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Highlights

Bond Market Outlook

Emerging East Asian local currency (LCY) bond markets have regained their bounce as bond yields have fallen for most markets in recent months, shrugging off the impact of the tapering of asset purchases by the United States (US) Federal Reserve.[1] As economic conditions in the US point to a recovery, tapering is expected to proceed as planned. This may result in tighter liquidity conditions for the region's bond markets in the coming months.

Risks to the region's LCY bond markets have eased as investors' risk appetite returns. The risks to the region's outlook include (i) a potential slowdown in the People's Republic of China's (PRC) economy, (ii) market turmoil generated by Federal Reserve tapering and uncertainty over the timing of its policy rate hike, and (iii) volatile capital flows that might arise should the European Central Bank (ECB) address the potential threat of deflation in the eurozone.

LCY Bond Market Growth in Emerging East Asia

The outstanding size of the emerging East Asian LCY bond market reached US$7.6 trillion at end-March, up 2.1% quarter-on-quarter (q-o-q) and 9.5% year-on-year (y-o-y). The PRC accounted for about two-thirds of the quarterly growth in 1Q14. The PRC's LCY bond market remained the largest in the region, with an outstanding size of US$4.7 trillion at end-March, which is equivalent to 61.5% of the total emerging East Asian LCY bond market. Meanwhile, Viet Nam was the fastest growing LCY bond market in emerging East Asia in 1Q14 on a q-o-q basis at 23.0%. However, its contribution only accounted for 4.3% of the region's quarterly growth.

While growth in the region's LCY bond market remained positive in 1Q14, the pace of growth slowed on both a q-o-q and y-o-y basis. This slowdown may have been due to uncertainties over Federal Reserve tapering, which began in January, and eventual interest rate hikes. While most markets priced in the effects of tapering during the second half of last year, expectations of a subsequent rise in US interest rates have posed a drag on LCY bond market growth in the region.

The region's government bond market expanded 2.2% q-o-q and 8.0% y-o-y in 1Q14 to reach US$4.6 trillion at end-March, while corporate bonds grew 1.9% q-o-q and 11.7% y-o-y to reach US$3.1 trillion. Government bonds continued to dominate the region's LCY bond market, accounting for 60% of total LCY bonds outstanding in 1Q14.

As a percentage of gross domestic product (GDP), the emerging East Asian LCY bond market was relatively stable in size at 58.4% in 1Q14, compared with a share of 58.2% in the previous quarter.

In 1Q14, emerging East Asian LCY bond issuance totaled US$851 billion, up 7.1% q-o-q, but down 8.2% y-o-y. LCY government bond issuance reached US$570 billion, while new LCY corporate debt hit US$281 billion in 1Q14.

Structural Developments in LCY Bond Markets

The share of foreign holdings in emerging East Asian LCY government bond markets recovered in 4Q13 in most markets. Foreign investor interest in Indonesian government bonds continued to rise as the share of foreign holdings climbed to 33.6% at end-March from 32.5% at end-December on positive market sentiments amid improving macroeconomic fundamentals.

The shares of foreign holdings of LCY corporate bonds in Indonesia and the Republic of Korea were both significantly lower compared with government bonds. This may be due to the highly illiquid nature of corporate bonds in Indonesia and the Republic of Korea, where most investors tend to buy and hold until maturity.

Emerging East Asian LCY bond markets were attractive to foreign investors in 1Q14 as investors' risk appetite returned and net foreign bond inflows resumed following the outflows experienced in the second half of 2013.

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

LCY Bond Yields

Between end-December 2013 and end-April 2014, most government bond yield curves in the region shifted downward, except in the Philippines were the yield curve rose. The fall in yields for most markets was driven by both domestic and external factors.

The yield spread between 2- and 10-year government bonds fell in most markets, reflecting the possibility that the region's economies were at risk of slowing due to weaker growth in the PRC and deflation in the eurozone.

Box: Bond Market in Kazakhstan—Developments and Challenges

Kazakhstan's LCY bond market has grown at a rapid pace from only US$15.8 billion at end-2006 to US$55.2 billion at end-March 2014. In contrast to emerging East Asia, where government bond markets tend to be bigger, Kazakhstan's corporate sector dominates its bond market, accounting for nearly two-thirds of total LCY bonds at end-March.

In 1Q14, the size of Kazakhstan's LCY bond market rose 4.4% q-o-q and 13.6% y-o-y. Outstanding fixed income securities issued by Kazakhstan's central government and central bank reached US$20 billion, while outstanding corporate bonds stood at US$35 billion.

The current challenges in Kazakhstan's LCY bond market include the high costs of issuing bonds, the lack of a liquid secondary market, and underdeveloped bond market infrastructure. At the same time, there is strong interest among the public and private sectors in further developing the *sukuk* (Islamic bond) market in Kazakhstan and in promoting bonds as an alternative source of funding for companies.

Global and Regional Market Developments

Emerging East Asian bond markets have regained their bounce as they shrugged off the impact of ongoing tapering by the United States (US) Federal Reserve.[2] In the first 4 months of 2014, the Federal Reserve reduced its monthly purchase of securities by US$30 billion to US$45 billion per month. While the US economy barely grew in 1Q14, this did not affect the Federal Reserve's planned tapering as the meager growth was mainly attributed to temporary winter weather conditions. The US economy is expected to pick up in the coming months as consumers catch up on their spending. Hence, the tapering is expected to proceed as planned until phasing out in October, which will likely contribute to tighter liquidity for the region's bond markets in the coming months. However, markets have mostly taken into account the planned tapering and the region's bond yields have barely reacted to the recent cutback in purchases of securities by the Federal Reserve.

In fact, bond yields have fallen in some of the region's economies. The fall reflects reduced risk premiums as global investors regain their risk appetite. Asia was not the only beneficiary of this trend, yields have fallen in the eurozone's peripheral economies as well. The decline in yields was due to a reassessment of risk following the strong reaction by investors last year to the Federal Reserve's initial tapering announcement. Economic fundamentals in the region remain sound despite some moderation in the expected growth rates. Investors are also comforted by generally low levels of foreign debt and increased reliance on domestic currency debt financing. Further, the improving economic outlook in both the US and eurozone should provide a boost to the region's exports.

Bond yields in the US declined in the first 4 months of 2014. While the tapering of quantitative easing operations was expected to push up bond yields, the weak economic growth in 1Q14 due to harsh winter weather may have held back any increases. Heightened geopolitical tensions also could have contributed to investors purchasing more US Treasuries as a safe-haven asset. Nevertheless, expectations are that bond yields will start rising as the US economy gathers pace.

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

Asian bond markets staged a recovery in the first 4 months of the year as yields for most of the region's economies fell between 1 January and 30 April **(Table A)**. Among the region's economies, Indonesian bond yields had the largest decline, falling 43 basis points (bps). This was closely followed by declines of 35 bps and 33 bps for 10-year bond yields in Thailand and Viet Nam, respectively. Bucking the trend, Philippine bond yields rose 55 bps during the period as investors expect that the monetary authority, Bangko Sentral ng Pilipinas (BSP), will soon raise policy rates to counter rising prices.

Over the same period, most of the region's currencies gained against the US dollar. The Indonesian rupiah appreciated 5.0%, the most among all emerging East Asian economies, as policy actions helped stabilize the Indonesian economy and investors returned. On the other hand, the renminbi declined 3.4% between 1 January and 30 April after a long period of growing strength against the US dollar. One explanation is that the People's Bank of China (PBOC) is pursuing a weaker renminbi to deter excessive capital inflows into the country. The renminbi had been an attractive currency for the long-end of the carry trade, with interest rates in the People's Republic of China (PRC) much higher than those in the US. As long as the renminbi is appreciating, this is a profitable trade. The recent depreciation could help reduce speculative inflows by demonstrating that the renminbi is no longer a one-way appreciation bet.

As mentioned above, investors' risk appetite has returned as global financial markets recover from the turmoil of the introduction of US tapering last year. The region's financial markets have also benefitted from improved investor sentiments. Credit default swaps (CDSs) have declined in the region in general and in particular in Indonesia, the Philippines, Malaysia, Thailand, and the Republic of Korea **(Figure A)**. Improved market sentiment has also been beneficial for European economies as CDSs for most European economies have fallen **(Figure B)**. The improvements have been such that the Greek government was able to issue EUR3 billion worth of 5-year bonds in an offering that was oversubscribed. Financial conditions in developing economies have improved and emerging market spreads have narrowed considerably since January. Similarly, the so-called Volatility Index (VIX)

Table A: Changes in Global Financial Conditions

	2-Year Government Bond (bps)	10-Year Government Bond (bps)	5-Year Credit Default Swap Spread (bps)	Equity Index (%)	FX Rate (%)
Major Advanced Economies					
United States	3	(38)	–	1.9	–
United Kingdom	12	(36)	(5)	0.5	(1.9)
Japan	(0.2)	(11)	6	(11.2)	2.9
Germany	(7)	(46)	(4)	0.5	(0.8)
Emerging East Asia					
China, People's Rep. of	(57)	(24)	9	(4.2)	(3.4)
Hong Kong, China	3	(13)	0	(5.0)	0.02
Indonesia	(10)	(43)	(63)	13.2	5.0
Korea, Rep. of	(0.3)	(6)	(5)	(2.5)	2.1
Malaysia	0.6	(5)	(9)	0.2	0.4
Philippines	57	55	(13)	13.9	(0.4)
Singapore	7	(14)	–	3.1	0.7
Thailand	(49)	(35)	(7)	8.9	1.1
Viet Nam	(145)	(33)	–	14.5	0.1
Select European Markets					
Greece	(257)	(217)	–	6.0	(0.8)
Ireland	(35)	(90)	(53)	7.9	(0.8)
Italy	(48)	(96)	(55)	14.8	(0.8)
Portugal	(228)	(215)	(182)	13.7	(0.8)
Spain	(82)	(115)	(67)	5.5	(0.8)

( ) = negative, – = not available, bps = basis points, FX = foreign exchange.
Notes:
1. Data reflect changes between 1 January 2014 and 30 April 2014.
2. For emerging East Asian markets, a positive (negative) value for the FX rate indicates the appreciation (depreciation) of the local currency against the US dollar.
3. For European markets, a positive (negative) value for the FX rate indicates the depreciation (appreciation) of the local currency against the US dollar.
Sources: Bloomberg LP and Institute of International Finance (IIF).

has also moved downward, which is indicative of reduced volatility in equity markets **(Figure C)**.

Bond yields in the advanced economies have been declining despite Federal Reserve tapering **(Figure D)**. The threat of deflation is looming over the eurozone with inflation in April at just 0.7%, well below the European Central Bank (ECB) target of 2.0%. First quarter GDP growth for the eurozone of only 0.2% (seasonally adjusted, quarter-on-quarter) also disappoints. This suggests that the ECB is likely to maintain its expansionary monetary stance and may even further ease its policy rates. Japanese bond yields have been quite stable as the Bank of Japan continues with its quantitative easing operations. Meanwhile, interest rates in emerging East Asia have been stable or falling, reflecting reduced risk perceptions in emerging markets in general **(Figure E)**.

Foreign holdings of the region's local currency (LCY) government bonds have started rising again after a dip following the Federal Reserve's announcement of tapering last year. The share of foreign holdings of government bonds remained the highest in Indonesia at 33.6% as of end-March, followed by Malaysia at 29.4% as of end-December 2013 **(Figure F)**. The shares of foreign holdings in Japan, the Republic of Korea, and Thailand have remained relatively stable.

The risks to the region's LCY bond markets have eased as investors' risk sentiments improve:

The region's bond markets could be vulnerable to the effects of a slowdown in the Chinese economy. Recent economic indicators point to a moderation in the PRC's economic growth; growth in fixed asset investment and retail sales slowed in April, and industrial production growth remained steady. While part of the reason for the moderation is the PRC's attempt to rebalance its economy, there is a risk that rebalancing will result in large declines in certain sectors, particularly the property and heavy industry sectors. After rapid growth over the past few years, the property sector is cooling. Transaction volumes have been on a downward trend and prices are easing. While large property developers should be able to

Figure A: Credit Default Swap Spreads[a, b] (senior 5-year)

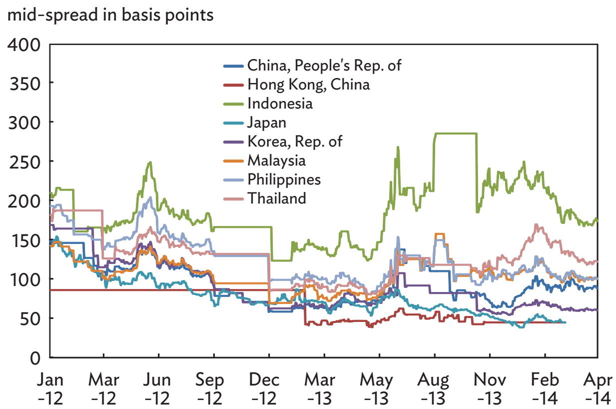


Figure B: Credit Default Swap Spreads for Select European Markets[a, b] (senior 5-year)

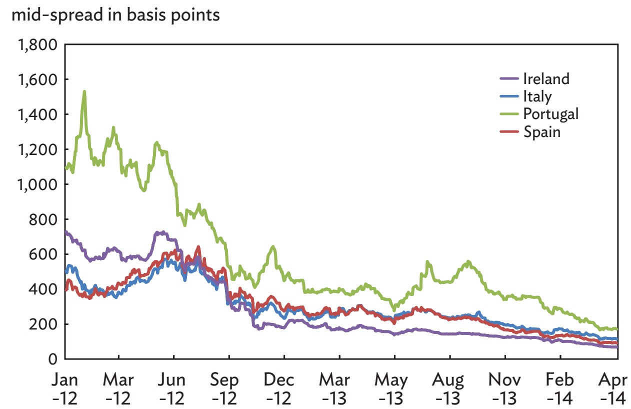


Figure C: US Equity Volatility and Emerging Market Sovereign Bond Spreads[b] (% per annum)

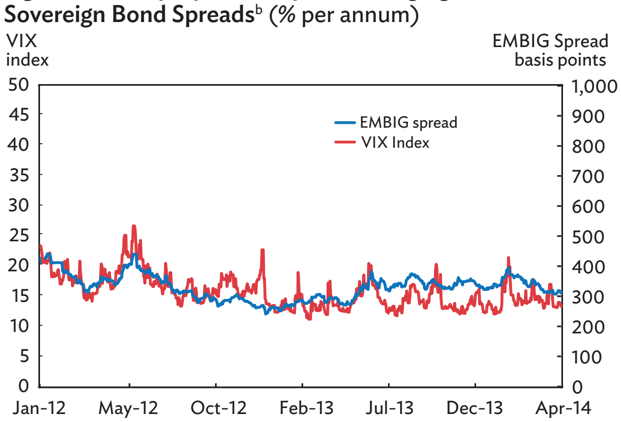


Figure D: 10-Year Government Bond Yields[b] (% per annum)

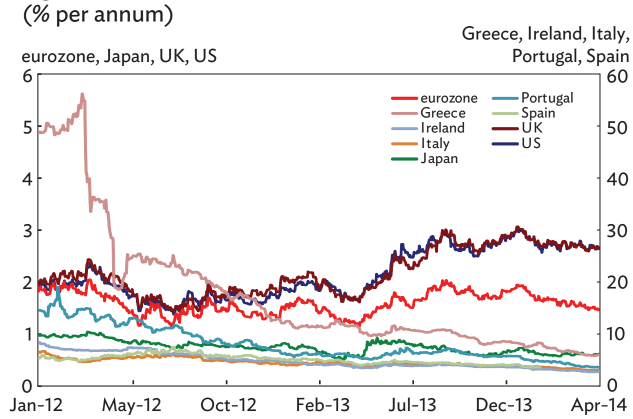


Figure E: JPMorgan EMBI Sovereign Stripped Spreads[a, b]

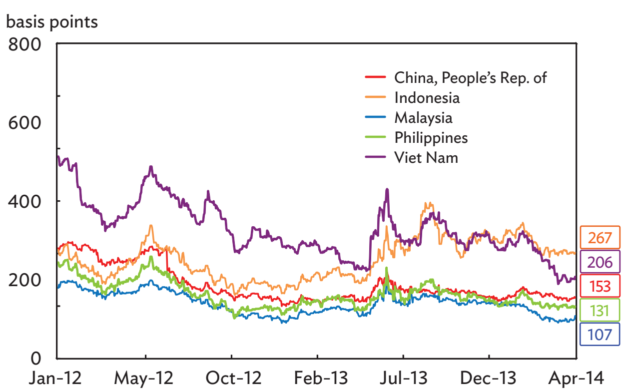
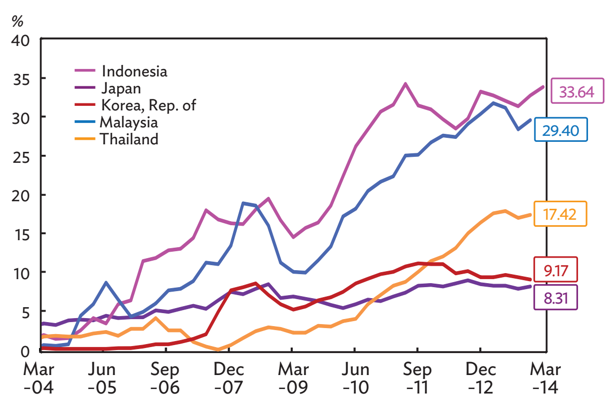


Figure F: Foreign Holdings of LCY Government Bonds in Select Asian Economies[c] (% of total)



EMBI = Emerging Markets Bond Index, EMBIG = Emerging Markets Bond Index Global, LCY = local currency, UK = United Kingdom, US = United States, VIX = Chicago Board Options Exchange Volatility Index.

Notes:

[a] In US$ and based on sovereign bonds.

[b] Data as of end-April 2014.

[c] Data as of end-December 2013, except for Indonesia as of end-March 2014.

Sources: *AsianBondsOnline* and Bloomberg LP.

ride out the slowdown, smaller players in the market may have difficulty meeting their debt obligations.

Market turmoil may return as the Federal Reserve winds down tapering amid speculation over when it will raise policy rates. The Federal Reserve continues to assert that it will keep its overnight target rate between zero and 0.25% for a considerable period of time after the completion of tapering. This could be a potential source of uncertainty in the future. Market sentiments expect that the Federal Reserve will start raising rates in the middle of 2015. But if US economic growth picks up, the Federal Reserve could raise interest rates earlier. This could potentially cause another withdrawal of funds from the region's bond markets. Thus, financial markets are expected to be more volatile as the Federal Reserve exits the market and removes a source of demand for bonds.

Capital flows could become volatile if the ECB moves to counter the potential threat of deflation in the eurozone. With inflation in the eurozone running at 0.7% in April, only about one-third of the target inflation rate of 2.0%, there are fears that the eurozone is on the verge of deflation. While there have been some signs of economic recovery, unemployment remains stubbornly high. Hence, there have been calls for the ECB to take a more expansionary monetary stance. As interest rates are already close to zero, further actions might take the form of asset purchases by the ECB (i.e., quantitative easing). While this would provide a boost to the eurozone's growth, it also has the potential to make capital flows more volatile. In addition, quantitative easing by the ECB could make eurozone bonds more attractive relative to Asian bonds, thereby dampening investor interest in Asian bonds.

