 10 basis points (bps) for all bonds that saw declines. The yield on the 1-year tenor had the smallest decrease at 1 bp, while the 4-year tenor had the largest drop at 15 bps. On the other hand, yields on bonds with 7-year and 10-year maturities climbed 4 bps and 7 bps, respectively. The movements caused the yield spread between the 2-year and 10-year tenors to widen during the review period from 184 bps to 202 bps.

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



Source: Based on data from Bloomberg LP.

High liquidity in the market and sustained demand for government bonds, along with recent developments in the economy, prompted the downward movement of yields during the review period.

Inflation concerns had dissipated as consumer prices eased further to a 7-month low in July, falling to 4.0% year-on-year (y-o-y) from 4.1% y-o-y in June. It was the first month in 2021 that the inflation rate fell within the full-year target of the Bangko Sentral ng Pilipinas (BSP) of 2.0%–4.0. Transportation largely contributed to the downward adjustment of overall prices. On the other hand, prices of the heavily weighted food and nonalcoholic beverages group remained elevated. The resulting year-to-date inflation remained above the BSP target at 4.4%. In August, the BSP raised its inflation forecast to 4.1% from 4.0% for 2021 and to 3.1% from 3.0% for 2022. The upward revisions could point to higher bond yields ahead.

The BSP continued its accommodative monetary policy stance, keeping the policy rate steady at 2.00% in its monetary policy meeting on 12 August. The decision came on the back of renewed risk to the ongoing economic recovery amid a rising number of COVID-19 cases. According to the BSP, it will continue to implement monetary policy support as long as necessary for the economic recovery to gain more traction. Meanwhile, while the inflation forecast for 2021 was shifted slightly upward, the risks associated with it were broadly balanced to warrant the current policy setting to remain unchanged. Prior to the policy meeting, the BSP hinted that a lowering of the reserve requirement ratio was possible, which may have also contributed to the downward pressure on yields. This possibility was dismissed later by the BSP, stating that a cut would be untimely.

The reimposition of the strictest mobility controls in early August to curb the spread of the delta variant of the COVID-19 virus threatened recovery prospects, leading to a decline in yields even as gross domestic product (GDP) posted growth in the second quarter (Q2) of 2021. The Philippines ended its recession in Q2 2021 as the economy expanded 11.8% y-o-y during the quarter. The Philippines had experienced 5 consecutive quarters of GDP decline, with the largest contraction (–17.0%) occurring in Q2 2020 at the height of the pandemic and the associated quarantine measures that brought the economy to a standstill. While the double-digit growth was impressive, it is largely a result of a low base effect. On a quarterly basis, GDP contracted 1.3% quarter-on-quarter (q-o-q) in Q2 2021, reflecting the impact of stricter mobility restrictions reimposed in the National Capital Region and surrounding provinces from March through May. GDP in the first half of 2021 expanded 3.7% y-o-y after the negative growth in the first quarter (Q1) of 2021 was revised up to –3.9% y-o-y from –4.2% y-o-y. In August, the government downgraded the growth target for full-year 2021 to 4.0%–5.0% from an earlier target of 6.0%–7.0% in May.

The Philippine peso began weakening against the United States (US) dollar in the middle of June. It traded at PHP50.5 per USD1.0 on 15 August, having lost 5.1% from 15 June. The domestic currency's depreciation was largely due to comments from the US Federal Reserve related to unwinding its loose monetary policy, with hints of tapering to its monthly asset purchases by the end of the year. This was compounded by a flight to safety among investors amid worries over rising COVID-19 cases.

Size and Composition

The Philippine LCY bond market expanded in Q2 2021 by 2.5% q-o-q to reach a size of PHP9,351.0 billion (USD191.6 billion) at the end of June, decelerating from growth of 6.5% q-o-q in Q1 2021 (**Table 1**). The quarterly growth was driven solely by the government segment as the corporate segment contracted during the quarter. On an annual basis, the LCY bond market expanded 25.1% y-o-y. Government bonds accounted for 83.8% of the total bond market at the end of June, while corporate bonds accounted for 16.2%.

Government bonds. Total LCY government bonds outstanding expanded 3.9% q-o-q to PHP7,833.9 billion in Q2 2021, which was slower than the growth of 8.4% q-o-q in the previous quarter. The increase in market size was mainly driven by Treasury bonds and augmented by BSP bills.

Outstanding Treasury bonds amounted to PHP6,351.0 billion in Q2 2021 on growth of 3.6% q-o-q, decelerating from 7.2% q-o-q growth in Q1 2021. The faster growth in the previous quarter was due to the large sale of Retail Treasury Bonds (RTBs), which inflated the market's size in that period. On the other hand, Treasury bills outstanding declined 2.5% q-o-q to PHP1,023.1 billion in Q2 2021 because maturities during the quarter offset new issuances.

Securities issuance from the BSP also contributed to the government bond market's growth, with its outstanding bonds increasing 34.5% q-o-q to reach PHP400 billion at the end of June. Outstanding debt from government-related entities fell 9.1% q-o-q due to bond maturities and the absence of issuance during the quarter.

Total securities issuances from the government segment declined 3.5% q-o-q to PHP2,056.4 billion in Q2 2021. The overall quarterly drop was due to lower Treasury bond issuance during the quarter, which offset the growth in Treasury bills and BSP bills.

Debt raised via Treasury bonds in Q2 2021 amounted to PHP332.0 billion, which was only about half the amount issued in Q1 2021. The quarterly decline was due to a high base in Q1 2021 when PHP463.3 billion in RTBs were issued. Without the RTBs, Treasury bond issuance in Q2 2021 was higher than in Q1 2020 as the Bureau of the Treasury (BTr) increased its borrowing

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2020		Q1 2021		Q2 2021		Q2 2020		Q2 2021	
	PHP	USD	PHP	USD	PHP	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**7,477**	**150**	**9,122**	**188**	**9,351**	**192**	**5.2**	**11.5**	**2.5**	**25.1**
Government	5,904	119	7,543	155	7,834	160	6.8	11.6	3.9	32.7
Treasury Bills	797	16	1,049	22	1,023	21	43.1	22.1	(2.5)	28.4
Treasury Bonds	5,068	102	6,130	126	6,351	130	2.8	9.8	3.6	25.3
Central Bank Securities	0	0	297	6	400	8	–	–	34.5	–
Others	40	1	66	1	60	1	(0.02)	83.3	(9.1)	50.2
Corporate	1,573	32	1,579	33	1,517	31	(0.4)	11.0	(3.9)	(3.6)

( ) = negative, – = not applicable, 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.

target of the said securities to PHP280.0 billion in Q2 2021 from PHP180.0 billion in the previous quarter; the programmed issuance was fully awarded. Notably in June, the BTr increased its Treasury bond sales target to PHP140.0 billion, double the monthly target in April and May. The BTr had received a good reception on long tenors in previous auctions as investors sought better yields, thus prompting the adjustment.

Treasury bill issuance amounted to PHP427.4 billion in Q1 2021 on growth of 14.7% q-o-q. The increase was due to larger offer volumes from the BTr during the quarter that were fully awarded, while the opening of the tap facility to accommodate the demand resulted in higher-than-programmed sales of the short-term debt sales.

The government continued to ramp up borrowing from the market to fund its widening budget gap in response to COVID-19 and associated economic recovery plans. Preference for safe-haven assets like government securities remained high on the back of the uncertainties brought about by the pandemic and boosted by abundant market liquidity.

In Q2 2021, the Philippines also tapped the international bond market twice for its fund mobilization. In April, the Philippines successfully returned to the Japanese yen bond market with the issuance of a JPY55.0 billion 3-year, zero-coupon samurai bond. In the same month, the Philippines also issued the largest EUR-denominated bond in a three-tranche sale. A total of EUR2.1 billion was raised, comprising a 4-year bond (EUR650.0 million with a 0.25% coupon), 12-year bond (EUR650.0 billion with a 1.25% coupon), and a 20-year bond (EUR850.0 billion with a 1.75% coupon). The success of the two international debt sales underscored investor confidence in the Philippines' credit soundness.

