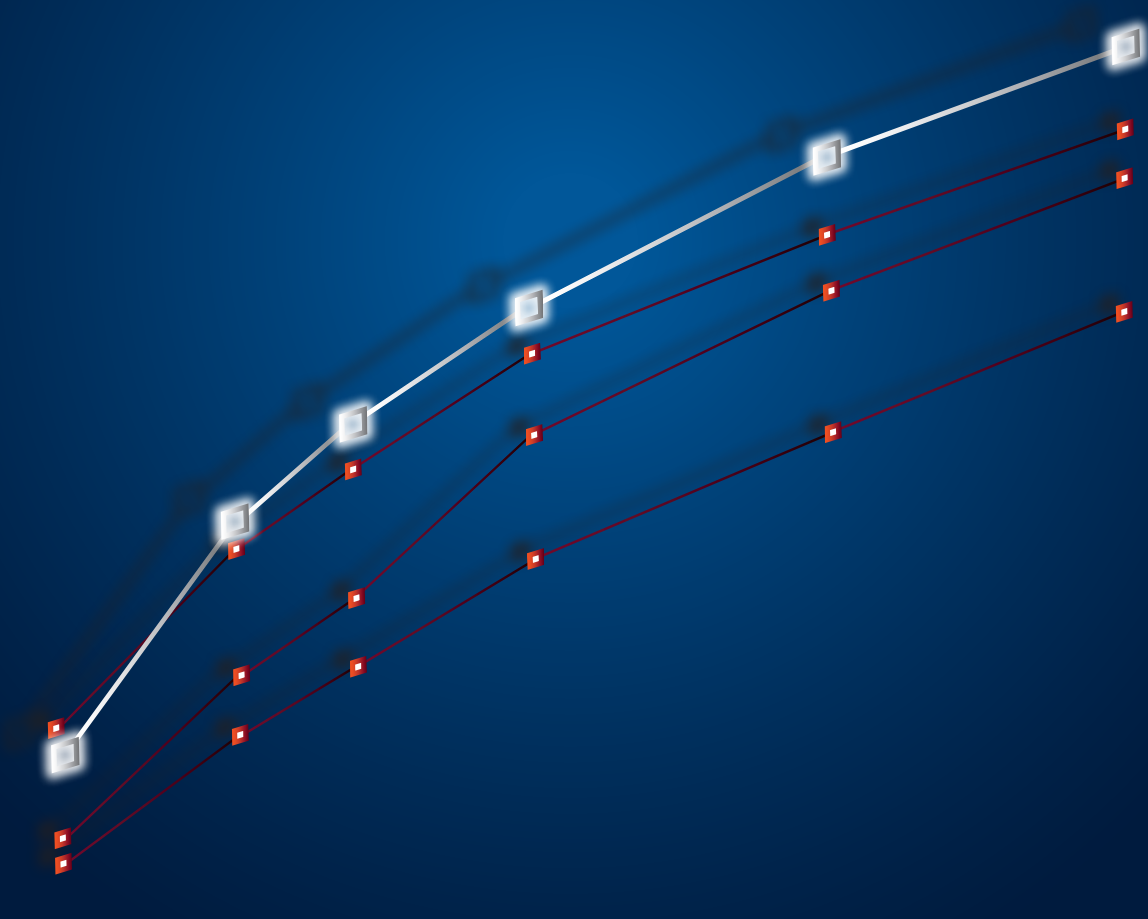
ASIA BOND MONITOR

NOVEMBER 2009



Asian Development Bank

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The *Asia Bond Monitor* (ABM) reviews recent developments in East Asian local currency bond markets along with the outlook, risks, and policy challenges. The ABM covers the 10 Association of Southeast Asian Nations member countries plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

Download the ABM at:
http://www.asianbondsonline.adb.org/documents/abm_nov_2009.pdf

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A Regional Update

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Evidence is growing that a global economic recovery is gently taking hold, led by robust performance in Asian economies and slow renewal or stabilization elsewhere.

Economic stimulus packages and aggressive monetary easing have restored investor risk appetite and credit has begun to flow into markets. Credit spreads are narrowing and the rally in equity markets continues.

Government bond yield curves in the more mature global markets, after having flattened through much of 3Q09, have begun to show signs of steepening in October and November, reflecting some modest improvements or stabilization in growth performance in both the US and Europe.

Emerging East Asia's local currency bond markets posted strong growth of 14.8% year-on-year (y-o-y) in 3Q09. The government bond market in emerging East Asia grew by 9.5% y-o-y in 3Q09, while the corporate bond market grew by a very impressive 30.3% y-o-y. Total bonds outstanding reached a new threshold and stood at USD4.2 trillion at end-September 2009.

The People's Republic of China's (PRC) bond market's growth rate, however, moderated to 13.9% y-o-y in 3Q09 from 14.8% in 2Q09.

At the same time, bond market growth accelerated in Hong Kong, China; Singapore; Indonesia; the Repubic of Korea (Korea); and Thailand. Thus, more balanced regional growth stands out as the distinguishing feature of growth in 3Q09.

Government bond yield curves in many emerging East Asian markets have flattened, with variations in trends across different domestic markets. Yields have risen at the shorter-end for faster growing economies like the PRC, Korea, and Indonesia.

Strong external and regional demand for USD-denominated Asian bonds is driving issuance of G3 currency bonds in the region. Rapid economic recovery and investors searching for high yields are spurring foreign capital inflows into the region.

Risks to the market outlook are (i) uncertainty about the robustness of the global recovery, (ii) an upturn in inflation driven by a rise in energy and commodity prices, (iii) premature monetary tightening and withdrawal of public policy support, and (iv) potentially destabilizing capital inflows.

Annual Asian Bond Market Liquidity Survey

The annual *AsianBondsOnline* Liquidity Survey shows that liquidity improved in almost all of the region's markets after declining in 2008. Government bond market liquidity can be characterized as moderately good. However, liquidity in the corporate bond market remains poor.

Investors and traders cite greater heterogeneity among market participants (or a broadening of the investor base) as the most important factor in improving bond market liquidity.

Emerging East Asia has made significant progress in promoting investor diversity. While banks and financial institutions remain the largest holders of government debt, insurance companies, pension and mutual funds, and foreign investors are playing an increasingly important role in many markets.

Introduction: **Global and Regional Market Developments**

Evidence is growing that the global financial crisis may have ended and economic recovery is gently taking hold, led by robust performance in Asian economies and slow renewal or stabilization elsewhere. Innovative economic stimulus packages and aggressive monetary easing have restored investor risk appetite, and credit has begun to flow into markets. Credit spreads are narrowing, though they remain high for lower-rated companies, and the rally in equity markets continues. Government bond yield curves in the more mature markets, after having flattened through much of 3Q09, have begun to show signs of steepening in October and November, reflecting some modest improvements or stabilization in growth performance in both the US and Europe.

The People's Republic of China (PRC) is leading the economic recovery in emerging East Asia.[1] The PRC's gross domestic product (GDP) grew by 8.9% year-on-year (y-o-y) in 3Q09. Indonesia's GDP grew by 4.21% y-o-y and Korean GDP rose 0.9% y-o-y. These impressive growth performances are evidence that unprecedented public policy interventions have helped economies to ward off the impact of the global crisis faster than anticipated. This resiliency could help the region to post a V-shaped recovery, but the pace of recovery within the region will vary. Despite the fast recovery, increased domestic demand, and an uptick in commodity prices, inflation in the region has largely remained subdued.

Disengaging from highly stimulative fiscal policies and accommodative monetary policies remains a key topic of discussion among global policymakers and tops the watch list of financial markets. For mature markets, the point to watch is whether the nascent economic recovery can be sustained even as authorities decide to gradually remove the unprecedented policy support. For emerging East Asia, once the fiscal stimulus packages are withdrawn, it is essential that household consumption and private investment take over as key drivers of growth.

Asian asset markets have benefited from public policy support, a resurgence in investor confidence, abundant domestic liquidity, and massive inflows of foreign portfolio funds. Korea alone has attracted foreign portfolio inflows of USD40.19 billion year-to-date[2] on the back of improving economic fundamentals and a strengthening currency. Abundant liquidity, combined with investors' search for yields, have created strong demand for Asian assets. Asian equities have staged a rally, housing prices in many markets are shooting up, and demand for G3 currency-denominated Asian bonds—such as those from high-yield bond markets like Indonesia—are high. Emerging East Asian policymakers now face a situation of rapid economic recovery, appreciating domestic currencies, and interest rate differentials with mature markets—all of which are playing a key role in attracting large inflows of foreign funds. The impact of these capital inflows could be potentially destabilizing.

Risks to the market outlook are moderately balanced on the downside compared with the first half of the year. Nevertheless, major risks to the market outlook remain, including (i) an economic outlook vulnerable to uncertainty about the robustness of the global recovery, particularly in the G3 economies (should the rebound of global demand turn out weaker than expected, Asia's export performance and economy will inevitably be curtailed as a result); (ii) a possible rise in inflation on the back of rising commodity and energy prices; (iii) premature tightening of monetary policies; and (iv) potentially destabilizing capital inflows.

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

[2] Bank of Korea (data is until September).

Table A: Bonds Outstanding in Major Markets (USD billion)

	1Q09		4Q96	
	LCY Bonds Outstanding	% of World Total	LCY Bonds Outstanding	% of World Total
United States	24,962	42.3	10,926	42.8
Japan	10,289	17.4	4,456	17.4
France	2,824	4.8	1,303	5.1
Germany	2,570	4.4	1,888	7.4
United Kingdom	1,268	2.1	678	2.7
Emerging East Asia	3,658	6.2	537	2.1
of which: PRC	2,192	3.7	62	0.2
Emerging East Asia excl. PRC	1,466	2.5	475	1.9
of which: Republic of Korea	796	1.3	283	1.1
of which: ASEAN-6	568	1.0	158	0.6
Indonesia	73	0.1	7	0.03
Malaysia	160	0.3	81	0.3
Philippines	56	0.1	28	0.1
Singapore	120	0.2	25	0.1
Thailand	147	0.2	18	0.1
Viet Nam	12	0.0	—	—
Memo Items:				
Brazil	893	1.5	299	1.2
India	450	0.8	81	0.3
Russia	33	0.1	43	0.2

— = data not available.
LCY = local currency, PRC = People's Republic of China.
Note: Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Viet Nam.

Source: Bank for International Settlements and *AsianBondsOnline*.

Emerging East Asian local currency bond markets have posted strong growth in recent months, serving their key role as a source of funds for governments and companies. Balanced regional growth and impressive growth in corporate bond markets have been distinguishing features of the local currency bond markets so far this year.

This strong performance has helped emerging East Asian local currency bonds to cross a key threshold in 2009. The total outstanding local currency bonds now stand at USD4.2 trillion. This represents an average growth rate of 19% since 2002. The domestic reforms in individual bond markets and collective regional efforts are clearly bearing fruit. The region's local bond markets accounted for 6.2% of total global bonds outstanding at the end of 1Q09 compared with only 2.1% at end of 1996 before the onset of the Asian financial crisis **(Table A)**.

Figure A: 10-year Government Bond Yields
(% per annum)

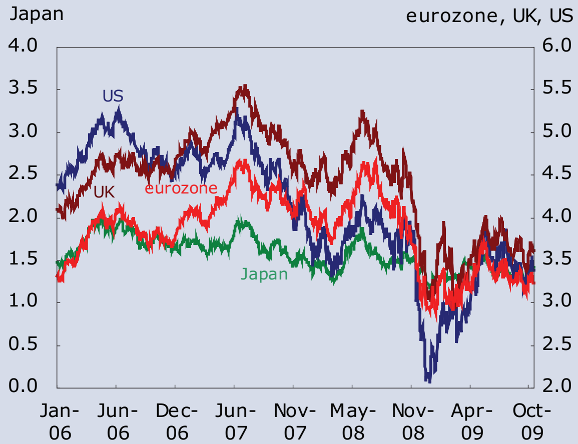


Figure D: JP Morgan EMBI Sovereign Stripped Spreads[3]

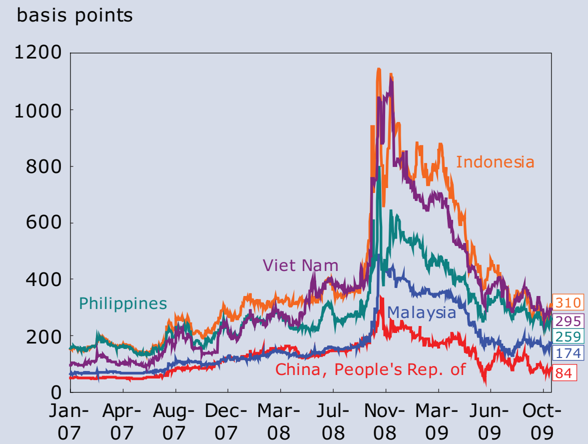


Figure B: Corporate Bond Spreads[1]

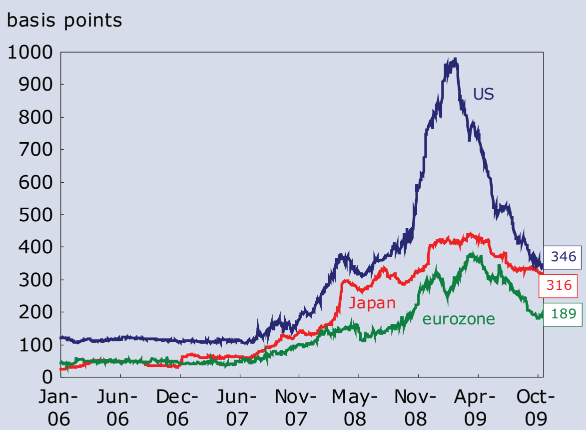


Figure E: Credit Default Swap Spreads
(senior 5-year)[3]

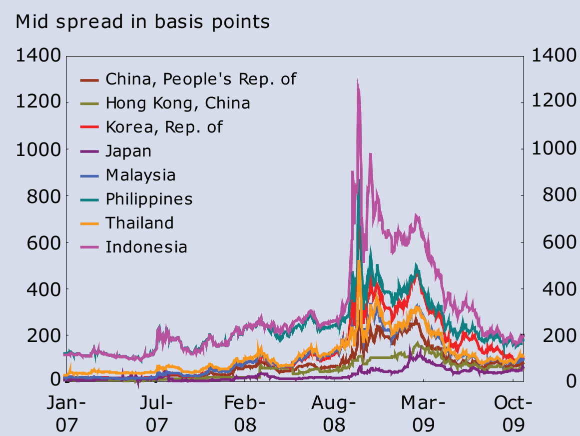
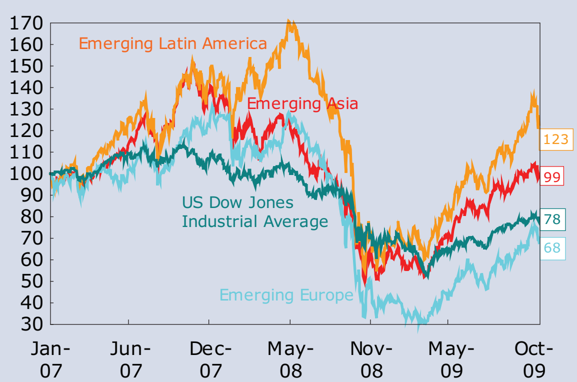


Figure C: MSCI Indexes
(January 2007 = 100)[2]



UK = United Kingdom, US = United States.

