

Asia Bond Monitor (ABM) reviews the development of East Asian local currency bond markets. It examines market size and composition, market liquidity, yields and returns, and market structure. Recent policy reforms and challenges facing these markets are also highlighted. The ABM covers the 10 Association of Southeast Asian Nations member countries plus the People's Republic of China and the Republic of Korea.

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Asia Bond Monitor is prepared by the Regional Economic Monitoring Unit of the Asian Development Bank and does not necessarily reflect the views of its Board of Governors or the countries they represent.

Development of East Asian Local Currency Bond Markets—A Regional Update

Highlights

- Driven by the continued need for deficit financing, strong investor appetite, and intensified reform efforts, East Asian local currency government bond markets turned in yet another year of robust growth in 2004:
 - Thailand registered the strongest growth, followed by Philippines, Korea, Viet Nam, and PRC. Growth in Malaysia and Singapore was more modest;
 - In US dollar terms, outstanding government bonds grew by 32% for East Asia as a whole. Excluding the currency conversion factor, the growth rate was 25%.
- But growth of corporate bond markets was mixed. Outstanding corporate bonds on average grew by 10% in US dollar terms in the five countries where data are available, with Indonesia registering the strongest growth, followed by Singapore and Thailand. Market size fell marginally in Korea and Malaysia.
- Growth in trading volume was uneven in East Asian local currency bond markets in 2004. Declines in turnover were more significant in corporate bond markets than in government bond markets.
- Despite increases in the Fed Fund rates, local currency yield curves flattened in most East Asian bond markets in the second half of 2004, partly due to easing inflationary expectations and strong capital inflows.
- A combination of falling yields and a weakening US dollar ensured another year of high returns from investment in East Asian local currency bond markets.
- Important changes occurred in the structure of East Asian bond markets in 2004:
 - Issuance of longer tenor bonds extended government yield curves in Malaysia and Korea;
 - Efforts continued to increase issue size of benchmark government bonds by reopening issues in Indonesia, Korea, Malaysia, Philippines, and Singapore;
 - The strong growth of asset-backed securities and Islamic bonds, and the issuance of bonds by multilateral development banks, indicate the emergence of a wider issuer base backed by strong investor appetite;
 - The launch of the Asian Bond Fund 2 is likely to provide a boost to investment in local currency bond markets in the region.

- In 2005, markets expect any rise in interest rates to be limited in most of East Asia, as inflationary pressures are largely under control in many countries, economic growth tapers somewhat from the highs of 2004, and foreign capital continues to flow into the region.
- Growth of East Asian local currency government bond markets in 2005 is expected to be more modest due largely to fiscal consolidation.
- More reform initiatives are expected in several markets to support the development of East Asian local currency bond markets, such as improving trading systems, lengthening benchmark yield curves, and strengthening investor protection.
- In East Asia, corporate bond market development lags behind that of government bond markets in terms of size and liquidity, among others.
- The results of a poll of bond analysts from East Asian markets conducted by AsianBondsOnline point to a number of areas where measures could be taken to speed corporate bond market development:
 - Widen the issuer and investor base;
 - Improve the transaction environment;
 - Develop hedging products and derivatives markets;
 - Address uneven disclosure standards and strengthen the framework for creditor rights; and
 - Improve transaction and general data reporting.

Acronyms and Abbreviations

ABF2	Asian Bond Fund 2	FIDF	Financial Institutions Development Fund	MEPS	real-time gross settlement system
ABMI	Asian Bond Markets Initiative	FITS	Fixed-Income Trading System	MGS	Malaysian Government Securities
ABS	asset-backed securities	FoBF	Fund of Bond Funds	MSB	monetary stabilization bond
ADB	Asian Development Bank	GDP	gross domestic product	OECD	Organisation for Economic Co-operation and Development
ALBI	Asian Local Bond Index	GII	Government Investment Issues	OTC	over-the-counter
ASEAN	Association of Southeast Asian Nations	GOCC	government-owned and controlled corporation	OTC-FIS	Over-the-Counter Fixed Income Service
BAPEPAM	Capital Market Supervisory Agency	GSED	Government Securities Eligible Dealer	PAIF	Pan-Asian Bond Index Fund
BEX	Bond Electronic Exchange	HSTC	Ho Chi Minh Securities Trading Center	QFII	Qualified Foreign Institutional Investors
BI-SSSS	Bank Indonesia - Scripless Securities Settlement System	ISCAP	Institutional Securities Custodian Programme	RAM	Rating Agency Malaysia
BOK	Bank of Korea	KHFC	Korea Housing Finance Corporation	RENTAS	Real-time Electronic Transfer of Funds and Securities
BOT	Bank of Thailand	KLIBOR	Kuala Lumpur Interbank Offered Rate	repo	repurchase agreement
CAGAMAS	National Mortgage Corporation	KPEI	Indonesian Clearing and Guarantee Corporation	RMBS	residential mortgage-backed securities
CDC	China Government Securities Depository Trust & Clearing Co.	KRX	Korea Exchange	SARS	severe acute respiratory syndrome
CRA	credit rating agency	KSE	Korea Stock Exchange	SBI	Sertifikat Bank Indonesia
CSDCC	China Securities Depository and Clearing Co.	KSEI	Indonesian Securities Central Depository	SBL	securities borrowing and lending
CSI	contractual savings institution	LCY	local currency bonds	SEC	Securities and Exchange Commission
DFP	delivery free of payment	LGU	local government unit	SGS	Singapore Government Securities
DVP	delivery versus payment	MARC	Malaysian Rating Corporation	SOE	state-owned enterprise
EMEAP	Executives' Meeting of East Asia-Pacific Central Banks	MAS	Monetary Authority of Singapore	SSX	Surabaya Stock Exchange
EPF	Employees Provident Fund	MBS	mortgage-backed securities	TEI	tax-exempt institution
Fed	United States Federal Reserve	MDB	multilateral development bank	Thai BDC	Thai Bond Dealing Centre