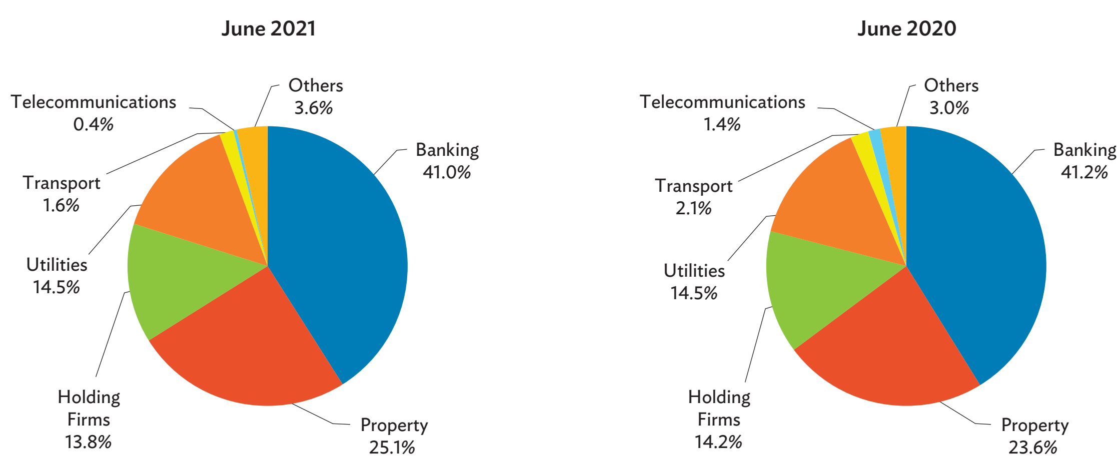
The issuance of BSP bills climbed 14.0% q-o-q to PHP1,250.0 billion in Q2 2021. The central bank increased its volume offer and auctions were all met with strong demand, which was indicative of market liquidity remaining high. There was no securities issuance from government-related entities during the quarter.

The government plans to borrow PHP3.0 trillion this year to fund its budget deficit.

Corporate bonds. Debt outstanding in the corporate sector declined 3.9% q-o-q in Q2 2021 to PHP1,517.1 billion after dropping 2.0% q-o-q in Q1 2021. The decline was underpinned by the maturation of bonds amid low issuance volume during the quarter.

The banking sector remained the largest segment of the LCY corporate bond market with a share of 41.0% at the end of June, which was almost unchanged from the end of June 2020 (**Figure 2**). Property companies and utilities firms remained in the second and third spots, respectively, comprising 25.1% and 14.5% of the market. The former's share increased over the year in review while the latter's was unchanged. The holding firms, transport, and telecommunications sector saw lower shares in June 2021 versus a year earlier, while the share of "others" went up.

Figure 2: Local Currency Corporate Bonds Outstanding by Sector



Source: Based on data from Bloomberg LP.

The aggregate debt outstanding of the top 30 corporate issuers amounted to PHP1,360.6 billion at the end of June, or 89.7% of the total corporate bond market (**Table 2**). The banking sector comprised the largest share at 43.8% (PHP596.4 billion). This was followed by holdings firms and property firms with shares of 20.7% (PHP281.9 billion) and 18.0% (PHP244.7 billion), respectively. Ayala Land, Metropolitan Bank and Trust Co., and BDO Unibank remained the top three issuers with outstanding debt at the end of June of over PHP100 billion each.

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

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (PHP billion)	LCY Bonds (USD billion)			
1.	Ayala Land	123.9	2.5	No	Yes	Property
2.	Metropolitan Bank and Trust Co.	121.8	2.5	No	Yes	Banking
3.	BDO Unibank	109.9	2.3	No	Yes	Banking
4.	SM Prime Holdings	95.7	2.0	No	Yes	Holding Firms
5.	Bank of the Philippine Islands	86.1	1.8	No	Yes	Banking
6.	SMC Global Power	80.0	1.6	No	No	Electricity, Energy, and Power
7.	China Bank	61.2	1.3	No	Yes	Banking
8.	San Miguel	60.0	1.2	No	Yes	Holding Firms
9.	Rizal Commercial Banking Corporation	55.1	1.1	No	Yes	Banking
10.	Security Bank	48.3	1.0	No	Yes	Banking
11.	Aboitiz Power	48.0	1.0	No	Yes	Electricity, Energy, and Power
12.	SM Investments	43.3	0.9	No	Yes	Holding Firms
13.	Petron	42.9	0.9	No	Yes	Electricity, Energy, and Power
14.	Vista Land	42.8	0.9	No	Yes	Property
15.	Ayala Corporation	40.0	0.8	No	Yes	Holding Firms
16.	Philippine National Bank	31.8	0.7	No	Yes	Banking
17.	Maynilad	28.1	0.6	No	No	Water
18.	Aboitiz Equity Ventures	27.9	0.6	No	Yes	Holding Firms
19.	Filinvest Land	25.8	0.5	No	Yes	Property
20.	Philippine Savings Bank	25.4	0.5	No	Yes	Banking
21.	Robinsons Land	25.2	0.5	No	Yes	Property
22.	Union Bank of the Philippines	24.6	0.5	No	Yes	Banking
23.	East West Banking	16.2	0.3	No	Yes	Banking
24.	Robinsons Bank	16.0	0.3	No	No	Banking
25.	GT Capital	15.1	0.3	No	Yes	Holding Firms
26.	Doubledragon	15.0	0.3	No	Yes	Property
27.	San Miguel Food and Beverage	15.0	0.3	No	Yes	Food and Beverage
28.	Megaworld	12.0	0.2	No	Yes	Property
29.	Puregold	12.0	0.2	No	Yes	Whole and Retail Trading
30.	MTD Manila Expressway	11.5	0.2	No	No	Infrastructure
Total Top 30 LCY Corporate Issuers		**1,360.6**	**27.9**			
Total LCY Corporate Bonds		**1,517.1**	**31.1**			
Top 30 as % of Total LCY Corporate Bonds		**89.7%**	**89.7%**			

LCY = local currency, PHP = Philippine peso, USD = United States dollar.
Notes:
1. Data as of 30 June 2021.
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 activity in the corporate sector in Q2 2021 remained weak, declining by 20.2% q-o-q, following a drop of 0.2% q-o-q in the previous quarter. While the number of corporate issuers during the quarter was the same as in Q1 2021, the total volume fell to PHP47.0 billion.

The reduced debt sales from the corporate sector were due to economic prospects remaining gloomy amid a resurgence of COVID-19 cases that negatively affected business and consumer confidence. This prompted firms to hold off on expanding or operating above pre-COVID-19 pandemic levels that would require capital mobilization. **Table 3** lists all issuances in Q2 2021. The majority were 3-year to 5-year tenors, led by Metropolitan Bank and Trust Co. with a PHP19.0 billion single issuance.

While corporate issuance in the domestic market was meek, two firms turned to the international debt market to generate funds. In April, Petron issued USD-denominated perpetual bonds amounting to USD550.0 million with a 5.95% coupon. In June, SMC Global Power raised USD600.0 billion through its perpetual bond issuance denominated in US dollars and carrying a coupon of 5.45%. Proceeds from the international issuances will be used mainly for debt repayment and general corporate purposes.

Table 3: Notable Local Currency Corporate Bond Issuances in the Second Quarter of 2021

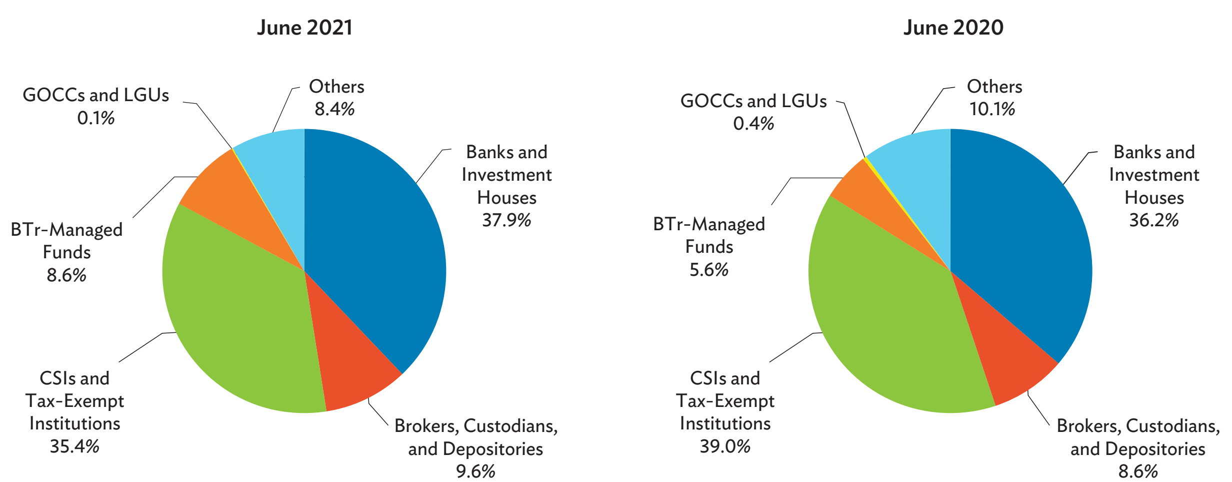
Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
Metropolitan Bank and Trust Co.		
5-year bond	3.60	19.00
Ayala Land		
4-year bond	3.63	10.00
Ayala Corporation		
3-year bond	3.03	4.00
5-year bond	3.79	6.00
Energy Development Corporation		
3-year bond	2.86	2.50
5-year bond	3.73	2.50
AllHome		
4-year bond	5.00	2.00
Cirtek Holdings		
6-month bond	zero coupon	0.31
1-year bond	zero coupon	0.70

PHP = Philippine peso.
Source: Based on data from Bloomberg LP.