Note:

[1]Bond spread refers to the difference between yields of 5-year bonds issued by BBB-rated finance companies and yields of sovereign benchmark bonds of the same tenor. [2]Includes People's Republic of China; India; Indonesia; Republic of Korea; Malaysia; Pakistan; Philippines; Taipei,China; and Thailand. [3]USD based on sovereign bonds.

Source: Morgan Stanley Capital International Barra, Bloomberg LP, and Thomson DataStream.

Bond Market Developments in the Third Quarter of 2009

Size and Composition

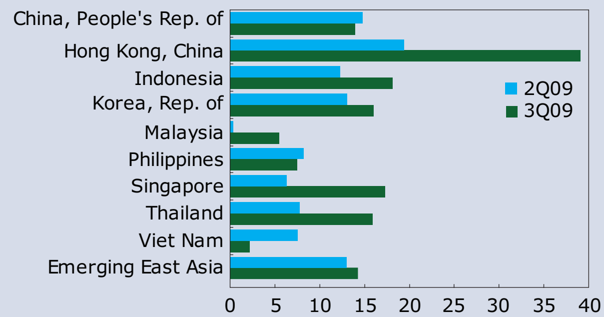
Emerging East Asia's local currency bond market reached USD4.2 trillion at the end of September, rising 14.8% year-on-year in 3Q09 compared to a 13.0% increase in 2Q09.

Total bonds outstanding in the emerging East Asian local currency (LCY) bond markets grew by 14.8% year-on-year (y-o-y) on an LCY basis in 3Q09 to reach USD4.2 trillion **(Table 1).** The market's quarter-on-quarter (q-o-q) growth rate, however, was a lower 4.3% in 3Q09. One distinguishing feature of the emerging East Asian bond market's performance was strong growth in bond markets outside of the People's Republic of China (PRC). The emerging East Asian bond market, excluding the PRC (ex-PRC), grew 16.0% y-o-y. Meanwhile, the PRC's bond market growth rate was 13.9% y-o-y in 3Q09.

The PRC's bond market 3Q09 growth rate was marginally below 2Q09 growth of 14.8% y-o-y, reflecting a slight decline in the growth rate for the PRC's government and corporate bond markets. The PRC's government and corporate bond markets had grown very rapidly in the first two quarters of 2009 on the back of fiscal stimulus packages and the newly introduced medium-term note (MTN) program. The MTN segment of the corporate bond market experienced q-o-q growth of 104% and 74% in 1Q09 and 2Q09, respectively, before falling to a more modest 25.3% in 3Q09.

At the same time, other markets in the region witnessed a sharp step-up in their growth rates. For example, Hong Kong, China's bond market growth rate rose to 39.0% y-o-y in 3Q09 from 19.4% in 2Q09 **(Figure 1)**. The bond market y-o-y growth rates for Indonesia, Singapore, the Republic of Korea (Korea) and Thailand rose to 18.1%, 17.3%, 16.0%, and 15.8%, respectively, in 3Q09 from much lower 2Q09 growth rates of 12.3%, 6.3%, 13.1%, and 7.8%, respectively.

Figure 1: Growth of Emerging East Asian Local Currency Bond Markets in 2Q09 and 3Q09
(y-o-y %)



y-o-y = year-on-year.
Note:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency (LCY) base and do not include currency effects.
3. Total emerging East Asia growth figure is based on end-September 2009 currency exchange rates and do not include currency effects.

Source:
People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Singapore Government Securities, Monetary Authority of Singapore and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

The y-o-y growth rate of the Philippine bond market fell to 7.5% in 3Q09 from 8.2% in 2Q09, while that of Viet Nam fell to an even lower level of 2.2%.

Growth in the region's government bond markets in 3Q09 was led by Hong Kong, China; Singapore; Indonesia; and Korea.

Although the PRC's corporate bond market is still the region's corporate bond growth leader, the much larger PRC government bond market grew only 5.7% y-o-y in 3Q09. Meanwhile, the region's outstanding government bonds ex-PRC grew

Table 1: Size and Composition of Emerging East Asian Local Currency Bond Markets

	3Q08		2Q09		3Q09		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	3Q08		3Q09		3Q08		3Q09	
							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														
Total	2,114	100.0	2,309	100.0	2,415	100.0	5.3	26.0	4.5	13.9	5.5	38.1	4.6	14.2
Government	1,901	90.0	1,954	84.6	2,015	83.4	4.4	24.0	3.1	5.7	4.5	36.0	3.1	6.0
Corporate	212	10.0	355	15.4	400	16.6	14.4	46.5	12.5	87.7	14.6	60.7	12.6	88.2
Hong Kong, China														
Total	92	100.0	111	100.0	129	100.0	(0.8)	(5.2)	15.5	39.0	(0.4)	(5.2)	15.5	39.3
Government	19	20.2	37	33.4	54	41.8	0.5	6.9	44.4	187.3	0.9	7.0	44.4	187.8
Corporate	74	79.8	74	66.6	75	58.2	(1.1)	(7.9)	0.9	1.4	(0.7)	(7.9)	0.9	1.6
Indonesia														
Total	77	100.0	84	100.0	90	100.0	(3.9)	(9.7)	1.0	18.1	(7.6)	(14.2)	6.7	17.2
Government	69	89.4	77	91.3	82	90.9	(3.7)	(10.3)	0.7	20.1	(7.4)	(14.8)	6.3	19.2
Corporate	8	10.6	7	8.7	8	9.1	(5.6)	(3.9)	4.9	1.3	(9.2)	(8.7)	10.8	0.5
Korea, Rep. of														
Total	850	100.0	901	100.0	1,001	100.0	0.1	7.6	2.6	16.0	(12.2)	(17.7)	11.1	17.7
Government	387	45.5	415	46.0	460	45.9	(3.2)	(0.7)	2.4	17.1	(15.1)	(24.0)	10.8	18.9
Corporate	464	54.5	486	54.0	542	54.1	3.0	15.6	2.9	15.1	(9.7)	(11.5)	11.3	16.8
Malaysia														
Total	173	100.0	174	100.0	181	100.0	(2.3)	11.5	2.7	5.5	(7.3)	10.4	4.1	4.7
Government	97	56.1	96	55.6	101	55.6	(5.9)	3.3	2.8	4.7	(10.7)	2.2	4.2	3.9
Corporate	76	43.9	77	44.4	80	44.4	2.7	24.2	2.5	6.5	(2.5)	22.9	3.9	5.8
Philippines														
Total	56	100.0	57	100.0	59	100.0	3.0	10.0	2.3	7.5	(1.8)	5.1	3.4	6.3
Government	52	92.8	51	89.2	53	88.9	3.0	7.9	2.0	3.0	(1.8)	3.2	3.0	1.8
Corporate	4	7.2	6	10.8	7	11.1	3.2	46.6	5.4	65.8	(1.6)	40.2	6.5	63.9
Singapore														
Total	128	100.0	139	100.0	153	100.0	(2.7)	10.4	7.4	17.3	(7.7)	14.2	10.5	19.6
Government	71	55.3	80	57.7	87	56.9	(5.9)	5.0	6.0	20.7	(10.8)	8.6	9.1	23.0
Corporate	57	44.7	59	42.3	66	43.1	1.7	18.0	9.4	13.1	(3.5)	22.1	12.5	15.3
Thailand														
Total	147	100.0	159	100.0	172	100.0	(1.1)	11.1	6.2	15.8	(2.1)	12.6	8.3	17.0
Government	119	81.1	126	79.0	136	79.2	(0.5)	13.8	6.6	13.1	(1.6)	15.3	8.6	14.4
Corporate	28	18.9	33	21.0	36	20.8	(3.3)	0.8	5.0	27.2	(4.3)	2.2	7.0	28.6

Table 1 continued

	3Q08		2Q09		3Q09		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
							3Q08		3Q09		3Q08		3Q09	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD 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
Viet Nam														
Total	13	100.0	12	100.0	12	100.0	5.9	39.0	0.6	2.2	7.4	34.7	0.4	(4.9)
Government	12	95.8	11	94.6	11	93.7	4.8	36.9	(0.3)	(0.05)	6.3	32.7	(0.6)	(7.0)
Corporate	0.5	4.2	0.7	5.4	0.8	6.3	39.5	113.8	16.9	54.6	41.5	107.1	16.6	43.8
Total Emerging East Asia														
Total	3,649	100.0	3,946	100.0	4,212	100.0	2.7	17.2	4.3	14.8	(1.2)	13.6	6.7	15.4
Government	2,726	74.7	2,847	72.1	2,998	71.2	2.1	16.5	3.6	9.5	(0.5)	17.1	5.3	10.0
Corporate	923	25.3	1,099	27.9	1,214	28.8	4.6	19.2	6.1	30.3	(3.1)	4.5	10.4	31.5
Less PRC:														
Total	1,535	100.0	1,637	100.0	1,797	100.0	(0.7)	6.9	4.1	16.0	(9.0)	(8.6)	9.8	17.0
Government	825	53.7	893	54.6	983	54.7	(2.9)	2.3	4.8	18.4	(10.5)	(11.3)	10.1	19.2
Corporate	711	46.3	744	45.4	814	45.3	2.1	12.9	3.3	13.2	(7.3)	(5.4)	9.4	14.5
Japan														
Total	8,112	100.0	9,041	100.0	9,838	100.0	(0.4)	1.6	1.3	2.4	(0.4)	9.8	8.8	21.3
Government	7,286	89.8	8,118	89.8	8,834	89.8	(0.5)	1.5	1.3	2.4	(0.5)	9.7	8.8	21.2
Corporate	826	10.2	923	10.2	1,003	10.2	0.4	2.3	1.2	2.6	0.4	10.6	8.7	21.5

q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Note:

1. Data for each market are as follows: Indonesia—*Sertifikat Bank Indonesia* (SBI) portion of government bonds outstanding to August 2009, carried over to 3Q09; and Singapore—corporate bonds outstanding quarterly figues are based on *AsianBondsOnline* estimates.
2. Corporate bonds include issues by financial institutions.
3. Bloomberg LP end-of-period LCY–USD rates are used.
4. For LCY-base, total emerging East Asia growth figures are based on end-September 2009 currency exchange rates and do not include currency effects.

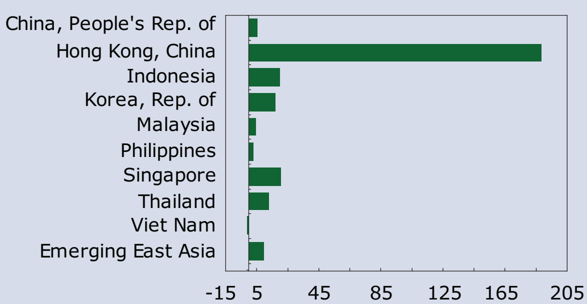
Source:

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

16.0% y-o-y in the same period. A similar trend prevailed on a q-o-q basis. PRC government bonds grew by 3.1% q-o-q in 3Q09, while the region's government bonds ex-PRC grew by 4.8%.

Hong Kong, China's government bonds grew by 187.3% y-o-y in 3Q09 **(Figure 2)**. Most of Hong Kong, China's government sector debt consists of Exchange Fund Bills and Notes (EFBNs) issued by the Hong Kong Monetary Authority (HKMA) for monetary policy purposes. However, Hong Kong, China's government issued a HKD3.5 billion bond in September and a HKD2.0 billion bond in early November, which are known as Special Administrative Region (SAR) issues. The government is expected to issue another SAR bond early next year. Issuance of EFBNs has accelerated this year as HKMA has moved to sterilize large foreign exchange inflows.

Figure 2: Growth of Emerging East Asian Local Currency Government Bond Markets in 3Q09
(y-o-y %)



y-o-y = year-on-year.
Note:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency (LCY) base and do not include currency effects.
3. Total emerging East Asia growth figure is based on end-September 2009 currency exchange rates and do not include currency effects.

Source:
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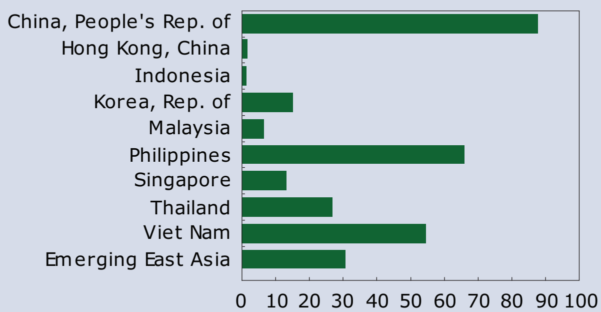
The growth rate for Singapore's government debt jumped to 20.7% y-o-y in 3Q09 from 7.1% in 2Q09. Indonesian government bonds grew by 20.1% y-o-y in 3Q09, reflecting continued issuance to fund the government's economic stimulus program. The government expects GDP growth to reach 4.3% in 2009. Korean government bonds grew by 17.1% y-o-y in 3Q09, which was also the result of aggressive issuance to support a stimulus program. Finally, Thai government bonds grew 13.1% y-o-y in 3Q09 compared to only 5.6% growth in 2Q09. While the rise in government bonds outstanding for all of these markets reflects substantial increases of funding for fiscal stimulus programs in 3Q09, Thailand's issuance of THB80 billion (USD2.35 billion) of retail savings bonds in July was an important additional factor driving the growth rate for Thai government bonds.

The region's growth rate for corporate sector bonds in 3Q09 was driven by continuation of large funding needs for investments in energy and infrastructure, as well as issuance by the region's banks.

Growth in the PRC's corporate bond market in 3Q09 was still the highest in the region at 87.7% y-o-y, although this was down slightly from 90.9% growth in 2Q09 **(Figure 3)**. On the other hand, the PRC's medium-term note (MTN) bond market's q-o-q growth rate of 25.3% in 3Q09 was substantially less than the 73.7% growth recorded in 2Q09. The q-o-q growth rate for commercial bank bonds outstanding rose to 21.1% in 3Q09 from 11.1% in 1Q09. Also, the q-o-q growth rate for local corporate bonds—bonds issued by provincially based corporate entities—fell to 11.2% in 3Q09 from 50.1% in 2Q09.

The region's second most rapidly growing corporate bond market was in the Philippines, with growth of 65.8% y-o-y as a wide range of energy, real estate, and retail companies, as well as banks, continued to aggressively issue bonds in 2009. For example, San Miguel Corporation stunned the market with an impressive PHP38 billion (USD813 million)

Figure 3: Growth of Emerging East Asian Local Currency Corporate Bond Markets in 3Q09
(y-o-y %)



y-o-y = year-on-year.
Note:
1. Calculated using data from national sources.
2. Corporate bonds include issues by financial institutions.
3. Growth rates are calculated from local currency (LCY) base and do not include currency effects.
4. Total emerging East Asia growth figure is based on end-September 2009 currency exchange rates and do not include currency effects.

Source:
People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Singapore Government Securities, Monetary Authority of Singapore and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

issue in three separate tranches in April. The next largest issuers of corporate bonds in the Philippines after San Miguel are Banco de Oro (PHP33 billion bonds outstanding) and Metropolitan Bank (PHP18.5 billion bonds outstanding). The most notable issue in 3Q09 was the PHP10 billion issue from Robinsons Land. The region's next most rapidly growing corporate bond market in 3Q09 was in Viet Nam, which grew 54.6% y-o-y and even outperformed the PRC and the Philippines on a q-o-q basis. However, this growth was from a very small base of less than USD1 billion and was mostly from smaller companies and banks.

