Asia Bond Monitor Executive Summary

ADB

Global and Regional Market Developments

Government bond yields declined in major advanced economies, select European markets, and nearly all emerging East Asian markets between 31 December 2019 and 29 February 2020 due to a rise in risk-off sentiment amid the outbreak of the coronavirus disease 2019 (COVID-19) and uncertainty surrounding the global economic outlook.[1] To cushion the adverse impact of COVID-19 on economic activities and financial markets, a number of governments have utilized fiscal stimulus and/or monetary measures to support affected individuals and local businesses, and to stabilize financial markets.

As global investment sentiment soured, equity markets in the region posted losses, regional currencies weakened versus the United States (US) dollar, and credit default swap spreads widened. At the end of December 2019, the shares of foreign holdings in the region's LCY government bond markets were largely stable, but market sell-offs were observed in some markets in January and February due to heightened risk aversion.

Risks to the regional outlook remained tilted to the downside. The COVID-19 outbreak accounted for the biggest source of uncertainty in the global economy and financial markets. The absence of a long-term solution to the trade conflict between the People's Republic of China (PRC) and the US still challenges globalization and poses risks to the regional and global economy. Geopolitical issues relating to Middle East tensions also present uncertainty to the global economy and financial markets.

Bond Market Developments in Emerging East Asia

Emerging East Asia's local currency (LCY) bond market reached a size of USD16.0 trillion at the end of December, expanding 2.4% quarter-on-quarter (q-o-q) and 12.5% year-on-year (y-o-y).

Government bonds totaled USD9.8 trillion at the end of December on growth of 1.7% q-o-q and 11.4% y-o-y. Corporate bonds reached USD6.2 trillion, rising 3.5% q-o-q and 14.3% y-o-y. Government bonds accounted for 61.1% of the region's total LCY bond market, while corporate bonds comprised the remaining 38.9%.

The LCY bond market in the PRC accounted for 75.4% of emerging East Asia's total bonds outstanding at the end of December. The region's second-largest bond market was in the Republic of Korea, which accounted for 13.0% of total bonds outstanding. Markets in members of the Association of Southeast Asian Nations accounted for 9.8%.[2]

As a percentage of regional gross domestic product (GDP), emerging East Asia's LCY bond market was equivalent to 83.3% of regional GDP at the end of December, up from 82.6% at the end of September. The LCY bond markets of the Republic of Korea (130.5%) and Malaysia (104.6%) had the highest bonds outstanding-to-GDP ratios in the region.

LCY bond issuance in emerging East Asia totaled USD1,438.4 billion in the fourth quarter of 2019, falling 9.5% q-o-q but rising 12.5% y-o-y. Government bond issuance was USD715.7 billion, accounting for 49.8% of total issuance during the quarter, while corporate bond issuance was USD722.7 billion, accounting for 50.2% of total quarterly issuance.

[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.
[2] LCY bond statistics for the Association of Southeast Asian Nations include the markets of Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.

The March issue of the *Asia Bond Monitor* includes four discussion boxes.

Box 1: The Economic Impact of COVID-19 on Developing Asia

This study assesses the effects of COVID-19 on economic activities in developing Asia.[3] Channels through which COVID-19 could affect economies include declines in domestic demand, reduced tourism and business travel, interruptions in trade and production linkages, supply disruptions, and negative health effects. The magnitude of the global economic impact will depend on how the outbreak evolves, which remains highly uncertain. The study explores a range of scenarios (best, moderate, and worst cases) and assesses the potential economic impact of each of these scenarios. COVID-19's global economic impact is expected to cost between USD76.7 billion and USD347.0 billion, or from 0.1% to 0.4% of global gross domestic product, with a midrange estimate of USD155.9 billion, or 0.2% of global gross domestic product. Two-thirds of the impact is expected to fall on the PRC. In developing Asia, most of the impact will be felt through reduced tourism. Some regional economies—such as Hong Kong, China; the Philippines; Singapore; and Viet Nam—will also be affected via trade and production linkages.

Box 2: How Are Financial Markets Reacting to the COVID-19 Outbreak?

This box reviews equity market reactions in three regional groupings as the outbreak of COVID-19 evolves: the PRC and Hong Kong, China; members of the Association of Southeast Asian Nations plus Japan and the Republic of Korea; and the rest of the world. The performances of sector-specific, capitalization-weighted indexes were tracked from 1 November 2019 to 29 February 2020 to reveal that (i) equity market reactions to COVID-19 shocks have largely occurred at the market-wide level; (ii) reactions were mild in response to outbreak-related news in other markets and more pronounced in response to such news in local markets; and (iii) as more markets were affected across different regions, global equity markets experienced contagion in the form of a market slump during the last week of February.

Box 3: Green Bond Quantitative Performance during Periods of Market Stress—2020 Update

Box 3 presents a study by Nomura Asset Management, a Japanese asset management firm, on the quantitative performance of green bonds during periods of market stresses. The study explores whether green bonds demonstrate better risk-adjusted performance compared with conventional bonds. Using secondary market-pricing data, the study compared the performance of select EUR-denominated and USD-denominated green bonds against their conventional counterparts during periods of market stress. The results show that green bonds consistently outperformed their conventional equivalents during periods of market volatility and that the superior performance may be attributable to a green factor (after controlling for idiosyncratic variables). Moreover, the study finds evidence that the green factor may enhance an issuer's overall credit profile.

Box 4: The Alpha and Beta of ESG Investing

Box 4 presents the findings of Amundi, a European asset management firm, on the impact of environmental, social, and governance (ESG) factors on portfolio performance. The study showed that between 2014 and 2017 portfolios using ESG factors in select developed market equities outperformed. In particular, North American portfolios outperformed when using environmental factors, while European portfolios outperformed when using governance factors. An updated study in 2019 found that the alpha generated using ESG factors had declined in North America but was unchanged in the euro area.

[3] Developing Asia comprises the 46 developing member economies of the Asian Development Bank.