Investor Profile

The investor landscape for LCY government bonds in June was changed from a year earlier (**Figure 3**). Banks and investment houses were the largest investor group in LCY government bonds at the end of June, with their

Figure 3: Local Currency Government Bonds Investor Profile



BTr = Bureau of the Treasury, CSI = contractual savings institution, GOCC = government-owned or -controlled corporation, LGU = local government unit.
Source: Bureau of the Treasury.

market share climbing to 37.9% from 36.2% in June 2020. Banks and investment houses overtook contractual savings and tax-exempt institutions as the largest investor group, whose market share declined to 35.4% from 39.0% during the review period. Brokers, custodians, and depositories (9.6%); BTr-managed funds (8.6%); and "other" investor group (8.4%) were the third-, fourth-, and fifth-largest investor groups by market share at the end of June, respectively. Government-owned or -controlled corporations and local government units remained the investor group with the smallest holdings of government bonds, with their share declining to 0.1% from 0.4% during the review period.

Ratings Update

On 12 July, Fitch Ratings affirmed the Philippines' sovereign credit at BBB but revised the outlook to negative from stable. According to the rating agency, the affirmation reflected the economy's strong external buffers and government debt levels remaining below the median of similarly rated peers. The negative outlook reflected risks to the credit profile resulting from the adverse impact of the pandemic to the economy as well as challenges to fiscal consolidation. A rating downgrade remained possible if there were a sustained rise in the debt-to-GDP ratio, weaker medium-term macroeconomic prospects, and a deterioration of external position. On the other hand, enhancements to fiscal finances that would put the debt-to-GDP ratio on a downward trajectory and a strengthening of governance standards could lead to a rating upgrade.

Policy, Institutional, and Regulatory Developments

Bureau of the Treasury Plans to Borrow PHP685 Billion in the Third Quarter of 2021

The BTr planned to borrow PHP235 billion from the domestic debt market in July, comprising of PHP60 billion of Treasury bills and PHP175 billion of Treasury bonds. Less borrowing was set for August at PHP200 billion: PHP60 billion of Treasury bills and PHP140 billion of Treasury bonds. In September, the borrowing plan was set to PHP250 billion, comprising PHP75 billion of Treasury bills and PHP175 billion of Treasury bonds. The borrowing program in Q3 2021, totaling PHP685 billion, upsized the offer volume for longer-tenor securities, as the BTr tried to extend its maturity profile amid strong market liquidity and low interest rates.

Bangko Sentral ng Pilipinas Approves PHP540 Billion Loan to the Central Government

In July, the BSP approved another PHP540 billion short-term loan to the Government of the Philippines. It was the fourth time since March 2020 that the central bank extended credit to the government as a form of assistance to increase funds for the pandemic response. The government had repaid in June the loan drawn from the BSP in January, which amounted to PHP540 billion. The Bayanihan to Recover as One Act (Republic Act No. 11494) allowed direct provisional advances from the central bank of up to PHP850 billion.

Bangko Sentral ng Pilipinas Eases Foreign Exchange Regulations

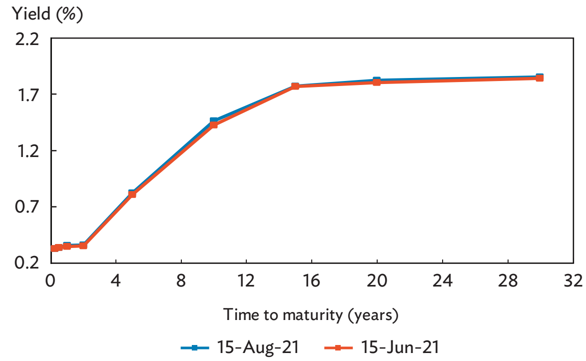
On 10 August, the BSP amended the foreign exchange (FX) regulations to allow access to FX without prior BSP approval in select trade and nontrade current account transactions. According to the BSP, the amendment will promote ease of use of FX resources of the banking system and further simplify procedures and documentary requirements for FX transactions. These transactions include (i) the sale of FX by banks without prior BSP approval involving payments for e-commerce; living allowance and medical expenses of dependents abroad; and importation of goods with services covered by engineering, procurement, and construction contracts among others; (ii) FX derivatives transactions to be entered into by nonbank government entities; and (iii) use of peso receipts relating to trade transactions to fund the peso deposit accounts of nonresidents. The reform took effect 15 banking days after its publication.

Singapore

Yield Movements

Singapore's local currency (LCY) government bond yields increased for all tenors between 15 June and 15 August except for the 3-month and 6-month tenors, which were unchanged (**Figure 1**). The 15-year yield also barely moved, increasing only 0.2 basis points (bps). The 10-year yield registered the highest increase during the review period with a jump of 4 bps. The remaining tenors increased an average of 1 bp. During the review period, the yield spread between 2-year and 10-year government bonds expanded from 107 bps to 110 bps.

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



Source: Based on data from Bloomberg LP.

The tepid demand for Singapore government bonds may be attributed to investors staying on the sideline and being cautiously optimistic as the increasing number of cases of COVID-19 and the spread of its delta variant remained a threat to global and local economic progress. Investor optimism was restrained even as the government increased its economic growth forecast for full-year 2021.

The risk-off sentiment caused by the pandemic also took its toll on the Singapore dollar as the currency weakened 2.0% during the review period against the United States (US) dollar, reaching SGD1.355 per USD1.0 on 15 August. Fitch Solutions, a subsidiary of rating agency Fitch Ratings, announced toward the end of July that it expects the Singapore dollar to trade between SGD1.35 and SGD1.38 per USD1.0 for the remainder of 2021 due to a resurgence of COVID-19 cases across the region.

Singapore's economy grew 14.7% year-on-year (y-o-y) in the second quarter (Q2) of 2021, extending the 1.5% y-o-y growth recorded in the first quarter (Q1). The growth was due to improvements in the performance of all sectors contributing to Singapore's gross domestic product (GDP). At the same time, the rapid pace of y-o-y expansion was due to a low base effect from Q2 2020 when Singapore's GDP growth plunged 13.3% y-o-y due to Circuit Breaker measures that were implemented in April to arrest the spread of COVID-19. On a quarter-on-quarter (q-o-q) basis, Singapore's economy contracted 1.8% in Q2 2021. The value of Singapore's GDP in Q2 2021 was still lower compared to its value pre-pandemic in Q2 2019. In August, the Ministry of Trade and Industry upgraded its economic growth forecast to 6.0%–7.0% for full-year 2021 from 4.0%–6.0% as announced in May. The upgrade was due to Singapore's stronger-than-expected growth and improvements in the global economy (albeit with continued exposure to downside risks).

Prices of basic goods and services in Singapore increased 2.1% y-o-y in April, while consumer price inflation was at 2.4% y-o-y in both May and June. In July, Monetary Authority of Singapore (MAS) revised its full-year 2021 inflation forecast to 1.0%–2.0% from the 0.5%–1.5% forecast announced in the prior month. The higher forecast can be attributed to the effects of increased inflation among Singapore's trading partners. On the domestic front, tightened measures under Phase 2 (Heightened Alert) COVID-19 restrictions might also affect consumer sentiments.

Singapore was placed under Phase 2 (Heightened Alert) from 22 July to 18 August. The city-state experienced an elevated number of new cases in July. Under Phase 2, the number of people allowed to gather and the operating capacity of various businesses were reduced, and the removal of masks during allowed events is prohibited. Under the national vaccination program, 63% of Singapore's population has been fully vaccinated as of 2 August.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2020		Q1 2021		Q2 2021		Q2 2020		Q2 2021	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**474**	**340**	**522**	**388**	**555**	**412**	**2.9**	**12.4**	**6.3**	**17.1**
Government	306	219	349	260	366	272	4.4	16.5	4.8	19.7
SGS Bills and Bonds	195	140	203	151	207	154	3.7	50.5	1.7	6.2
MAS Bills	111	80	146	109	159	118	5.7	(16.5)	9.0	43.3
Corporate	168	121	173	129	189	141	0.3	5.7	9.3	12.3

( ) = 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.

Size and Composition

The LCY bond market of Singapore expanded 6.3% q-o-q in Q2 2021, increasing to a size of SGD555.0 billion (USD412.5 billion) at the end of June from SGD522.2 billion at the end of March 2021 (**Table 1**). The rate of expansion in Q2 2021 was an acceleration from growth of 3.8% q-o-q in the previous quarter. On an annual basis, the LCY bond market grew 17.1% y-o-y in Q2 2021, up from the 13.4% y-o-y growth recorded in Q1 2021. The expansion was attributed to the growth in both LCY government and corporate bonds, which accounted for 65.9% and 34.1%, respectively, of total outstanding LCY bonds at the end of the review period.