The y-o-y growth rates reported for the Thai and Korean corporate bond markets—27.2% and 15.1%, respectively—were arguably the region's most impressive, given that these are more mature markets than in the Philippines and Viet Nam. The Thai LCY bond market has a total value of USD36 billion. At USD542 billion, Korea's corporate bond market is significantly larger than its government bond market (USD460 billion). The principal corporate issuers in Korea are state-owned energy and infrastructure companies, as well as banks and other financial institutions. Issuance in the Thai corporate bond sector is highly granular, with 50% or more consisting of short-term issuance in a typical quarter. Furthermore, Thai corporates outside of the state-owned sector tend to issue bonds that are relatively small in size. The largest non-state-owned issuers in 3Q09 were companies such as Siam City Bank, True Corporation, and Krung Thai Card. However, PTT PCL, the state-owned refining and petrochemical conglomerate, issued THB35.0 billion (USD1 billion) of bonds in three tranches in July.

Ratio of Bonds Outstanding to GDP

The ratio of emerging East Asian LCY bonds outstanding to the region's GDP rose to 62% at the end of 3Q09 from 58% in 2Q09.

The three markets with the most significant increase in their respective ratio of total LCY bonds outstanding to GDP were Korea (12 percentage points), Singapore (8 percentage points), and Hong Kong, China (8 percentage points) **(Table 2)**.

LCY Bond Issuance

LCY bond issuance growth slowed in 3Q09 on a q-o-q basis, rising by 12.0% compared to 51.2% in 2Q09, although it rose by an impressive 68.5% on a y-o-y basis.

These robust growth rates reflect financing needs for government fiscal stimulus programs, as well as corporate sector funding needs in infrastructure and energy. The continued growth of bank issuance, especially subordinated debt bonds, also contributed to LCY bond issuance growth in 3Q09.

Table 2: Size and Composition of Emerging East Asian Local Currency Bond Markets (% of GDP)

	3Q08	2Q09	3Q09
China, People's Rep. of			
Total	59.9	52.4	54.8
Government	53.9	44.3	45.7
Corporate	6.0	8.1	9.1
Hong Kong, China			
Total	44.5	51.4	59.4
Government	9.0	17.2	24.8
Corporate	35.5	34.2	34.6
Indonesia			
Total	18.3	19.3	20.6
Government	16.3	17.6	18.7
Corporate	1.9	1.7	1.9
Korea, Rep. of			
Total	81.6	110.9	123.2
Government	37.1	51.0	56.5
Corporate	44.5	59.8	66.6
Malaysia			
Total	89.2	81.3	84.6
Government	50.0	45.2	47.1
Corporate	39.2	36.1	37.6
Philippines			
Total	34.5	36.5	37.8
Government	32.1	32.6	33.6
Corporate	2.5	3.9	4.2

	3Q08	2Q09	3Q09
Singapore			
Total	73.2	77.3	85.4
Government	40.5	44.6	48.6
Corporate	32.7	32.7	36.8
Thailand			
Total	58.3	60.6	65.7
Government	47.3	47.9	52.0
Corporate	11.0	12.7	13.6
Viet Nam			
Total	17.9	14.3	14.4
Government	17.2	13.5	13.5
Corporate	0.7	0.8	0.9
Total Emerging East Asia			
Total	60.3	58.3	62.2
Government	45.1	42.1	44.3
Corporate	15.3	16.2	17.9
Japan			
Total	175.8	161.7	176.0
Government	157.9	145.2	158.0
Corporate	17.9	16.5	17.9

Note:
GDP data are from CEIC. 2007 annual GDP was used for the calculation of bonds outstanding as a percentage of GDP for 3Q08; 2008 annual GDP was used for 2Q09 and 3Q09.

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

LCY bond issuance in emerging East Asia rose by 68.5% y-o-y in 3Q09 **(Table 3a)**, which was well above the already high growth level of 41.1% in 2Q09. However, the q-o-q growth rate for 3Q09 was a much lower 12.0%. In fact, this was also well below the q-o-q gross issuance growth rate of 51.2% in 2Q09**,** which suggests that the rapid increase of issuance in 2009 may be slowing down—both on a q-o-q and y-o-y basis—in the coming quarters. This should not be surprising, given that issuance trends, as opposed to growth trends, can be highly cyclical **(Figure 4)**. Total issuance reached a high point in 2Q07 that was not surpassed again until 3Q09.

The individual markets driving issuance growth for the region as a whole were the PRC; Hong Kong, China; Korea; the Philippines; and Singapore.

- PRC issuance growth in 3Q09 rose to 69.8% on a y-o-y basis, compared to 33.7% in 2Q09, mainly due to acceleration in the growth rate for government issuance to 67.4% from 13.7%. The growth rate for corporate issuance fell to 82.1% y-o-y compared to 235.6% in 2Q09. On a q-o-q basis, however, the growth rates for both government and corporate issuance in the PRC fell sharply from 2Q09 levels. Government issuance growth in 3Q09 fell to 38.0% from 163.4% in 2Q09, while corporate issuance rose by only 1.0% in 3Q09, compared to 37.7% in 2Q09.

Table 3a: Local Currency-Denominated Bond Issuance (Gross)

	LCY billion		USD billion		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	3Q09	% share	3Q09	% share	3Q09		3Q09	
					q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of								
Total	2,965	100.0	434	100.0	29.7	69.8	29.7	70.3
Government	2,444	82.4	358	82.4	38.0	67.4	38.1	67.9
Corporate	521	17.6	76	17.6	1.0	82.1	1.1	82.7
Hong Kong, China								
Total	1,309	100.0	169	100.0	8.5	565.3	8.5	566.6
Government	1,262	96.4	163	96.4	9.8	694.8	9.8	696.3
Corporate	48	3.6	6	3.6	(17.1)	25.1	(17.1)	25.3
Indonesia								
Total	396,722	100.0	41	100.0	12.4	(1.5)	18.7	(2.3)
Government	393,222	99.1	41	99.1	18.1	(2.1)	24.8	(2.9)
Corporate	3,500	0.9	0.4	0.9	(82.7)	233.3	(81.7)	230.7
Korea, Rep. of								
Total	216,193	100.0	184	100.0	(5.4)	83.7	2.3	86.4
Government	149,674	69.2	127	69.2	0.2	140.1	8.4	143.8
Corporate	66,519	30.8	57	30.8	(16.0)	20.1	(9.1)	21.9
Malaysia								
Total	78	100.0	22	100.0	2.7	(6.4)	4.1	(7.1)
Government	62	79.2	18	79.2	23.7	(7.8)	25.3	(8.4)
Corporate	16	20.8	5	20.8	(37.5)	(1.1)	(36.6)	(1.8)
Philippines								
Total	243	100.0	5	100.0	75.1	6.5	76.9	5.3
Government	233	95.9	5	95.9	196.9	9.0	200.0	7.8
Corporate	10	4.1	0.2	4.1	(83.4)	(31.3)	(83.2)	(32.1)
Singapore								
Total	49	100.0	35	100.0	8.9	25.1	12.1	27.5
Government	45	91.7	32	91.7	5.7	46.2	8.8	49.0
Corporate	4	8.3	3	8.3	65.1	(51.7)	69.9	(50.8)
Thailand								
Total	2,723	100.0	81	100.0	(9.1)	(15.9)	(7.4)	(14.9)
Government	2,477	91.0	74	91.0	(8.4)	(15.7)	(6.7)	(14.7)
Corporate	246	9.0	7	9.0	(15.4)	(17.9)	(13.7)	(17.0)
Viet Nam								
Total	5,676	100.0	0.3	100.0	(32.5)	(53.3)	(32.7)	(56.5)
Government	3,572	62.9	0.2	62.9	(51.8)	(69.3)	(51.9)	(71.4)
Corporate	2,104	37.1	0.1	37.1	110.4	320.7	109.9	291.5
Total Emerging East Asia								
Total	n.a.	n.a.	972	100.0	12.0	68.5	14.6	69.5
Government	n.a.	n.a.	817	84.1	17.4	76.6	19.8	77.5
Corporate	n.a.	n.a.	155	15.9	(9.9)	35.6	(6.9)	36.8

Table 3a continued

	LCY billion		USD billion		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	3Q09	% share	3Q09	% share	3Q09		3Q09	
					q-o-q	y-o-y	q-o-q	y-o-y
Less PRC:								
Total	n.a.	n.a.	538	100.0	0.9	67.5	4.7	68.8
Government	n.a.	n.a.	459	85.4	5.1	84.5	8.6	85.7
Corporate	n.a.	n.a.	78	14.6	(18.5)	8.6	(13.5)	10.0
Japan								
Total	48,037	100.0	536	100.0	14.5	27.9	23.0	51.5
Government	43,678	90.9	487	90.9	17.0	31.5	25.7	55.7
Corporate	4,359	9.1	49	9.1	(5.6)	0.2	1.4	18.7

n.a. = not applicable.
Note:
1. Corporate bonds include issues by financial institutions.
2. Bloomberg LP end-of-period LCY–USD rates are used.
3. For LCY–base, total emerging East Asia growth figures are based on end-September 2009 currency exchange rates and do not include currency effects.

Source:
People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bloomberg LP); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bloomberg LP); Philippines (Bloomberg LP); Singapore (Singapore Government Securities, Monetary Authority of Singapore, and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

- Government issuance sharply accelerated in Hong Kong, China in 3Q09 by 694.8% y-o-y from an already high rate in 2Q09, reflecting accelerated issuance of EFBNs by HKMA. In addition, corporate issuance in Hong Kong, China recovered to rise 25.1% y-o-y in 3Q09.

- Korean government issuance rose 140.1% y-o-y in 3Q09, while corporate issuance rose by a much smaller 20.1%. Korean issuance on a q-o-q basis, however, fell overall.

- Philippine government issuance rose by 196.9% q-o-q, and 9.0% y-o-y.

- On a y-o-y basis, government issuance in Singapore rose in 3Q09 by 46.2%, while corporate issuance fell by 51.7%. Singaporean issuance on a q-o-q basis rose by 8.9%.

- The y-o-y decline of Thai issuance in 3Q09 was balanced, with the fall in both government and corporate bond issuance ranging from 15.7% to 17.9%.

- Finally, the growth rate for Indonesian government bond issuance was slightly negative at –2.1% y-o-y, even though the size of government bonds outstanding rose 20.1% y-o-y.

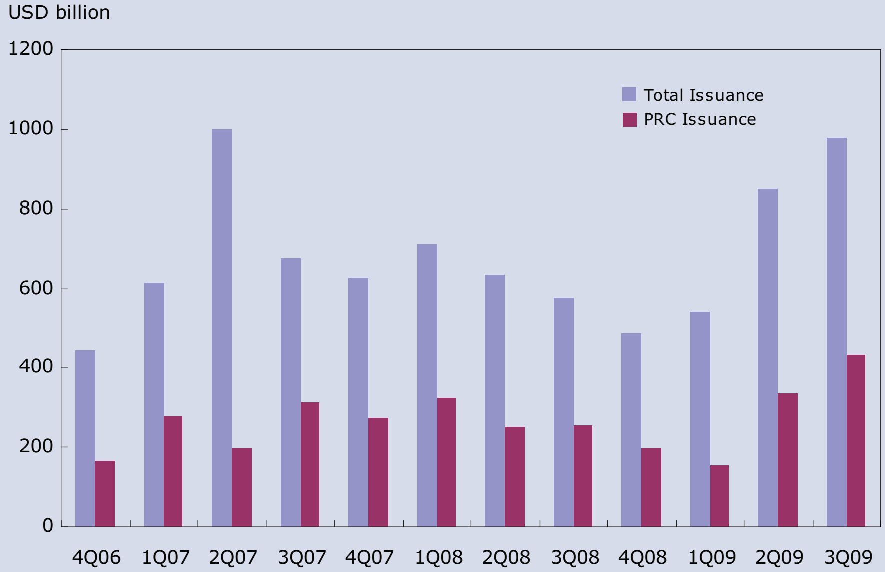
An alternative way of looking at issuance is provided in **Table 3b**, which compares gross issuance with total bonds outstanding, net issuance (change in bonds outstanding between 3Q09 and 2Q09), and net amortization (gross issuance less net issuance). The ratio of gross issuance to total bonds outstanding for emerging East Asia at the end of 3Q09 was 23.1%. This represented a range from a high of 131.4% in Hong Kong, China to a low of 2.6% in Viet Nam. The next highest gross-issuance-to-bonds-outstanding ratio was for Thailand at 47.3%, which was followed by Indonesia at 45.6%. The regional average rises from 23.1% to 29.9% when the PRC is excluded. This finding is consistent with the earlier observation that markets other than the PRC were the primary drivers of regional bond market growth in 3Q09.

Table 3b: Market Size and Issuance for Emerging East Asian LCY Bond Markets

	1H09 Bonds Outstanding (USD billion)	3Q09 Bonds Outstanding (USD billion)	3Q09 Gross Issuance (USD billion)	3Q09 Gross Iss./ Bonds Outst. (%)	3Q09 Net Issuance (USD billion)	3Q09 Amortization (USD billion)
China, People's Rep. of						
Total	2,309	2,415	434	18.0	106	329
Government	1,954	2,015	358	17.8	61	297
Corporate	355	400	76	19.1	45	32
Hong Kong, China						
Total	111	129	169	131.4	17	152
Government	37	54	163	302.9	17	146
Corporate	74	75	6	8.2	1	5
Indonesia						
Total	84	90	41	45.6	6	35
Government	77	82	41	49.7	5	36
Corporate	7	8	0.4	4.4	1	(0.4)
Korea, Rep. of						
Total	901	1,001	184	18.4	100	84
Government	415	460	127	27.7	45	82
Corporate	486	542	57	10.4	55	2
Malaysia						
Total	174	181	22	12.4	7	15
Government	96	101	18	17.7	4	14
Corporate	77	80	5	5.8	3	2
Philippines						
Total	57	59	5	8.6	2	3
Government	51	53	5	9.3	2	3
Corporate	6	7	0.2	3.2	0	(0.2)
Singapore						
Total	139	153	35	22.6	15	20
Government	80	87	32	36.4	7	24
Corporate	59	66	3	4.3	7	(4)
Thailand						
Total	159	172	81	47.3	13	68
Government	126	136	74	54.3	11	63
Corporate	33	36	7	20.6	2	5
Viet Nam						
Total	12	12	0.3	2.6	0.05	0.3
Government	11	11	0.2	1.8	(0.1)	0.3
Corporate	0.7	0.8	0.1	15.4	0.10	0.01
Total Emerging East Asia						
Total	3,946	4,212	972	23.1	265	707
Government	2,847	2,998	817	27.3	151	666
Corporate	1,099	1,214	155	12.7	114	40
Less PRC:						
Total	1,637	1,797	538	29.9	160	378
Government	893	983	459	46.7	90	370
Corporate	744	814	78	9.6	70	9
Japan						
Total	9,041	9,838	536	5.4	796	(261)
Government	8,118	8,834	487	5.5	716	(229)
Corporate	923	1,003	49	4.8	80	(32)

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

Figure 4: Total Local Currency Bond Issuance



Source:
People's Republic of China (*ChinaBond)*; Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bloomberg LP); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bloomberg LP); Philippines (Bloomberg LP); Singapore (Singapore Government Securities, Monetary Authority of Singapore, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

Net issuance—the net change in bonds outstanding for the region between end-2Q09 and end-3Q09—was USD265 billion as compared to gross issuance of USD972 billion. This resulted in net amortization of USD707 billion in 3Q09. The net increase in bonds outstanding was relatively small—less than USD20 billion—for most markets in 3Q09. Only the PRC and Korea experienced net issuance of USD100 billion or more.