Bond Market Developments in the First Quarter of 2014

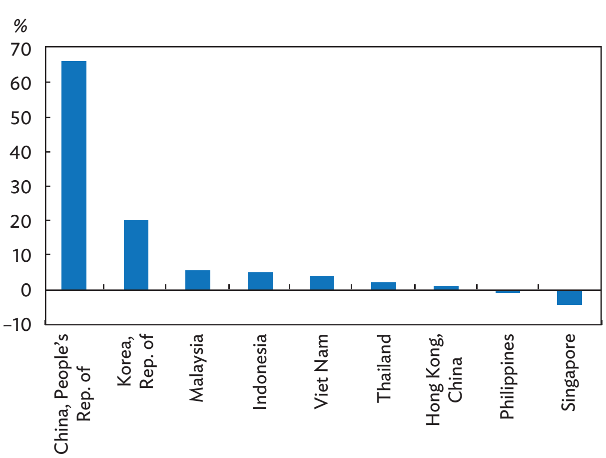
The outstanding size of the emerging East Asian local currency bond market reached US$7.6 trillion at end-March 2014.

Total local currency (LCY) bonds outstanding in emerging East Asia increased to US$7.6 trillion at end-March 2014 on 2.1% quarter-on-quarter (q-o-q) growth in 1Q14, down slightly from 2.6% growth in 4Q13.[3]

The People's Republic of China (PRC) accounted for nearly two-thirds of 1Q14's growth **(Figure 1)**. On a q-o-q basis, the PRC bond market expanded 2.2%, driven by a rapid rise in the stock of policy bank bonds and corporate bonds. The PRC remained the largest LCY bond market in emerging East Asia with total outstanding bonds of US$4.7 trillion, accounting for 61.5% of total LCY bonds in the region.

The Republic of Korea, with bonds outstanding of US$1.6 trillion at end-March, contributed one-fifth of the region's LCY bond market q-o-q growth in 1Q14. The Korean LCY bond market's 1.9% growth rate was driven mainly by increases in central government bonds and industrial finance debentures, as well as modest increases in central bank bonds and corporate bonds.

Figure 1: Contribution to Quarter-on-Quarter Growth



Source: Based on *AsianBondsOnline* calculations.

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

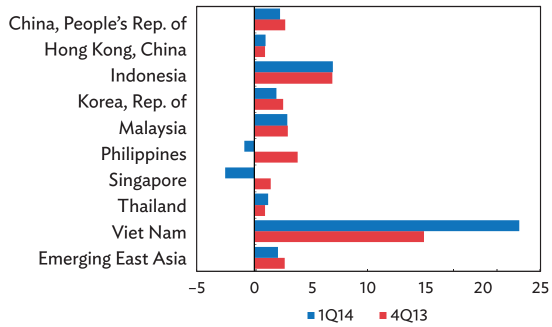
Malaysia, the third-largest LCY bond market in the region at a total size of US$322 billion at end-March, accounted for 5.8% the region's growth in 1Q14. Malaysia's 2.8% q-o-q growth rate was mostly driven by increases in central government bonds and corporate bonds.

While Viet Nam posted the highest q-o-q growth rate in emerging East Asia in 1Q14 at 23.0%, its contribution only accounted for 4.3% of the region's growth in 1Q14. Viet Nam's LCY bond market grew significantly due to the robust expansion of its government bond market, which was led by a notable rise in central bank bills. The State Bank of Viet Nam (SBV) issued a record-high VND173.8 trillion (US$8.2 billion) in SBV bills in 1Q14 to mop-up excess liquidity and help curb inflation. Meanwhile, Viet Nam's corporate bond market contracted in 1Q14 due to the absence of any corporate issuance since 1Q13.

Indonesia was the second fastest growing bond market in the region in 1Q14 with growth of 6.8% q-o-q **(Figure 2a)**. This stemmed mainly from growth in its government bond sector as the government successfully implemented a frontloading policy in which the bulk of its financing requirements will be met through the issuance of government securities in the first 6 months of the year. As of 25 March, the government had met nearly half of its funding requirements for the year, including foreign currency (FCY) bond issuance. The government either awarded in full or issued more than its targeted amount for most auctions of conventional bonds in 1Q14. On the other hand, all of Indonesia's *sukuk* (Islamic bond) auctions missed their target except for one auction. Also, in March, the government raised IDR19.3 trillion from the sale of 3-year retail *sukuk*.

Thailand and Hong Kong, China reported q-o-q growth rates of 1.2% or less, while the LCY bond markets of the Philippines and Singapore contracted in 1Q14. In the Philippines, the decline in the size of its LCY bond market was due to negative growth in the government sector. In 1Q14, the Bureau of the Treasury rejected most of its auctions for Treasury bills and awarded less than its targeted amount in other auctions as investors sought higher yields on rising inflationary expectations.

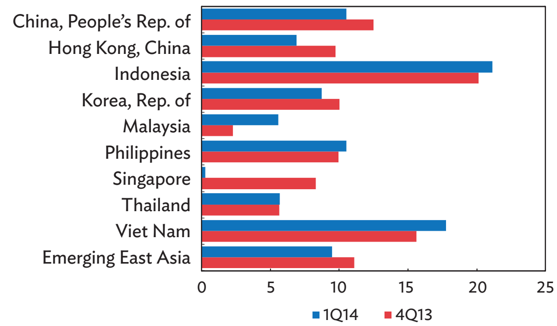
Figure 2a: Growth of LCY Bond Markets in 4Q13 and 1Q14 (q-o-q, %)



LCY = local currency, q-o-q = quarter-on-quarter.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from LCY base and do not include currency effects.
3. Emerging East Asia growth figures are based on end-March 2014 currency exchange rates and do not include currency effects.
4. For Hong Kong, China, 1Q14 corporate bonds outstanding data based on *AsianBondsOnline* estimates. For the Republic of Korea, 1Q14 government bonds outstanding data based on February 2014 data of The Bank of Korea. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Thailand, 1Q14 corporate bonds outstanding data based on Bank of Thailand's February 2014 estimate. For Japan, 1Q14 government and corporate bonds oustanding data carried over from February 2014.

Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Indonesia Debt Management Office, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

Figure 2b: Growth of LCY Bond Markets in 4Q13 and 1Q14 (y-o-y, %)



LCY = local currency, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from LCY base and do not include currency effects.
3. Emerging East Asia growth figures are based on end-March 2014 currency exchange rates and do not include currency effects.
4. For Hong Kong, China, 1Q14 corporate bonds outstanding data based on *AsianBondsOnline* estimates. For the Republic of Korea, 1Q14 government bonds outstanding data based on February 2014 data of The Bank of Korea. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Thailand, 1Q14 corporate bonds outstanding data based on Bank of Thailand's February 2014 estimate. For Japan, 1Q14 government and corporate bonds oustanding data carried over from February 2014.

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On a year-on-year (y-o-y) basis, growth in the region's LCY bond market moderated to 9.5% in 1Q14 **(Figure 2b)**. All markets recorded positive growth on a y-o-y basis, led by Indonesia (21.1%), Viet Nam (17.8%), the Philippines and the PRC (10.5% each), and the Republic of Korea (8.7%).

While growth in the region's LCY bond market remained positive in 1Q14, the pace of growth was slower on both a q-o-q and y-o-y basis. This slowdown may have been due to uncertainties generated by the United States (US) Federal Reserve beginning to taper its asset purchases in January. Although most markets priced in the effects of quantitative easing tapering during the second half of last year, expectations of a rise in US interest rates pose a drag to the growth of LCY bond markets in emerging East Asia.

Both the government and corporate bond sectors contributed to the growth of the region's LCY bond market in 1Q14. The government sector rose 2.2% q-o-q and 8.0% y-o-y in 1Q14 to reach US$4.6 trillion at end-March **(Table 1)**. Government bonds continued to dominate the region's LCY bond market in 1Q14 with a 59.9% share of total LCY bonds.

At end-March 2014, the stock of central bank bills and treasury bonds recorded positive growth, while the stock of treasury bills and central bank bonds contracted on both a q-o-q and y-o-y basis. Hong Kong, China has the largest stock of central bank bills in the region at US$88 billion **(Figure 3)**. Meanwhile, the PRC has the largest stock of treasury bonds in emerging East Asia at US$1.2 trillion.

The emerging East Asian LCY corporate bond market grew 1.9% q-o-q and 11.7% y-o-y to reach US$3.1 trillion at end-March. All corporate bond markets posted positive growth except for Indonesia and Singapore, which both contracted on a q-o-q basis, and Viet Nam, which contracted on a q-o-q and y-o-y basis.

In Indonesia, corporate bond issuance had a slow start in 2014, with new corporate debt issuance only commencing

Table 1: Size and Composition of LCY Bond Markets

	1Q13		4Q13		1Q14		Growth Rate (LCY-base %)				Growth Rate (US$-base %)			
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	1Q13		1Q14		1Q13		1Q14	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)														
Total	4,260	100.0	4,724	100.0	4,702	100.0	4.0	17.8	2.2	10.5	4.4	19.5	(0.5)	10.4
Government	2,828	66.4	3,073	65.0	3,056	65.0	1.7	8.3	2.1	8.2	2.0	9.8	(0.5)	8.1
Corporate	1,432	33.6	1,652	35.0	1,646	35.0	9.1	42.4	2.3	15.0	9.4	44.4	(0.4)	14.9
Hong Kong, China														
Total	184	100.0	195	100.0	196	100.0	3.6	7.2	1.0	6.9	3.5	7.2	0.9	7.0
Government	100	54.7	108	55.7	109	55.5	7.6	10.5	0.5	8.5	7.4	10.5	0.5	8.6
Corporate	83	45.3	86	44.3	87	44.5	(0.7)	3.5	1.5	5.0	(0.9)	3.5	1.5	5.1
Indonesia														
Total	119	100.0	108	100.0	123	100.0	5.9	13.9	6.8	21.1	6.6	7.1	14.4	3.8
Government	98	83.0	90	83.3	104	84.5	6.2	11.6	8.3	23.3	6.8	4.9	16.0	5.6
Corporate	20	17.0	18	16.7	19	15.5	4.8	26.9	(0.4)	10.7	5.4	19.2	6.7	(5.2)
Korea, Rep. of														
Total	1,453	100.0	1,641	100.0	1,649	100.0	3.1	10.5	1.9	8.7	(1.2)	12.7	0.5	13.5
Government	560	38.6	626	38.2	637	38.6	2.2	3.5	3.1	8.9	(2.1)	5.6	1.7	13.7
Corporate	893	61.4	1,015	61.8	1,012	61.4	3.7	15.4	1.2	8.6	(0.7)	17.6	(0.3)	13.4
Malaysia														
Total	322	100.0	312	100.0	322	100.0	(0.4)	9.0	2.8	5.5	(1.5)	8.0	3.2	0.0
Government	190	59.1	182	58.5	188	58.4	(1.7)	7.1	2.7	4.2	(2.8)	6.1	3.0	(1.2)
Corporate	132	40.9	130	41.5	134	41.6	1.6	12.1	3.0	7.5	0.4	11.0	3.4	1.8
Philippines														
Total	98	100.0	101	100.0	99	100.0	(1.4)	12.5	(0.9)	10.5	(0.9)	18.3	(1.8)	0.6
Government	85	86.7	87	86.8	84	84.6	(1.8)	11.5	(3.3)	7.8	(1.3)	17.2	(4.2)	(1.8)
Corporate	13	13.3	13	13.2	15	15.4	1.1	19.8	15.0	27.9	1.6	25.9	13.9	16.4
Singapore														
Total	239	100.0	242	100.0	237	100.0	5.2	14.5	(2.6)	0.3	3.7	16.1	(2.1)	(1.1)
Government	148	62.0	150	61.9	146	61.6	6.4	13.7	(3.0)	(0.3)	4.8	15.3	(2.6)	(1.7)
Corporate	91	38.0	92	38.1	91	38.4	3.4	16.0	(1.8)	1.2	1.9	17.6	(1.4)	(0.1)
Thailand														
Total	295	100.0	275	100.0	281	100.0	1.2	11.8	1.2	5.7	5.8	17.8	2.1	(4.6)
Government	232	78.6	214	77.7	217	77.2	0.3	10.2	0.7	3.8	4.8	16.1	1.5	(6.3)
Corporate	63	21.4	62	22.3	64	22.8	4.6	18.2	3.1	12.6	9.4	24.5	4.1	1.7
Viet Nam														
Total	30	100.0	29	100.0	35	100.0	20.8	53.3	23.0	17.8	20.3	52.7	23.0	16.8
Government	29	96.5	28	97.6	35	98.3	21.8	64.6	23.9	20.0	21.3	63.9	23.9	19.0
Corporate	1	3.5	0.7	2.4	0.6	1.7	(1.6)	(47.2)	(12.6)	(43.1)	(2.0)	(47.4)	(12.6)	(43.6)
Emerging East Asia														
Total	6,999	100.0	7,626	100.0	7,644	100.0	3.6	15.1	2.1	9.5	2.9	16.8	0.2	9.2
Government	4,271	61.0	4,558	59.8	4,575	59.9	1.9	8.2	2.2	8.0	1.7	9.8	0.4	7.1
Corporate	2,728	39.0	3,068	40.2	3,069	40.1	6.2	27.5	1.9	11.7	4.8	29.5	0.0	12.5
Japan														
Total	10,819	100.0	9,990	100.0	10,335	100.0	0.8	3.4	1.4	4.7	(7.2)	(9.1)	3.5	(4.5)
Government	9,927	91.8	9,203	92.1	9,534	92.2	1.1	4.3	1.5	5.2	(6.9)	(8.3)	3.6	(4.0)
Corporate	891	8.2	787	7.9	801	7.8	(2.0)	(5.5)	(0.1)	(1.5)	(9.8)	(16.8)	1.9	(10.1)

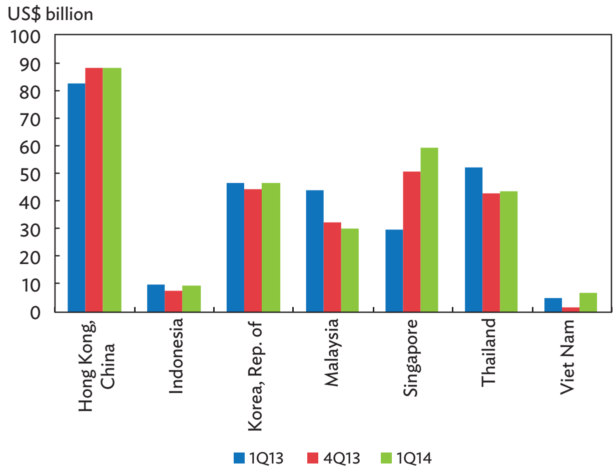
( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. For Hong Kong, China, 1Q14 corporate bonds outstanding data based on *AsianBondsOnline* estimates. For the Republic of Korea, 1Q14 government bonds outstanding data based on February 2014 data from The Bank of Korea. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Thailand, 1Q14 corporate bonds outstanding data based on Bank of Thailand's February 2014 estimates. For Japan, 1Q14 government and corporate bonds oustanding data carried over from February 2014.
2. For the People's Republic of China, corporate bonds data for commercial paper and medium-term notes were revised to include data from *Wind*.
3. Corporate bonds include issues by financial institutions.
4. Bloomberg LP end-of-period LCY—US$ rates are used.
5. For LCY base, emerging East Asia growth figures based on end-March 2014 currency exchange rates and do not include currency effects.
6. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Indonesia Debt Management Office, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Figure 3: Central Bank Bills Outstanding



Notes:
1. The People's Republic of China ceased issuance of central bank bills in 3Q13.
2. The Philippines has no central bank bills outstanding.
Source: *AsianBondsOnline*.

in mid-February. Eight corporate firms, mostly financing companies, issued bonds in Indonesia in 1Q14.

The Philippine corporate bond market recorded the highest q-o-q growth rate in the region in 1Q14, rising 15.0%. A total of eight corporate firms raised a combined US$2.2 billion. These firms locked-in their debt at lower costs in anticipation of higher borrowing costs later this year. In addition, Bangko Sentral ng Pilipinas (BSP) began adopting a tightening bias in its monetary policy by raising domestic banks' reserve requirement ratio by 1 percentage point following Monetary Board meetings in both March and May.

As a percentage of gross domestic product (GDP), the size of the emerging East Asian LCY bond market was relatively stable in 1Q14 at 58.4% compared with a share of 58.2% in 4Q13 **(Table 2)**. The share of bonds to GDP, however, was up from 56.8% a year earlier. The Republic of Korea and Malaysia had the largest shares of bonds to GDP in 1Q14 at 126.1% and 107.2%, respectively.

Foreign investor interest in emerging East Asian LCY government bonds remained strong despite uncertainties relating to Federal Reserve monetary policy.

The share of foreign holdings in emerging East Asian LCY government bond markets continued to rise in

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

	1Q13	4Q13	1Q14
China, People's Rep. of			
Total	49.9	50.3	50.6
Government	33.1	32.7	32.9
Corporate	16.8	17.6	17.7
Hong Kong, China			
Total	69.3	71.1	71.8
Government	37.9	39.6	39.8
Corporate	31.4	31.5	32.0
Indonesia			
Total	13.7	14.4	15.0
Government	11.4	12.0	12.6
Corporate	2.3	2.4	2.3
Korea, Rep. of			
Total	116.0	125.5	126.1
Government	44.7	47.9	48.7
Corporate	71.3	77.6	77.4
Malaysia			
Total	105.2	103.8	107.2
Government	62.2	60.7	62.5
Corporate	43.0	43.1	44.6
Philippines			
Total	37.1	38.7	38.0
Government	32.2	33.6	32.2
Corporate	4.9	5.1	5.8
Singapore			
Total	83.2	82.5	80.8
Government	51.5	51.1	49.7
Corporate	31.6	31.4	31.0
Thailand			
Total	74.5	75.7	77.2
Government	58.6	58.7	59.7
Corporate	15.9	16.9	17.6
Viet Nam			
Total	18.7	16.9	20.4
Government	18.0	16.5	20.0
Corporate	0.7	0.4	0.3
Emerging East Asia			
Total	56.8	58.2	58.4
Government	34.6	34.8	34.9
Corporate	22.1	23.4	23.4
Japan			
Total	215.7	219.9	227.5
Government	197.9	202.6	209.9
Corporate	17.8	17.3	17.6

GDP = gross domestic product, LCY = local currency.
Notes:
1. Data for GDP is from CEIC. 1Q14 GDP figures carried over from 4Q13 except for the People's Republic of China, Indonesia, and Viet Nam.
2. For Hong Kong, China, 1Q14 corporate bonds outstanding data based on *AsianBondsOnline* estimates. For the Republic of Korea, 1Q14 government bonds outstanding data based on February 2014 data from The Bank of Korea. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Thailand, 1Q14 corporate bonds outstanding data based on Bank of Thailand's February 2014 estimate. For Japan, 1Q14 government and corporate bonds oustanding data carried over from February 2014.

Sources: People's Republic of China (*ChinaBond* and Wind); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Indonesia Debt Management Office, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

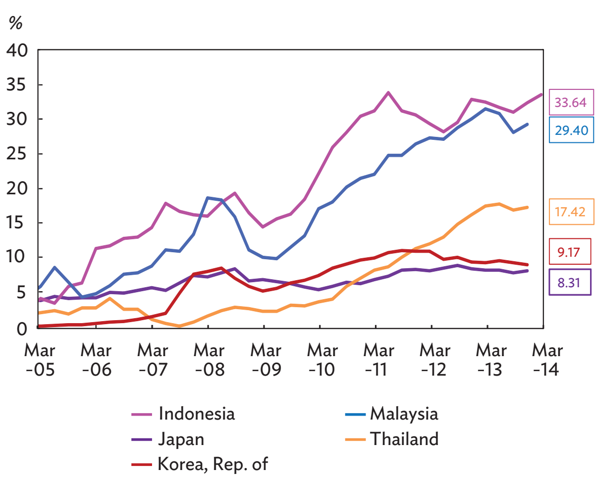
4Q13 despite uncertainties relating to the timing of the Federal Reserve's eventual policy rate hike **(Figure 4)**. The shares of foreign holdings in Malaysia and Thailand's LCY bond markets continued to rise in 4Q13, while this share declined marginally in the Republic of Korea. Foreign investor interest in Indonesian government bonds remained strong as foreign holdings share rose to 33.6% at end-March. The increase was brought about by positive market sentiments amid improving macroeconomic fundamentals.