LCY bond issuance in Q2 2021 jumped 15.3% q-o-q to SGD261.4 billion in Q2 2021 from SGD226.7 billion in Q1 2021 due to increased government and corporate bond issuances. Q2 2021 growth was notably faster than the expansion of 4.7% q-o-q posted in the prior quarter.

Government bonds. In Q2 2021, LCY government bonds outstanding increased 4.8% q-o-q to SGD365.9 billion from SGD349.2 billion in Q1 2021. However, growth in Q2 2021 was slower than the increase of 6.0% q-o-q logged in the previous quarter. Singapore Government Securities bills and bonds, which comprised 56.5% of total LCY government bonds outstanding at the end of June, grew 1.7% q-o-q. MAS bills, which comprised 43.5% of all LCY government bonds outstanding, jumped 9.0% q-o-q on growth in the stock of MAS floating-rate notes.

Issuance of LCY government bonds increased 11.8% q-o-q in Q2 2021. Issuances of Treasury bills and bonds increased 25.2% q-o-q due to the reopening of more tenors of Treasury bonds. Central bank bills jumped 9.6% q-o-q as MAS started issuing 2-year floating-rate notes in June to promote use of the Singapore Overnight Rate Average as Singapore's new interest rate benchmark.

Corporate bonds. In Q2 2021, LCY corporate bonds outstanding increased 9.3% q-o-q to SGD189.1 billion from SGD173.0 billion in the previous quarter. The growth was a reversal from the decline of 0.3% q-o-q in Q1 2021 and can be attributed partly to many companies issuing perpetual bonds to lock in low interest rates amid concerns over rising benchmark interest rates.

The top 30 LCY corporate bond issuers in Singapore had combined bonds outstanding of SGD102.3 billion, or 54.1% of the total LCY corporate bond market, at the end of June (**Table 2**). Government-owned Housing & Development Board remained the largest issuer with outstanding LCY corporate bonds amounting to SGD26.1 billion. Real estate companies comprised the largest sectoral share (43.4%) among the top 30 issuers of LCY corporate bonds with SGD44.4 billion of aggregate LCY corporate bonds outstanding at the end of the review period.

In Q2 2021, issuance of LCY corporate bonds surged to SGD12.0 billion, an expansion of 228.3% q-o-q from SGD3.7 billion in the previous quarter. The growth reversed 3 consecutive quarters of decline in corporate bond issuance. The jump in LCY corporate bond

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	26.1	19.4	Yes	No	Real Estate
2.	Singapore Airlines	14.7	10.9	Yes	Yes	Transportation
3.	Land Transport Authority	9.5	7.0	Yes	No	Transportation
4.	CapitaLand	5.6	4.1	Yes	Yes	Real Estate
5.	Frasers Property	4.0	3.0	No	Yes	Real Estate
6.	United Overseas Bank	4.0	3.0	No	Yes	Banking
7.	Sembcorp Industries	3.3	2.4	No	Yes	Diversified
8.	Temasek Financial	3.1	2.3	Yes	No	Finance
9.	DBS Bank	2.9	2.1	No	Yes	Banking
10.	Mapletree Treasury Services	2.7	2.0	No	No	Finance
11.	Keppel Corporation	2.2	1.6	No	Yes	Diversified
12.	City Developments Limited	2.1	1.5	No	Yes	Real Estate
13.	CapitaLand Mall Trust	2.0	1.5	No	No	Finance
14.	Olam International	1.8	1.4	No	Yes	Consumer Goods
15.	Oversea-Chinese Banking Corporation	1.7	1.3	No	Yes	Banking
16.	Shangri-La Hotel	1.5	1.1	No	Yes	Real Estate
17.	Suntec Real Estate Investment Trust	1.5	1.1	No	Yes	Real Estate
18.	Ascendas Real Estate Investment Trust	1.5	1.1	No	Yes	Finance
19.	Singtel Group Treasury	1.4	1.0	No	No	Finance
20.	NTUC Income	1.4	1.0	No	No	Finance
21.	Singapore Technologies Telemedia	1.2	0.9	Yes	No	Utilities
22.	GuocoLand Limited IHT	1.1	0.8	No	No	Real Estate
23.	Public Utilities Board	1.0	0.7	Yes	No	Utilities
24.	Ascott Residence	1.0	0.7	No	Yes	Real Estate
25.	National University of Singapore	1.0	0.7	No	No	Education
26.	Singapore Press Holdings	1.0	0.7	No	Yes	Communications
27.	StarHub	0.9	0.7	No	Yes	Diversified
28.	Keppel Land International	0.9	0.7	No	No	Real Estate
29.	Hyflux	0.9	0.7	No	Yes	Utilities
30.	Mapletree Commercial Trust	0.8	0.6	No	Yes	Real Estate
Total Top 30 LCY Corporate Issuers		**102.3**	**76.1**			
Total LCY Corporate Bonds		**189.1**	**140.5**			
Top 30 as % of Total LCY Corporate Bonds		**54.1%**	**54.1%**			

LCY = local currency, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of 30 June 2021.
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.

issuances was due to a huge issuance by flagship carrier Singapore Airlines, which in June issued a zero-coupon, 9-year mandatory convertible bond worth SGD6.2 billion (**Table 3**). Singapore Airlines will use the additional liquidity to manage its capital structure to address challenges to the airline industry brought about by the COVID-19 pandemic.

Table 3: Notable Local Currency Corporate Bond Issuances in the Second Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Singapore Airlines		
9-year bond	zero	6,196.8
Singtel Group Treasury		
Perpetual bond	3.300	1,000.0
United Overseas Bank		
Perpetual bond	2.550	600.0
Mapletree Industrial Trust		
Perpetual bond	3.150	300.0
Keppel Infrastructure Trust		
Perpetual bond	4.300	300.0
Mapletree North Asia Commercial Trust		
Perpetual bond	3.500	250.0
Lendlease Global Commercial REIT		
Perpetual bond	4.200	200.0
Suntec REIT		
Perpetual bond	4.250	150.0

REIT = Real Estate Investment Trust, SGD = Singapore dollar.
Source: Bloomberg LP.

Multiple companies issued perpetual bonds in Q2 2021 with coupon rates ranging from 2.55% to 4.30%. In April, Singtel Group Treasury, a subsidiary of telecommunications conglomerate Singapore Telecommunications, issued the largest perpetual bond during the quarter at SGD1.0 billion. With a coupon rate of 3.3%, proceeds from the perpetual security will be used to fund ordinary business expenses. In June, the perpetual bond issuance with the highest coupon rate during the review period came from Keppel Infrastructure Trust. Proceeds from its SGD300.0 million issuance with a 4.3% coupon will be used to refinance the company's borrowings and to fund general corporate purposes.

Policy, Institutional, and Regulatory Developments

Monetary Authority of Singapore to Issue Infrastructure Bonds in October

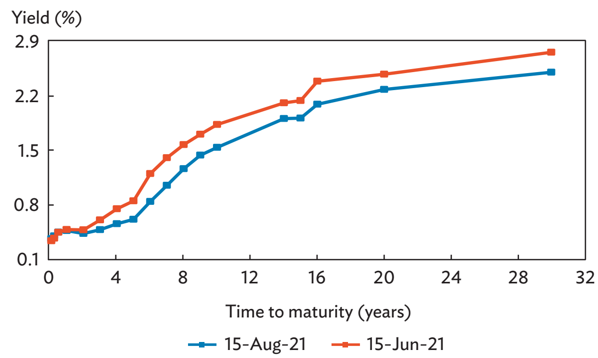
MAS announced on 3 August that it would issue infrastructure bonds called Singapore Government Securities (Infrastructure) beginning 1 October. The first issuance of this kind will be a 30-year benchmark bond and the maiden issuance under the Significant Infrastructure Government Loan Act, which was passed by Singapore's Parliament on 10 May to fund major long-term infrastructure projects.

Thailand

Yield Movements

Between 15 June and 15 August, Thailand's local currency (LCY) government bond yield curve flattened, with yields slightly rising at the shorter-end but moving significantly downward at the longer-end (**Figure 1**). Bonds with maturities of less than 1 year gained an average of 2 basis points (bps), while bonds with maturities of 1 year or longer shed an average of 22 bps. The 6-year tenor showed the steepest decline at 36 bps. The 2-year tenor dropped 5 bps, while the 10-year tenor fell 30 bps. As a result, the spread between the 2-year and the 10-year tenors narrowed from 135 bps on 15 June to 110 bps on 15 August.