Net amortization, on the other hand, varied a great deal in 3Q09, ranging from USD0.3 billion in Viet Nam to USD329 billion in the PRC. The PRC; Hong Kong, China; and Korea generated the largest amounts of net amortization at USD329 billion, USD152 billion, and USD84 billion, respectively.

Money Market Trends and Bills-To-Bonds Ratios

The bills-to-bonds ratios for most emerging East Asian markets in 3Q09 were largely unchanged from 2Q09. The notable exception was Hong Kong, China, where the HKMA bills–to-bonds ratio is about 10 times as large as most other markets in the region.

The region's y-o-y growth rates for treasury bills and central bank bills in 3Q09—41.5% and 23.6%, respectively—were largely unchanged from 2Q09 **(Table 4)**. The q-o-q growth rates in 3Q09 for treasury bills and central bank bills were roughly flat at 4.4% and 6.8%, respectively. In addition, the growth of bonds issued by central governments and central banks both declined slightly on a y-o-y basis. These declines suggest that governments are paring back their short-term issuance as markets for long-term bonds stabilize, on both an LCY and

Table 4: Government Bills to Bonds Ratios of Emerging East Asian Local Currency Bond Markets

	3Q08		2Q09		3Q09		Government Bills-to-Bonds Ratio			Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	3Q08	2Q09	3Q09	3Q09		3Q09	
										q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of													
Total	1,390.1	100.0	1,351.5	100.0	1,358.6	100.0				0.5	(2.5)	0.5	(2.3)
Treasury Bills	73.6	5.3	103.4	7.6	110.1	8.1	0.08	0.12	0.13	6.5	49.1	6.5	49.5
Central Bank Bills	353.1	25.4	368.3	27.2	414.7	30.5	0.37	0.42	0.50	12.5	17.1	12.6	17.5
Bonds	963.4	69.3	879.9	65.1	833.7	61.4				(5.3)	(13.7)	(5.2)	(13.5)
Hong Kong, China													
Total	18.7	100.0	37.2	100.0	53.3	100.0				43.2	184.9	43.2	185.4
Treasury Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.00	0.00	0.00	0.0	0.0	0.0	0.0
Central Bank Bills	10.2	54.7	28.4	76.2	44.3	83.1	1.21	3.20	4.93	56.2	333.2	56.2	334.0
Bonds	8.5	45.3	8.9	23.8	9.0	16.9				1.5	5.9	1.5	6.1
Indonesia													
Total	68.7	100.0	77.0	100.0	82.1	100.0				0.9	20.4	6.6	19.5
Treasury Bills	1.0	1.5	2.4	3.2	2.4	3.0	0.02	0.05	0.04	(5.3)	134.7	0.0	132.9
Central Bank Bills	12.2	17.8	22.8	29.6	23.2	28.2	0.22	0.44	0.41	(3.8)	91.3	1.6	89.8
Bonds	55.4	80.7	51.8	67.2	56.5	68.8				3.3	2.7	9.1	1.9
Korea, Rep. of													
Total	308.8	100.0	348.9	100.0	361.1	100.0				(4.4)	15.2	3.5	16.9
Treasury Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.00	0.00	0.00	0.0	0.0	0.0	0.0
Central Bank Bills	20.2	6.5	53.8	15.4	34.8	9.6	0.07	0.18	0.11	(40.2)	69.8	(35.3)	72.3
Bonds	288.6	93.5	295.0	84.6	326.3	90.4				2.2	11.4	10.6	13.1
Malaysia													
Total	93.3	100.0	94.2	100.0	99.2	100.0				3.8	7.1	5.3	6.3
Treasury Bills	1.3	1.3	1.2	1.3	1.2	1.3	0.02	0.02	0.01	0.0	0.0	1.4	(0.7)
Central Bank Bills	21.6	23.2	12.3	13.1	10.7	10.8	0.31	0.15	0.12	(14.5)	(50.3)	(13.4)	(50.7)
Bonds	70.4	75.5	80.7	85.6	87.3	88.0				6.7	24.8	8.2	23.9
Philippines													
Total	49.9	100.0	49.2	100.0	50.8	100.0				2.0	2.9	3.1	1.7
Treasury Bills	16.2	32.5	14.1	28.7	12.8	25.2	0.48	0.40	0.34	(10.6)	(20.5)	(9.7)	(21.3)
Central Bank Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.00	0.00	0.00	0.0	0.0	0.0	0.0
Bonds	33.7	67.5	35.1	71.3	38.0	74.8				7.1	14.2	8.2	12.9
Singapore													
Total	70.8	100.0	79.9	100.0	87.1	100.0				6.0	20.7	9.1	23.0
Treasury Bills	23.4	33.1	31.8	39.8	35.0	40.2	0.49	0.66	0.67	7.2	46.7	10.3	49.5
Central Bank Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.00	0.00	0.00	0.0	0.0	0.0	0.0
Bonds	47.4	66.9	48.1	60.2	52.1	59.8				5.2	7.8	8.2	9.9

Table 4 continued

	3Q08		2Q09		3Q09		GGovernment Bills-to-Bonds Ratio			Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	3Q08	2Q09	3Q09	3Q09		3Q09	
										q-o-q	y-o-y	q-o-q	y-o-y
Thailand													
Total	96.1	100.0	101.8	100.0	106.8	100.0				3.0	9.9	4.9	11.1
Treasury Bills	4.3	4.5	8.4	8.3	8.5	8.0	0.07	0.12	0.12	(1.0)	93.7	0.9	95.9
Central Bank Bills	27.0	28.1	25.3	24.8	24.7	23.1	0.42	0.37	0.34	(4.2)	(9.6)	(2.3)	(8.6)
Bonds	64.8	67.4	68.1	66.9	73.6	68.9				6.1	12.4	8.1	13.7
Viet Nam													
Total	7.2	100.0	5.8	100.0	5.8	100.0				(1.0)	(14.2)	(1.2)	(20.2)
Treasury Bills	0.1	2.0	0.6	10.9	0.5	9.3	0.03	0.12	0.10	(15.0)	300.1	(15.2)	272.3
Central Bank Bills	1.4	19.8	0.0	0.0	0.1	1.7	0.25	0.00	0.02	—	(92.7)	—	(93.2)
Bonds	5.6	78.2	5.2	89.1	5.1	89.0				(1.1)	(2.4)	(1.4)	(9.2)
Total Emerging East Asia													
Total	2,103.7	100.0	2,145.6	100.0	2,204.7	100.0				0.9	4.4	2.8	4.8
Treasury Bills	120.1	5.7	162.0	7.5	170.6	7.7	0.08	0.11	0.12	4.4	41.5	5.3	42.1
Central Bank Bills	445.8	21.2	510.9	23.8	552.5	25.1	0.29	0.35	0.37	6.8	23.6	8.1	23.9
Bonds	1,537.8	73.1	1,472.8	68.6	1,481.6	67.2				(1.5)	(4.1)	0.6	(3.7)
Less PRC:													
Total	713.6	100.0	794.1	100.0	846.1	100.0				1.6	17.8	6.6	18.6
Treasury Bills	46.4	6.5	58.6	7.4	60.5	7.2	0.08	0.10	0.09	0.8	29.5	3.2	30.3
Central Bank Bills	92.7	13.0	142.6	18.0	137.7	16.3	0.16	0.24	0.21	(7.5)	48.1	(3.4)	48.6
Bonds	574.4	80.5	592.9	74.7	647.9	76.6				3.8	12.0	9.3	12.8
Japan													
Total	6,377.1	100.0	7,074.5	100.0	7,693.3	100.0				1.3	1.9	8.7	20.6
Treasury Bills	158.2	2.5	233.6	3.3	247.5	3.2	0.03	0.03	0.03	(1.3)	32.1	6.0	56.5
Central Bank Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.00	0.00	0.00	0.0	0.0	0.0	0.0
Bonds	6,218.9	97.5	6,840.9	96.7	7,445.7	96.8				1.3	1.1	8.8	19.7

— = data not applicable.

Note:

1. Bloomberg LP end-of-period LCY–USD rates are used.
2. For LCY-base, total emerging East Asia growth figures are based on end-September 2009 currency exchange rates and do not include currency effects.
3. Total figures per market refer to bills and bonds issued by the central government and the central bank. It excludes bonds issued by policy banks and state-owned enterprises. Bills are defined as securities with original maturities of less than one year.

Source:

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

FCY basis, and central banks have less need to issue for sterilization purposes. The only markets to see a significant y-o-y increase in central bank/monetary authority bills outstanding in 3Q09 were in Hong Kong, China; Indonesia; Korea; and the PRC, where treasury bills rose by 49.1% y-o-y and central bank bills rose by 17.1% y-o-y. However, q-o-q growth rates were significantly lower for Hong Kong, China and the PRC, and were actually negative for Korea and Indonesia.

The region's y-o-y growth rate for treasury bills was significantly higher than that for central bank bills. However, the amount of treasury bills outstanding across the region is less than one third of central bank bills, reflecting the fact that treasury bills are issued in small amounts in a number of local markets.

These trends resulted in bills-to-bonds ratios for 3Q09 that rose only modestly from 2Q09, whether calculated on the basis of central bank bills to bonds or treasury bills to bonds. The ratio of treasury bills to bonds was 0.12 in 3Q09 compared to 0.11 in 2Q09, while the ratio of central banks bills to bonds was 0.37 in 3Q09 compared to 0.35 in 2Q09. The major exception is Hong Kong, China, where HKMA's bills-to-bonds ratio rose dramatically to 4.93 in 3Q09 from 3.20 in 2Q09.

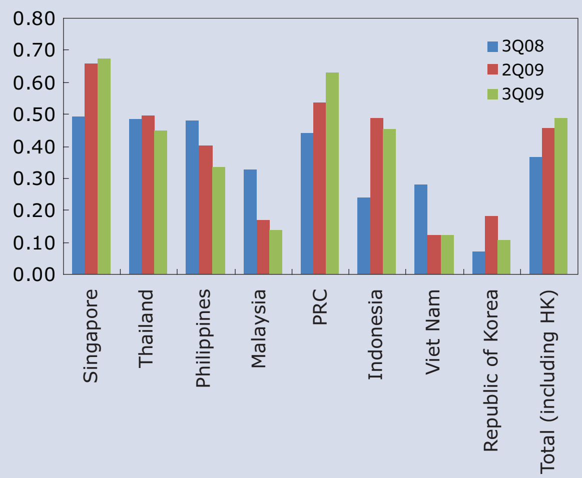
These trends can be seen more clearly in **Figure 5,** which combines the bills-to-bonds ratios for both treasury bills and central bank bills into one figure for each market. On this basis, most markets saw a decrease in their overall bills-to-bonds ratios in 3Q09. Bills-to-bonds ratios rose to levels above 60% only in Singapore; the PRC; and Hong Kong, China. The much larger increase indicated for the total includes Hong Kong, China, which is not included in Figure 5 because of its significantly larger bills-to-bonds ratio.

Government Bond Yields

The overall trend in many markets is towards a flattening of government yield curves since the end of 2Q09, but yields at the short and long end show different trends in each market.

Government bond yield curves have generally flattened in recent months compared to the end of 2Q09, albeit in different ways in various emerging Asian markets. Curves have flattened in Hong Kong, China; Indonesia; and Malaysia due to yields falling more at the long end of the curve than at the short end **(Figure 6)**. In Korea, the PRC, and Viet Nam, this flattening has been achieved in a

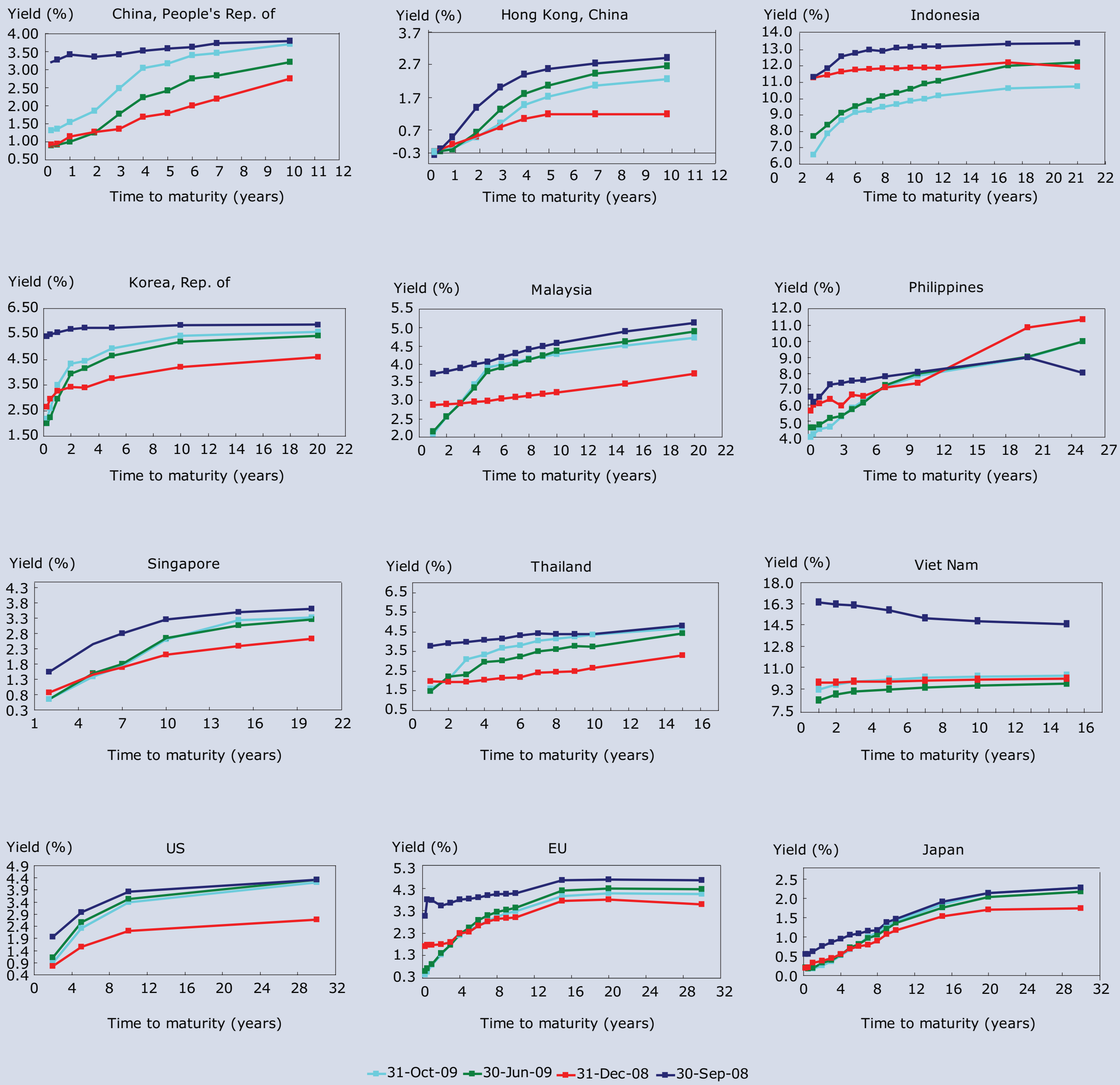
Figure 5: Total Bills-To-Bonds Ratios



HK = Hong Kong, China; PRC = People's Republic of China.
Note:
Total bills comprise central bank bills plus treasury bills. Bonds comprise long-term bonds (more than 1 year in maturity) issued by central governments and central banks.