Meanwhile, the shares of foreign holdings in LCY corporate bonds in Indonesia and the Republic of Korea continued to pale in comparison with that of their respective government bond sectors **(Figure 5)**. This is due to the fact that corporate bonds in both markets are highly illiquid and that most investors are of the buy-and-hold variety. The share of foreign holdings in Indonesian LCY corporate bonds was stable at 6.6% at end-March, while the share of foreign holdings in LCY corporate bonds in the Republic of Korea remained negligible.

Emerging East Asian bond markets continued to experience net foreign capital inflows in 1Q14.

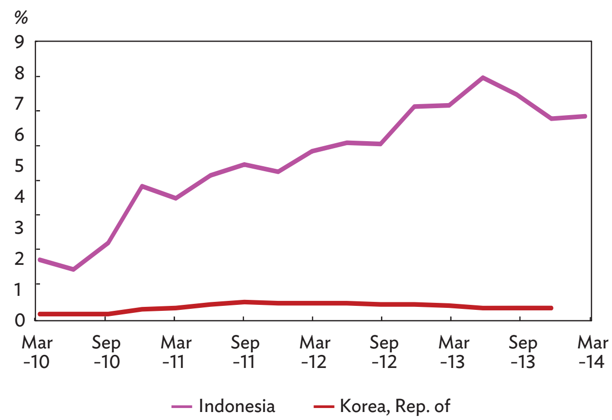
Emerging East Asian bond markets remained attractive as foreign funds continued to pour in during 1Q14 as investors' risk appetite returned. Foreign bond flows have recovered from the outflows in the second half of 2013. Throughout the January–April period, foreign bond inflows increased in all markets, with the exception of Thailand, which recorded net foreign outflows in January and the Republic of Korea in February **(Figure 6)**.

Figure 4: Foreign Holdings of LCY Government Bonds in Select Asian Economies (% of total)



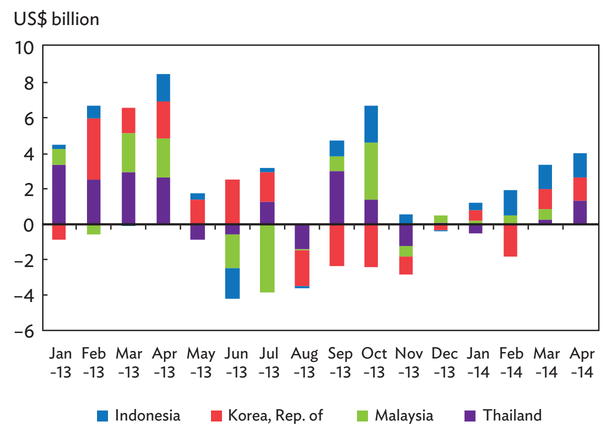
LCY = local currency.
Note: Data as of end-December 2013, except for Indonesia as of end-March 2014.
Source: *AsianBondsOnline*.

Figure 5: Foreign Holdings of LCY Corporate Bonds in Indonesia and the Republic of Korea (% of total)



LCY = local currency.
Note: For Indonesia, data as of end-March 2014. For the Republic of Korea, data as of end-December 2013.
Source: Based on data from Otoritas Jasa Keuangan and The Bank of Korea.

Figure 6: Foreign Inflows in Select Emerging East Asian Bond Markets



Notes:
1. The Republic of Korea and Thailand provides data on bond flows. For Indonesia and Malaysia, month-on-month changes in foreign holdings of LCY government bonds were used as a proxy for bond flows.
2. Data as of April 2014 except for Malaysia as of March 2014.
3. Figures were computed based on end-April 2014 exchange rates to avoid currency effects.

Sources: Indonesia Debt Management Office, Financial Supervisory Service, Bank Negara Malaysia, and Thai Bond Market Association.

Box: Bond Market in Kazakhstan—Developments and Challenges

Introduction

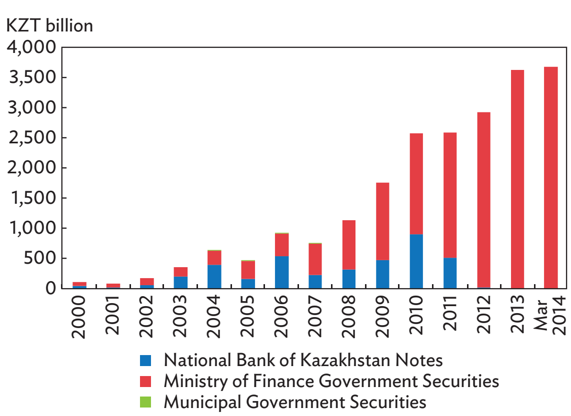
The local currency (LCY) bond market in Kazakhstan has grown at a rapid pace from only US$15.8 billion at end-December 2006 to US$55.2 billion at end-March 2014. Compared with bond markets in emerging East Asia, the size of Kazakhstan's bond market is about double that of Viet Nam and half that of Indonesia.[a] However, while its bond market's aggregate size is relatively small, in absolute terms, Kazakhstan's corporate bond market is larger than the three smallest corporate bond markets in emerging East Asia: Indonesia, the Philippines, and Viet Nam. In contrast to the bond markets in emerging East Asia where the government sector tends to be bigger, Kazakhstan's corporate sector dominates its bond market, accounting for nearly two-thirds of total LCY bonds at end-March.

Government Bond Market

Kazakhstan's LCY government bond market comprises both government securities issued by the Ministry of Finance and short-term securities issued by the National Bank of Kazakhstan **(Figure B1)**. The government bond market's growth in recent years has come entirely from securities issued by the central government.

In the 1990's, government securities were mostly short-term in nature. The government commenced issuance of 12-month maturities only in the second half of 1996. A 24-month tenor was issued 1 year later. In 1998, borrowings by the national government from the National Bank of Kazakhstan were converted into long-term debt securities with a 10-year maturity. The 10-year maturity is currently the longest-dated security in Kazakhstan.

Figure B1: Outstanding Size of LCY Government Bond Market in Kazakhstan

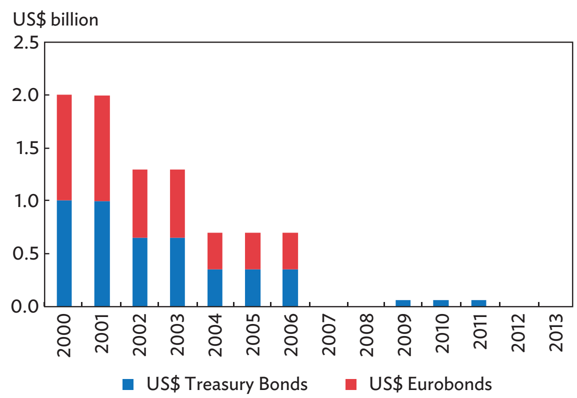


LCY = local currency.
Sources: National Bank of Kazakhstan, Kazakhstan Stock Exchange, and Bloomberg LP.

Kazakhstan's LCY government bond market has shown impressive growth since 2000. Total outstanding LCY government bonds have risen from just KZT109 billion (US$0.8 billion) at end-December 2000 to KZT3,684 billion at end-March 2014. This represents an annual average growth rate of 30.4%.

The government also had foreign currency (FCY) bonds outstanding in 2000 **(Figure B2)**. However, the most recent Eurobond issues matured in 2007 and the most recent US$-denominated government securities matured in 2012. Therefore, Kazakhstan does not currently have any FCY government bonds outstanding.

Figure B2: Outstanding Size of FCY Government Bond Market in Kazakhstan



FCY = foreign currency.
Sources: National Bank of Kazakhstan, Kazakhstan Stock Exchange, and Bloomberg LP.

The National Bank of Kazakhstan also issues short-term bank certificates, with maturities ranging from 7 days to 1 year, for the purpose of managing the money supply.

Corporate Bond Market

The passage of the Law on the Securities Market in 1997 paved the way for corporate firms to tap the domestic debt market. Since then, the corporate bond market has seen rapid growth supported mainly by economic reforms and a much broader domestic investor base that includes increased demand from pension funds and insurance companies **(Figure B3)**.

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

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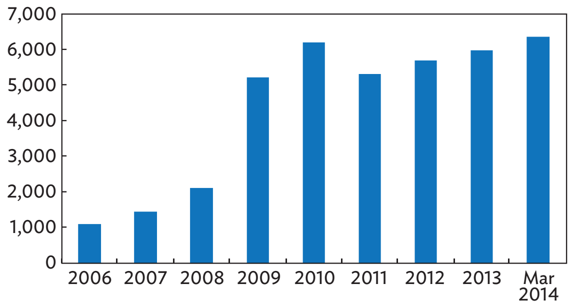
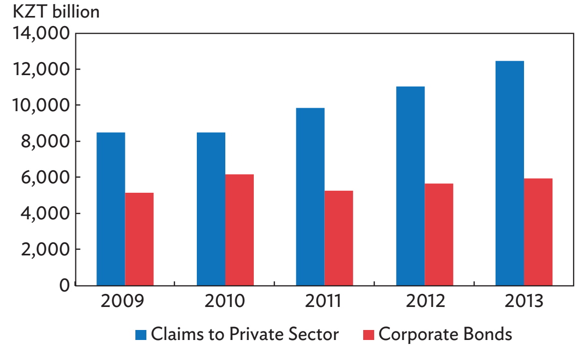
Box *continued*

Figure B3: Outstanding Size of LCY Corporate Bond Market in Kazakhstan



LCY = local currency.
Note: 1Q14 corporate bonds outstanding based on *AsianBondsOnline* estimate.
Sources: National Bank of Kazakhstan, Kazakhstan Stock Exchange, and Bloomberg LP.

Figure B4: Banking System Claims on Private Sector vs. Corporate Bonds Outstanding



Note: 1Q14 corporate bonds outstanding based on *AsianBondsOnline* estimate.
Source: National Bank of Kazakhstan.

Corporate bonds listed on the Kazakhstan Stock Exchange (KASE) are required to be rated by one of the three main international rating agencies, or by a local rating agency such as Rating Agency of the Almaty Regional Financial Center, Expert RA Kazakhstan, and KZ Rating Agency.

Corporate bonds outstanding rose from KZT1,094 billion at end-December 2006 to KZT6,362 billion at end-March 2014. There was rapid growth in the period leading up to 2010. But since then the amount of total outstanding corporate bonds has remained relatively stable. The banking system still dominates the financial system; banking system claims on the private sector are double the amount of total corporate outstanding bonds **(Figure B4)**.

Size and Composition

The outstanding size of Kazakhstan's LCY bond market rose 4.4% quarter-on-quarter (q-o-q) and 13.6% year-on-year (y-o-y) in 1Q14, reaching KZT10,046 billion at end-March **(Table B1)**. Corporate securities accounted for 63.3% of total bonds outstanding, with the remaining 36.7% accounted for by government bonds.

Government Bond Market

Outstanding fixed income securities issued by Kazakhstan's central government and central bank rose 1.7% q-o-q and 17.5% y-o-y in 1Q14. Central government securities, comprising treasury bills and bonds, account for almost the entire stock of government securities. Meanwhile, outstanding short-term central bank bills have been declining over time, with a remaining stock of KZT9 billion at end-March, down from KZT102 billion a year earlier.

As of end-March, 82.2% of Kazakhstan's central government bonds had original long-term tenors (more than 5 years), 15.6% were medium-term (longer than 1 year to 5 years),

Table B1: Size and Composition of the LCY Bond Market in Kazakhstan

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q13		4Q13		1Q14		1Q13		1Q14	
	KZT	US$	KZT	US$	KZT	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**8,842**	**59**	**9,623**	**62**	**10,046**	**55**	**0.5**	**11.1**	**4.4**	**13.6**
Government	3,136	21	3,623	23	3,684	20	1.4	14.2	1.7	17.5
Central Govt. Bonds	3,034	20	3,619	23	3,675	20	4.4	37.3	1.5	21.1
Central Bank Bills	102	0.7	4	0.02	9	0.05	(45.2)	(81.0)	149.4	(91.2)
Corporate	5,706	38	6,001	39	6,362	35	4.8	26.9	(0.4)	10.7

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. 1Q14 corporate bonds outstanding based on *AsianBondsOnline* estimate.
Sources: Kazakhstan Stock Exchange and National Bank of Kazakhstan.

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Box *continued*

and the remaining 1.8% were short-term bills (1 year or less). Meanwhile, the tenor of central bank bills range between 7 days and 1 year.

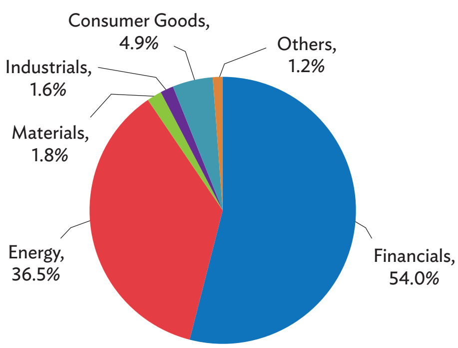
The supply of government bonds does not meet market demand. The country's strong resource base means it is not necessary for the government to issue debt to fund the budget deficit. The government is concerned about the debt service cost associated with issuance of government bonds and, hence, has limited issuance. The paucity of government bonds has hampered the development of the bond market. Strong activity in the government bond market could help further develop the corporate bond market as skills gained from trading government bonds could easily be used in the corporate sector.

Corporate Bond Market

In 1Q14, total outstanding LCY corporate bonds contracted 0.4% q-o-q, but rose 10.7% y-o-y, to KZT6,363 billion. Kazakhstan's corporate bond market is dominated by a few sectors, with about 90% of corporate bond issuance coming from the financial (54.0%) and energy (36.5%) sectors **(Figure B5)**. The share of the financial sector has steadily declined since 2010, following a crisis in the banking system, while the share of the energy sector has grown over the last 3 years. Although there are a few other sectors—including firms with business interests in consumer goods, materials, and industrials—that have tapped the bond market in recent years, their combined share accounts for only 8.3% of the total.

Regulatory requirements are reducing the demand for corporate bonds and restricting the number of enterprises that can issue in the domestic bond market. The costly process of issuing bonds is also affecting the growth of the corporate bond market. It is estimated that a 5-year corporate bond issue would cost about 10%–12% of the issued amount, while the interest rate on a 5-year bank loan for a comparable amount would be 7%–8%. The more attractive rates on corporate loans may be the result of direct lending; for example, under a government support program in 2011, bank loans to specific companies were eligible for a government subsidy of 7%. At the same time, there is no credit culture in Kazakhstan; bank lending is mostly collateralized rather than cash-flow based.

Figure B5: LCY Corporate Bonds Outstanding by Sector, March 2014



Source: Kazakhstan Stock Exchange.

Current Challenges in the Kazakhstan Bond Market

Issuing bonds can be difficult and costly

The National Bank of Kazakhstan permits banks, who are major investor in the bond market, to invest only in investment grade bonds rated by the three international ratings agencies. Given the high fees charged by an international agency, only a few corporates can afford to obtain an international rating. Also, international rating agencies normally assign ratings to companies with gross income of not less than US$100 million, which leaves out small and medium-sized companies with strong financials and potential growth. As a result, small and medium-sized sized companies find it difficult to access the bond market. Furthermore, disclosure requirements for listing approval and registration tend to be burdensome, and it takes considerable time to file a prospectus with the regulator. Foreign companies also face tighter requirements that discourage them from issuing bonds in the domestic market. To further improve access to bond markets for a wider range of companies, the process for the issuance of bonds will have to be streamlined and simplified. Rules and regulations should be made more transparent and consistent to enhance confidence in the bond market.

Lack of a liquid secondary bond market

Institutional investors (pension funds, banks, insurance companies, mutual funds) are the major investors in the government bond market.[b] They tend to buy and hold long-term government bonds to match their liabilities. This reduces the amount of bonds available for trading in the secondary market. Exacerbating this is the shortage of government bonds due to the central government's strong fiscal condition. The lack of secondary trading makes it difficult to establish a long-term, risk-free yield curve that could serve as a benchmark against which private issuers can price their bonds. The lack of a benchmark yield curve makes investors reluctant to invest in bonds and corporates reluctant to issue bonds. Hence, it is important to promote

[b] Pension funds, insurance companies, and banks are required by regulation to hold government bonds in their portfolios.

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Box *continued*

the participation of a wider range of investors in the market as greater diversity could help increase the amount of trading in the market.

Weak bond market infrastructure

Sound market infrastructure—such as efficient clearing, settlement, registration, and trading systems—is needed to facilitate trading and improve market liquidity. In Kazakhstan, the clearing and settlement system poses settlement risks to participants in the bond market. Investors can cancel a trade if it breaches their investment guidelines. Furthermore, there is a lack of direct communication between the cash settlement systems of the National Bank of Kazakhstan and the Central Securities Depository (CSD).[c] Improving market infrastructure can greatly facilitate the development of a more efficient trading environment for bonds.

The Future of Kazakhstan's LCY Bond Market

Strong interest in the development of the *sukuk* market

There is strong government interest in introducing Islamic finance to the country. Kazakhstan has amended legislation to allow for greater use of Islamic financing. The amendments provide, among other things, a legal framework for the issuance of *sukuk* (Islamic bonds) by the Government of Kazakhstan. In particular, they appear to be aimed at facilitating sovereign issuance of Islamic securities to finance toll roads in Kazakhstan. The amendments became effective in August 2011 and it is expected that the government and the central bank will adopt several sets of implementing resolutions. For the first time in Kazakhstan, the amendments permit a state body (Ministry of Finance) to act in the capacity of a special purpose vehicle in connection with the issuance of securities.

The financial regulator recently extended the legal framework originally introduced in 2009 for issuing Islamic financial products. However, this was restricted to rent certificates and participation certificates. At the same time, the framework for Islamic instruments issued outside Kazakhstan by local companies is not clear. Additionally, the legal framework for the local *Sharia'h* (Islamic law) Council has not been established; for example, there is only one Kazakh presently qualified as a member of the *Sharia'h* Council. Market operators believe that the regulator should clearly define the role of the *Sharia'h* Council in order to move this project forward.

[c] The National Bank of Kazakhstan settles the cash leg for banks and CSD handles this for nonbanks. CSD can settle the securities leg and be unaware that the cash leg has not settled as the purchasing bank may not have sufficient funds in the account. As a result, the trade can be cancelled, thereby increasing the number of failed trades.

With banks still recovering from the global financial crisis, bonds could serve as an alternative source of financing

Kazakhstan's banks have not kept pace with the growing economy, as the faster-growing sectors (large state-owned energy and mining companies) are not reliant on domestic banks. The banking sector is a key weakness of the Kazakh economy, despite recent efforts by the government and the financial regulator to recapitalize the banks and strengthen regulatory oversight. After several years of rapid expansion in the mid-2000s, the banking sector suffered a major crisis in 2008. Three large banks (BTA Bank, Alliance Bank, and Temirbank) became insolvent, were nationalized, and undertook major debt restructuring. A second default of BTA Bank took place in January 2012.

The size of the banking system, with assets worth over US$100 billion in December 2013, declined significantly as a share of gross domestic product (GDP), from 90% in 2007 to 45% in 2013, after the forced deleveraging that followed the global financial crisis. Bank lending, which had been growing rapidly prior to the crisis, collapsed in the aftermath. It has since recovered somewhat, expanding 12.8% in 2013, but lending is now mostly focused on the fast-growing consumer credit sector. The recovery in lending is mostly being led by a few small- and medium-sized banks that were relatively unaffected by the fallout from the global financial crisis. Meanwhile, the large banks generally are still holding back from lending. As a result, firms are finding it difficult to access financing at reasonable cost. The further development of the corporate bond market offers the potential to provide an additional source of financing.

