Executive Summary

Recent Developments in Financial Conditions in Emerging East Asia

Between 2 June and 29 August, financial conditions in emerging East Asia improved, supported by continued monetary easing by regional central banks and progress in trade deals with the United States (US) in several regional economies.[1] Increased expectations of a policy rate cut in September by the US Federal Reserve, easing tensions surrounding the wider conflict in the Middle East, and an extension of the trade truce between the People's Republic of China (PRC) and the US also helped sustain positive investor sentiment in the region.

Financial market indicators largely strengthened in emerging East Asian markets during the review period. Yields declined on both 2-year and 10-year government bonds in most regional markets. Between 2 June and 29 August, risk premiums, as captured by credit default swap spreads, narrowed across the region by 9.4 basis points (bps) from 59.7 bps to 50.3 bps (simple average) and by 8.3 bps from 52.9 bps to 44.6 bps (gross-domestic-product-weighted average). The region's equity markets gained 10.8% (simple average) and 13.0% (market-weighted average) during the review period, supported by USD35.0 billion of net equity portfolio investments. Regional currencies remained stable during the review period, with a marginal appreciation of 0.6% versus the US dollar (gross-domestic-product-weighted average).

The risk outlook for regional financial markets remains balanced. While regional central banks signaled their scope for further monetary easing, investor sentiment could be negatively impacted by downside risks fueled by uncertainty over (i) US tariff policies such as sectoral tariffs and trade negotiations between the PRC and the US, (ii) the pace and direction of US monetary policy beyond the September Federal Open Market Committee meeting amid continued above-target inflation and signs of weakness in economic performance, and (iii) geopolitical tensions that could threaten supply chains. Extreme weather events such as the typhoons that occurred in the PRC and the Philippines during the review period highlight additional risks to financial conditions. A box in this issue of the *Asia Bond Monitor* provides evidence of how disasters can push up bond yields.

Recent Developments in Local Currency Bond Markets in Emerging East Asia

At the end of June, local currency (LCY) bonds outstanding in emerging East Asian markets reached USD28.6 trillion. Supported by improved financial conditions, the region's LCY bond market expanded by 3.0% quarter-on-quarter (q-o-q) in the second quarter (Q2) of 2025, compared to 2.7% q-o-q in the preceding quarter. The corporate bond stock (USD9.4 trillion at the end of June) increased by 2.1% q-o-q in Q2 2025, up from 0.9% q-o-q growth in the first quarter (Q1), on increased issuance amid continued monetary policy easing by most of the region's central banks. The region's government bond stock (USD18.5 trillion at the end of June) increased by 3.7% q-o-q in both Q1 and Q2 2025, supported by sustained government issuance to meet fiscal needs in most regional markets. Aggregate LCY bonds outstanding in member states of the Association of Southeast Asian Nations (ASEAN) increased by 1.0% q-o-q to USD2.6 trillion, comprising 9.1% of the regional total. At the end of June, 54.9% of outstanding Treasury bonds in the region carried tenors of more than 5 years, resulting in a size-weighted average tenor of 8.8 years. Banks, insurance, and pension funds remained the largest investor groups in the region's Treasury bond market, collectively holding 63.9% of the total Treasury bond stock at the end of June.

As financial conditions improved, LCY bond issuance increased by 14.8% q-o-q to USD3.1 trillion in Q2 2025, reversing the contraction of 0.6% q-o-q in Q1 2025. The rebound in issuance was supported by increased bond sales in both the government and corporate bond segments. Government bond issuance (USD1.4 trillion)

[1] Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

increased by 18.3% q-o-q as governments continued to front-load their funding needs and support economic stimulus measures. Corporate bond sales (USD1.0 trillion) surged by 25.2% q-o-q as companies took advantage of lower borrowing costs following rate cuts by many regional central banks. LCY bond issuance in ASEAN markets tallied USD653.8 billion, accounting for 21.1% of the regional total.

Recent Developments in ASEAN+3 Sustainable Bond Markets

Supported by benign financial conditions, robust issuance led to growth in the ASEAN+3 sustainable bond market accelerating to 3.3% q-o-q in Q2 2025 from 0.5% q-o-q in Q1 2025.[2] At the end of June, sustainable bonds outstanding in ASEAN+3 markets reached USD955.3 billion, accounting for 18.3% of the total global stock. The expansion of ASEAN+3's sustainable bond market in Q2 2025 outpaced that of the European Union 20 (EU-20) (3.1% q-o-q) and the global market (2.6% q-o-q). The share of sustainable bonds in the general bond market, however, was higher in the EU-20 (8.5%) than in ASEAN+3 (2.4%) at the end of June. Meanwhile, the sustainable bond stock of ASEAN markets totaled USD100.4 billion, representing 10.5% of the ASEAN+3 sustainable bond total and exceeding ASEAN's share of 5.9% in the ASEAN+3 general bond market.

Sustainable bond issuance in ASEAN+3 picked up to USD79.6 billion in Q2 2025 from USD49.5 billion in Q1 2025. Supported by lower borrowing costs, ASEAN+3 sustainable bond issuance grew 60.6% q-o-q in Q2 2025, rebounding from a 21.2% q-o-q contraction in Q1 2025 and surpassing issuance growth in the EU-20 (23.1% q-o-q) and the global market (6.5% q-o-q). ASEAN accounted for 6.1% of ASEAN+3's total issuance during the quarter, exceeding its corresponding share of 3.1% in the region's general bond market. In Q2 2025, LCY financing accounted for 75.6% of the region's sustainable bond issuance, which was lower than the corresponding shares of 95.0% in its general bond market and 88.9% in the EU-20's sustainable bond market. In Q2 2025, 82.9% of ASEAN+3 sustainable bond issuance carried maturities of less than 5 years, resulting in a size-weighted average maturity of 5.1 years. In ASEAN markets, LCY financing comprised 99.5% of sustainable bond issuance during the quarter, while bonds with maturities over 5 years accounted for 61.3% of total issuance, driven by longer-term government borrowing. ASEAN sustainable bond issuance in Q2 2025 recorded a size-weighted average maturity of 13.9 years, exceeding the EU-20's 8.5 years. In ASEAN, 60.8% of sustainable bond financing originated in the public sector in Q2 2025, compared with 28.2% in ASEAN+3. A special section in this issue of the *Asia Bond Monitor* documents how sovereign sustainable bond issuances help improve liquidity and reduce yield spreads for corporate sustainable bonds, as sovereign issuances improve supply and demand conditions in sustainable bond markets.

[2] ASEAN+3 comprises the member states of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China; Hong Kong, China; Japan; and the Republic of Korea.