Source: *AsianBondsOnline*.

Figure 6: Benchmark Yield Cuves—Local Currency Bonds



Source: Based on data from Bloomberg LP.

context of rising yields, with short-term yields rising more than yields at the longer end of the curve.

It remains to be seen whether this flattening trend will be sustained, given simmering market concern over future inflationary pressures and worries about premature policy tightening amid rapid economic recovery in many Asian economies. Market speculation has mounted over whether and when monetary authorities will end their current accommodative monetary policies.

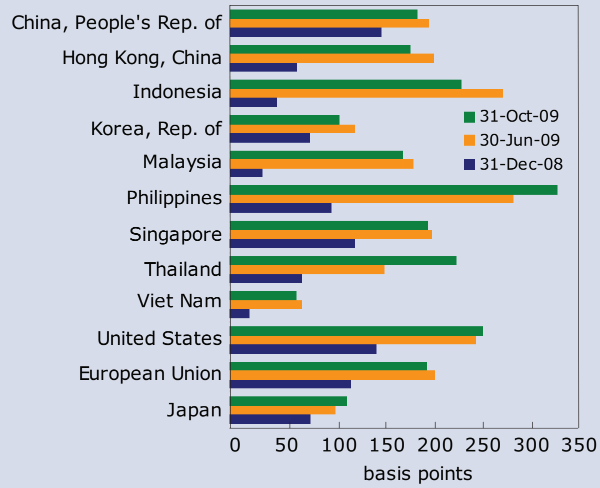
In Thailand, yields on maturities longer than 2 years have increased significantly since the end of 2Q09. In Indonesia, yields have fallen along the entire length of the government bond yield curve since the end of 2Q09, while falling most sharply at the short end. Singapore is a more complex story, with 2-year yields unchanged between end-2Q09 and end-October, 10-year yields slightly lower, but with longer-term yields rising slightly at the end of October.

These trends can be seen more clearly in **Figure 7**. The spread between 2- and 10-year yields has fallen in all markets in emerging Asia except for the Philippines and Thailand, as well as in the United States (US) and Japan.

The near-term outlook for government bond yields is nevertheless difficult to forecast at this time. Inflation rates across the region have stopped falling **(Figure 8)** and governments and central banks may soon begin to contemplate exit strategies from their accommodative monetary policies and expansionary fiscal policies over the last 1–2 years. This could have different consequences for different markets. For markets where curves have flattened due to overall falling yields, this may imply market expectation of an increase in short-term policy rates **(Figure 9)** and a further flattening of government bond yield curves.

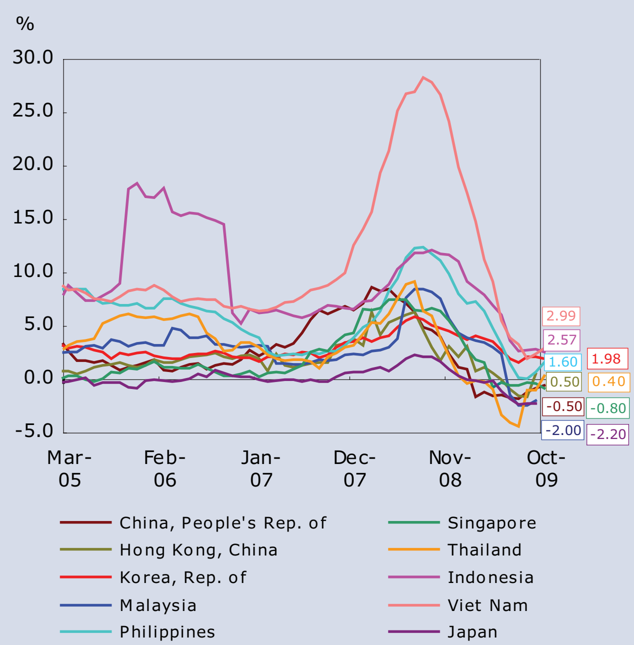
The outlook at the longer end of the curve for the PRC, Korea, Viet Nam, and Thailand is also unclear. The combination of an improved economic outlook and concern about the return of inflationary

Figure 7: Yield Spread Between 2- and 10-Year Government Bonds



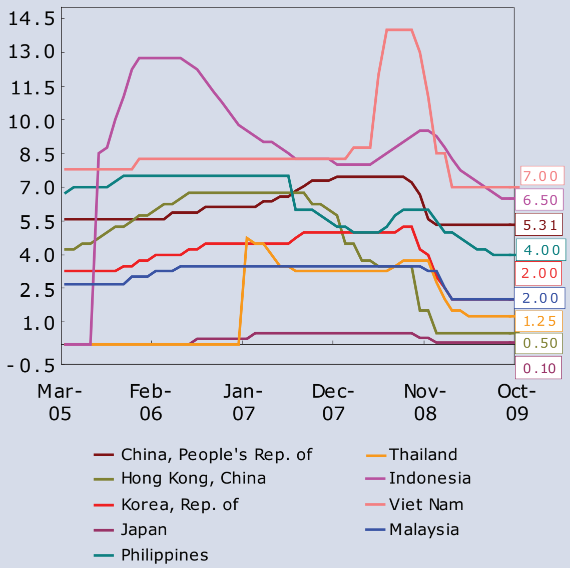
Source: Bloomberg LP.

Figure 8: Headline Inflation Rates
(October 2009)



Source: Bloomberg LP.

Figure 9: Policy Rates
(October 2009)



Source: Bloomberg LP except for Viet Nam (State Bank of Viet Nam).

pressures could result in a rise in yields at the longer end of the curve for each market.

Corporate Bond Credit Spreads

High-grade credit spreads in key emerging East Asian markets have tightened since September 2008, reflecting improved investor confidence and conditions in LCY credit markets.

High-grade credit spreads—defined as the difference between yields on AAA-rated corporate bonds and government bonds—have tightened significantly in most markets **(Figure 10a)**.

- Korean credit spreads have sunk well below September 2008 levels, suggesting that Korean investors have become much more comfortable holding higher-rated corporate bonds. Many of these companies are government-owned, which investors view as a quasi-sovereign risk.

- Spreads for bonds in the PRC at end-October 2009 rose for all maturities longer than 2 years—compared to end-June 2009. PRC spreads also are higher than they were at the end of September 2008, except at the very short and long ends of the curve.

- Malaysia's high-grade credit spreads as of October 2009 have fallen well below end-June 2009 levels for maturities of five years or less, but have risen above end-June 2009 levels for longer maturities. Malaysia's end-October 2009 credit curve converges with its end-September 2008 credit curve at its long and short ends.

Investors still demand a higher premium to hold lower-rated corporate credits, reflecting the dichotomy in credit markets and the difficulties facing lower tier companies in accessing funds.

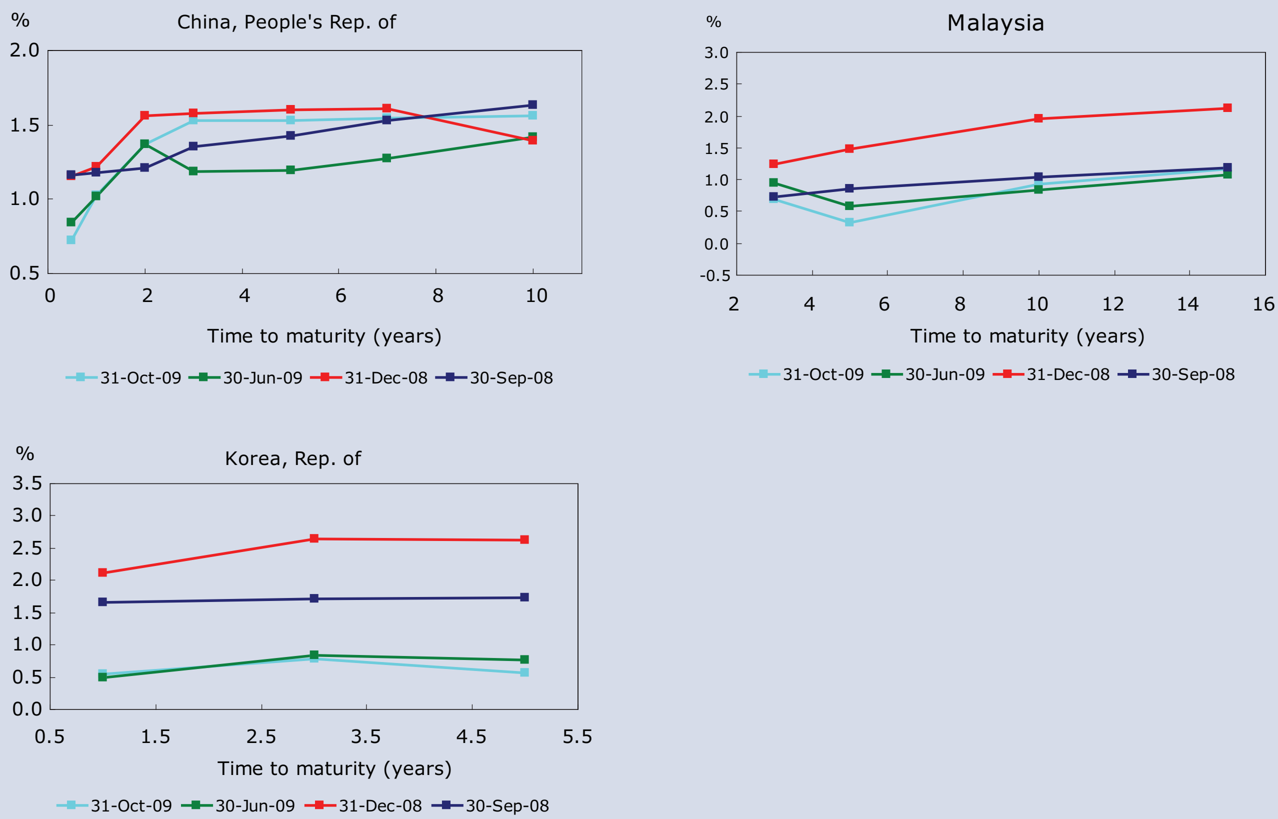
Figure 10b shows spreads for lower-rated credits. These graphs are based on the spread between AAA-rated corporate credit and a specific lower credit rating for each local market: BBB+ in the PRC, BBB in Malaysia, and BBB+ in Korea. These spreads can be characterized as representing a "credit quality spread" since they identify how much of a premium investors demand for holding riskier corporate assets.

- The credit quality spreads for Malaysia are among the highest of the three markets analyzed, with the short end of the curve rising to levels higher than at either end-September or end-December 2008.

- For the PRC, credit spreads are only available going back to the beginning of this year. Spreads have fallen along the longer end the curve, but still range well above 400 basis points.

- In Korea, the credit quality spread has risen over the last year by about 300 basis points at the long end of the curve and by about 250 basis points at the very short end of the curve, which only extends to 5.5 years. It would appear that Korean investors are demanding a very significant premium for holding risky bonds

Figure 10a: Credit Spreads—Local Currency Corporates Rated AAA versus Government Bonds



Note:
Credit spreads are obtained by subtracting the government yields from corporate indicative yields.

Source:
People's Republic of China (*ChinaBond*), Republic of Korea (*KoreaBondWeb*), and Malaysia (Bank Negara Malaysia).

rated BBB+. This is in contrast with the sharply reduced premiums for holding AAA-rated bonds.

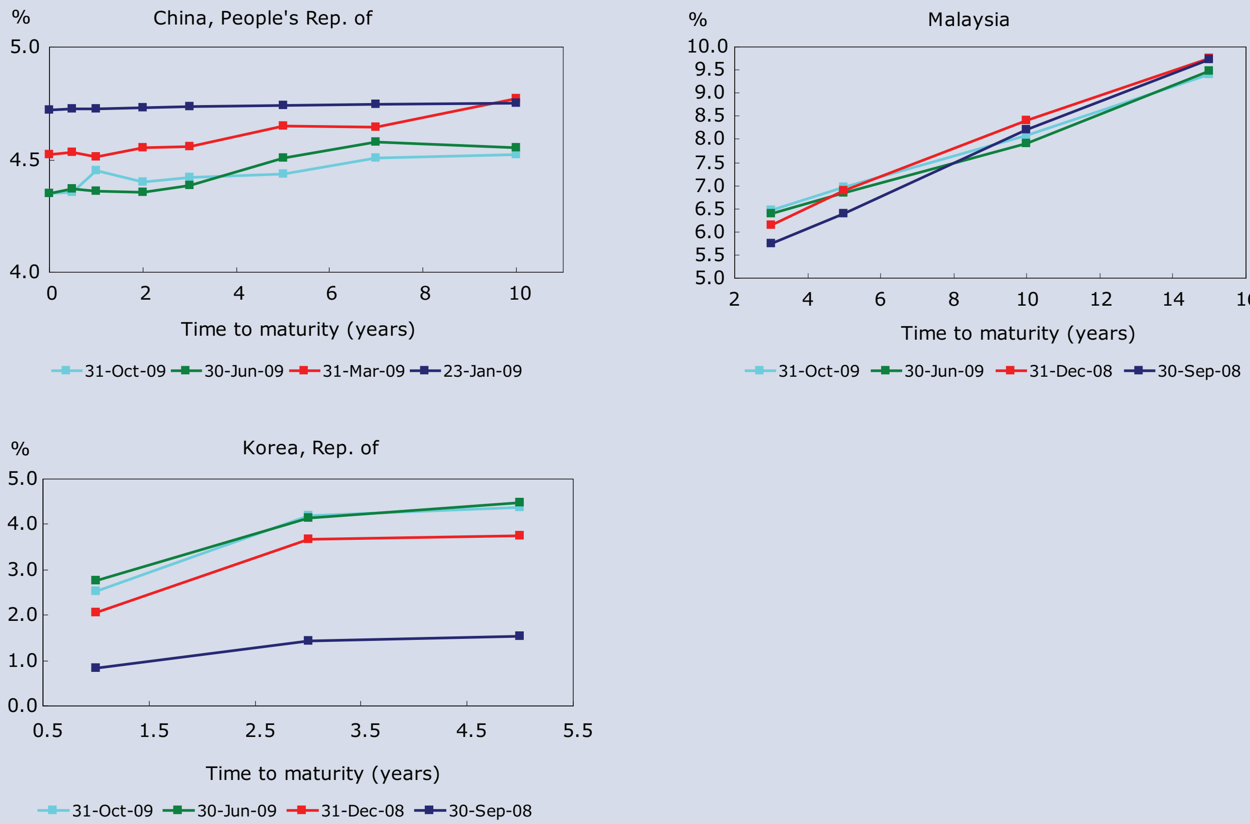
Equity Markets Revival Dwarfs Corporate Bonds

Most corporate debt markets in Asia remain underdeveloped and small-compared to the region's equity markets

In most comparisons of the corporate bond market to the equity market in emerging East Asian economies, the corporate bond market is smaller, with the major exception of Korea. The ratio of equity market capitalization to corporate bonds outstanding fell sharply between end-4Q07 and end-3Q08 in most emerging East Asian markets. However, this ratio has made a substantial comeback in several of these markets since 3Q08 **(Figure 11)**.