Growth in CNH bonds remained strong in 1Q14.

CNH bonds outstanding rose to CNH397 billion in 1Q14 from CNH358 billion in 4Q13 due to significant issuances during the quarter **(Table 3)**.[4] While interest in CNH bonds was affected by negative sentiments toward the renminbi, demand remained strong. Demand was supported by issuers seeking to tap offshore renminbi funds in light of measures taken by the PRC and offshore financial centers to expand use of the renminbi. As an indicator of rising demand, CNH deposits in Hong Kong, China rose to CNH944 billion at end-March from CNH860 billion at end-December.

[4] CNH bonds are renminbi-denominated bonds issued in Hong Kong, China.

Table 3: CNH Bonds Outstanding

	1Q13		4Q13		1Q14		Growth Rate (LCY-base %)				Growth Rate (US$-base %)			
							1Q13		1Q14		1Q13		1Q14	
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
Total	54	100.0	59	100.0	64	100.0	7.8	25.5	11.0	19.3	8.1	27.2	8.1	19.2
Government	14	26.1	15	26.0	17	26.0	15.1	86.9	11.2	18.9	15.5	89.5	8.3	18.8
Corporate	40	73.9	44	74.0	47	74.0	5.4	12.4	10.9	19.5	5.7	14.0	8.0	19.3

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Note: CNH bonds are renminbi-denominated bonds issued in Hong Kong, China. Data includes certificates of deposits and bonds issued by foreign companies.
Source: Central Money Markets Unit, Hong Kong Monetary Authority.

The PRC recently announced that it would auction CNH15 billion worth of sovereign bonds in Hong Kong, China in May, demonstrating its continued support for the internationalization of the renminbi.

Emerging East Asian LCY bond issuance exhibited a mixed performance in 1Q14.

Emerging East Asian LCY bond issuance amounted to US$851 billion in 1Q14, up 7.1% q-o-q, but down 8.2% y-o-y **(Table 4)**. The q-o-q growth in LCY bond issues came mostly from an increase in the stock of central bank bills in most markets resulting from concerns over rising inflation as well as an increase in capital flows. Hong Kong, China registered the largest quarterly increase in central bank issuance, equivalent to US$67 billion, among all economies in the region.

Other emerging East Asian economies that recorded q-o-q increases in LCY bond sales were the PRC, Indonesia, the Philippines, and Viet Nam.

Meanwhile, the y-o-y decline in emerging East Asian LCY bond issuance in 1Q14 largely stemmed from the PRC and Hong Kong, China registering annual declines of US$37 billion and US$39 billion, respectively. The region's y-o-y decline in LCY bond issuance was also partly triggered by reduced issuance in Malaysia and Thailand.

In the case of the PRC, issuance was down on a y-o-y basis as the People's Bank of China (PBOC) remained watchful of credit conditions. Issuance from banks has also declined as they have already met most of their Basel III capital-raising needs.

Central banks, monetary authorities, and national governments in emerging East Asia sold an aggregate amount of US$570 billion in government bonds in 1Q14. Nearly two-thirds of this total was issued by central banks and monetary authorities. Government bonds rose 10.9% q-o-q, with bonds issued by central banks and monetary authorities registering a 24.7% increase, more than offsetting the 7.3% drop in the issuance of treasury bonds and other central government bonds. On a y-o-y basis, however, government bond issuance in the region slipped 2.4% amid declining issuance in Hong Kong, China; Malaysia; the Philippines; and Thailand.

LCY corporate bond issuance in emerging East Asian economies totaled US$281 billion in 1Q14, up 0.2% q-o-q, but down 18.2% y-o-y. While large increases in LCY corporate bond issuance were noted in the PRC and Thailand, these were offset by decreases in the Republic of Korea and Malaysia, leading to a marginal q-o-q growth rate in the region's LCY corporate bond issuance in 1Q14.

Emerging East Asian G3 currency bond issuance remained robust in early 2014.

Emerging East Asian G3 currency bond issuance remained strong in the first 4 months of 2014 after a record performance in 2013, reaching US$66.1 billion in January–April, or almost half of the full-year 2013 amount of US$141.5 billion **(Table 5)**. The large volume of emerging East Asian G3 currency bond issues in the early part of the year can be attributed to low interest rates in G3 economies, with issuers locking in these rates amid expectations that funding costs will rise in the second half of the year.

The PRC continued to be the largest country source of G3 currency bond issuance in emerging East Asia, accounting for 43% of total issuance volume in the region in the first 4 months of the year. This was spearheaded by large bond issues coming from two energy companies (CNOOC and Sinopec), real estate and property developers, and banks. Sinopec issued the largest amount of G3 currency bonds among all PRC issuers, raising US$5 billion in April.

Table 4: LCY-Denominated Bond Issuance (gross)

	1Q13		4Q13		1Q14		Growth Rate (LCY-base %)		Growth Rate (US$-base %)	
							1Q14		1Q14	
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)										
Total	335	100.0	297	100.0	298	100.0	2.9	(11.1)	0.2	(11.2)
Government	117	34.7	149	50.2	137	46.0	(5.6)	17.9	(8.1)	17.7
Central Bank	0	0.0	4	1.2	0	0.0	(100.0)	–	(100.0)	–
Treasury and Other Govt.	117	34.7	146	49.0	137	46.0	(3.3)	17.9	(5.9)	17.7
Corporate	219	65.3	148	49.8	161	54.0	11.6	(26.5)	8.6	(26.5)
Hong Kong, China										
Total	231	100.0	125	100.0	192	100.0	53.9	(17.0)	53.8	(16.9)
Government	223	96.6	119	95.4	186	97.0	56.4	(16.7)	56.4	(16.6)
Central Bank	222	96.2	119	95.1	185	96.5	56.1	(16.8)	56.1	(16.7)
Treasury and Other Govt.	0.9	0.4	0.4	0.3	1	0.5	150.0	7.1	149.9	7.2
Corporate	8	3.4	6	4.6	6	3.0	0.0	(27.3)	(0.0)	(27.2)
Indonesia										
Total	12	100.0	8	100.0	11	100.0	18.1	6.2	26.5	(9.0)
Government	10	86.8	7	89.0	10	95.6	27.0	17.0	36.0	0.2
Central Bank	3	25.8	2	20.2	3	26.6	55.3	9.7	66.4	(6.0)
Treasury and Other Govt.	7	61.0	6	68.7	7	69.0	18.6	20.1	27.1	2.9
Corporate	2	13.2	0.9	11.0	0.5	4.4	(53.3)	(64.9)	(49.9)	(69.9)
Korea, Rep. of										
Total	148	100.0	173	100.0	158	100.0	(7.5)	2.4	(8.8)	6.9
Government	60	40.4	74	42.6	74	46.9	1.8	18.8	0.4	24.0
Central Bank	39	26.3	43	25.1	44	28.0	3.4	9.2	1.9	14.0
Treasury and Other Govt.	21	14.1	30	17.5	30	18.9	(0.5)	36.7	(1.8)	42.7
Corporate	88	59.6	99	57.4	84	53.1	(14.4)	(8.7)	(15.6)	(4.7)
Malaysia										
Total	43	100.0	42	100.0	36	100.0	(14.6)	(12.0)	(14.3)	(16.6)
Government	34	78.1	28	66.1	27	73.9	(4.5)	(16.8)	(4.2)	(21.1)
Central Bank	25	57.9	19	45.8	18	48.9	(8.7)	(25.6)	(8.4)	(29.5)
Treasury and Other Govt.	9	20.2	9	20.3	9	24.9	4.9	8.5	5.3	2.8
Corporate	9	21.9	14	33.9	9	26.1	(34.1)	5.0	(33.9)	(0.5)
Philippines										
Total	5	100.0	5	100.0	6	100.0	21.2	15.6	20.1	5.3
Government	5	90.9	3	62.3	3	60.1	17.0	(23.6)	15.9	(30.4)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	5	90.9	3	62.3	3	60.1	17.0	(23.6)	15.9	(30.4)
Corporate	0.5	9.1	2	37.7	2	39.9	28.3	409.2	27.1	363.7
Singapore										
Total	75	100.0	87	100.0	77	100.0	(11.5)	3.8	(11.1)	2.4
Government	72	95.6	83	95.4	74	95.7	(11.2)	3.9	(10.8)	2.5
Central Bank	38	50.4	66	76.6	71	91.8	6.0	88.9	6.4	86.4
Treasury and Other Govt.	34	45.2	16	18.7	3	3.9	(81.5)	(91.0)	(81.4)	(91.1)
Corporate	3	4.4	4	4.6	3	4.3	(17.9)	0.8	(17.5)	(0.5)
Thailand										
Total	76	100.0	63	100.0	63	100.0	(0.6)	(8.5)	0.2	(17.4)
Government	63	82.9	51	80.9	47	74.9	(8.0)	(17.4)	(7.2)	(25.4)
Central Bank	54	71.8	37	59.8	35	56.4	(6.2)	(28.1)	(5.4)	(35.1)
Treasury and Other Govt.	8	11.1	13	21.1	12	18.5	(13.2)	51.9	(12.4)	37.1
Corporate	13	17.1	12	19.1	16	25.1	30.6	34.3	31.8	21.3

continued on next page

Table 4 *continued*

	1Q13		4Q13		1Q14		Growth Rate (LCY-base %)		Growth Rate (US$-base %)	
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	1Q14 q-o-q	1Q14 y-o-y	1Q14 q-o-q	1Q14 y-o-y
Viet Nam										
Total	9	100.0	4	100.0	12	100.0	185.0	32.8	184.9	31.8
Government	9	100.0	4	100.0	12	100.0	185.0	32.8	184.9	31.8
Central Bank	5	59.5	2	39.4	8	69.1	399.5	54.0	399.4	52.8
Treasury and Other Govt.	4	40.5	3	60.6	4	30.9	45.5	1.5	45.4	0.8
Corporate	0	0.0	0	0.0	0	0.0	–	–	–	–
Emerging East Asia (EEA)										
Total	934	100.0	803	100.0	851	100.0	7.1	(8.2)	6.0	(8.9)
Government	592	63.4	517	64.4	570	66.9	10.9	(2.4)	10.1	(3.7)
Central Bank	387	41.4	292	36.3	364	42.8	24.7	(4.5)	24.7	(5.9)
Treasury and Other Govt.	205	21.9	226	28.1	206	24.2	(7.3)	1.6	(8.8)	0.4
Corporate	342	36.6	286	35.6	281	33.1	0.2	(18.2)	(1.5)	(17.8)
Japan										
Total	540	100.0	500	100.0	494	100.0	(3.1)	0.2	(1.1)	(8.6)
Government	511	94.6	470	94.1	463	93.7	(3.5)	(0.8)	(1.6)	(9.5)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	-	–
Treasury and Other Govt.	511	94.6	470	94.1	463	93.7	(3.5)	(0.8)	(1.6)	(9.5)
Corporate	29	5.4	30	5.9	31	6.3	3.3	18.3	5.3	8.0

( ) = negative, – = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. For Hong Kong, China, 1Q14 corporate bond issuance data carried over from 4Q13. For Japan, 1Q14 government and corporate bond issuance data based on AsianBondsOnline estimates. For the Republic of Korea, 1Q14 government and corporate bond issuance data based on *AsianBondsOnline* estimates. For Thailand, 1Q14 government and corporate bond issuance data taken from *ThaiBMA*.
2. Corporate bonds include issues by financial institutions.
3. Bloomberg LP end-of-period LCY—US$ rates are used.
4. For LCY base, emerging East Asia growth figures are based on end-March 2014 currency exchange rates and do not include currency effects.
Sources: People's Republic of China (*ChinaBond* and Wind); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Indonesia Debt Management Office, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bloomberg LP); Singapore (Singapore Government Securities and Bloomberg LP); Thailand (Bank of Thailand and *ThaiBMA*); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

CNOOC was next with US$4 billion issued in the same month. The PRC's G3 currency issuance in January–April was equivalent to one-half of the country's total for 2013.

The Republic of Korea was the second-largest country source of G3 currency bonds in the region in January–April, raising a total of US$15.6 billion, or slightly more than one-half of its total 2013 issuance, and accounting for one-quarter of the region's G3 currency bond issuance in the period under review. Banks, led by Korea Eximbank and Korea Development Bank (KDB), were the largest issuer group, contributing 60% to the country's G3 currency issuance total. Meanwhile, Hong Kong, China saw US$9.2 billion worth of G3 currency bond issues in January–April, with Bank of East Asia and AIA Group being the two largest issuers.

G3 currency bonds sold by entities domiciled in Association of Southeast Asian Nations (ASEAN) member countries totaled US$12.8 billion in January–April, of which 36% was from Indonesia, 34% from Singapore, 14% from the Philippines, 11% from Thailand, and 6% from Malaysia. Of Indonesia's issuance amount of US$4.6 billion, 87% came from the government, which raised US$4.0 billion from a dual-tranche bond sale in January. In Singapore, 80% of its G3 currency bond issuance of US$4.3 billion came from banks. In the case of the Philippines, which recorded US$1.7 billion in issuance, there were only two G3 currency bond issuers, including the government, which sold a 10-year US$1.5 billion bond at a coupon rate of 4.2%. Thailand's US$1.4 billion of G3 currency bond issuance comprised bond sales made by three companies, two of which were banks, with Siam Commercial Bank being the largest issuer.

In Malaysia, two domestic banks, Export–Import Bank of Malaysia and Maybank, dominated the issuance of G3 currency bonds, raising US$445 million and US$293 million, respectively. The largest issue size was US$300 million for a 5-year US$-denominated *sukuk*

Table 5: G3 Currency Bond Issuance (2013 and 1 January–30 April 2014)

2013		
Issuer	**US$ (million)**	**Issue Date**
China, People's Rep. of	**56,709**	
CNOOC Finance 3.0% 2023	2,000	9-May-13
Evergrande Real Estate 8.75% 2018	1,500	30-Oct-13
Sinopec Group 4.375% 2023	1,500	17-Oct-13
CNOOC Curtis Funding 4.5% 2023	1,300	3-Oct-13
Sinopec Capital 3.125% 2023	1,250	24-Apr-13
Others	49,159	
Hong Kong, China	**24,011**	
Hutchison Whampoa 3.75% Perpetual	2,367	10-May-13
Shimao Property 6.625% 2020	800	14-Jan-13
Others	20,844	
Indonesia	**12,270**	
Pertamina 4.3% 2023	1,625	20-May-13
Pertamina 5.625% 2043	1,625	20-May-13
Indonesia (Sovereign) 3.375% 2023	1,500	15-Apr-13
Indonesia (Sovereign) 4.625% 2043	1,500	15-Apr-13
Perusahaan Penerbit SBSN 6.125% 2019	1,500	17-Sep-13
Others	4,520	
Korea, Rep. of	**30,400**	
Korea Eximbank 2.0% 2020	1,369	30-Apr-13
The Republic of Korea (Sovereign) 3.875% 2023	1,000	11-Sep-13
Korea Development Bank 3.0% 2019	750	17-Sep-13
Others	27,281	
Malaysia	**4,065**	
1MDB Global Investments 4.40% 2023	3,000	19-Mar-13
Sime Darby 2.053% 2018	400	29-Jan-13
Sime Darby 3.29% 2023	400	29-Jan-13
Others	265	
Philippines	**3,858**	
San Miguel Corporation 4.875% 2023	800	26-Apr-13
JG Summit 4.375% 2023	750	23-Jan-13
Petron Corporation 7.50% Perpetual	750	6-Feb-13
Others	1,558	
Singapore	**5,925**	
Olam International 6.75% 2018	750	29-Jan-13
Global A&T Electronics 10.00% 2019	625	7-Feb-13
Stats Chippac 4.5% 2018	611	20-Mar-13
Flextronics International 5.0% 2023	500	20-Feb-13
Others	3,439	
Thailand	**3,445**	
PTT Exploration & Production 3.707% 2018	500	16-Sep-13
Others	2,945	
Viet Nam	**827**	
Emerging East Asia Total	**141,510**	
Memo Items:		
India	**14,053**	
Bharti Airtel International 5.125% 2023	1,500	11-Mar-13
Vedanta Resources 6.0% 2019	1,200	3-Jun-13
Others	11,353	
Sri Lanka	**2,441**	

1 January–30 April 2014		
Issuer	**US$ (million)**	**Issue Date**
China, People's Rep. of	**28,484**	
CNOOC Finance 4.25% 2024	2,250	30-Apr-14
Tencent 3.375% 2019	2,000	29-Apr-14
Sinopec 1.0073% 2017	1,500	10-Apr-14
CNOOC Finance 1.625% 2017	1,250	30-Apr-14
Sinopec 1.75% 2017	1,250	10-Apr-14
Others	20,234	
Hong Kong, China	**9,232**	
China Overseas Finance 2021 Zero-coupon	750	4-Feb-14
New World Development 5.25% 2021	750	26-Feb-14
Others	7,732	
Indonesia	**4,579**	
Indonesia (Sovereign) 5.875% 2024	2,000	15-Jan-14
Indonesia (Sovereign) 6.75% 2044	2,000	15-Jan-14
Alam Energy 9% 2019	225	29-Jan-14
Others	354	24-Apr-14
Korea, Rep. of	**15,578**	
Woori Bank 4.75% 2024	1,000	30-Apr-14
Hyundai Capital 1.45% 2017	900	6-Feb-14
Korea Development Bank 0.8621% 2017	750	22-Jan-14
Korea Development Bank 3.75% 2024	750	22-Jan-14
Korea Eximbank 0.99165% 2017	750	14-Jan-14
Korea Eximbank 4% 2024	750	14-Jan-14
Others	10,678	
Malaysia	**738**	
Exim Sukuk Malaysia 2.874% 2019	300	19-Feb-14
Maybank 0.669% 2019	293	6-Feb-14
EXIM Bank of Malaysia 2.66% 2019	50	17-Apr-14
Others	95	
Philippines	**1,725**	
Philippines (Sovereign) 4.2% 2024	1,500	21-Jan-14
Vista Land & Lifescapes 7.45% 2019	225	29-Apr-14
Singapore	**4,344**	
OCBC Bank 4% 2024	1,000	15-Apr-14
United Overseas Bank 3.75% 2024	800	19-Mar-14
Puma International Financing 6.75% 2021	750	31-Jan-14
DBS Bank 0.22705% 2015	265	14-Apr-14
Others	1,529	
Thailand	**1,390**	
Siam Commercial Bank 3.5% 2019	750	7-Apr-14
Kasikorn Bank 3.5% 2019	350	25-Apr-14
CP Foods 0.5% 2019	290	15-Jan-14
Viet Nam	**0**	
Emerging East Asia Total	**66,071**	
Memo Items:		
India	**4,939**	
Bank of Baroda 4.875% 2019	750	23-Jan-14
State Bank of India 3.622% 2019	750	17-Apr-14
Others	3,439	
Sri Lanka	**1,500**	

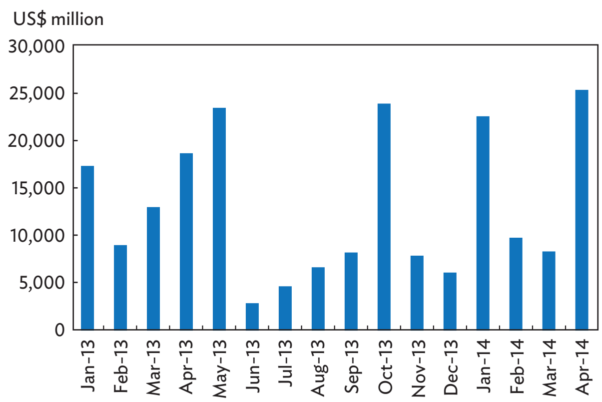
Sources: Bloomberg LP, newspaper and wire reports.

carrying a yield of 2.874% that was sold by Export–Import Bank of Malaysia via EXIM *Sukuk* Malaysia.