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



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

The overall decline in Thai LCY bond yields, particularly medium- and long-term yields, tracked the regional decline in government bond yields amid the resurgence of COVID-19 cases brought about by the spread of the highly contagious delta variant. Thailand experienced a third wave of COVID-19 infections beginning in April, which disrupted plans to revive tourism. The overall decline in yields also reflected expectations of a protracted recovery, as the global resurgence of virus cases and the resulting movement restrictions pose downside risks to Thailand's tourism-reliant economy.

A rise in net inflows of foreign funds also contributed to the decline in yields. The Thai bond market saw robust inflows amounting to THB51.7 billion during the review period, buoyed by favorable sentiment as Fitch Ratings affirmed Thailand's BBB+ rating in June.

Thailand's economy, which fell into recession in the first quarter (Q1) of 2020 amid the onset of the global pandemic, showed initial signs of recovery in the second quarter (Q2) of 2021. Gross domestic product rose 7.5% year-on-year (y-o-y) in Q2 2021 after a 2.6% y-o-y contraction in the previous quarter. The robust growth was partly due to a low base in the previous year when the economy contracted heavily during the first wave of the pandemic. Private consumption rose 4.6% y-o-y in Q2 2021 after a 0.3% y-o-y decline in the previous quarter. Government expenditure increased 1.1% y-o-y in Q2 2021 versus 2.1% y-o-y in the previous quarter. Investment growth accelerated to 8.1% y-o-y in Q2 2021 from 7.3% y-o-y in the prior quarter. Exports of goods and services rebounded, rising 27.5% y-o-y in Q2 2021 after contracting 10.5% y-o-y in Q1 2021.

Thailand's growth outlook remained fragile as a third wave of COVID-19 outbreaks delayed the reopening of the economy to tourism and prompted a return of movement restrictions. In August, the National Economic and Social Development Council lowered its GDP growth forecast for full-year 2021 to 0.7%–1.2% from a 1.5%–2.5% forecast announced in May.

Thailand's consumer price inflation slowed to 0.5% y-o-y in July from 1.3% y-o-y in June due primarily to government subsidies on utilities. Core inflation, which excludes volatile fresh food and energy prices, eased to 0.1% y-o-y in July from 0.5% y-o-y in June. Headline inflation from April to June was within the Bank of Thailand's target range of 1.0%–3.0%, but fell short of the target in July. The Bank of Thailand (BOT) expects headline inflation to remain within the target rate for the rest of 2021.

The BOT's monetary policy remained accommodative. On 4 August, the Monetary Policy Committee of the BOT voted to maintain the policy rate at 0.5%. The committee viewed that the risks to the economic outlook remained high due to the resurgence of COVID-19, but most members deemed that financial measures would be more effective than a further rate reduction. Since the onset of

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2020		Q1 2021		Q2 2021		Q2 2020		Q2 2021	
	THB	USD	THB	USD	THB	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**13,449**	**435**	**13,842**	**443**	**14,203**	**443**	**2.1**	**3.2**	**2.6**	**5.6**
Government	9,732	315	10,152	325	10,324	322	4.1	4.4	1.7	6.1
Government Bonds and Treasury Bills	5,306	172	6,349	203	6,485	202	4.5	11.6	2.1	22.2
Central Bank Bonds	3,633	118	2,911	93	2,917	91	4.0	(3.7)	0.2	(19.7)
State-Owned Enterprise and Other Bonds	793	26	892	29	921	29	1.4	(0.1)	3.2	16.2
Corporate	3,716	120	3,690	118	3,880	121	(2.6)	(0.03)	5.1	4.4

( ) = 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.

the pandemic, the BOT has reduced its policy rate by a total of 75 bps.

Size and Composition

Thailand's LCY bonds outstanding totaled THB14,203.5 billion (USD443.4 billion) at the end of June (**Table 1**). The bond market expanded 2.6% quarter-on-quarter (q-o-q) in Q2 2021, reversing the 0.6% q-o-q decline in Q1 2021. Both the government and corporate segments contributed to the overall expansion in the LCY bond market. On a y-o-y basis, the growth of outstanding LCY bonds picked up, rising 5.6% in Q2 2021 versus 5.1% in the previous quarter. Government bonds continued to dominate the Thai LCY bond market, accounting for 72.7% of total bonds outstanding at the end of June.

Government bonds. The size of the LCY government bond market reached THB10,323.6 billion at the end of June, with the 1.7% q-o-q growth in Q2 2021 reversing the 0.8% q-o-q decline in Q1 2021. All components of government bonds contributed to the growth, led by state-owned enterprise and other bonds, which rose 3.2% q-o-q in Q2 2021. The outstanding stock of government bonds and Treasury bills increased 2.1% q-o-q, while BOT bonds outstanding inched up 0.2% q-o-q during the review quarter. On a y-o-y basis, the growth of total government bonds outstanding eased to 6.1%% in Q2 2021 from 8.5% in Q1 2021.

The issuance of government bonds totaled THB1,730.1 billion in Q2 2021, rising 2.6% q-o-q after a 13.6% q-o-q decline in the previous quarter. The growth was solely driven by a 7.0% q-o-q rise in BOT bonds issuance. To promote the development of a new reference rate, the BOT terminated its issuance of Bangkok Interbank Offered Rate-lined floating-rate bonds in Q1 2021. The monthly issuance of Thai Overnight Repurchase Rate-lined floating-rate bonds started in March, boosting total BOT issuance in Q2 2021. Meanwhile, issuance of government bonds and Treasury bills contracted 3.7% q-o-q, while issuance of state-owned enterprise and other bonds dropped 17.7% q-o-q in Q2 2021. On a y-o-y basis, issuance of total government bonds contracted 20.8% in Q2 2021 following a 17.0% decline in the previous quarter.

Corporate bonds. Outstanding corporate bonds amounted to THB3,879.9 billion at the end of June, rebounding 5.1% q-o-q in Q2 2021 after a marginal 0.1% q-o-q dip in the previous quarter. The growth was driven by robust issuance of corporate debt during the review period.

The LCY bonds outstanding of the top 30 corporate issuers totaled THB2,297.1 billion at the end of June, accounting for 59.2% of the Thai corporate bond market (**Table 2**). Food and beverage, commerce, banking, and finance and securities firms held over half of the top 30 issuers' outstanding bond stock. The majority of the top 30 issuers were listed on the Thai Stock Exchange, while only four were state-owned firms. CP ALL remained the top issuer, with an outstanding bond stock of THB249.7 billion at the end of June. Thai Beverage and Siam Cement were the next largest issuers, with outstanding bond stocks of THB173.1 billion and THB165.0 billion, respectively.

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.	CP ALL	249.7	7.8	No	Yes	Commerce
2.	Thai Beverage	173.1	5.4	No	No	Food and Beverage
3.	Siam Cement	165.0	5.2	Yes	Yes	Construction Material
4.	Charoen Pokphand Foods	139.7	4.4	No	Yes	Food and Beverage
5.	True Corp	135.7	4.2	No	No	Communications
6.	Berli Jucker	121.6	3.8	No	Yes	Commerce
7.	True Move H Universal Communication	117.0	3.7	No	No	Communication
8.	Bank of Ayudhya	108.8	3.4	No	Yes	Banking
9.	PTT	91.6	2.9	Yes	Yes	Energy and Utilities
10.	Toyota Leasing Thailand	77.6	2.4	No	No	Finance and Securities
11.	Indorama Ventures	66.5	2.1	No	Yes	Petrochemicals and Chemicals
12.	CPF Thailand	64.1	2.0	No	No	Food and Beverage
13.	Bangkok Commercial Asset Management	60.2	1.9	No	Yes	Finance and Securities
14.	Minor International	58.1	1.8	No	Yes	Hospitality and Leisure
15.	PTT Global Chemical	51.7	1.6	No	Yes	Petrochemicals and Chemicals
16.	Frasers Property Thailand	47.3	1.5	No	Yes	Property and Construction
17.	Banpu	45.3	1.4	No	Yes	Energy and Utilities
18.	Global Power Synergy	45.0	1.4	No	Yes	Energy and Utilities
19.	Krungthai Card	45.0	1.4	Yes	Yes	Banking
20.	Krung Thai Bank	44.0	1.4	Yes	Yes	Banking
21.	Muangthai Capital	43.7	1.4	No	Yes	Finance and Securities
22.	TPI Polene	43.1	1.3	No	Yes	Property and Construction
23.	ICBC Thai Leasing	41.5	1.3	No	No	Finance and Securities
24.	CH Karnchang	40.9	1.3	No	Yes	Property and Construction
25.	Bangkok Expressway & Metro	40.1	1.3	No	Yes	Transportation and Logistics
26.	Sansiri	39.0	1.2	No	Yes	Property and Construction
27.	dtac TriNet	37.5	1.2	No	Yes	Communications
28.	Land & Houses	35.6	1.1	No	Yes	Property and Construction
29.	TMB Bank	35.4	1.1	No	Yes	Banking
30.	Bangchak	33.5	1.0	No	Yes	Energy and Utilities
Total Top 30 LCY Corporate Issuers		**2,297.1**	**71.7**			
Total LCY Corporate Bonds		**3,879.9**	**121.1**			
Top 30 as % of Total LCY Corporate Bonds		**59.2%**	**59.2%**			