The most dramatic recoveries for equity market capitalization have taken place in Indonesia and Singapore, where the ratios of equity market capitalization to corporate bonds outstanding have either exceeded or come close to reaching their 4Q07 levels. In Singapore, the ratio of equity market

Figure 10b: Credit Spreads—Lower Rated Local Currency Corporates versus AAA



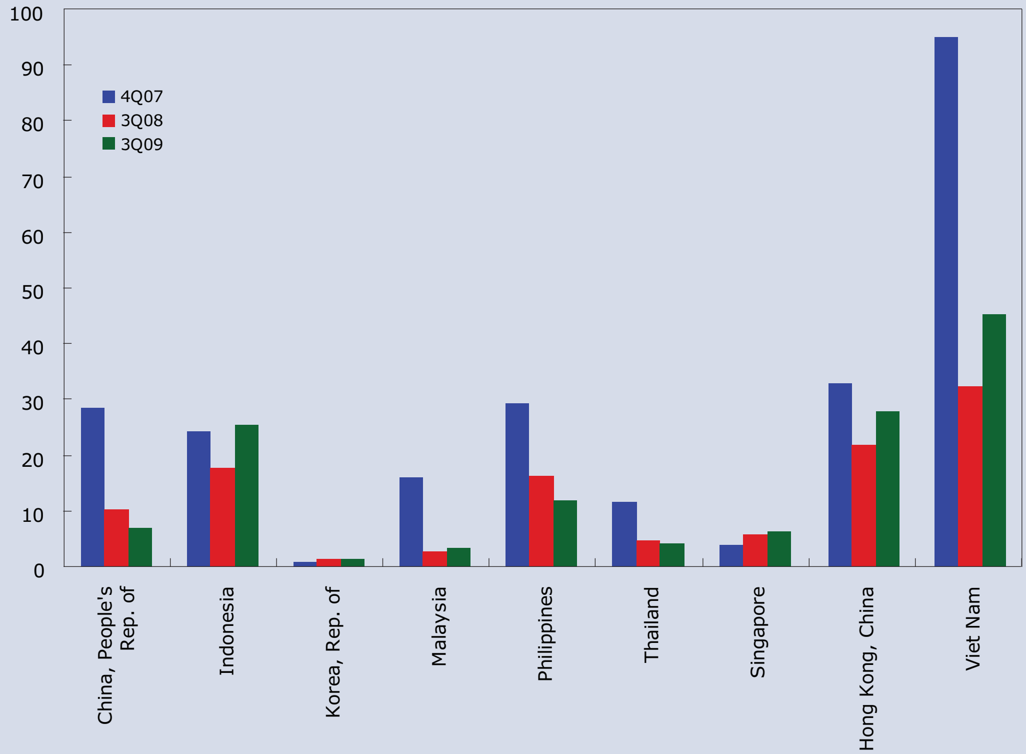
Note:
1. For the People's Republic of China, credit spreads are obtained by subtracting the corporate indicative yields rated as AAA from corporate indicative yields rated as BBB+.
2. For Malaysia, credit spreads are obtained by subtracting the corporate indicative yields rated as AAA from corporate indicative yields rated as BBB.
3. For the Republic of Korea, credit spreads are obtained by subtracting the corporate indicative yields rated as AAA from corporate indicative yields rated as BBB+.

Source:
People's Republic of China (*ChinaBond*), Republic of Korea (*KoreaBondWeb*), and Malaysia (Bank Negara Malaysia).

capitalization to corporate bonds outstanding is well above its level from end-4Q07. In Korea, this ratio remains very close to zero, reflecting the large size of the Korean corporate bond sector. However, most of the Korean corporate bond sector consists of issues by banks and government-owned infrastructure companies.

A number of reasons can be cited for the under-development of LCY corporate bond markets in Asia—including poor disclosure and accounting practices; deep cultural affinity for investment in equity, rather than bond markets; lack of diverse and high-yield corporate debt markets; and a perception of low yields.

Figure 11: Ratio of Equity Market Capitalization to Corporate Bonds Outstanding



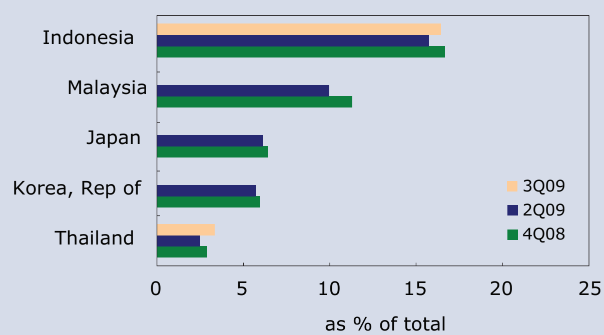
Source: Bloomberg LP and *AsianBondsOnline* calculations.

Foreign Holdings

Foreign buying of LCY government bonds has begun to recover in 3Q09.

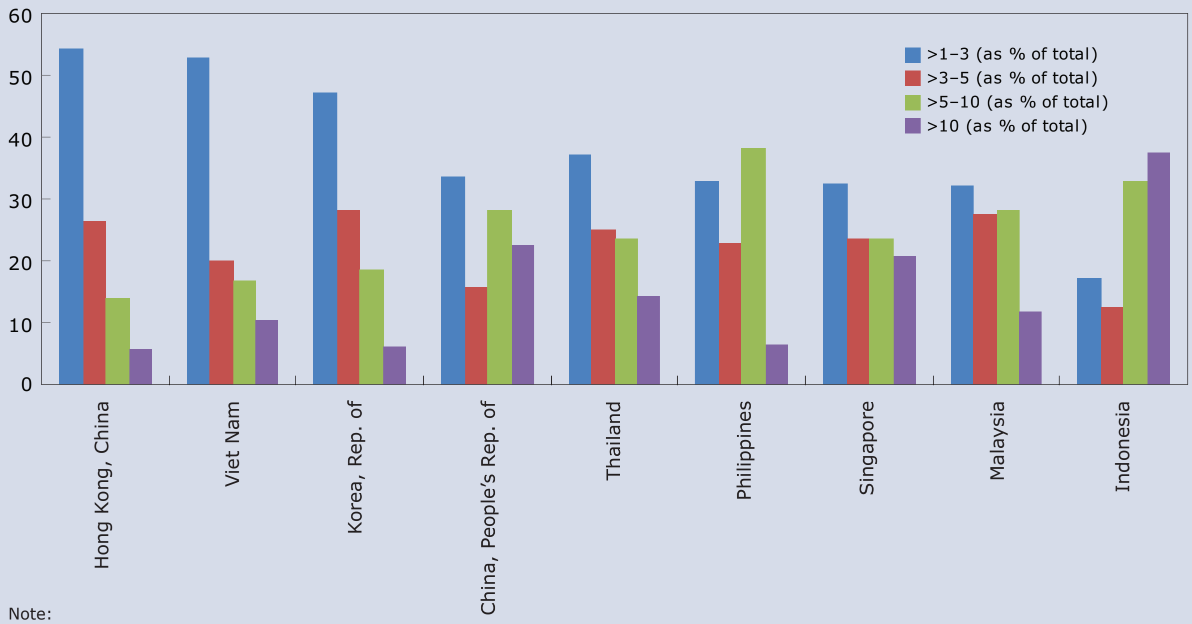
This reflects foreign investors' attraction to the region's growth potential and high-yield in markets such as Indonesia **(Figure 12)**. An additional factor emerged in 3Q09, which was the sudden acceleration of an already-robust issuance trend for G3 currency bonds by governments and corporates throughout the region.

Figure 12: Foreign Holdings of Local Currency Government Bonds



Source:
Indonesia (Indonesia Debt Management Office); Japan (Bank of Japan); Republic of Korea (Bank of Korea); Malaysia (Bank Negara Malaysia); and Thailand (Bank of Thailand).

Figure 13 : Maturity Profile (individual maturities as % of total)



Note:
Data is as of 3Q09 except for the Philippines (end-August).

Source: *AsianBondsOnline.*

Maturity Profile

The maturity structure in most emerging East Asian bond markets—defined as debt securities with maturities exceeding one year—favors the shorter end of the profile in most markets.

In emerging East Asia's government bond markets, maturities have been concentrated at the shorter end of the curve (1–3 years), especially in Hong Kong, China; Viet Nam; and Korea **(Figure 13)**. These three markets, as well as the Philippine bond market, have 10% or less of their bonds outstanding in maturities of more than 10 years. Indonesia, on the other hand, has a maturity structure with the heaviest concentration of maturities at the long end of the curve (more than 10 years).

Other markets have concentrated their maturities in the 3–5 and 5–10 year range. The maturity structures of the PRC and Singapore markets are more balanced than most other markets at the present time, with a larger portion of their bonds in maturities of more than 10 years and a substantial portion of maturities in the 5–10 year range.

The Philippine maturity profile has the heaviest concentration of maturities in the 5–10 year range, reflecting a traditional preference for issuing 10-year maturities. More recently, however, the Philippine government has begun to issue more longer-dated maturities.

Finally, as mentioned above in the discussion of Figure 5, Asian governments and central banks have generally reduced their proportion of bills (maturities of less than one year) to bonds in 3Q09. Only Singapore; the PRC; and Hong Kong, China increased their respective ratios of bills to bonds in 3Q09.

G3 Currency Bonds

Issuance of G3 currency bonds from the region continues to grow as global markets revive.

Total issuance stood at about USD57.5 billion for the year through 6 November. Between 1 July and the first week of November G3 currency bond issuance rose to USD30.3 billion, more than the USD27.2 billion issued for the entire first half of 2009. The year-to-date G3 issuance total of USD57.5 billion is almost three times the total of USD19.2 billion for all of 2008.

The surge of G3 currency bond issuance in the second half of 2009 reflects a number of interesting trends **(Table 5)**. First, it reflects the return of investor appetite for bonds of major Asian governments and corporates. The increase in G3 issuance also reflects low US interest rates and renewed search for yield. These low rates have allowed many banks and government-owned corporations in Korea to issue bonds at yields of less than 5.0%, Singapore's Temasek to issue a new 10-year bond at 4.3%, Malaysia's Petronas to issue 10-year bonds at a coupon of 5.25%, and the Philippine sovereign to issue a new 25-year bond at a coupon of 6.375%. In comparison, at the beginning of 2009, most Korean banks were issuing bonds with coupons well above 7.0%.

Renewed investor appetite has also increased the diversity of issuers in 3Q09. In the first half of 2008, 68% of new G3 currency bond issuance came from Korea; while in 3Q09, Korea's share of total issuance fell to 34%. G3 issuance from Singapore totaled USD3.575 billion in 3Q09 compared to minimal issuance in the first half. Meanwhile, Petronas and Hutchison Whampoa issued in amounts of USD4.5 billion and USD3.0 billion, respectively.

The July to early November period also saw the entry of high-yield issuers for the first time since 2007. Matahari of Indonesia issued 5-year bonds at a 10.75% coupon; the PRC real estate firm, Country Garden, issued USD300 million of bonds at a coupon of 11.75% in September; and the PRC chemical products company, Lumena Resources, issued USD250 million of bonds at a 12.00% coupon in mid-October. Most recently, Indika Energy of Indonesia issued a bond maturing in 2016 with an attractive coupon of 9.75%.

The proportion of USD denominated bonds to LCY denominated bonds is still quite modest. Indonesia's stock of government and corporate bonds denominated in foreign currencies amounts to around 20% of Indonesia's outstanding LCY bonds. The stock of USD denominated bonds for Korea and Malaysia amount to around 10% of their outstanding LCY bonds in each case. Thailand's USD7.8 billion of foreign bonds outstanding amounts to around 5% of its stock of LCY bonds. Finally, we note that the USD23 billion of foreign bonds outstanding of the Philippine government amount to around 41% of the Philippine government's outstanding LCY bonds.

Bond Market Returns

Returns on LCY bonds recovered modestly in 3Q09 from their lackluster returns in the first half of 2009.

However, LCY bond returns remain significantly lower than gains in most equity markets. The Asian Bond Fund (ABF) Pan-Asian Bond Index **(Table 6)** recovered modestly in 3Q09 to reach 3.66%, which was still below 4.14% for 2008 or 8.03% for 2007, but represented an improvement over the 0.15% recorded for the first half of 2009. HSBC's All Bond Index (ALBI), which contains a number of more highly-rated corporate issues, was a slightly higher 4.31%.

The most important drivers contributing to the improvement in the ABF Pan-Asian Bond Index were Indonesia, where government bond market returns rose 30.07%, and the Philippines, and Korea, where returns rose 7.95% and 7.43%, respectively. Returns for Singapore rose by a smaller 2.11%. Returns for the PRC; Hong Kong, China; Malaysia; and Thailand were roughly flat, falling by 1.0% or less in each case.

Table 5: G3 Currency Bond Issuance (Jan 2009—Nov 6, 2009)