Meanwhile, there were no G3 currency bond sales in Viet Nam during the period under review.

Over the first 4 months of 2014, emerging East Asian G3 currency bond issuance reached a monthly peak of US$25.3 billion in April, while the second highest monthly total occurred in January at US$22.5 billion **(Figure 7)**. PRC issuers were dominant in April, accounting for US$14.9 billion, or 59% of the region's monthly total, led by the relatively large multitranche bond sales from CNOOC and Sinopec. The PRC was followed by the Republic of Korea (US$4.1 billion); Hong Kong, China (US$2.7 billion); Singapore (US$1.9 billion); Thailand

Figure 7: G3 Currency-Denominated Bond Issuance



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

(US$1.1 billion); Indonesia (US$350 million); the Philippines (US$225 million); and Malaysia (US$120 million).

Government bond yields fell in most markets in emerging East Asia between end-December 2013 and end-April 2014.

Government bond yield curves fell for most tenors in most of emerging East Asia between end-December 2013 and end-April 2014. During the period under review, the entire yield curve shifted downward in the PRC, Indonesia, Thailand, and Viet Nam. Yield curves for Hong Kong, China and the Republic of Korea fell for most tenors, while the yield curve for Singapore fell at the longer-end. The Philippines was the sole market whose yield curve rose between end-December and end-April **(Figure 8)**.

The fall in yields for most markets was driven by both domestic and external factors. The Federal Reserve has maintained a gradual tapering of its bond purchase program in line with expectations that the US economy will continue to improve. This has buffeted investors' risk appetite. Meanwhile, the growth outlook in Asia has been affected by a weakening growth outlook for the PRC and deflation concerns in the eurozone. Leading economic indicators in April suggest that growth has been moderating in the PRC, while inflation in the eurozone has been below the European Central Bank target of 2.0% for an extended period of time.

The PRC's yield curve shifted downward between end-December and end-April, particularly at the shorter-end. The PRC's 10-year yield fell 24 basis points (bps) and the 6-month yield fell 69 bps. Yields fell mostly due to growth concerns, but the fall in yields at the shorter-end was also driven by easing liquidity concerns after meeting seasonal quarter-end requirements. Between end-December and mid-March, the 7-day interbank repo rate fell to 2.52% from 5.11%, before rising again to 4.17% at end-March due to seasonal requirements. The repo rates have since fallen to 2.73% as of 21 April. The PRC has yet to rapidly expand liquidity or adjust policy rates due to concerns over inflation and rising property prices **(Figures 9a, 9b)**. Thus far, the PBOC has simply reduced the reserve requirement ratios for rural banks by 2 percentage points in April, saying that the move would leave overall liquidity levels unchanged.

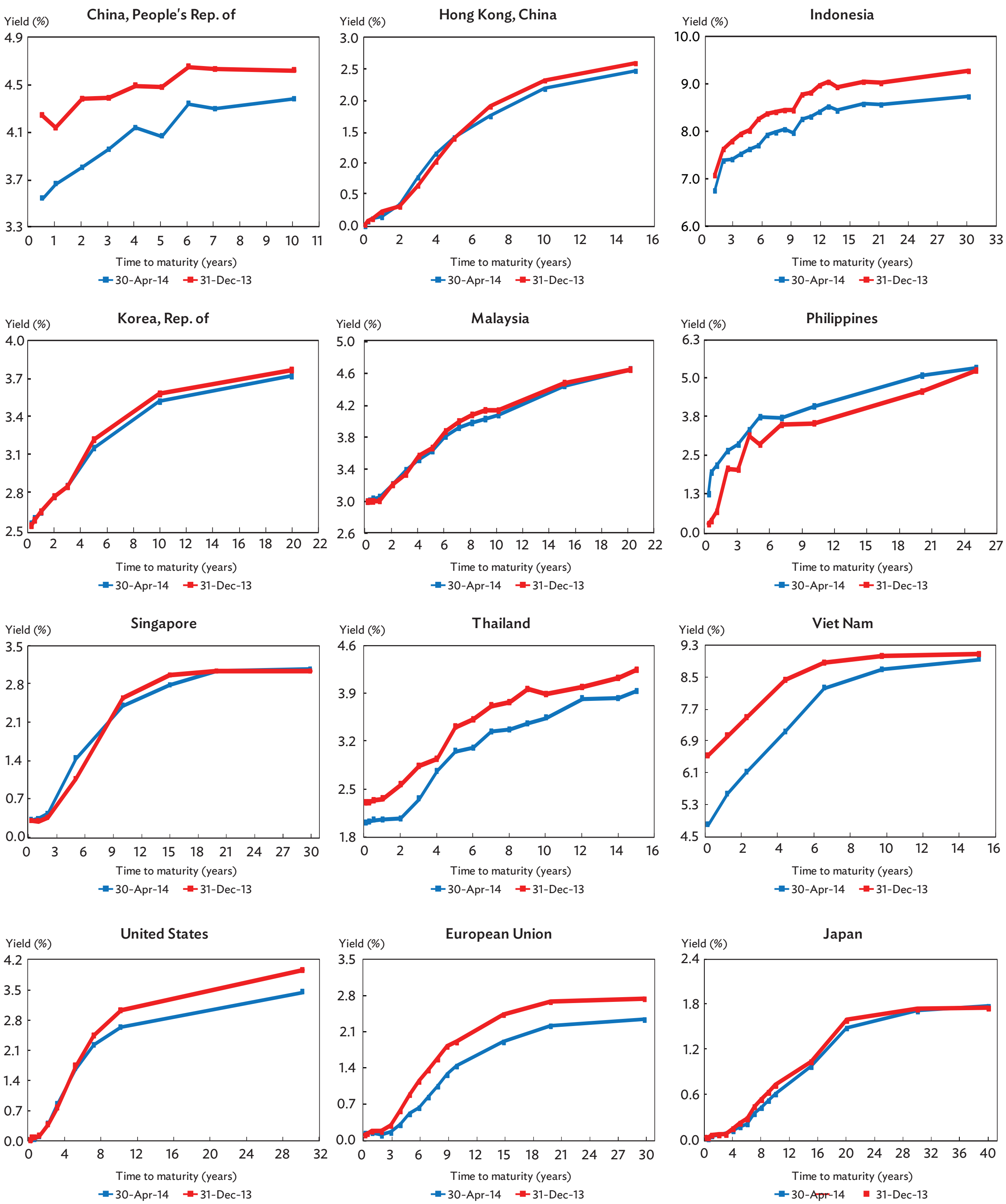
In Indonesia, the yield curve shifted downward, falling 24 bps–56 bps along the length of the curve between end-December and end-April on improving domestic economic sentiments. Bank Indonesia last hiked its policy rate by 25 bps in November 2013 in order to strengthen the rupiah on concerns of a widening current account deficit. It has since kept the policy rate steady as the economy has shown signs of improvement: inflation gradually eased from its peak in the second half of 2013 **(Figures 10a, 10b)**, the current account deficit has narrowed to US$4.2 billion in 1Q14 (equivalent to 2.1% of GDP), and the Indonesian rupiah has strengthened against the US dollar.

The downward shift in Thailand's yield curve was a response to a reduction in policy rates; Thailand was the only emerging East Asian economy to reduce policy rates in 1Q14. The Bank of Thailand reduced policy rates by 25 bps in November 2013 and by an additional 25 bps in March 2014 to 2.0%. The country's GDP growth rate slowed to 0.6% in 4Q13. In addition, Thailand's National Economic and Social Development Board revised its 2014 growth estimate to 3.0%–4.0% from 4.0%–5.0%.

Yields fell at the long-end of the curve, following yield movements in the US, in the region's more developed economies and financial markets of Hong Kong, China; the Republic of Korea; Malaysia; and Singapore. The US 10-year yield fell 38 bps between end-December and end-April, while the 10-year yield fell 13 bps in Hong Kong, China; 6 bps in both the Republic of Korea and Malaysia; and 14 bps in Singapore. However, movements in other parts of these yield curves have been mixed, with yields rising at the shorter-end and belly of the curves.

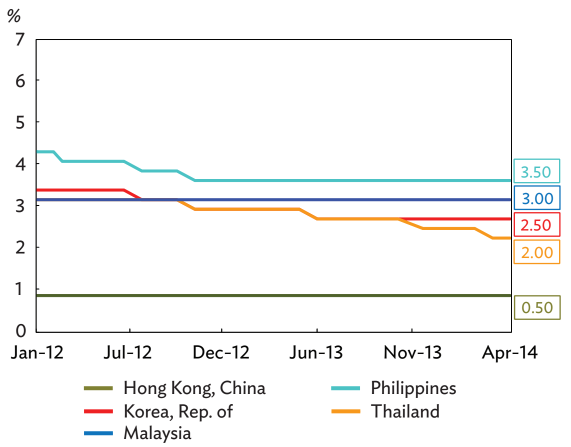
Yields for Philippine government bonds rose 8 bps–158 bps along the length of the curve between end-December 2013

Figure 8: Benchmark Yield Curves—LCY Bonds



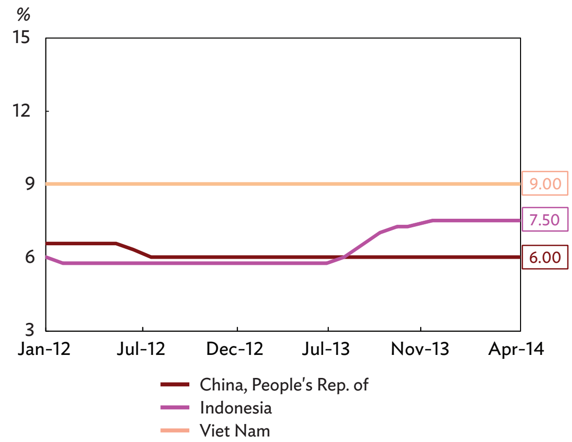
LCY = local currency.
Source: Based on data from Bloomberg LP.

Figure 9a: Policy Rates



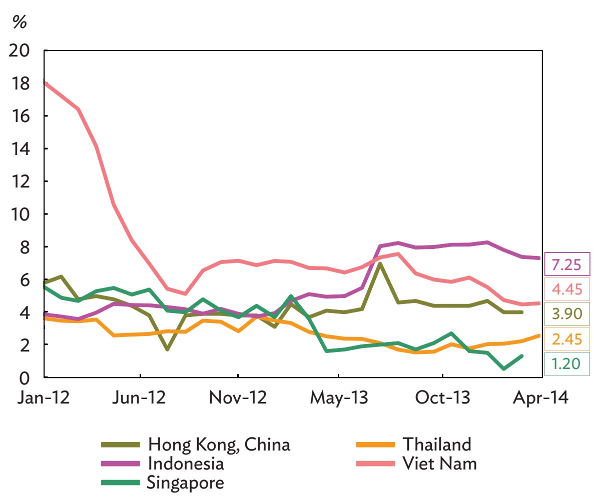
Note: Data as of end-April 2014.
Source: Bloomberg LP.

Figure 9b: Policy Rates



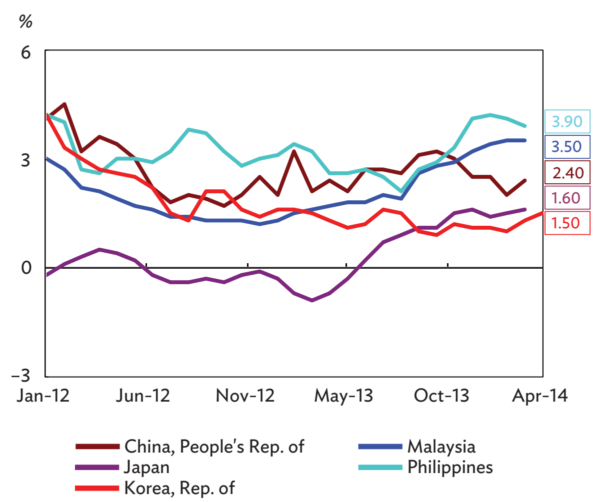
Notes:
1. Data as of end-April 2014.
2. For Viet Nam, base interest rate was used.
Source: Bloomberg LP.

Figure 10a: Headline Inflation Rates



Note: Data as of end-April 2014 except for Hong Kong, China and Singapore as of end-March 2014.
Source: Bloomberg LP.

Figure 10b: Headline Inflation Rates

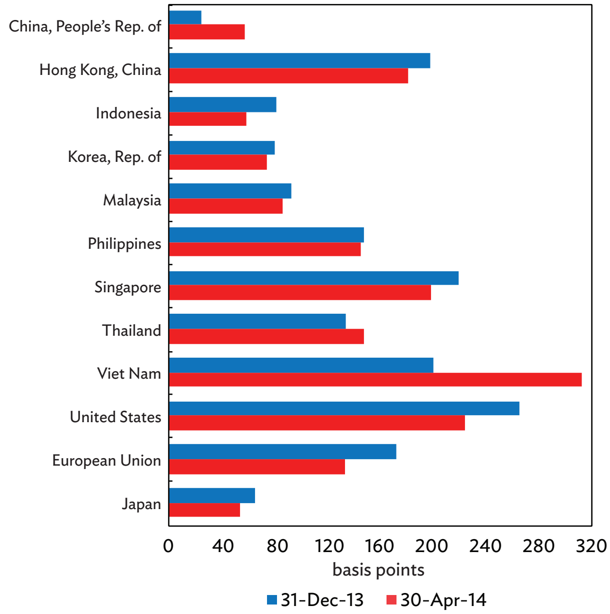


Note: Data as of end-March 2014 except for the Republic of Korea as of end-April 2014.
Source: Bloomberg LP.

and end-April 2014. The yield increases were in response to rising inflationary expectations and tightening by the BSP, which said that it expects inflation to remain within its target range of 3.0%–5.0% in 2014. However, the BSP also noted that there were risks to food, energy, and transport prices, and therefore raised banks' reserve requirement ratio by 1 percentage point in both March and May.

The 2- versus 10-year spread fell in most markets between end-December 2013 and end-April 2014, reflecting the possibility that the region's economies would slow due to weaker growth in the PRC and deflation in the eurozone **(Figure 11)**. On the other hand, in the PRC the 2- versus 10-year spread rose to 57 bps from 24 bps as rates at the shorter-end of the curve fell by a greater amount due to improved liquidity conditions. In Thailand, the larger drop in yields at the shorter-end was due to recent cuts in the short-term policy rates by Bank of Thailand.

Figure 11: Yield Spreads Between 2- and 10-Year Government Bonds



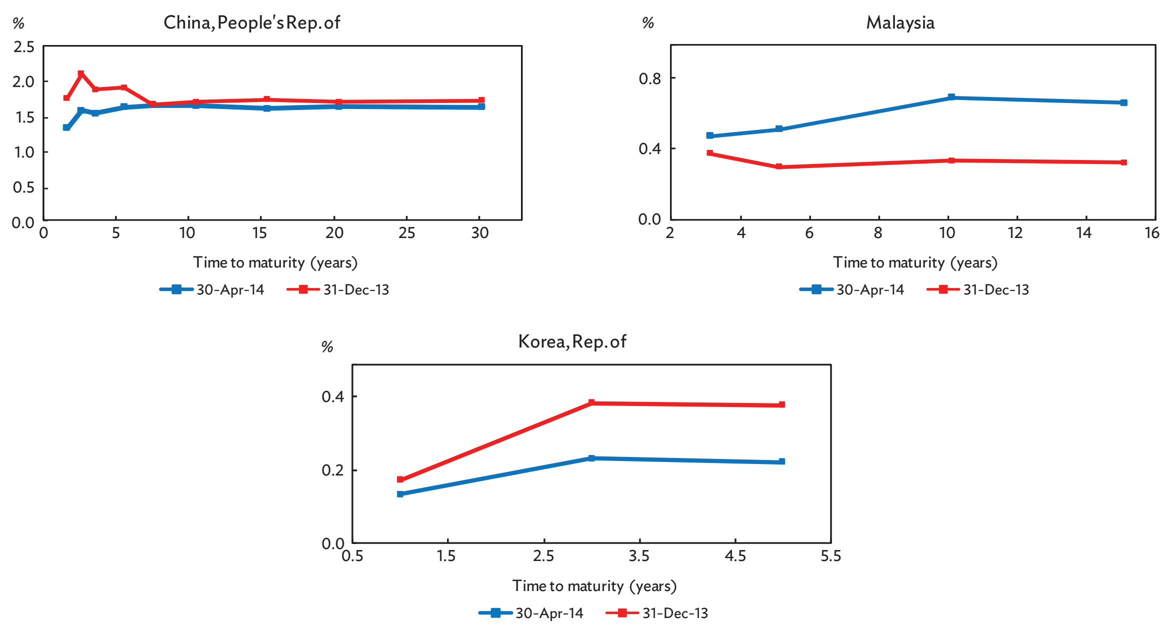
Source: Based on data from Bloomberg LP.

Corporate spread movements were mixed in January–April, reflecting idiosyncrasies in individual markets.

Credit spreads between AAA-rated corporate bonds and government bonds fell along the length of the curve in the Republic of Korea and at the shorter-end of the curve in the PRC between end-December 2013 and end-April 2014, due to improved external balances as the US economy continued to recover **(Figure 12a)**. In the PRC, improving liquidity conditions also helped reduce short-term borrowing costs. In Malaysia, credit spreads rose due to uncertainties over interest rates as consumer price increases were expected to accelerate.

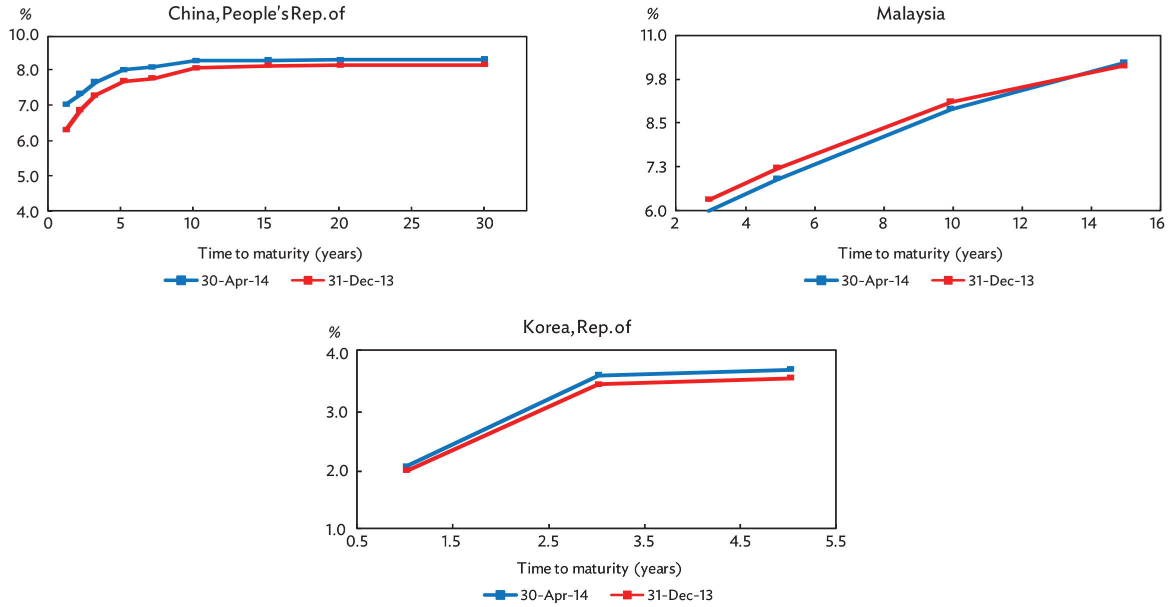
Credit spreads between lower-rated and AAA-rated corporate bonds worsened in the PRC and the Republic of Korea between end-December and end-April **(Figure 12b)**. In the PRC, lower-rated corporate bonds were affected by concerns that the PRC economy would slow. In addition, the PBOC has not engaged in broad-based economic stimulus despite concerns over falling property prices. In the Republic of Korea, rising spreads were partially due to decreased demand for lower-rated corporate bonds.

