

Highlights

- Financial markets have been gripped by potentially destabilizing factors, ranging from rapidly rising food and commodity prices to political uncertainty in the Middle East. At the same time, however, most emerging East Asian economies have continued to grow rapidly.
- The combination of these factors has led to a steady stream of policy rate hikes in recent months throughout emerging East Asia.
- Recent developments have had a two-fold effect on the region's government bond yield curves: both flattening and shifting yield curves upward in most markets. This flattening trend has occurred in spite of continued capital inflows.
- Total local currency (LCY) bonds outstanding grew by 13.6% year-on-year (y-o-y) to USD5.2 trillion in 4Q10, driven more by corporate bonds (20.3%) than by government bonds (10.8%).
- The overall y-o-y growth rate of the market in 4Q10 presents a pattern of more balanced growth. The emerging East Asian bond market excluding the People's Republic of China (ex-PRC) grew 11.6% y-o-y in 4Q10.
- The PRC's overall bond market grew 15.1% y-o-y in 4Q10. However, the bond markets of Viet Nam, Malaysia, and Singapore grew even more rapidly at y-o-y rates of 34.2%, 18.9%, and 15.9%. Additionally, Thailand's growth rate was an impressive 14.4%.
- The growth of the PRC's government bond market declined to 10.3% y-o-y in 4Q10 from 15.6% in the previous quarter, while large increases in issuance from the central banks of Malaysia and Thailand limited the decline of the growth rate of the region's government bond market ex-PRC to 11.8% y-o-y in 4Q10 from 12.5% in 3Q10.
- The PRC's corporate bond market grew an impressive 37.2% y-o-y in 4Q10, however, this was exceeded by growth of 41.4% y-o-y in Viet Nam. The corporate bond markets of Singapore (30.9%), Indonesia (29.8%), and the Republic of Korea (11.1%) also exhibited solid growth in 4Q10.
- Almost all emerging East Asian corporate bond markets share a similar, interesting structure: the top 6–8 companies in each market issue bonds in very large amounts, with the remaining top 30–50 issuers in each market offering much smaller amounts. This results in an asymptotic curve for the distribution of bonds outstanding. This trend is most pronounced in the corporate bond markets of the PRC and Thailand.
- LCY bond issuance for 2010 as a whole totaled USD3.8 trillion in emerging East Asia, a 10.2% increase over 2009. Issuance in 4Q10 declined by 20.4% y-o-y and 27.6% q-o-q, but this was offset by substantial issuance earlier in 2010.
- Foreign participation in the region's LCY bond market continued to expand in 4Q10, as foreign investors hunted for yield and anticipated appreciation of the underlying currencies.
- G3 currency bond issuance from emerging East Asia in 2010 hit USD87.2 billion in 2010, a 38% increase over issuance of USD63.2 billion in 2009. G3 currency issuance remained robust in the early months of 2011, reaching USD12.3 billion by mid-March.
- The major risks to the region's outlook at present are rapidly rising prices for food, oil, and commodities, and the possibility that central banks will continue to raise their policy rates in 2011. The "risk on–risk off" behavior of the market could add to these risks and the volatility of the outlook.