Issued in 1H09			Issued in Jul—Nov 6 2009		
Issuer	**USD million**	**Issue Date**	**Issuer**	**USD million**	**Issue Date**
Republic of Korea	**18,651**		**Republic of Korea**	**10,374**	
Korea Sovereign 5.75% 2014	1,500	16-Apr-09	KEXIM 5.875% 2015	1,500	14-Jul-09
Korea Sovereign 7.125% 2019	1,500	16-Apr-09	KNOC 5.375% 2014	1,000	30-Jul-09
KDB 8.0% 2014	2,000	23-Jan-09	Woori Bank 7.0% 2015	800	31-Jul-09
KEXIM 8.125% 2014	2,000	20-Jan-09	Korea National Housing 4.875% 2014	750	10-Sep-09
Kookmin Covered Bond 7.25% 2014	1,000	14-May-09	Korea Expressway 4.5% 2015	700	22-Oct-09
IBK 7.125% 2014	1,000	23-Apr-09	NACF 5.0% 2014	500	30-Sep-09
KHNP 6.25% 2014	1,000	17-Jun-09	Korea Electric Power 5.5% 2014	500	21-Jul-09
Hana Bank 6.5% 2012	1,000	9-Apr-09	Korea Gas Corp. 6.0% 2014	500	16-Jul-09
Posco 8.75% 2014	700	26-Mar-09	Others	4,124	
Shinhan Bank 6.0% 2012	500	29-Jun-09	**People's Republic of China**	**550**	
SK Telecom 1.75% 2014	333	7-Apr-09	Country Garden 11.75% 2014	300	10-Sep-09
Kookmin Bank 5.875% 2012	300	11-Jun-09	Lumena Resources 12.0% 2014	250	21-Oct-09
KNOC 3.86438% 2012	270	15-Jun-09	**Hong Kong, China**	**5,050**	
KCC Corporation 3.5% 2014	250	6-May-09	Hutchison 4.625% 2015	2,000	11-Sep-09
SK Telecom 3.61438% 2012	220	29-Apr-09	Hutchison 5.75% 2019	1,000	11-Sep-09
KNOC 4.40875% 2012	220	4-Feb-09	Noble Group 6.75% 2020	850	29-Oct-09
KDB 5.75% 2012	200	13-May-09	HKMC 3.5% 2014	500	4-Aug-09
NACF 8.5% 2014	180	5-Feb-09	Others	700	
Korea Water Resources 3.25188% 2012	130	24-Apr-09	**Philippines**	**2,335**	
KDB 5.15% 2010	125	2-Feb-09	Philippines Sovereign 6.375% 2034	1,000	23-Oct-09
KEXIM 4.9% 2010	122	28-Apr-09	Philippines Sovereign 6.5% 2020	750	20-Jul-09
Korea Expressway 3.21438% 2012	120	13-May-09	SM Investments 6.0% 2014	500	22-Sep-09
Others	3,981		Rizal Commercial Banking Corp 3.75% 2012	85	30-Sep-09
People's Republic of China	**1,000**		**Indonesia**	**3,915**	
Petrochina 2.0825% 2012	1,000	12-May-09	PLN (Majapahit Hldg) 7.75% 2020	1,250	6-Nov-09
Hong Kong, China	**1,320**		PT Adaro 7.625% 2019	800	22-Oct-09
KCRC 5.125% 2019	750	18-May-09	PLN 8.0% 2019	750	3-Aug-09
China Construction Bank 0.58563% 2010	170	24-Mar-09	Indonesia Sovereign (*Samurai*) 2.73% 2019	370	29-Jul-09
Techtronic 8.5% 2014	150	30-Apr-09	Indika Energy 9.75% 2016	230	5-Nov-09
Others	250		Others	515	
Philippines	**2,500**		**Malaysia**	**4,500**	
Philippines Sovereign 8.375% 2019	1,500	14-Jan-09	Petronas 5.25% 2019	3,000	12-Aug-09
PSALM 7.25% 2019	1,000	19-May-09	Petronas *Sukuk* 4.25% 2014	1,500	12-Aug-09
Indonesia	**3,650**		**Singapore**	**3,575**	
Indonesia Sovereign 10.375% 2014	1,000	4-Mar-09	Temasek 4.3% 2019	1,500	26-Oct-09
Indonesia Sovereign 11.625% 2019	2,000	4-Mar-09	Olam International 6.0% 2016	500	16-Oct-09
Sovereign *Sukuk* 8.8% 2014	650	23-Apr-09	PSA International 4.625% 2019	500	11-Sep-09
Singapore	**123**		Others	1,075	
Olam International 1.2821% 2013	123	4-Mar-09			
Emerging East Asia Grand Total	**27,244**		**Emerging East Asia Grand Total**	**30,299**	
Memo Items:			**Memo Items:**		
India	**90**		**India**	**2,765**	
Sri Lanka	**300**		SBI 4.5% 2014	750	23-Oct-09
Sri Lanka Sovereign 6.07625% 2011	184	16-Mar-09	Sesa Goa 5.0% 2014	500	30-Oct-09
Sri Lanka Sovereign 6.08375% 2011	116	29-Jun-09	Sterlite Industries 4.0% 2014	500	29-Oct-09
			Others	1,015	
			Sri Lanka	**690**	
			Sri Lanka Sovereign 7.4% 2015	500	22-Oct-09
			Sri Lanka Sovereign 5.33188% 2011	190	18-Aug-09

Source: Compilation from newspaper and wire reports.

Table 6: iBoxx ABF Index Family Returns

Market	Modified Duration (years)	2008 Returns (%)		1H09 Returns (%)		3Q09 Returns (%)	
		LCY Total Return Index	USD Unhedged Total Return Index	LCY Total Return Index	USD Unhedged Total Return Index	LCY Total Return Index	USD Unhedged Total Return Index
China, People's Rep. of	4.56	11.91	18.71	(0.48)	(0.60)	(1.03)	(1.07)
Hong Kong, China	3.59	10.22	10.85	(2.09)	(2.09)	(0.70)	(0.70)
Indonesia	4.77	3.22	(12.30)	9.62	16.89	17.36	30.07
Korea, Rep. of	3.68	11.46	(18.20)	0.29	(0.84)	0.77	7.43
Malaysia	4.69	7.58	2.89	(1.64)	(3.16)	(0.11)	(0.22)
Philippines	4.13	1.63	(12.55)	5.07	3.95	7.48	7.95
Singapore	5.25	6.75	6.80	(0.41)	(1.16)	0.52	2.11
Thailand	4.94	16.88	13.72	(3.91)	(1.82)	(3.93)	(0.30)
Pan-Asian Index	4.37	n.a.	4.14	n.a.	0.15	n.a.	3.66
HSBC ALBI	5.79	n.a.	0.97	n.a.	0.26	n.a.	4.31
US Govt 1-10 years	3.94	n.a.	10.95	n.a.	(2.50)	n.a.	(0.77)

LCY = local currency, n.a. = not applicable.
Note:
1. The ABF indices contain only government debt and government-guaranteed debt obligations.
2. Market bond indices are from iBoxx Index Family. 2009 returns year-to-date are as of 30 September 2009.
3. Annual return is computed for each year using natural logarithm of end-of-year index value/beginning year index value.
4. Duration is as of 30 September 2009.

Source:
AsianBondsOnline and Bloomberg/EFFAS for US Government Bond Index.

The improvement of returns for Indonesia, Korea, and Singapore appear to have been supported by the 3Q09 recovery of each market's currency **(Table 7)**, ranging from increases against the US dollar of 7.9% for the Korean won to 2.9% for the Singapore dollar. The Philippine peso continued its 2Q09 trend of remaining roughly flat versus the US dollar on a q-o-q basis.

Asian equity markets continued to soar in 2009 **(Table 8)**, with the MSCI's Far East Ex-Japan Index rising by 51.62% in LCY terms, compared to a still impressive, albeit lower, increase of 31.80% in the first half of the year. The star performer in the index was Indonesia, where the equity market rose by 86.94% in LCY terms and 110.83% in USD terms. The next strongest performers were Thailand and Korea. The PRC index rose by 44.99%, but this was unexceptional compared to its peers in the region.

Table 7: Appreciation (Depreciation) of Emerging East Asian Currencies vs. USD (%)

Currency	2008	1Q09		2Q09		3Q09	
	y-o-y	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q
CNY	6.7	2.6	(0.1)	0.3	0.0	0.3	0.1
HKD	0.6	0.4	0.0	0.6	0.0	0.2	0.0
IDR	(18.7)	(24.0)	(3.3)	(10.1)	13.6	(0.8)	5.5
KRW	(29.7)	(32.2)	(8.2)	(19.5)	7.2	1.5	7.9
MYR	(4.5)	(13.2)	(5.2)	(7.3)	3.6	(0.7)	1.4
PHP	(13.9)	(14.9)	(1.8)	(7.0)	0.3	(1.1)	1.0
SGD	0.1	(9.8)	(5.8)	(6.2)	5.0	1.9	2.9
THB	(3.1)	(12.2)	(2.2)	(1.9)	4.0	1.1	1.9
VND	(8.8)	(10.0)	(1.8)	(5.5)	(0.0)	(7.2)	(0.2)
JPY	20.8	0.5	(9.0)	9.8	3.1	16.9	7.1

y-o-y = year-on-year, q-o-q = quarter-on-quarter.
Note:
Appreciation (depreciation) is computed as follows: −ln (end-of-period rate/start-of-period rate) × 100.

Source: Bloomberg LP.

Table 8: MSCI Index Returns

Market	2008 Returns (%)		1H09 Returns (%)		3Q09 Returns (%)	
	LCY terms	USD terms	LCY terms	USD terms	LCY terms	USD terms
China, People's Rep. of	(52.23)	(51.94)	35.10	35.10	44.99	44.99
Hong Kong, China	(53.16)	(52.88)	32.56	32.56	50.72	50.72
Indonesia	(50.76)	(57.57)	44.65	54.46	86.94	110.83
Korea, Rep. of	(40.62)	(55.87)	24.60	23.19	54.89	65.57
Malaysia	(40.77)	(43.39)	24.45	22.50	39.46	39.42
Philippines	(46.77)	(53.79)	30.10	28.54	46.08	46.61
Singapore	(49.50)	(49.55)	30.59	30.00	50.07	53.44
Thailand	(48.72)	(50.34)	39.10	42.00	61.66	68.29
Far East ex Japan Index	(48.14)	(51.96)	31.80	31.66	51.62	55.28
MSCI USA	n.a.	(38.58)	n.a.	2.39	n.a.	17.74

LCY = local currency, n.a. = not applicable.
Note:
1. Market indices are from MSCI country indexes. 2009 returns are year-to-date as of 30 September 2009.
2. Far East ex Japan includes: People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Taipei,China; and Thailand.

Source: *AsianBondsOnline* and Bloomberg LP.

Policy and Regulatory Developments

People's Republic of China

Domestic Bank Participation in Bond Trading on Exchanges

In a move geared towards providing a bridge between the PRC's two primary venues for bond trading, the interbank market and stock exchanges, the China Banking Regulatory Commission (CBRC) and China Securities Regulatory Commission (CSRC) issued a joint set of preliminary rules in January allowing listed banks to trade bonds on the country's stock exchanges. The interbank bond market is significantly larger than the exchange-traded market. Regulations for the entry of domestic-listed banks into exchange-based bond trading were released in early July.

The opening up of exchange-based bond trading is aimed at strengthening demand for the bonds of listed companies. With banks as active participants in exchange-based trading, large issuers are expected to have increased confidence in the distribution of their bonds on the exchanges.

In early November, three large state-owned banks—the Bank of Communications (BOC), China Construction Bank (CCB), and the Industrial and Commercial Bank of China (ICBC)—won approval from the CBRC to engage in exchange-based bond trading. In addition to approval from regulators, the banks need to be approved by the stock exchanges. BOC and CCB have received approval from the Shanghai Stock Exchange, while ICBC is in the process of obtaining stock exchange approval.

New Derivatives Master Agreement

In March, the National Association of Financial Market Institutional Investors (NAFMII), a trade body established by the People's Bank of China (PBOC), released a new master agreement governing activities involving onshore derivatives transactions in the PRC interbank market. The new agreement consolidated and superseded the previous two master agreements published by NAFMII and the China Foreign Exchange Trading System. The previous agreements covered only CNY-denominated foreign exchange and interest rate derivative instruments.

Relaxation of Rules on Insurance Companies' Bond Investments

In October, the China Insurance Regulatory Commission (CIRC) raised the cap on PRC insurers' investments in corporate bonds from 30% of their assets to 40%. However, insurers are limited to investing in bonds of large state-owned enterprises; Hong Kong, China-listed "red chips"; and companies with "H-share" issuance. Furthermore, the bonds eligible for investment must be rated BBB and above. CIRC also lifted the requirement that insurers' bond investments be limited to companies that have been profitable for the prior 3 years and instead required that interest on bond investments of 1 year should be less than the issuers' average distributable profits over the past 3 years.

Hong Kong, China

Yuan Trade Settlement

The PRC and Hong Kong, China signed an agreement on 29 June to permit the yuan to be used in settling cross-border trade transactions. Prior to the deal, banks based in Hong Kong, China had been allowed, on a limited basis, to take yuan deposits and provide other CNY-denominated services. They were, however, not allowed to engage in cross-border yuan trade settlement transactions. On 2 July, PBOC began allowing certain companies in Shanghai and four cities in Guangdong province to settle trade transactions with firms in Hong Kong, China; Macau, China; and the 10 member countries of the Association of Southeast Asian Nations (ASEAN). The first yuan settlement transactions were conducted on 6 July.

Hong Kong, China's Lawmakers Approve HKD100 Billion of New Bonds

Hong Kong, China's legislative council approved a new HKD100 billion (USD12.9 billion) debt issue program in July to provide further depth to the Hong Kong, China bond market through issuance of sovereign paper. Bonds sold under the program will be unsecured liabilities of the government of Hong Kong, China and will not be backed by foreign reserves—in contrast to Exchange Fund Bills and Notes (EFBNs). As the new bonds will not have foreign reserve backing, they are expected to pay a premium over EFBNs. The first bond under this program was issued for HKD3.5 billion on 2 September.

Indonesia

Indonesia Bond Pricing Agency to Provide Reference Pricing for Corporate Bonds and *Sukuk*

The Indonesia Bond Pricing Agency (IBPA) will begin publishing daily reference prices for local currency corporate bonds (plain vanilla investment grade) and *sukuk* (Islamic bonds) on 1 December 2009. Other data, including the credit spread matrix and corporate bond yield curve, will also be provided. This move is expected to help improve transparency and make Indonesia's debt market more attractive to investors.

Bank Indonesia Requires 2.5% Secondary Reserve Requirement

Effective 24 October, Bank Indonesia required commercial banks to comply with a 2.5% secondary reserve requirement for unexpected liquidity needs. The secondary reserve requirement can be held in Treasury bonds, Treasury bills, Sertifikat Bank Indonesia (SBI), and/or excess reserves.

Republic of Korea

Foreign Investors Exempt from Withholding Taxes on Treasury Bonds and Monetary Stabilization Bonds

In May, a law was approved exempting foreign investors from withholding taxes on interest income and capital gains from investments in treasury bonds and monetary stabilization bonds. The exemption will be granted provided that an application for the tax exemption and required documents are submitted to and approved by fiscal authorities.

Korean Firms Now Allowed to Purchase Foreign Currency Bonds

The Financial Services Commission has allowed institutional investors to purchase a limited amount of foreign currency-denominated bonds issued abroad by Korean companies. The rule, however, does not include convertible bonds, bonds with warrants, and exchangeable bonds. There is also a 20% limit on the amount of foreign currency bonds that can be purchased by domestic institutions as well as a holding period of one year.

Tax Incentives to Encourage Islamic Bonds

Korea announced in September that it will provide tax incentives on investment proceeds of Islamic bonds starting in 2010. The incentives are designed to attract more investment in Islamic bonds, broaden the investment sources of firms to improve corporate financing decisions, and lessen dependence on the United States (US) and Europe.

Malaysia

Malaysia Announces Measures to Liberalize Capital Markets

On 30 June, the Malaysian government announced measures to further liberalize foreign investment and open up Malaysia's domestic capital markets. A new investment institution, *Ekuiti Nasional Berhad* (*Ekuinas*), was also established, which became operational in early September. Ekuinas is a private equity fund with initial capital of MYR500 million, which will subsequently be increased to MYR10 billion, focusing on investments in sectors with high-growth potential and joint investments with private sector funds.

Malaysia Establishes National Financial Guarantee Institution to Support Corporations Raising Funds in the Bond Market

To increase support for Malaysia's second economic stimulus package, the Malaysian government announced the establishment of a national financial guarantee institution, Danajamin Nasional Berhad (Danajamin), effective 15 May. Danajamin will provide financial guarantee insurance for issues of private debt and Islamic securities. The insurance will be available for securities issued by investment grade companies rated BBB or higher by a Malaysian rating agency. Danajamin will be able to insure up to MYR15 billion of investment-grade private debt and Islamic securities.

Philippines

Order-Taking Facility launched in June

On 5 June, the Philippine Dealing System launched an internet-based order-taking system, the Fixed Income Broker Internet Order System (FI-BIOS). Brokers with access to FI-BIOS facilities are able to provide their client investors located in the Philippines' provinces with up-to-the-minute market information for investment decisions, while also allowing them to enter orders into the central trading system in real time.