Figure 12a: Credit Spreads—LCY Corporates Rated AAA vs. Government Bonds



LCY = local currency.
Note: Credit spreads are obtained by subtracting government yields from corporate indicative yields.
Sources: People's Republic of China (*Wind*), Republic of Korea (EDAILY *BondWeb*), and Malaysia (Bank Negara Malaysia).

Figure 12b: Credit Spreads—Lower-Rated LCY Corporates vs. AAA



LCY = local currency.
Notes:
1. For the People's Republic of China and the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB+.
2. For Malaysia, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB.
Sources: People's Republic of China (*Wind*), Republic of Korea (EDAILY *BondWeb*), and Malaysia (Bank Negara Malaysia).

Policy and Regulatory Developments

People's Republic of China

The PRC Doubles CNY Trading Band Limit

On 17 March, the People's Republic of China (PRC) doubled the limit by which the renminbi can trade against the United States (US) dollar from 1% to 2% above or below the daily reference rate. The PRC said that it widened the trading band to further develop the exchange market and to allow market forces a greater role in determining exchange rate prices.

PBOC Reduces Reserve Requirement Ratio

On 22 April, the People's Bank of China (PBOC) reduced the reserve requirement ratio of state-level rural commercial banks and state-level rural cooperative banks by 200 basis points (bps) and 50 bps, respectively. The PBOC said that the cut was consistent with a prudent monetary policy and is not expected to affect overall liquidity in the financial system. The move is designed to help allocate greater resources and provide support for the agriculture sector.

The PRC Limits Interbank Lending

On 17 May, the PRC announced a number of rules to limit interbank lending. Banks can no longer make interbank loans with tenors of more than 3 years. Also, interbank funds cannot exceed one-third of a bank's liabilities and interbank lending to a single financial institution cannot exceed 50% of the institution's Tier 1 capital.

Hong Kong, China

Shanghai and Hong Kong, China Link Exchanges

On 10 April, the China Securities Regulatory Commission and the Securities and Futures Commission of Hong Kong, China jointly announced the linking of exchanges in Shanghai, China and Hong Kong, China to allow investors from both markets to invest in each other's securities. The pilot program is expected to be launched in 6 months.

Indonesia

Bank Indonesia Expands MRA Participation with Banks

On 13 February, Bank Indonesia signed a mini-Master Repo Agreement (MRA) with an additional 38 banks, bringing to 46 the total number of banks that can use the standard mini-MRA in conducting repurchase transactions. The move is expected to promote and further deepen the market for repo transactions. The implementation of the mini-MRA has significantly increased the volume of repurchase transactions.

Bank Indonesia and The Bank of Korea Sign Bilateral Swap Agreement

On 6 March, Bank Indonesia and The Bank of Korea signed a bilateral local currency (LCY) swap agreement to enhance bilateral trade between the two markets. The agreement will ensure the use of LCY in trade settlements between the two markets, even during times of financial stress, and strengthen financial cooperation. The facility allows for the bilateral exchange of Indonesian rupiah and Korean won between the two central banks worth up to IDR115 trillion–KRW10.7 trillion for a period of 3 years.

Republic of Korea

Regulation on the Supervision of Covered Bond Issuance Takes Effect in April

The Regulation on the Supervision of Covered Bond Issuance, which was approved by the Financial Services Commission (FSC), took effect on 23 April, thereby finalizing the legal framework for the issuance of covered bonds in the Republic of Korea. This regulation provided further details in connection with provisions of the Covered Bond Act and its Enforcement Decree such as (i) qualifications of underlying assets, (ii) standards for evaluating underlying assets in a cover pool, and (iii) market-making roles for underwriters. On the qualifications of underlying assets, the regulation states that at least 20% of home mortgage loans subsumed in the underlying assets need to have a debt-to-income ratio of not more than 70%, and that more than 30% of the home mortgage loans must be fixed-rate loans. Furthermore, the evaluation of underlying assets must be based on market prices, if available, otherwise by book value derived using international accounting standards. Lastly, the decree requires covered bond issuers to register the market-making roles of their underwriters during the filing of their issuance plan.

Enforcement Decree of Covered Bond Act Takes Effect in April

The Republic of Korea's Enforcement Decree of the Covered Bond Act took effect on 15 April following Cabinet approval the previous week. The decree contains detailed provisions as mandated by the Covered Bond Act on the qualifications of eligible issuers of covered bonds, criteria of the cover pool, and cap on corporate bond issuance.

On the qualifications of eligible covered bond issuers, the decree provides for institutional requirements—which specify banks, Korea Housing Finance Corporation, Korea Finance Corporation, and other similar institutions as mandated by the Act—consisting of (i) a financial institution with more than KRW100 billion worth of equity capital, (ii) a Bank for International Settlements (BIS) ratio of more than 10%, and (iii) a risk management system.

On the cover pool, the decree states that the underlying assets comprise home mortgage loans, aircraft and ship mortgages, public bonds, and high-quality assets with a stable cash flow; that the liquid assets include cash, certificates of deposit, and other liquid assets that can be converted into cash within 3 months; that the other assets encompass operation and sales of assets, recovery from underlying assets, and gains earned through management; that the minimum ratio of collateralization is 105%; and that the underlying assets are required to be evaluated by market prices, or in the absence of market prices, by acquisition prices or book value. Finally, the decree pinpoints the limit of covered bond issuance to be 4% of the total assets of the issuer.

Malaysia

New Reference Rate Framework Introduced

Bank Negara Malaysia (BNM) announced that the Base Rate will replace the Base Lending Rate as the main reference rate for new retail floating rate loans and the refinancing of existing loans, effective 2 January 2015.

The new reference rate aims to better reflect changes in costs arising from monetary policy and market funding conditions, while encouraging greater discipline and efficiency among financial institutions in the pricing of retail financing products. The Base Rate will be determined by financial institutions' benchmark cost of funds and the statutory reserve requirement. Other components of loan pricing—such as borrower credit risk, liquidity risk premium, operating costs, and profit margin—will be reflected in the spread above the Base Rate. Under this cost-plus structure, financial institutions can no longer offer lending rates below the reference rate.

HKMA and BNM Hold Joint Conference on Islamic Finance

On 14 April, the Hong Kong Monetary Authority (HKMA) and BNM jointly organized an Islamic finance conference in Hong Kong, China to promote *sukuk* (Islamic bonds) as a viable financing and investment instrument. The event followed the first meeting between HKMA and BNM held in December 2013.

With the tax framework for *sukuk* in place, HKMA encouraged local and overseas entities to utilize Hong Kong, China's financial platform for *sukuk* issuance. HKMA is working closely with the Government of the Special Administrative Region to prepare for the inaugural issuance of *sukuk* under the Government Bond Programme.

BNM identified potential areas of collaboration such as the dual listing of *sukuk*, leveraging Malaysia's *sharia'h* (Islamic law) governance framework and arbitration platform, and developing human capital in Islamic finance.

Philippines

BSP Maintains Policy Rates, Raises Reserve Requirement Ratio

On 8 May, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) raised the reserve requirement ratio by an additional 1 percentage point to 20.0% effective 30 May. Meanwhile, key policy rates—the overnight borrowing and lending rates—were kept steady at 3.5% and 5.5%, respectively. The reverse repurchase rate, repurchase rate, and BSP's special deposit account facility were also kept unchanged. The BSP noted that the future inflation path continues to be broadly in line with BSP's target ranges of 3.0%–5.0% for 2014 and 2.0%–4.0% for 2015. The Monetary Board stated that the balance of risks to inflation continues to be on the upside. These include upward pressure on food prices as a result of expected drier weather conditions, and the pending petitions for adjustments of transport and power rates. The adjustment in the reserve requirement ratio is intended to protect the country's financial stability against potential risks brought about by continued strong domestic liquidity growth.

Philippine Government Maintains Inflation Rate Targets for 2014, 2015, and 2016

On 21 April, the Philippine Development Budget Coordination Committee maintained its inflation rate targets of 4.0% ±1 percentage point for 2014 and 3.0% ±1 percentage point for 2015 and 2016. The Philippine government states that the 2014 inflation target remains appropriate based on the most recent assessment of inflation developments, evolving economic and inflation trends, the general public's inflation expectations, and the BSP's emerging forecasts.

Singapore

SGX Launches Clearing of Non-Deliverable Interest Rate Swaps in MYR and THB

On 7 April, Singapore Exchange (SGX) launched the clearing of non-deliverable interest rate swaps (NDIRS) in MYR and THB (settled in US$). This new asset class and clearing service created more options in addition to SGX's existing interest rate swap in SGD and US$ and non-deliverable forwards in seven Asian currencies. It also addressed clients' need to better manage counterparty and operational risks while still enjoying other benefits provided by SGX's financial infrastructure.

Thailand

Disclosure of Debt Issuance by Foreign Bank Branches Revised

Thailand's Securities and Exchange Commission (SEC) announced in April that its Capital Market Supervisory Board has approved revisions to regulations governing the debt issuance, offering, and disclosure of foreign bank branches in Thailand. The revisions require that information about foreign bank branches as debt issuers must be emphasized, and that the credit ratings of foreign banks and branches must be disclosed.

SEC Amends Regulation Governing REIT Trustees

Thailand's SEC stated in March that its board had approved amendments on regulations governing trustees of real estate investment trusts (REITs) in order to attract more trustee participation and thereby promote the development of the REIT market in Thailand. The specific regulatory amendments include (i) allowing trustees to manage REITs' non-real estate assets provided that they are independent from the asset owners; (ii) permitting the outsourcing of the management to an asset management licensee, subject to certain conditions; and (iii) relaxing the REIT holding limit whenever the trustee holds up to 50% of the total number of REIT units sold.

SEC to Allow Offering of ASEAN CIS to Retail Investors in Thailand in 2Q14

Thailand's SEC announced in February that it would allow the offering of Association of Southeast Asian Nations (ASEAN) Collective Investment Schemes (CIS) to retail investors in Thailand, with the new regulations to take effect in 2Q14. The offering of ASEAN CIS to Thai retail investors will be conducted by securities companies based in Thailand.

BOT Announces Bond Issuance Program for 2014

The Bank of Thailand (BOT) announced in December its bond issuance program for full-year 2014. Under this program, BOT will (i) not issue 1-month discounted bonds; (ii) expand the range of issue size (per auction) for short-term and floating rate bonds, while maintaining the issue size for 2- and 3-year bonds; and (iii) reopen the issuance of 3-year floating rate bonds. Moreover, the program specifies that BOT will be issuing the following types of bonds in 2014: (i) discount bonds—specifically, cash management bills, 3- and 6-month bills, and 1-year bonds; (ii) fixed coupon bonds—specifically 2- and 3-year bonds; and (iii) 3-year floating rate bonds. The central bank will continue to adopt the same auction calendar as followed previously.

Viet Nam

New Decree on Banking Supervision Issued

On 7 April, Decree No. 26/2014-ND-CP was issued covering the organizational structure and operations of banking supervision. The decree stipulates that banking sector supervisors, including the agencies and individuals of the State Bank of Viet Nam (SBV), can require supervised credit institutions to undergo an audit by an independent company when the institutions are (i) at risk of being put under special control, (ii) under consideration for the termination of a period of special control, or (iii) undergoing reorganization in accordance with Article 153 of the Law on Credit Institutions.

Banking supervision will be conducted by SBV's Banking Supervision Agency (BSA) and the banking supervision departments of SBV provincial and city branches. BSA will advise the SBV Governor in the following areas: (i) management of credit institutions and foreign bank branches, (ii) inspection activities, (iii) resolution of complaints and denunciations, (iv) anticorruption and anti-money laundering, and (v) deposit insurance.

The decree will take effect on 1 June and replace Decree No. 91/1999/ND-CP dated 4 September 1999.

Market Summaries

People's Republic of China

LCY bonds outstanding in the People's Republic of China (PRC) reached CNY29.2 trillion in 1Q14, expanding 2.2% quarter-on-quarter (q-o-q) and 10.5% year-on-year (y-o-y). Corporate bond market growth outpaced that of the government sector on both a q-o-q and y-o-y basis to reach CNY10.2 trillion at end-March.

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

	Outstanding Amount (billion)						Growth Rates (%)			
	1Q13		4Q13		1Q14		1Q13		1Q14	
	CNY	US$	CNY	US$	CNY	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**26,456**	**4,260**	**28,602**	**4,724**	**29,233**	**4,702**	**4.0**	**17.8**	**2.2**	**10.5**
Government	17,561	2,828	18,602	3,073	19,002	3,056	1.7	8.3	2.1	8.2
Treasury Bonds	8,071	1,300	9,178	1,516	9,136	1,470	(0.03)	8.8	(0.5)	13.2
Central Bank Bonds	1,344	216	552	91	552	89	0.0	(30.3)	0.0	(58.9)
Policy Bank Bonds	8,146	1,312	8,872	1,465	9,313	1,498	3.7	18.6	5.0	14.3
Corporate	8,895	1,432	10,000	1,652	10,231	1,646	9.1	42.4	2.3	15.0
Policy Bank Bonds										
China Development Bank	5,422	873	5,764	952	5,988	963	2.9	15.9	3.9	10.4
Export–Import Bank of China	1,183	191	1,339	221	1,458	235	6.4	31.2	8.9	23.2
Agricultural Devt. Bank of China	1,541	248	1,769	292	1,867	300	4.4	19.3	5.6	21.2

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, 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 LCY–US$ rate is used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Sources: Bloomberg LP, *ChinaBond,* and *Wind*.

Corporate bond issuance rose 11.6% q-o-q but fell 26.5% y-o-y in 1Q14. The q-o-q rise was due to expectations that the People's Bank of China will tighten monetary policy later in 2014.

Table 2: Notable LCY Corporate Bond Issuance in 1Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China Three Gorges Corporation		
5-year bonds	5.69	5
Guangdong Railway Construction Investment Group		
7-year bonds	6.55	4
Beijing State-Owned Capital Management Center		
5-year bonds	6.48	3
Shijiazhuang Sinopharm Investment Group		
7-year bonds	7.50	3
Hebei Iron and Steel		
3-year bonds	7.20	3
Shanxi Coking Coal Group		
5-year bonds	6.21	3

LCY = local currency.
Source: *ChinaBond*.

LCY bonds outstanding among the top 30 corporate bond issuers in the PRC reached CNY4.1 trillion at the end of 1Q14, representing 40% of total LCY corporate bonds outstanding. Other than banks, the largest issuers come from state-owned enterprises, particularly those involved in utilities, infrastructure, and energy.

Table 3: Top 30 Issuers of LCY 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 (US$ billion)			
1.	China Railway	881.0	141.71	Yes	No	Transportation
2.	State Grid Corporation of China	374.5	60.24	Yes	No	Public Utilities
3.	China National Petroleum	330.0	53.08	Yes	No	Energy
4.	Industrial and Commercial Bank of China	230.0	36.99	Yes	Yes	Banking
5.	Bank of China	219.9	35.38	Yes	Yes	Banking
6.	China Construction Bank	200.0	32.17	Yes	Yes	Banking
7.	Agricultural Bank of China	150.0	24.13	Yes	Yes	Banking
8.	China Minsheng Bank	122.3	19.67	No	Yes	Banking
9.	Central Huijin Investment	109.0	17.53	Yes	No	Diversified Financial
10.	Petrochina	106.0	17.05	Yes	Yes	Energy
11.	China Petroleum & Chemical	101.2	16.28	Yes	Yes	Energy
12.	China Guodian	95.5	15.36	Yes	No	Public Utilities
13.	China Power Investment	89.2	14.35	Yes	No	Public Utilities
14.	Shenhua Group	89.0	14.32	Yes	No	Energy
15.	China Three Gorges Project	87.5	14.07	Yes	No	Public Utilities
16.	Bank of Communications	86.0	13.83	No	Yes	Banking
17.	Industrial Bank	85.9	13.82	No	Yes	Banking
18.	Shanghai Pudong Development Bank	81.2	13.06	No	Yes	Banking
19.	China Southern Power Grid	73.5	11.82	Yes	No	Public Utilities
20.	China Life	68.0	10.94	Yes	Yes	Insurance
21.	China Merchants Bank	67.7	10.89	No	Yes	Banking
22.	China Citic Bank	66.3	10.67	No	Yes	Banking
23.	China Huaneng Group	63.6	10.23	Yes	No	Public Utilities
24.	Tianjin Infrastructure Investment Group	55.3	8.89	Yes	No	Capital Goods
25.	China Everbright Bank	52.7	8.48	No	Yes	Banking
26.	State-Owned Capital Operation and Management Center of Beijing	48.5	7.80	Yes	No	Diversified Financial
27.	Shaanxi Coal and Chemical Industry Group	48.5	7.80	Yes	Yes	Energy
28.	Citic Group	46.5	7.48	Yes	No	Diversified Financial
29.	China Datang	46.2	7.43	Yes	No	Public Utilities
30.	Bank of Beijing	43.5	7.00	No	Yes	Banking
Total Top 30 LCY Corporate Issuers		**4,118.61**	**662.46**			
Total LCY Corporate Bonds		**10,231.13**	**1,645.64**			
Top 30 as % of Total LCY Corporate Bonds		**40%**	**40%**			

LCY = local currency.
Notes:
1. Data as of end-March 2014.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on *Wind* data.

Table 4: Notional Values of the PRC's Interest Rate Swap Market in 1Q14

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	% of Total Notional Amount	Number of Transactions	Growth Rate (%)	
		4Q13		q-o-q	y-o-y
7-Day Repo Rate	675.3	83.9	7,552	61.4	64.6
Overnight SHIBOR	40.9	5.1	166	(53.0)	(82.1)
3-Month SHIBOR	78.7	9.8	1,006	(12.2)	(11.8)
1-Year Term Deposit Rate	6.6	0.8	120	(27.5)	618.8
LIBOR	2.6	0.3	13	975.0	–
1-Year Loan Prime Rate	0.2	0.02	2	(52.2)	–
1-Year Lending Rate	0.2	0.02	1	(84.5)	(97.4)
Total	**804.5**	**100.0**	**8,860**	**32.6**	**9.1**

( ) = negative, – = not applicable, LIBOR = London Interbank Offered Rate, PRC = People's Republic of China, q-o-q = quarter-on-quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate, y-o-y = year-on-year.
Sources: *AsianBondsOnline* and *ChinaMoney*.

Hong Kong, China

LCY bonds outstanding in Hong Kong, China reached HKD1.5 trillion (US$196 billion) in 1Q14, expanding 1.0% quarter-on-quarter (q-o-q) and 6.9% year-on-year (y-o-y). Government bond market growth outpaced that of the corporate sector on both a q-o-q and y-o-y basis. Corporate bonds outstanding totaled HKD679 billion at end-March, compared with HKD668 billion in December 2013.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q13		4Q13		1Q14		1Q13		1Q14	
	HKD	US$	HKD	US$	HKD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,426**	**184**	**1,509**	**195**	**1,524**	**196**	**3.6**	**7.2**	**1.0**	**6.9**
Government	779	100	841	108	846	109	7.6	10.5	0.5	8.5
Exchange Fund Bills	640	83	683	88	683	88	8.7	9.1	0.1	6.8
Exchange Fund Notes	69	9	68	9	68	8.8	0.0	(0.9)	0.0	(0.9)
HKSAR Bonds	71	9.1	90	12	94	12	5.2	42.4	4.4	33.3
Corporate	646	83	668	86	679	87	(0.7)	3.5	1.5	5.0

( ) = negative, HKSAR = Hong Kong Special Administrative Region, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Sources: Hong Kong Monetary Authority and Bloomberg LP.