LCY = local currency, THB = Thai baht, USD = United States dollar.
Notes:
1. Data as of 30 June 2021.
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 Issuances in the Second Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
CP ALL		
2-year bond	1.53	3.0
3-year bond	1.76	3.0
4-year bond	2.14	6.5
5-year bond	3.00	17.8
7-year bond	3.40	7.4
10-year bond	3.90	21.4
12-year bond	4.20	7.0
Thai Beverage[a]		
2-year bond	1.17	7.5
3-year bond	1.45	7.0
3-year bond	1.21	8.0
4-year bond	2.07	11.5
5-year bond	2.43	11.0
8-year bond	2.71	1.5
10-year bond	3.03	1.5
True Corp		
1.8-year bond	2.95	2.9
3-year bond	3.50	4.4
3.8-year bond	3.85	4.2
4.8-year bond	4.20	3.9
5.8-year bond	4.55	6.6

THB = Thai baht.
[a] Multiple issuance of the same tenor indicates issuance on different dates.
Source: Bloomberg LP.

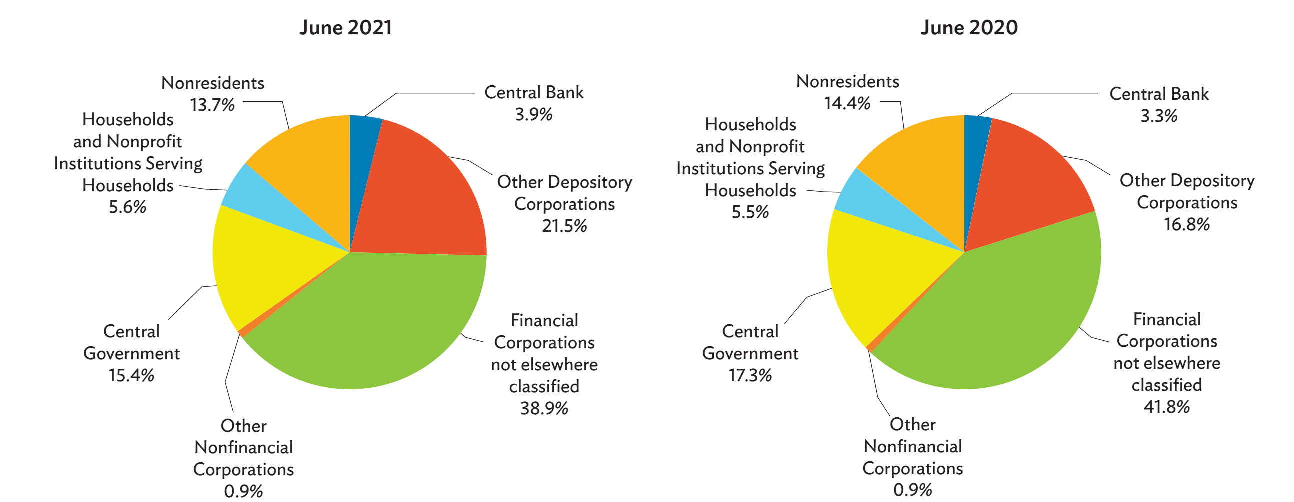
Corporate debt issuance totaled THB477.2 billion in Q2 2021, up from THB294.8 in Q1 2021. Issuance growth jumped to 61.9% q-o-q in Q2 2021 from 6.4% q-o-q in the previous quarter. Firms tapped the bond market to raise funds for working capital and debt refinancing, taking advantage of the low-interest-rate environment.

Table 3 lists the top corporate issuers in Q2 2021. CP ALL issued the largest amount of corporate debt in Q2 2021, raising a total of THB66.0 billion from a multitranche issuance of bonds with tenors ranging from 2 years to 12 years and coupons ranging from 1.53% to 4.20%. Thai Beverage was the second-largest issuer during the quarter, with total issuance amounting to TH48.0 billion from bonds with tenors ranging from 2 years to 10 years and carrying coupons ranging from 1.17% to 3.03%. True Corp was the third-largest issuer with total issuance of THB22.0 billion from bonds with tenors ranging from 1.8 years to 5.8 years and carrying coupons ranging from 2.95% to 4.55%.

Investor Profile

Central government bonds. Between June 2020 and June 2021, the combined share of the four largest holders of LCY government bonds declined slightly to 89.5% from 90.4% (**Figure 2**). Financial corporations continued to hold the largest share of government bonds,

Figure 2: Local Currency Government Bonds Investor Profile



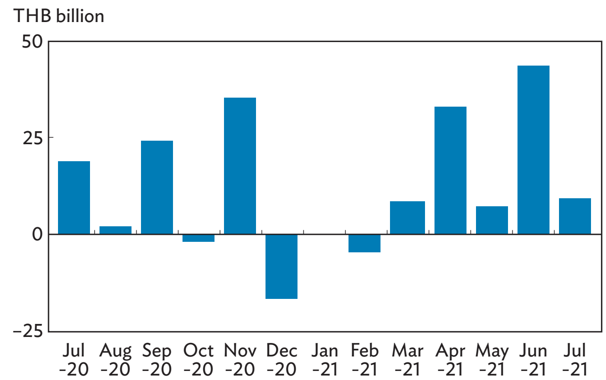
Note: Government bonds include Treasury bills and bonds.
Source: *AsianBondsOnline* and Bank of Thailand.

although their share fell to 38.9% at the end of June 2021 from 41.8% a year earlier. In contrast, the share of other depository corporations increased to 21.5% from 16.8% between June 2020 and June 2021. The share held by the central government decreased to 15.4% from 17.3% during the same period. Nonresident holdings inched down to 13.7% in June 2021 from 14.4% a year earlier. The BOT's holdings of government bonds rose slightly to 3.9% in June 2021 from 3.3% a year earlier, as the central bank purchased government bonds to stabilize the market amid uncertainties during the prolonged pandemic.

Central bank bonds. Between June 2020 and June 2021, the combined share of the four largest holders of BOT bonds slipped to 96.2% from 96.7% (**Figure 3**). Other depository corporations held the largest share of BOT bonds, although their share dropped to 37.8% from 45.2% during the review period. Financial corporations remained the second-largest holder of BOT bonds, with 33.9% of total holdings at the end of June, up from 28.4% a year earlier. The BOT's holdings of its LCY bonds rose to 14.6% from 13.2% during the same period. The central government's share was stable at 10.0% between June 2020 and June 2021. Nonresidents continued to hold a marginal share of BOT bonds at 0.7% in June 2021, down from 1.2% a year earlier.

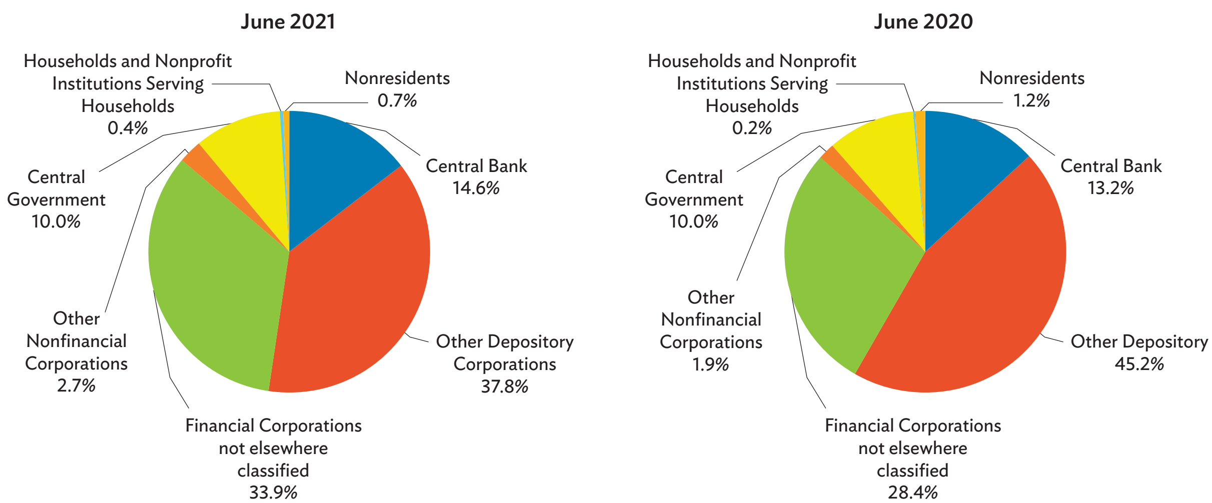
Net inflows from foreign investors to the Thai LCY bond market soared to THB83.7 billion in Q2 2021 from THB4.0 billion in the previous quarter (**Figure 4**). The uptick in foreign investment flows to the Thai sovereign bond market was driven by an increase in demand for emerging market bonds as investors sought to diversify portfolios amid low global yields. The Thai bond market has recorded monthly net inflows of foreign capital since March 2021, peaking at THB43.6 billion in June amid investor optimism as the government ramped up its mass vaccination program. Net inflows dropped to THB9.3 billion in July as the spread of the delta variant in the region dampened investor sentiment.