In 1Q14, HKD7.5 billion of HKSAR bonds were issued. At end-March, total HKSAR bonds outstanding reached HKD94.0 billion. The largest corporate issuers were mostly infrastructure- or property-related entities, such as the Hong Kong Mortgage Corporation.

Table 2: Notable LCY Corporate Bond Issuance in 1Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
The Hong Kong Mortgage Corporation		
3-year bonds	0.48	0.70
NWD (MTN) Limited		
10-year bonds	5.50	0.60
CLP Power Hong Kong		
12-year bonds	4.17	0.60

LCY = local currency.
Source: Central Moneymarkets Unit (CMU) HKMA.

LCY bonds outstanding among the top 30 corporate bond issuers in Hong Kong, China reached HKD109.0 billion at end-March, representing 16.1% of the total LCY corporate bond market.

Table 3: Top 30 Nonbank Corporate Issuers in Hong Kong, China

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (HKD billion)	LCY Bonds (US$ billion)			
1.	The Hong Kong Mortgage Corporate	13.79	1.78	Yes	No	Finance
2.	CLP Power Hong Kong Financing	10.35	1.33	No	No	Electric
3.	Sun Hung Kai Properties (Capital Market)	10.01	1.29	No	No	Real Estate
4.	Wharf Finance	6.72	0.87	No	No	Diversified
5.	The Link Finance (Cayman) 2009	6.14	0.79	No	No	Finance
6.	MTR Corporation (C.I.)	5.75	0.74	Yes	Yes	Transportation
7.	HKCG (Finance)	5.60	0.72	No	No	Gas
8.	Hongkong Electric Finance	5.51	0.71	No	No	Electric
9.	NWD (MTN)	5.05	0.65	No	Yes	Real Estate
10.	Swire Pacific	4.83	0.62	No	Yes	Diversified
11.	Kowloon-Canton Railway	4.80	0.62	Yes	No	Transportation
12.	Urban Renewal Authority	4.80	0.62	Yes	No	Real Estate
13.	Cheung Kong Bond Finance	4.62	0.60	No	Yes	Real Estate
14.	Wheelock Finance	3.74	0.48	No	No	Diversified
15.	Yue Xiu Enterprises (Holdings)	3.00	0.39	No	No	Diversified
16.	Airport Authority Hong Kong	2.80	0.36	Yes	No	Transportation
17.	Hysan (MTN)	2.43	0.31	No	No	Finance
18.	Cathay Pacific MTN Financing	1.70	0.22	No	Yes	Airlines
19.	Nan Fung Treasury	1.31	0.17	No	No	Real Estate
20.	Henderson Land MTN	1.19	0.15	No	Yes	Finance
21.	AIA Group	1.16	0.15	No	Yes	Insurance
22.	Dragon Drays	1.00	0.13	No	No	Diversified
23.	Swire Properties MTN Financing	0.80	0.10	No	No	Real Estate
24.	R-Reit International Finance	0.78	0.10	No	No	Real Estate
25.	Wing Tai Properties (Finance)	0.58	0.07	No	No	Real Estate
26.	HLP Finance	0.56	0.07	No	Yes	Real Estate
27.	CITIC Pacific	0.50	0.06	No	Yes	Diversified
28.	K. Wah International	0.45	0.06	No	Yes	Real Estate
29.	The Hongkong Land Notes Company	0.20	0.03	No	No	Finance
30.	Far East Horizon	0.09	0.01	No	Yes	Finance
Total Top 30 Nonbank LCY Corporate Issuers		**109.48**	**14.11**			
Total LCY Corporate Bonds		**678.52**	**87.47**			
Top 30 as % of Total LCY Corporate Bonds		**16.13%**	**16.13%**			

LCY = local currency.
Notes:
1. Data as of end-March 2014.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Hong Kong Monetary Authority data.

Indonesia

The outstanding stock of local currency (LCY) bonds outstanding in Indonesia reached IDR1,399 trillion (US$123 billion) in 1Q14 on growth rates of 6.8% quarter-on-quarter (q-o-q) and 21.1% year-on-year (y-o-y). Growth was driven by the government bond market as the government adopted a frontloading policy in which the bulk of its bond auctions are conducted during the first 6 months of the year.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q13		4Q13		1Q14		1Q13		1Q14	
	IDR	US$	IDR	US$	IDR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,154,804**	**119**	**1,309,576**	**108**	**1,398,996**	**123**	**5.9**	**13.9**	**6.8**	**21.1**
Government	958,369	98	1,091,356	90	1,181,628	104	6.2	11.6	8.3	23.3
Central Govt. Bonds	861,515	88	995,252	82	1,072,741	94	5.0	13.3	7.8	24.5
of which: *Sukuk*	74,185	8	87,174	7	96,764	9	17.7	39.6	11.0	30.4
Central Bank Bills	96,854	10	96,104	8	108,887	10	17.6	(1.2)	13.3	12.4
of which: *Sukuk*	4,855	0.5	4,712	0.4	5,377	0.5	40.5	36.1	14.1	10.8
Corporate	196,435	20	218,220	18	217,369	19	4.8	26.9	(0.4)	10.7
of which: *Sukuk*	8,387	0.9	7,553	0.6	7,194	0.6	21.9	55.1	(4.8)	(14.2)

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. The total stock of nontradable bonds as of end-March stood at IDR233.5 trillion.
Sources: Bank Indonesia, Indonesia Debt Management Office, Indonesia Stock Exchange, Otoritas Jasa Keuangan, and Bloomberg LP.

Corporate bond issuance declined 53.3% q-o-q and 64.9% y-o-y in 1Q14. Only eight companies issued new corporate debt in 1Q14; the issuers were predominantly financing institutions.

Table 2: Notable LCY Corporate Bond Issuance in 1Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Federal international Finance		
370-day bond	9.60	805
3-year bond	10.50	745
Protelindo		
3-year bond	10.50	1,000
Mitra Adiperkasa		
3-year bond	10.90	370
5-year bond	11.50	280
Toyota Astra Financial Services		
370-day bond	9.60	88
3-year bond	10.50	512
BCA Finance		
370-day bond	9.00	225
3-year bond	10.00	275
BFI Finance		
370-day bond	10.50	225
2-year bond	11.00	55
3-year bond	11.50	220

LCY = local currency.
Source: Indonesia Stock Exchange.

Total LCY corporate bonds outstanding issued by the top 30 corporate bond issuers in Indonesia reached IDR166.7 trillion at end-March, representing 76.7% of the LCY corporate bond market.

Table 3: Top 30 Issuers of LCY Corporate Bonds in Indonesia

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (IDR billion)	LCY Bonds (US$ billion)			
1.	PLN	15,573	1.37	Yes	No	Energy
2.	Indonesia Eximbank	11,135	0.98	Yes	No	Banking
3.	Adira Dinamika Multifinance	10,879	0.96	No	Yes	Finance
4.	Astra Sedaya Finance	10,391	0.91	No	No	Finance
5.	Federal International Finance	9,451	0.83	No	No	Finance
6.	Bank Tabungan Negara	8,850	0.78	Yes	Yes	Banking
7.	Bank CIMB Niaga	7,930	0.70	No	Yes	Banking
8.	Indosat	7,820	0.69	No	Yes	Telecommunications
9.	Bank Internasional Indonesia	7,000	0.62	No	Yes	Banking
10.	Bank Pan Indonesia	7,000	0.62	No	Yes	Banking
11.	Bank Permata	6,478	0.57	No	Yes	Banking
12.	Perum Pegadaian	5,739	0.51	Yes	No	Finance
13.	Jasa Marga	5,600	0.49	Yes	Yes	Toll Roads, Airports, and Harbors
14.	Bank Tabungan Pensiunan Nasional	4,985	0.44	No	Yes	Banking
15.	Medco-Energi International	4,487	0.39	No	Yes	Petroleum and Natural Gas
16.	Sarana Multigriya Finansial	3,926	0.35	Yes	No	Finance
17.	Indofood Sukses Makmur	3,610	0.32	No	Yes	Food and Beverages
18.	Agung Podomoro Land	3,600	0.32	No	Yes	Property, Real Estate, and Building Construction
19.	Bank Mandiri	3,500	0.31	Yes	Yes	Banking
20.	BCA Finance	3,250	0.29	No	No	Finance
21.	Toyota Astra Financial Services	3,195	0.28	No	No	Finance
22.	Antam	3,000	0.26	Yes	Yes	Petroleum and Natural Gas
23.	Telekomunikasi Indonesia	3,000	0.26	Yes	Yes	Telecommunications
24.	Bank OCBC NISP	2,907	0.26	No	Yes	Banking
25.	Bumi Serpong Damai	2,750	0.24	No	Yes	Telecommunications
26.	Indomobil Finance Indonesia	2,728	0.24	No	No	Finance
27.	Bank Jabar Banten	2,124	0.19	No	Yes	Banking
28.	Bank Rakyat Indonesia	2,000	0.18	Yes	Yes	Banking
29.	Garuda Indonesia	2,000	0.18	Yes	Yes	Infrastructure, Utilities, and Transportation
30.	BII Finance	1,824	0.16	No	No	Finance
Total Top 30 LCY Corporate Issuers		**166,730**	**14.67**			
Total LCY Corporate Bonds		**217,369**	**19.13**			
Top 30 as % of Total LCY Corporate Bonds		**76.7%**	**76.7%**			

LCY = local currency.
Notes:
1. Data as of end-March 2014.
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.

Republic of Korea

Local currency (LCY) bonds outstanding in the Republic of Korea grew 1.9% quarter-on-quarter (q-o-q) and 8.7% year-on-year (y-o-y) in 1Q14, leveling off at KRW1,756 trillion (US$1.6 trillion) at end-March. The outstanding size of LCY government bonds expanded 3.1% q-o-q and 8.9% y-o-y, outpacing growth in LCY corporate bonds outstanding of 1.2% q-o-q and 8.6% y-o-y.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q13		4Q13		1Q14		1Q13		1Q14	
	KRW	US$	KRW	US$	KRW	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,614,631**	**1,453**	**1,722,720**	**1,641**	**1,755,655**	**1,649**	**3.1**	**10.5**	**1.9**	**8.7**
Government	622,659	560	657,309	626	677,958	637	2.2	3.5	3.1	8.9
Central Bank Bonds	167,830	151	163,670	156	166,780	157	2.9	(0.1)	1.9	(0.6)
Central Government Bonds	426,699	384	455,858	434	472,056	443	2.5	5.7	3.6	10.6
Industrial Finance Debentures	28,130	25	37,781	36	39,122	37	(5.8)	(5.3)	3.5	39.1
Corporate	991,972	893	1,065,411	1,015	1,077,697	1,012	3.7	15.4	1.2	8.6

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. 1Q14 outstanding size of central bank bonds, central government bonds, and industrial financial debentures based on end-February data of The Bank of Korea.
5. Central government bonds include Korea Treasury bonds, National Housing bonds, and Seoul Metro bonds.
Sources: EDAILY *BondWeb* and The Bank of Korea.

LCY corporate bond issuance was down 14.4% q-o-q and 8.7% y-o-y in 1Q14. Among the top LCY corporate bond issuers in 1Q14 were banks.

Table 2: Notable LCY Corporate Bond Issuance in 1Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Woori Finance Holdings		
5-year bond	3.42	350
Woori Bank		
1-year zero-coupon bond	0.00	320
Citibank Korea		
3-year bond	3.08	310
E-Mart		
3-year bond	3.26	300
Hyundai Heavy Industries		
5-year bond	3.453	300
Korea Eximbank		
1.5-year zero-coupon bond	0.00	300

LCY = local currency.
Source: Bloomberg LP.

Total LCY bonds outstanding of the top 30 corporate issuers stood at KRW672.2 trillion at end-March, representing 62.4% of the total LCY corporate bond market in the Republic of Korea.

Table 3: Top 30 Issuers of LCY Corporate Bonds in the Republic of Korea

Issuers	Outstanding Amount		State-Owned	Listed on		Type of Industry
	LCY Bonds (KRW billion)	LCY Bonds (US$ billion)		KOSPI	KOSDAQ	
1. Korea Housing Finance Corp. (KHFC)	61,856	58.1	Yes	No	No	Financial
2. Korea Land & Housing Corp. (LH)	58,143	54.6	Yes	No	No	Real Estate
3. Korea Finance Corp. (KoFC)	46,891	44.0	Yes	No	No	Financial
4. Korea Deposit Insurance Corp. (KDIC)	42,960	40.3	Yes	No	No	Insurance
5. KDB Daewoo Securities	36,411	34.2	Yes	Yes	No	Securities
6. Korea Investment and Securities	33,178	31.2	No	No	No	Securities
7. Woori Investment and Securities	32,368	30.4	Yes	Yes	No	Securities
8. Industrial Bank of Korea (IBK)	32,343	30.4	Yes	Yes	No	Bank
9. Korea Electric Power Corp. (KEPCO)	29,860	28.0	Yes	Yes	No	Utillity
10. Hana Daetoo Securities	25,627	24.1	No	No	No	Securities
11. Mirae Asset Securities	24,748	23.2	No	Yes	No	Securities
12. Korea Expressway	21,150	19.9	Yes	No	No	Infrastructure
13. Kookmin Bank	18,624	17.5	No	No	No	Bank
14. Korea Rail Network Authority	17,050	16.0	Yes	No	No	Infrastructure
15. Shinhan Bank	16,383	15.4	No	No	No	Bank
16. Small & Medium Business Corp. (SBC)	15,285	14.4	Yes	No	No	Financial
17. Korea Gas	14,785	13.9	Yes	Yes	No	Utility
18. Woori Bank	14,262	13.4	Yes	No	No	Bank
19. Shinhan Investment	14,145	13.3	No	No	No	Securities
20. Hyundai Securities	13,663	12.8	No	Yes	No	Securities
21. Tong Yang Securities	13,199	12.4	No	Yes	No	Securities
22. Hana Bank	11,505	10.8	No	No	No	Bank
23. Standard Chartered First Bank Korea	11,000	10.3	No	No	No	Bank
24. Samsung Securities	10,438	9.8	No	Yes	No	Securities
25. Korea Railroad	10,220	9.6	Yes	No	No	Infrastructure
26. Korea Water Resources	9,971	9.4	Yes	Yes	No	Utility
27. Korea Student Aid Foundation	9,190	8.6	Yes	No	No	Financial
28. Hyundai Capital Services	9,055	8.5	No	No	No	Securities
29. Shinhan Card	8,996	8.4	No	No	No	Financial
30. Korea Eximbank	8,930	8.4	Yes	No	No	Bank
Total Top 30 LCY Corporate Issuers	**672,237**	**631.4**				
Total LCY Corporate Bonds	**1,077,697**	**1,012.2**				
Top 30 as % of Total LCY Corporate Bonds	**62.4%**	**62.4%**				

KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, LCY = local currency.
Notes:
1. Data as of end-March 2014.
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 and EDAILY *BondWeb* data.

Malaysia

Local currency (LCY) bonds outstanding in Malaysia reached MYR1,051.2 billion (US$322 billion) at end-March, expanding 2.8% quarter-on-quarter (q-o-q) and 5.5% year-on-year (y-o-y). The corporate bond sector grew faster than the government bond market on both a q-o-q and y-o-y basis.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q13		4Q13		1Q14		1Q13		1Q14	
	MYR	US$	MYR	US$	MYR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**996**	**322**	**1,022**	**312**	**1,051**	**322**	**(0.4)**	**9.0**	**2.8**	**5.5**
Government	589	190	597	182	614	188	(1.7)	7.1	2.7	4.2
Central Government Bonds	446	144	482	147	502	154	1.4	9.5	4.2	12.5
of which: *sukuk*	150	48	175	53	180	55	2.7	20.6	3.2	20.4
Central Bank Bills	136	44	107	33	99	30	(11.6)	(4.3)	(7.4)	(27.5)
of which: *sukuk*	58	19	40	12	41	12	(6.0)	17.0	2.5	(29.9)
Sukuk Perumahan Kerajaan	6	2.0	9	3	13	4	37.8	–	44.9	108.1
Corporate	407	132	425	130	438	134	1.6	12.1	3.0	7.5
of which: *sukuk*	272	88	286	87	298	91	3.1	16.9	4.2	9.3

( ) = negative, – = not applicable, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–US$ rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Sources: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) and Bloomberg LP.

Corporate bond issuance amounted to MYR30.7 billion in 1Q14, climbing 5.0% y-o-y but declining 34.1% q-o-q. The most notable bond issues were from utilities and state-owned enterprises.

Table 2: Notable LCY Corporate Bond Issuance in 1Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
TNB Western Energy		
10-year *sukuk*	5.06	100
11-year *sukuk*	5.10	105
11.5-year *sukuk*	5.14	105
12-year *sukuk*	5.18	110
12.5-year *sukuk*	5.21	110
13-year *sukuk*	5.23	115
13.5-year *sukuk*	5.26	115
14-year *sukuk*	5.29	120
14.5-year *sukuk*	5.32	120
15-year *sukuk*	5.35	120
15.5-year *sukuk*	5.37	120
16-year *sukuk*	5.44	130
16.5-year *sukuk*	5.46	130
17-year *sukuk*	5.48	135
17.5-year *sukuk*	5.50	135
18-year *sukuk*	5.52	140
18.5-year *sukuk*	5.54	140
19-year *sukuk*	5.76	145
19.5-year *sukuk*	5.78	145
20-year *sukuk*	5.80	1,315
Perbadanan Tabung Pendidikan Tinggi Nasional		
5-year Islamic MTN	4.10	400
7-year Islamic MTN	4.45	300
10-year Islamic MTN	4.67	1,800
Prasarana		
5-year Islamic MTN	4.08	1,500
10-year Islamic MTN	4.67	500

LCY = local currency, MTN = medium-term note.
Source: Bank Negara Malaysia Bond Info Hub.

As of end-1Q14, LCY bonds outstanding among the top 30 corporate bond issuers stood at MYR239.6 billion, representing 54.7% of total corporate bonds outstanding in Malaysia.

Table 3: Top 30 Issuers of LCY Corporate Bonds in Malaysia

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (MYR billion)	LCY Bonds (US$ billion)			
1.	Project Lebuhraya Usahasama	30.60	9.37	No	Yes	Transport, Storage, and Communications
2.	Cagamas	24.48	7.50	Yes	No	Finance
3.	Khazanah	20.00	6.13	Yes	No	Quasi-Government
4.	Prasarana	13.91	4.26	Yes	No	Transport, Storage, and Communications
5.	Pengurusan Air	11.63	3.56	Yes	No	Energy, Gas, and Water
6.	Maybank	11.30	3.46	No	Yes	Finance
7.	Perbadanan Tabung Pendidikan Tinggi Nasional	8.50	2.60	Yes	No	Quasi-Government
8.	CIMB Bank	8.05	2.47	No	No	Finance
9.	Public Bank	7.02	2.15	Yes	No	Finance
10.	BGSM Management	6.87	2.10	No	No	Transport, Storage, and Communications
11.	Danainfra Nasional	6.50	1.99	Yes	No	Finance
12.	Cagamas MBS	6.03	1.85	Yes	No	Finance
13.	Malakoff Power	5.58	1.71	No	No	Energy, Gas, and Water
14.	Senai Desaru Expressway	5.56	1.70	No	No	Construction
15.	Sarawak Energy	5.50	1.68	Yes	No	Energy, Gas, and Water
16.	Turus Pesawat	5.31	1.63	Yes	No	Quasi-Government
17.	Putrajaya Holdings	5.26	1.61	No	No	Property and Real Estate
18.	1Malaysia Development	5.00	1.53	Yes	No	Quasi-Government
19.	Celcom Transmission	5.00	1.53	No	No	Transport, Storage, and Communications
20.	AM Bank	4.91	1.50	No	No	Finance
21.	Aman Sukuk	4.86	1.49	Yes	No	Construction
22.	KL International Airport	4.86	1.49	Yes	No	Transport, Storage, and Communications
23.	Manjung Island Energy	4.85	1.49	No	No	Energy, Gas, and Water
24.	RHB Bank	4.60	1.41	No	No	Finance
25.	Hong Leong Bank	4.45	1.36	No	Yes	Finance
26.	Tanjung Bin Power	4.05	1.24	No	Yes	Energy, Gas, and Water
27.	Jimah Energy Ventures	3.88	1.19	No	No	Energy, Gas, and Water
28.	YTL Power International	3.77	1.15	No	Yes	Energy, Gas, and Water
29.	TNB Western Energy	3.66	1.12	No	No	Construction
30.	Danga Capital	3.60	1.10	No	No	Finance
Total Top 30 LCY Corporate Issuers		**239.58**	**73.39**			
Total LCY Corporate Bonds		**437.64**	**134.06**			
Top 30 as % of Total LCY Corporate Bonds		**54.7%**	**54.7%**			

LCY = local currency.
Notes:
1. Data as of end-March 2014.
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 (FAST) data.