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



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

Figure 3: Local Currency Central Bank Securities Investor Profile



Source: Bank of Thailand.

Ratings Update

On 18 June, Fitch Ratings affirmed Thailand's long-term foreign currency issuer default rating at BBB+ with a stable outlook. The rating was based on the assessment that Thailand's robust external position and public finances would continue to cushion against any downside risks from a protracted economic recovery from the global pandemic. Fitch Ratings viewed that the debt incurred to finance the government's fiscal response to the pandemic was sustainable in the medium-term based on Thailand's record in managing its public finances.

Policy, Institutional, and Regulatory Developments

Cabinet Approves Emergency Decree for Additional THB500 Billion of Borrowing

In June, Thailand's House of Representatives approved an executive decree authorizing the Ministry of Finance to borrow up to an additional THB500 billion for relief measures in response to the impacts of COVID-19. Up to THB30 billion will be allocated for the Ministry of Public Health. The rest of the loan amount was earmarked for assistance to individuals (THB300 billion) and businesses (THB170 billion) affected by the pandemic.

Japan and Thailand Renew Bilateral Swap Agreement

On 23 July, the Bank of Japan and the BOT renewed the existing Bilateral Swap Agreement (BSA) between Japan and Thailand. The agreement allows the two central banks to exchange their domestic currencies for United States dollars. It also allows the BOT to swap Thai baht for Japanese yen. The size of the BSA was left unchanged at up to USD3.0 billion or its equivalent in Japanese yen. The renewed BSA incorporates a precautionary scheme, as well as amendments to align it with recent changes in the Chiang Mai Initiative Multilateralization Agreement.

Viet Nam

Yield Movements

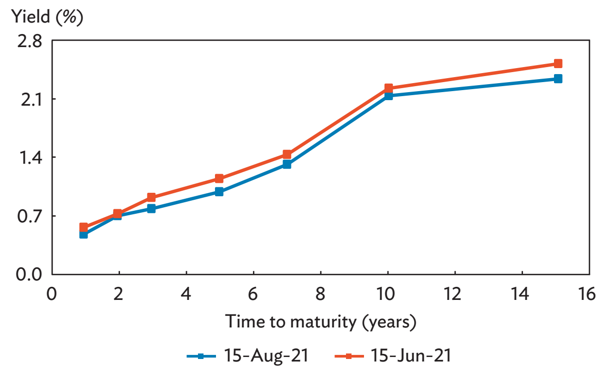
The yields of local currency (LCY) government bonds in Viet Nam declined for all tenors between 15 June and 15 August, shifting the yield curve downward (**Figure 1**). Yields fell 11 basis points (bps) on average across the curve. The smallest drop was seen for the 2-year tenor (3 bps), while the largest drop was for the 15-year tenor (18 bps). The yield spread between the 2-year and 10-year tenors narrowed during the review period from 152 bps to 145 bps.

The downward movement of the yield curve reflected risk aversion amid renewed uncertainties posed by the more contagious variants of COVID-19, and abundant liquidity in the market. This resulted in the continued preference for safe-haven assets like government securities. The accommodative monetary policy of the State Bank of Vietnam (SBV) and inflation remaining low also offset any upward pressure on the bond yields.

The SBV announced that it would keep its accommodative monetary policy stance and dismissed speculation it would adopt a looser policy approach in the near term.[9] The central bank stated that the timing of any adjustment to the policy rate will be properly assessed based on the actual situation. With sufficient liquidity, low credit demand, and the pandemic still underway, the SBV determined that easing monetary policy further would be inappropriate at present. Thus, the key policy rate remained at 4.00% after the SBV had reduced it by a total of 200 bps in 2020 to support the economy.

The prices of consumer goods in Viet Nam inched up by 2.8% year-on-year (y-o-y) in August, accelerating from a 2.6% y-o-y gain in July. The upward movement in prices was largely driven by food and foodstuffs due to increased stockpiling and higher cost of transportation as the government has limited the mobility of the population. Year-to-date through the end of August, consumer price inflation was 1.8% y-o-y, far below the government ceiling of 4.0% for 2021.

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



Source: Based on data from Bloomberg LP.

Viet Nam's economy continued to expand as its gross domestic product grew 6.6% y-o-y in the second quarter (Q2) of 2021, accelerating from 4.5% y-o-y growth in Q1 2021 and significantly higher than the 0.4% y-o-y increase in Q2 2020. The domestic economy managed to sustain its growth despite the resurgence of COVID-19 cases in April. The government is targeting annual gross domestic product growth of 6.5% for full-year 2021.

The Vietnamese dong remained relatively steady against the United States dollar from the start of the year through the middle of August. The domestic currency traded at VND22,822.0 per USD1.0 on 15 August, reflecting a year-to-date appreciation of 1.2%. The stability of the dong was supported by inflows of worker remittances and foreign direct investment, as well as the adequate foreign reserve position of the central bank.

Size and Composition

The LCY bond market in Viet Nam expanded 6.1% quarter-on-quarter (q-o-q) to VND1,759.0 trillion (USD76.5 billion) at the end of Q2 2021, reversing the previous quarter's contraction of 0.3% q-o-q (**Table 1**). The quarterly growth was mainly driven by the corporate sector as outstanding government debt slightly decreased.

[9] *Hanoi Times*. 2021. Policy Rate Cut Not in Sight at Present: C. Bank. 11 August. http://hanoitimes.vn/policy-rate-cut-not-in-sight-at-present-cbank-318340.html.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2020		Q1 2021		Q2 2021		Q2 2020		Q2 2021	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,379,762	59	1,658,262	72	1,758,977	76	(1.2)	11.7	6.1	27.5
Government	1,183,518	51	1,364,303	59	1,357,573	59	(7.6)	5.0	(0.5)	14.7
Treasury Bonds	1,039,610	45	1,220,377	53	1,221,237	53	4.9	11.5	0.1	17.5
Central Bank Bills	0	0	0	0	0	0	(100.0)	(100.0)	–	–
Government-Guaranteed and Municipal Bonds	143,908	6	143,927	6	136,337	6	(6.1)	(11.5)	(5.3)	(5.3)
Corporate	196,244	8	293,959	13	401,404	17	70.3	81.8	36.6	104.5

( ) = negative, – = not applicable, 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 accounted for 77.2% of Viet Nam's bond market at the end of June, while corporate bonds comprised 22.8%. On an annual basis, the bond market expanded 27.5% y-o-y in Q2 2021, up from a gain of 18.7% y-o-y in Q1 2021.

Government bonds. The government bond market slightly contracted 0.5% q-o-q in Q1 2021, trimming the government's outstanding debt to VND1,357.6 trillion. A smaller amount of government-guaranteed and municipal bonds outstanding and the absence of central bank bills offset the marginal increase in Treasury bonds.

Treasury bonds outstanding increased 0.1% q-o-q to VND1,221.2 trillion in Q2 2021 after dropping 0.6% q-o-q in the preceding quarter. The expansion occurred due to large bond sales from the State Treasury of Vietnam amounting to VND102.3 trillion, which exceeded the programmed VND100.0 trillion issuance and more than offset the considerable amount of maturing securities during the quarter.

Outstanding government-guaranteed and municipal bonds declined 5.3% q-o-q to VND136.3 trillion due to maturities and the absence of issuance in this government bond segment in Q2 2021. There were no outstanding central bank bills at the end of Q2 2021 as the SBV remained committed to supporting liquidity in the market.

Corporate bonds. Corporate bonds surged on 36.6% q-o-q growth in Q2 2021, up from a 3.3% q-o-q gain in Q1 2021, raising the total amount of corporate bonds outstanding to VND401.4 trillion at the end of June. The growth was underpinned by sizable debt sales from the corporate sector during the quarter. Bonds are still an attractive channel for firms to raise funds, especially with the SBV's strict control of credit in potentially risky sectors like property. Moreover, higher debt sales from the banking sector that helped banks increase their capital base boosted issuance from the corporate sector.[10]

The top 30 LCY corporate issuers had aggregate bonds outstanding of VND257.8 trillion at the end of June, or 64.2% of the total corporate bond market (**Table 2**). Banks dominated the list with cumulative outstanding bonds equal to VND172.1 trillion, comprising a 66.7% share of the top 30's outstanding bonds. Property firms were the next most prolific issuers with VND52.6 trillion in bonds outstanding, or 20.4% of the top 30's total debt. The Bank for Investment and Development of Vietnam remained the single-largest issuer at the end of Q2 2021 with outstanding debt of VND25.9 trillion, up from VND22.0 trillion at the end of Q1 2021.