Philippines

Total local currency (LCY) bonds outstanding in the Philippines reached PHP4,429 billion (US$99 billion) in 1Q14, declining 0.9% quarter-on-quarter (q-o-q) while increasing 10.5% year-on-year (y-o-y). Growth in the corporate bond market outpaced growth in the government bond market on a q-o-q basis due to less issuance of government securities. Government bond auctions in 1Q14 were met with relatively low demand as market players remained cautious over (i) the United States (US) Federal Reserve's quantitative easing tapering and (ii) continued inflation concerns.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q13		4Q13		1Q14		1Q13		1Q14	
	PHP	US$	PHP	US$	PHP	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**4,008**	**98**	**4,469**	**101**	**4,429**	**99**	**(1.4)**	**12.5**	**(0.9)**	**10.5**
Government	3,476	85	3,877	87	3,749	84	(1.8)	11.5	(3.3)	7.8
Treasury Bills	290	7	321	7	293	7	5.4	8.3	(8.7)	1.2
Treasury Bonds	3,073	75	3,440	77	3,340	75	(2.4)	12.8	(2.9)	8.7
Others	113	3	116	3	116	3	0.0	(10.7)	0.0	2.1
Corporate	532	13	592	13	680	15	1.1	19.8	15.0	27.9

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from an LCY 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 (PSALM) and the National Food Authority, among others.
5. Peso Global Bonds (PHP-denominated bonds payable in US$) and multi-currency Retail Treasury Bonds (RTBs) are not included. As of end-March 2014, the Government of the Philippines and Petron Corporation had PHP129.7 billion and PHP20.0 billion of outstanding Peso Global Bonds, respectively. There was a total of PHP6.4 billion of outstanding multi-currency Treasury Bonds as of end-March 2014.

Sources: Bureau of the Treasury and Bloomberg LP.

LCY corporate bond issuance in 1Q14 increased 28.3% q-o-q and 409.2% y-o-y. Firms continued to raise funds in 1Q14 in anticipation of a sustained rise in interest rates as a result of quantitative easing tapering and growing inflation concerns. Firms with diversified operations and banks were the lead issuers of debt in 1Q14.

Table 2: Notable LCY Corporate Bond Issuance in 1Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
JG Summit Holdings		
5-year bond	5.23	24.51
7-year bond	5.24	5.31
10-year bond	5.30	0.18
Metrobank		
10-year Tier 2 Notes	5.38	16.00
MCE Leisure		
5-year bond	5.00	15.00
PLDT		
7-year bond	5.23	12.40
10-year bond	5.28	2.60
Filinvest Development		
10-year bond	6.15	8.80
Manila North Tollways		
7-year bond	5.07	4.40
10-year bond	5.50	2.60
Toyota Financial Services		
5-year bond	5.40	1.50
ABS-CBN		
7-year bond	5.34	6.00

LCY = local currency.
Source: Bloomberg LP.

LCY bonds outstanding among the top 30 corporate bond issuers in the Philippines reached PHP612 billion at the end of 1Q14, representing 90% of total corporate bonds outstanding.

Table 3: Top 30 Issuers of LCY Corporate Bonds in the Philippines

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (PHP billion)	LCY Bonds (US$ billion)			
1.	Ayala Land	49.9	1.1	No	Yes	Real Estate
2.	San Miguel Brewery	45.2	1.0	No	Yes	Brewery
3.	Ayala Corporation	40.0	0.9	No	Yes	Diversified Operations
4.	JG Summit Holdings	39.0	0.9	No	Yes	Diversified Operations
5.	Meralco	37.8	0.9	No	Yes	Electricity Distribution
6.	SM Investments	36.1	0.8	No	Yes	Diversified Operations
7.	Philippine Long Distance Telephone	29.8	0.7	No	Yes	Telecommunications
8.	Philippine National Bank	27.6	0.6	No	Yes	Banking
9.	Metrobank	26.0	0.6	No	Yes	Banking
10.	BDO Unibank	23.0	0.5	No	Yes	Banking
11.	Filinvest Land	21.5	0.5	No	Yes	Real Estate
12.	RCBC	19.0	0.4	No	Yes	Banking
13.	Energy Development Corporation	19.0	0.4	No	Yes	Electricity Generation
14.	Globe Telecom	17.0	0.4	No	Yes	Telecommunications
15.	Maynilad Water Services	16.6	0.4	No	No	Water
16.	MCE Leisure Philippine	15.0	0.3	No	No	Casino Services
17.	SM Development	14.3	0.3	No	Yes	Real Estate
18.	Petron	13.6	0.3	No	Yes	Oil Refining and Marketing
19.	Manila North Tollways	13.0	0.3	No	No	Transport Services
20.	Security Bank	13.0	0.3	No	Yes	Banking
21.	First Metro Investment	12.0	0.3	No	No	Investment Banking
22.	MTD Manila Expressway	11.5	0.3	No	No	Transport Services
23.	South Luzon Tollway	11.0	0.2	No	No	Transport Services
24.	GT Capital Holdings	10.0	0.2	No	Yes	Investment Companies
25.	Robinsons Land	10.0	0.2	No	Yes	Real Estate
26.	United Coconut Planters Bank	9.5	0.2	No	Yes	Banking
27.	Filinvest Development	8.8	0.2	No	Yes	Real Estate
28.	Allied Bank	8.0	0.2	No	Yes	Banking
29.	Aboitiz Equity Ventures	8.0	0.2	No	Yes	Diversified Operations
30.	Union Bank of the Philippines	6.8	0.2	No	Yes	Banking
Total Top 30 LCY Corporate Issuers		**612.0**	**13.8**			
Total LCY Corporate Bonds		**680.2**	**15.3**			
Top 30 as % of Total LCY Corporate Bonds		**90.0%**	**90.0%**			

LCY = local currency.
Notes:
1. Data as of end-March 2014.
2. Petron has PHP20 billion of Global Peso Bonds outstanding that are not included in this table.
3. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Singapore

Singapore's total local currency (LCY) bonds outstanding stood at SGD298 billion (US$237 billion) at end-March, dropping 2.6% quarter-on-quarter (q-o-q) while marginally rising 0.3% year-on-year (y-o-y). The q-o-q decrease was driven largely by the net redemption of Singapore Government Securities (SGS) bills; the 3- and 6-month SGS bills have been replaced by the issuance of 12-week and 6-month Monetary Authority of Singapore (MAS) bills, respectively. The corporate bond market also experienced a similar growth trend as corporate bonds outstanding shrank 1.8% q-o-q but rose 1.2% y-o-y.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q13		4Q13		1Q14		1Q13		1Q14	
	SGD	US$	SGD	US$	SGD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**297**	**239**	**305**	**242**	**298**	**237**	**5.2**	**14.5**	**(2.6)**	**0.3**
Government	184	148	189	150	183	146	6.4	13.7	(3.0)	(0.3)
SGS Bills and Bonds	147	118	125	99	109	87	2.9	2.0	(12.7)	(25.8)
MAS Bills	37	30	64	51	74	59	22.8	106.7	15.9	100.0
Corporate	113	91	116	92	114	91	3.4	16.0	(1.8)	1.2

( ) = negative, LCY = local currency, MAS = Monetary Authority of Singapore, q-o-q = quarter-on-quarter, SGS = Singapore Government Securities, 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 (CPF).
3. Bloomberg LP end-of-period LCY–US$ rates are used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Sources: Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP.

Singapore's LCY corporate bond issuance during 1Q14 totaled SGD4.2 billion, more than 30% of which was issued by the Housing and Development Board (HDB). The table below lists some of the notable LCY corporate bond issuance during 1Q14.

Table 2: Notable LCY Corporate Bond Issuance in 1Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Housing and Development Board		
7-year	3.008	750
15-year	3.948	600
Citymall Trust		
7-year	3.080	350
Suntec REIT		
6-year	3.350	310
Hyflux		
Perpetual	5.750	300
National University of Singapore		
5-year	1.708	250
Amtek Engineering		
5-year	6.900	200

LCY = local currency.
Source: Bloomberg LP.

Total LCY bonds outstanding among Singapore's top 30 corporate bond issuers stood at SGD61.6 billion at end-March, representing more than one-half of the total corporate bond market in Singapore. The largest issuer remained HDB. Issuers from the financing, real estate, and banking sectors continued to dominate Singapore's corporate bond market in 1Q14.

Table 3: Top 30 Issuers of LCY Corporate Bonds in Singapore

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (SGD billion)	LCY Bonds (US$ billion)			
1.	Housing and Development Board	18.7	14.8	Yes	No	Real Estate
2.	United Overseas Bank	4.6	3.6	No	Yes	Banking
3.	Temasek Financial I	3.6	2.9	No	No	Financing
4.	DBS Bank	3.3	2.6	No	Yes	Banking
5.	SP PowerAssets	2.4	1.9	No	No	Utilities
6.	CapitaLand	2.3	1.9	No	Yes	Real Estate
7.	Public Utilities Board	2.1	1.7	Yes	No	Utilities
8.	GLL IHT	1.8	1.5	No	No	Financing
9.	Land Transport Authority	1.8	1.4	Yes	No	Transportation
10.	City Developments	1.7	1.4	No	Yes	Real Estate
11.	Keppel	1.5	1.2	No	Yes	Diversified
12.	Olam International	1.4	1.1	No	Yes	Consumer Goods
13.	Neptune Orient Lines	1.3	1.0	No	Yes	Logistics
14.	Hyflux	1.3	1.0	No	Yes	Utilities
15.	Keppel Land	1.1	0.9	No	Yes	Real Estate
16.	PSA	1.0	0.8	No	No	Port Operator
17.	Oversea-Chinese Banking	1.0	0.8	No	Yes	Banking
18.	Overseas Union Enterprise	1.0	0.8	No	Yes	Real Estate
19.	CapitaMalls Asia Treasury	1.0	0.8	No	No	Financing
20.	Mapletree Treasury Services	1.0	0.8	No	No	Financing
21.	Sembcorp Financial Services	0.9	0.7	No	No	Financing
22.	Singtel Group Treasury	0.9	0.7	No	No	Telecommunications
23.	DBS Group	0.8	0.6	No	Yes	Banking
24.	Singapore Airlines	0.8	0.6	No	No	Transportation
25.	Temasek Financial III	0.8	0.6	No	No	Financing
26.	National University of Singapore	0.8	0.6	Yes	No	Education
27.	Global Logistic Properties	0.8	0.6	No	Yes	Real Estate
28.	CMT MTN	0.8	0.6	No	No	Financing
29.	CapitaLand Treasury	0.7	0.6	No	No	Financing
30.	Joynote	0.7	0.6	No	No	Financing
Total Top 30 LCY Corporate Issuers		**61.6**	**49.0**			
Total LCY Corporate Bonds		**114.3**	**90.9**			
Top 30 as % of Total LCY Corporate Bonds		**53.9%**	**53.9%**			

LCY = local currency.
Notes:
1. Data as of end-March 2014.
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 data.

Thailand

Local currency (LCY) bonds outstanding in Thailand amounted to THB9.1 trillion (US$281 billion) at end-March, up 1.2% quarter-on-quarter (q-o-q) and 5.7% year-on-year (y-o-y). Growth of LCY corporate bonds outpaced that of LCY government bonds in 1Q14.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q13		4Q13		1Q14		1Q13		1Q14	
	THB	US$	THB	US$	THB	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**8,621**	**295**	**9,001**	**275**	**9,109**	**281**	**1.2**	**11.8**	**1.2**	**5.7**
Government	6,779	232	6,989	214	7,035	217	0.3	10.2	0.7	3.8
Government Bonds and Treasury Bills	3,098	106	3,414	104	3,461	107	2.5	11.5	1.4	11.7
Central Bank Bonds	3,026	103	2,843	87	2,820	87	(3.0)	3.9	(0.8)	(6.8)
State-Owned Enterprise and Other Bonds	654	22	732	22	754	23	6.3	42.0	3.0	15.2
Corporate	1,842	63	2,011	62	2,075	64	4.6	18.2	3.1	12.6

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
4. Data as of end-February 2014.
Sources: Bank of Thailand (BOT).

Five notable LCY corporate bond issues were made in 1Q14 by nonfinancial companies such as retail and telecommunication firms.

Table 2: Notable LCY Corporate Bond Issuance in 1Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
CP All		
10-year bond	5.14	9.93
7-year bond	4.85	5.84
5-year bond	4.30	5.70
Minor International		
5-year bond	3.70	4.50
Kiatnakin Bank		
3-year bond	3.78	4.00
True Corporation		
4-year bond	5.40	4.00
Toyota Leasing (Thailand)		
4-year bond	3.82	3.50

LCY = local currency.
Source: Bloomberg LP.

LCY bonds outstanding of the top 30 corporate issuers in Thailand at end-March amounted to THB1.3 trillion, representing 60.4% of the total LCY corporate bond market in Thailand.

Table 3: Top 30 Issuers of LCY Corporate Bonds in Thailand

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (THB billion)	LCY Bonds (US$ billion)			
1.	PTT	193.4	6.0	Yes	Yes	Energy
2.	Siam Cement	141.5	4.4	Yes	Yes	Diversified
3.	CP All	90.0	2.8	No	Yes	Consumer
4.	Charoen Pokphand Foods	69.3	2.1	No	Yes	Consumer
5.	Bank of Ayudhya	48.1	1.5	No	Yes	Financial
6.	Krung Thai Bank	47.2	1.5	Yes	Yes	Financial
7.	Thai Airways International	43.6	1.3	Yes	Yes	Consumer
8.	True Corporation	40.8	1.3	No	Yes	Communications
9.	Siam Commercial Bank	40.0	1.2	No	Yes	Financial
10.	Thanachart Bank	39.9	1.2	No	No	Financial
11.	Ayudhya Capital Auto Lease	38.8	1.2	No	No	Financial
12.	Toyota Leasing Thailand	31.2	1.0	No	No	Financial
13.	Mitr Phol Sugar	30.2	0.9	No	No	Consumer
14.	Kasikorn Bank	30.1	0.9	No	Yes	Financial
15.	Banpu	29.6	0.9	No	Yes	Energy
16.	Thai Oil	28.0	0.9	Yes	Yes	Energy
17.	TMB Bank	27.7	0.9	No	Yes	Financial
18.	Indorama Ventures	27.6	0.8	No	Yes	Basic Materials
19.	PTT Global Chemical	25.3	0.8	Yes	Yes	Basic Materials
20.	PTT Exploration and Production Company	24.2	0.7	Yes	Yes	Energy
21.	Krung Thai Card	23.0	0.7	Yes	Yes	Financial
22.	DAD SPV	22.5	0.7	Yes	No	Financial
23.	Bangkok Expressway	22.1	0.7	No	Yes	Consumer
24.	Kiatnakin Bank	21.6	0.7	No	Yes	Financial
25.	Tisco Bank	21.4	0.7	No	No	Financial
26.	Bangkok Bank	20.0	0.6	No	Yes	Financial
27.	IRPC	19.6	0.6	Yes	Yes	Energy
28.	Thanachart Capital	19.3	0.6	No	Yes	Financial
29.	Glow Energy	19.1	0.6	No	Yes	Utilities
30.	Minor International	18.9	0.6	No	Yes	Consumer
Total Top 30 LCY Corporate Issuers		1,253.8	38.7			
Total LCY Corporate Bonds		2,074.6	64.0			
Top 30 as % of Total LCY Corporate Bonds		60.4%	60.4%			

LCY = local currency.
Notes:
1. Data as of end-March 2014.
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 data.

Viet Nam

Local currency (LCY) bonds outstanding in Viet Nam expanded to VND744.6 trillion (US$35.3 billion) at end-March, rising 23.0% quarter-on-quarter (q-o-q) and 17.8% year-on-year (y-o-y) due to robust growth in the government sector. Issuance of short-term central bank bills (28- and 91-day) reached a record-high of VND173.8 trillion in 1Q14.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q13		4Q13		1Q14		1Q13		1Q14	
	VND	US$	VND	US$	VND	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**632,319**	**30**	**605,204**	**29**	**744,589**	**35**	**20.8**	**53.3**	**23.0**	**17.8**
Government	610,310	29	590,884	28	732,069	35	21.8	64.6	23.9	20.0
Treasury Bonds	310,537	15	336,920	16	373,960	18	21.8	87.1	11.0	20.4
Central Bank Bonds	112,857	5	38,499	2	147,004	7	92.7	270.3	281.8	30.3
State-Owned Enterprise Bonds	186,916	9	215,466	10	211,104	10	(0.3)	7.2	(2.0)	12.9
Corporate	22,009	1	14,320	0.7	12,520	0.6	(1.6)	(47.2)	(12.6)	(43.1)

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Bloomberg LP end-of-period LCY–US$ rates are used.
2. Growth rates are calculated from LCY base and do not include currency effects.
Source: Bloomberg LP.

As of end-March, a total of 14 issuers comprised the entire corporate bond sector in Viet Nam. Corporate bonds outstanding amounted to VND12.5 trillion, which was down 12.6% q-o-q and 43.1% y-o-y.

Table 2: Corporate Issuers of LCY Corporate Bonds in Viet Nam

Issuers		Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (VND billion)	LCY Bonds (US$ billion)			
1.	Techcom Bank	3,000.00	0.14	No	No	Finance
2.	Asia Commercial Joint Stock	3,000.00	0.14	No	Yes	Finance
3.	HAGL JSC	2,480.00	0.12	No	Yes	Real Estate
4.	Vincom	1,000.00	0.05	No	Yes	Real Estate
5.	Vinpearl	1,000.00	0.05	No	Yes	Resorts and Theme Parks
6.	Kinh Bac City Development	500.00	0.02	No	Yes	Real Estate
7.	Development Investment	350.00	0.02	No	No	Building and Construction
8.	Binh Chanh Construction	300.00	0.01	No	Yes	Building and Construction
9.	Saigon Telecommunication	300.00	0.01	No	No	Computer Services
10.	Quoc Cuong Gia	150.00	0.01	No	Yes	Building and Construction
11.	Lam Son Sugar	150.00	0.01	No	No	Diversified
12.	Tan Tao Investment	130.00	0.01	No	No	Real Estate
13.	Ho Chi Minh City Securities	110.00	0.01	No	No	Finance
14.	Phu Hoang Anh	50.00	0.002	No	No	Real Estate
Total LCY Corporate Issuers		**12,520.0**	**0.59**			
Total LCY Corporate Bonds		**12,520.0**	**0.59**			
% of Total LCY Corporate Bonds		**100.0%**	**100.0%**			

LCY = local currency.
Notes:
1. Data as of end-March 2014.
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 data.

Asia Bond Monitor
June 2014

This publication reviews recent developments in East Asian local currency bond markets along with the outlook, risks, and policy options. It covers the 10 members of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

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