Issuance from the corporate sector in Q2 2021 climbed to VND112.6 trillion, about six times the debt sales in Q1 2021. There were 75 corporate bond issuers in Q2 2021, more than doubling the number in the previous quarter. A majority of issuers were from the property (28 issuers) and banking (15 issuers) sectors. In terms of sales, banks dominated the debt market, raising an aggregate VND64.9 trillion during the quarter,

[10] *Vietnam News*. 2021. Banks Boost Fundraising Through Bonds. 7 June. https://vietnamnews.vn/economy/967735/banks-boost-fundraising-through-bonds.html.

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

	Issuers	Outstanding Amount				
		LCY Bonds (VND billion)	LCY Bonds (USD billion)	State-Owned	Listed Company	Type of Industry
1.	Bank for Investment and Development of Vietnam	25,902	1.13	Yes	Yes	Banking
2.	Ho Chi Minh City Development Joint Stock Commercial Bank	18,348	0.80	No	Yes	Banking
3.	Vietnam Prosperity Joint Stock Commercial Bank	18,050	0.78	No	Yes	Banking
4.	Masan Group	16,900	0.73	No	Yes	Finance
5.	Asia Commercial Joint Stock Bank	16,500	0.72	No	Yes	Banking
6.	Tien Phong Commercial Joint Stock Bank	15,649	0.68	No	Yes	Banking
7.	Vietnam International Joint Stock Commercial Bank	15,393	0.67	No	Yes	Banking
8.	Lien Viet Post Joint Stock Commercial Bank	14,100	0.61	No	Yes	Banking
9.	Vietnam Joint Stock Commercial Bank for Industry and Trade	10,435	0.45	Yes	Yes	Banking
10.	Vinhomes Joint Stock Company	8,890	0.39	No	Yes	Property
11.	Orient Commercial Joint Stock Bank	8,635	0.38	No	No	Banking
12.	Saigon Glory Company Limited	8,000	0.35	No	No	Property
13.	Sovico Group Joint Stock Company	7,550	0.33	No	Yes	Property
14.	Bac A Commercial Joint Stock Bank	6,140	0.27	No	Yes	Banking
15.	Golden Hill Real Estate JSC	5,701	0.25	No	No	Property
16.	Vietnam Maritime Joint Stock Commercial Bank	5,699	0.25	No	Yes	Banking
17.	Vingroup	5,425	0.24	No	Yes	Property
18.	Vietnam Technological and Commercial Joint Stock Bank	5,000	0.22	No	Yes	Banking
19.	Saigon - Hanoi Commercial Bank	4,600	0.20	No	Yes	Banking
20.	Trung Nam Dak Lak 1 Wind Power JSC	4,500	0.20	No	No	Energy
21.	Phu My Hung Corporation	4,497	0.20	No	No	Property
22	Ho Chi Minh City Infrastructure Investment Joint Stock Company	4,370	0.19	No	Yes	Construction
23.	Nui Phao Mining and Processing Co., Ltd.	4,310	0.19	No	No	Mining
24.	NoVa Real Estate Investment Corporation JSC	3,907	0.17	No	Yes	Property
25.	Orient Commercial Joint Stock Bank	3,900	0.17	No	Yes	Banking
26.	An Binh Commercial Joint Stock Bank	3,700	0.16	No	No	Banking
27.	Vincom Retail Joint Stock Company	3,050	0.13	No	Yes	Retail Trading
28.	Tuong Minh Investment and Real Estate Company Limited	2,950	0.13	No	No	Property
29.	TNL Investment and Leasing Joint Stock Company	2,926	0.13	No	No	Property
30.	Phu Long Real Estate Joint Stock Company	2,800	0.12	No	No	Property
Total Top 30 LCY Corporate Issuers		**257,826**	**11.21**			
Total LCY Corporate Bonds		**401,404**	**17.45**			
Top 30 as % of Total LCY Corporate Bonds		**64.2%**	**64.2%**			

LCY = local currency, USD = United States dollar, VND = Vietnamese dong.
Notes:
1. Data as of 30 June 2021.
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.

which accounted for 57.8% of total issuance; property firms were second, raising VND26.5 trillion. Notable bond issuances during the quarter are listed in **Table 3**. Golden Hill Real Estate JSC topped the list with a VND5,700.6 trillion issuance of 3-year bonds.

Table 3: Notable Local Currency Corporate Bond Issuances in the Second Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (VND billion)
Golden Hill Real Estate JSC		
3-year bond	–	5,701
Asia Commercial Joint Stock Bank[a]		
3-year bond	–	2,500
3-year bond	–	2,500
3-year bond	–	2,000
3-year bond	–	2,000
Voyage Investment		
4-year bond	–	2,300
Ho Chi Minh City Development Joint Stock Commercial Bank[a]		
3-year bond	–	2,000
3-year bond	–	2,000
Trung Nam Group		
3-year bond	–	2,000

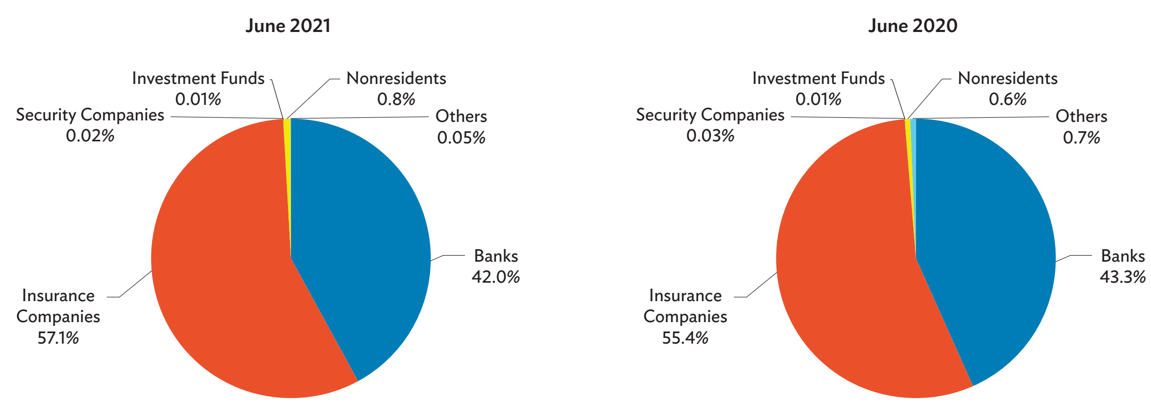
– = not available, VND = Vietnamese dong.
[a] Multiple issuance of the same tenor indicates issuance on different dates.
Sources: Vietnam Bond Market Association.

In Q2 2021, two firms tapped the international bond market to raise funds. In April, Vingroup raised USD500.0 million in its first international bond issuance. The corporate security has a 5-year maturity and a coupon of 3.0%. Proceeds will be used to pay loans and increase the capital of its subsidiaries. In May, BIM Land had its inaugural issuance of a USD-denominated bond worth USD200.0 million and with a maturity of 5 years and a coupon of 7.38%. It was the first corporate green bond issued by a domestic firm outside of Viet Nam. The proceeds will be used to fund Excellence in Design for Greater Efficiencies-certified real estate projects.

Investor Profile

Government securities outstanding were held almost entirely by insurance firms and banks at the end of June, which together accounted for 99.1% of the total holdings. Insurance firms held 57.1% of government securities, up from 55.4% at the end of June 2020, while banks held 42.0%, down from 43.3% during the same period. The remaining outstanding bonds were held by securities companies, investment funds, offshore investors, and other investors. Foreign investors held 0.8% of government securities at the end of June, increasing from 0.6% a year earlier. Viet Nam's LCY bond market continued to have the smallest foreign holdings share among all emerging East Asian economies.

Figure 2: Local Currency Government Bonds Investor Profile



Source: Ministry of Finance, Government of Viet Nam.

Policy, Institutional, and Regulatory Developments

Hanoi Stock Exchange Launches 10-Year Government Bond Futures

On 28 June, the Hanoi Stock Exchange launched the 10-year government bond futures, which will be traded on the exchange's derivatives market. The base asset of the derivatives product is a 10-year government bond issued by the State Treasury of Viet Nam amounting to VND100,000 and with an annual interest rate of 5.0%. According to the Hanoi Stock Exchange, the new bond futures product aims to diversify derivatives securities in the market and provide more risk prevention tools for long-term government bonds. The 10-year government bond futures is the third derivatives product in the Vietnamese bond market, following the VN30 Index and 5-year government bond futures.