BSP to Implement Retirement Account Law in 2010

Bangko Sentral ng Pilipinas (BSP) plans to implement the Personal Equity and Retirement Account (PERA) Law next year following the signing of a memorandum of agreement on 21 October with the Department of Finance, Bureau of Internal Revenue, Securities and Exchange Commission, and Insurance Commission. The PERA Law will create a savings investment vehicle for persons not covered by the Social Security System (SSS) and the Government Service Insurance System (GSIS), as well as Filipinos working abroad. Contributors could establish an account with a maximum annual contribution of PHP100,000, while overseas Filipino workers (OFWs) could contribute up to PHP200,000 per year and avail of a 5% tax credit. The funds would be managed by administrators and regulated by a number of government agencies. Savings could be placed in investment funds, mutual funds, annuity contacts, insurance pension products, pre-need pension plans, shares of stocks listed and traded on the local stock exchange, exchange-traded bonds, and other investment products.

Singapore

Monetary Authority of Singapore Joins Implementation of the ASEAN and Plus Standards Scheme

On 12 June, the Monetary Authority of Singapore (MAS) announced the implementation of the Association of Southeast Asian Nations (ASEAN) and Plus Standards Scheme for multi-jurisdiction offerings of securities in ASEAN. Under the scheme, issuers making an "ASEAN offering" of plain equity or debt securities are required to comply with a set of common disclosure requirements, known as the ASEAN Standards, and limited additional requirements, known as the Plus Standards, as prescribed by the respective jurisdiction. In Singapore, issuers will be required to comply with the ASEAN Standards and the Singapore Plus Standards.

Thailand

ThaiBMA to Explore Municipal Bonds

In early October, the Thai Bond Market Association (ThaiBMA) was considering expanding the role of municipal bonds in the development of Thailand's bond market. ThaiBMA lists municipalities that could potentially raise funds for local infrastructure investment through issuance of bonds (e.g., Phuket and Pattaya). However, current government regulations limit bond issues to only 10% of a municipality's total budget.

BOT Plans to Raise Offshore Investment Ceiling

In September, the Bank of Thailand (BOT) announced plans to increase the offshore investment ceiling of institutional investors as the current ceiling of USD30 billion might soon be exhausted. To date, the Securities and Exchange Commission (SEC) has approved USD20.7 billion of overseas investments, which are mostly directed to Korean fixed-income funds. Institutional investors are likely to expand their holdings of longer maturities as they seek higher returns, according to BOT.

Viet Nam

Viet Nam Launches Financial Supervision Agency

In July, the State Bank of Viet Nam (SBV) officially launched the Financial Supervision Agency (FSA). The FSA will be under the jurisdiction of SBV with responsibility for "performing administrative and specialized supervision of all banking operations within the scope of the SBV management; advising and assisting the SBV Governor in oversight of credit institutions, small-sized financial institutions, and banking operations of other institutions; and combating money laundering in compliance with the law."

Viet Nam Bond Market Association Launched

In August, the Viet Nam Bond Market Association (VBMA) was launched with more than 50 members, including foreign and local commercial banks, securities firms, and other financial institutions. Over the 2009–2012 period, VBMA plans to put in place a centralized database, a code of conduct and ethics, a set of market practices, and training programs for its members.

Hanoi Stock Exchange Introduces New Bond Trading System

The Hanoi Stock Exchange established an electronic bond trading system for government bonds in September. The newly-launched trading platform provides basic bond-related information such as issues, members, prices, schedules, and settlement.

Risks To The Outlook

While emerging East Asian local currency fixed income markets have shown great resilience and posted impressive growth so far this year, they still face risks.

Risks to the market are on the downside compared with the environment facing investors in the first half of the year. Nonetheless risks to the market outlook are (i) uncertainty about the robustness of the global recovery, (ii) an upturn in inflation driven by a rise in energy and commodity prices, (iii) premature monetary tightening and withdrawal of public policy support, and (iv) volatile investor sentiment and potentially destabilizing capital inflows.

As external demand still remains weak, it may be difficult for the region to quickly return to the high growth rates achieved during the pre-crisis period.

One of the main risks to the region's economic outlook stems from the uncertainty about the robustness of the global recovery, particularly in the G3. With the effects of fiscal stimulus measures and restocking fading gradually, there is still uncertainty about the rebound in the real economy and the financial sector in the developed economies. Should the rebound turn out to be weaker than expected, emerging East Asia's export performance and economic recovery could also be hampered.

Another possible risk is a surge in inflationary pressures spurred by a rise in commodity and energy prices.

Although inflation remains at a fairly low level in the region, a further risk to the regional outlook is a surge in energy and commodity prices, particularly crude oil prices. This can lead to a steepening of the government bond yield curves on expectations of an earlier than anticipated tightening of interest rates. Also, as most economies in the region are net oil importers, a surge in oil prices will adversely impact their terms of trade.

Concern over appropriate implementation of exit strategies from unsustainable fiscal stimulus and accommodative monetary policies.

As the region continues to recover, discussions on the strategy and timing of exit from fiscal stimulus packages and accommodative monetary policies have moved to center stage. The economic recovery process could stumble if the support is withdrawn too early, but if it is too late, it could stoke inflationary pressures.

Volatile investor sentiment in global markets could lead to potentially destabilizing capital flows

Strong economic recovery, the interest rate differential with mature markets and appreciating regional currencies has led to a surge in capital inflows into the region. These inflows—along with ample domestic liquidity, still accommodative monetary policies, and limited flexibility of exchange rates in the region—could pose major challenges for macroeconomic management.

Liquidity Trends in Asian Local Currency Bond Markets

Bond Market Liquidity Overview

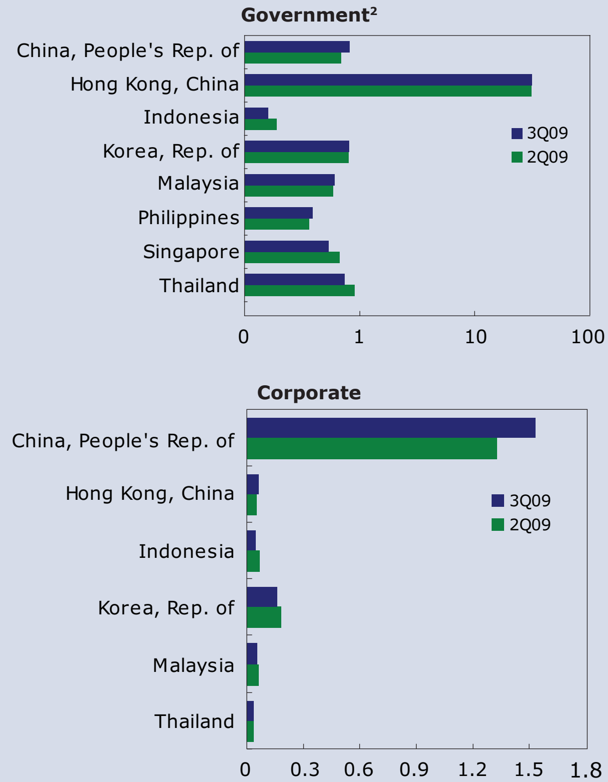
Asian government bond market liquidity can be characterized as moderately good. However, corporate bonds are largely illiquid, except in the People's Republic of China and the Republic Korea.

Domestic bond markets in emerging East Asia have seen significant growth in recent years. Nevertheless, as the experience of many emerging markets shows, the large issuance of bonds does not necessarily lead to an improvement in liquidity **(Figure 14)**. Liquidity in local currency bond markets remains a hurdle to their overall development.

Financial crises, including the most recent global crisis and the 1997/98 Asian financial crisis, have occasionally disrupted the functioning of asset markets by dramatically disrupting liquidity flows. A lack of market liquidity not only hampers the ability of market participants to price financial assets, but also limits the ability of central banks to carry out open market operations and finance government deficits at lower costs. Central banks in the region, like their peers in other markets, have an interest in market liquidity as price determination is more efficient in liquid markets and liquid yield curves offer information needed for the conduct of monetary policy.[3]

Deeper and more liquid money and bond markets lead to a more effective transmission of monetary policies—from those markets where central banks conduct their open market policies—to other financial markets.[4] A liquid government debt market also provides reliable benchmarks and

Figure 14: Quarterly Local Currency Bond Turnover Ratios[1]



[1]Calculated as LCY trading volume (sales amount only) divided by average LCY value of outstanding bonds during each 3-month period. [2]Based on a logarithmic scale.

Source:
People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); Singapore (Monetary Authority of Singapore and Singapore Government Securities); and Thailand (Bank of Thailand and Thai Bond Market Association).

[3]Mohanty, M. S. 2002. Improving Liquidity in Government Bond Markets: What Can Be Done. *BIS Papers, No. 11*. June. Geneva.

[4]Mares, Arnaud. 2002. Market Liquidity and Role of Public Policy. *BIS Papers No. 12*. August. Geneva.

facilitates the pricing of other financial assets. These objectives are leading monetary authorities and governments across the region to pursue a common interest in promoting liquidity. The issue of liquidity has become more valuable than ever as economies in the region grow rapidly and develop local markets to channel the regions' vast savings into productive investments.

Growth in local currency bond markets in the region, which has been spurred by significant issuance of government and, more recently, corporate bonds in many markets in emerging East Asia, has not always led to a corresponding increase in liquidity. **Figure 15** tracks the turnover of government bonds against government bond issuance in selected markets—the People's Republic of China (PRC), Republic of Korea (Korea), Indonesia, Malaysia, Singapore, and Thailand. Government turnover ratios dropped in the latter half of 2008, particularly after the bankruptcy of Lehman Brothers, but have since stabilized and are showing an upward trend in some markets.

The Dimensions of Market Liquidity

Market liquidity has three general dimensions—tightness, depth, and resiliency.

Tightness refers to "how far transaction prices (bid or ask prices) diverge from the mid-market price," or the general costs incurred regardless of market prices. Depth refers to "either the volume of trades possible without affecting prevailing market prices, or the amount of orders on the order books of market-makers at a given time." Resiliency can be denoted as either "the speed with which price fluctuations resulting from trades are dissipated, or the speed with which imbalances of order flows are adjusted."[5]

A commonly used measure of tightness is the bid–ask spread. Proxies for depth include average turnover and the sum of the potential and actual trading volume. A possible measure of resiliency is the speed of the restoration of normal market conditions (e.g., bid–ask spread and order volume) after trades. Other market liquidity measures that are readily available and easy to interpret include trading volume, trade frequency, price volatility, and turnover ratio.[6] **Figure 16** tracks trading volume against yield volatility for government bonds in the PRC, Korea, Indonesia, and Malaysia.

Recent Trends in Local Currency Bond Market Liquidity in Emerging East Asia

The shorter-dated securities in most markets exhibit higher liquidity.

This section reviews recent trends in market liquidity in various fixed income instruments within individual local currency bond markets.

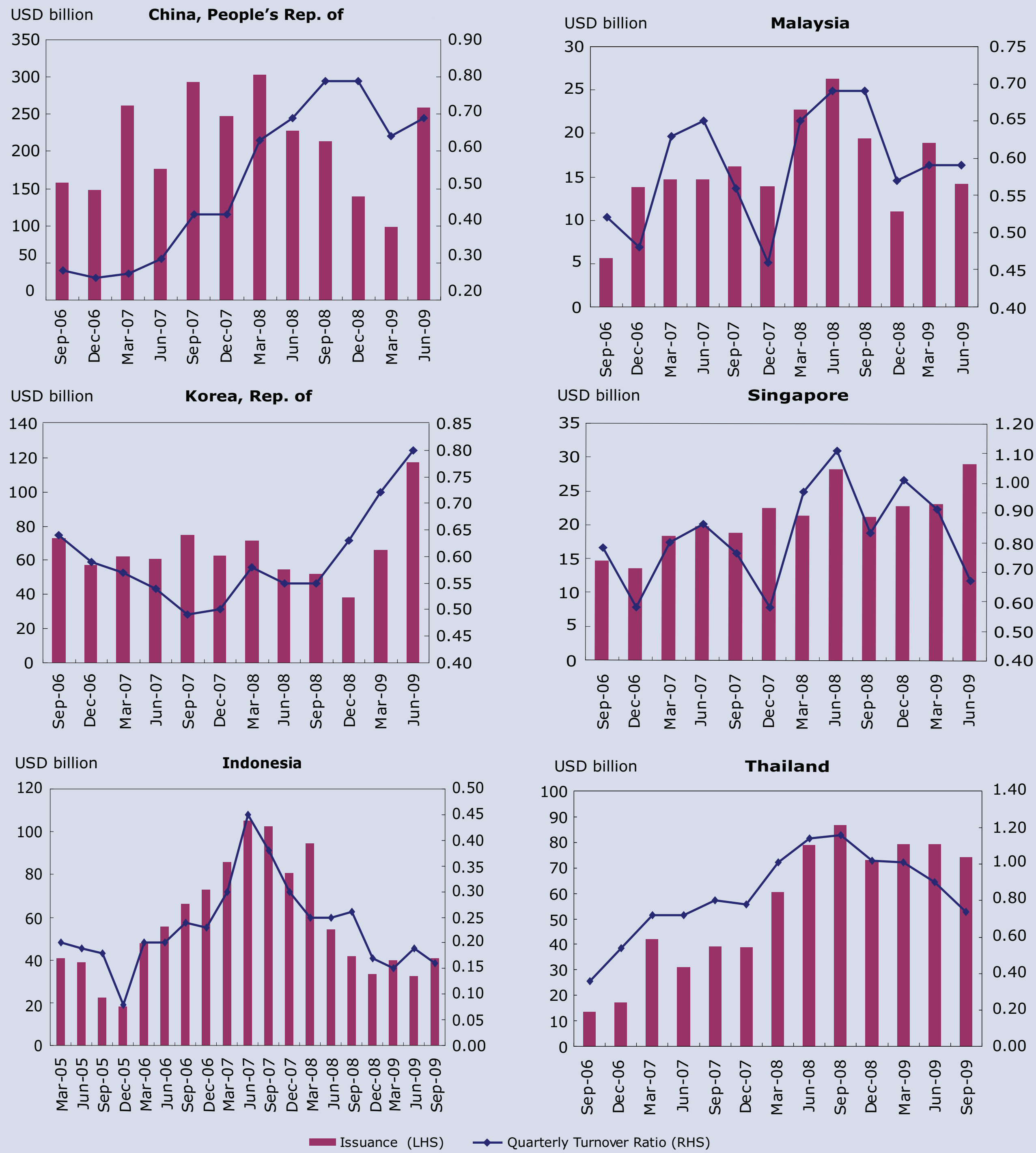
The bond market turnover ratios for most government sector bonds in the region—including central governments, central banks, and monetary authorities, as well as select government-owned corporations and financial institutions in some markets—have held steady at or slightly less than one. The Exchange Fund Bills and Notes (EFBNs) of the Hong Kong Monetary Authority (HKMA) are a notable exception to this trend, because of extremely high turnover ratios that reflect their role in the operation of Hong Kong, China's currency board system. The turnover ratios for corporate bonds are almost negligible, with the partial exception of Korea, where corporate bond turnover ratios are higher than average, and the PRC, where 90% growth in the corporate bond market over the last year has generated higher turnover ratios.

These generalizations, however, can differ dramatically for specific markets and specific sectors of these markets, as well as for different maturities (e.g., bills vs. bonds). Several examples of these trends are presented below:

[5] Committee on the Global Financial System. 1999. Market Liquidity: Research Findings and Selected Policy Implications. *CGFS Publications* No.11. Geneva.

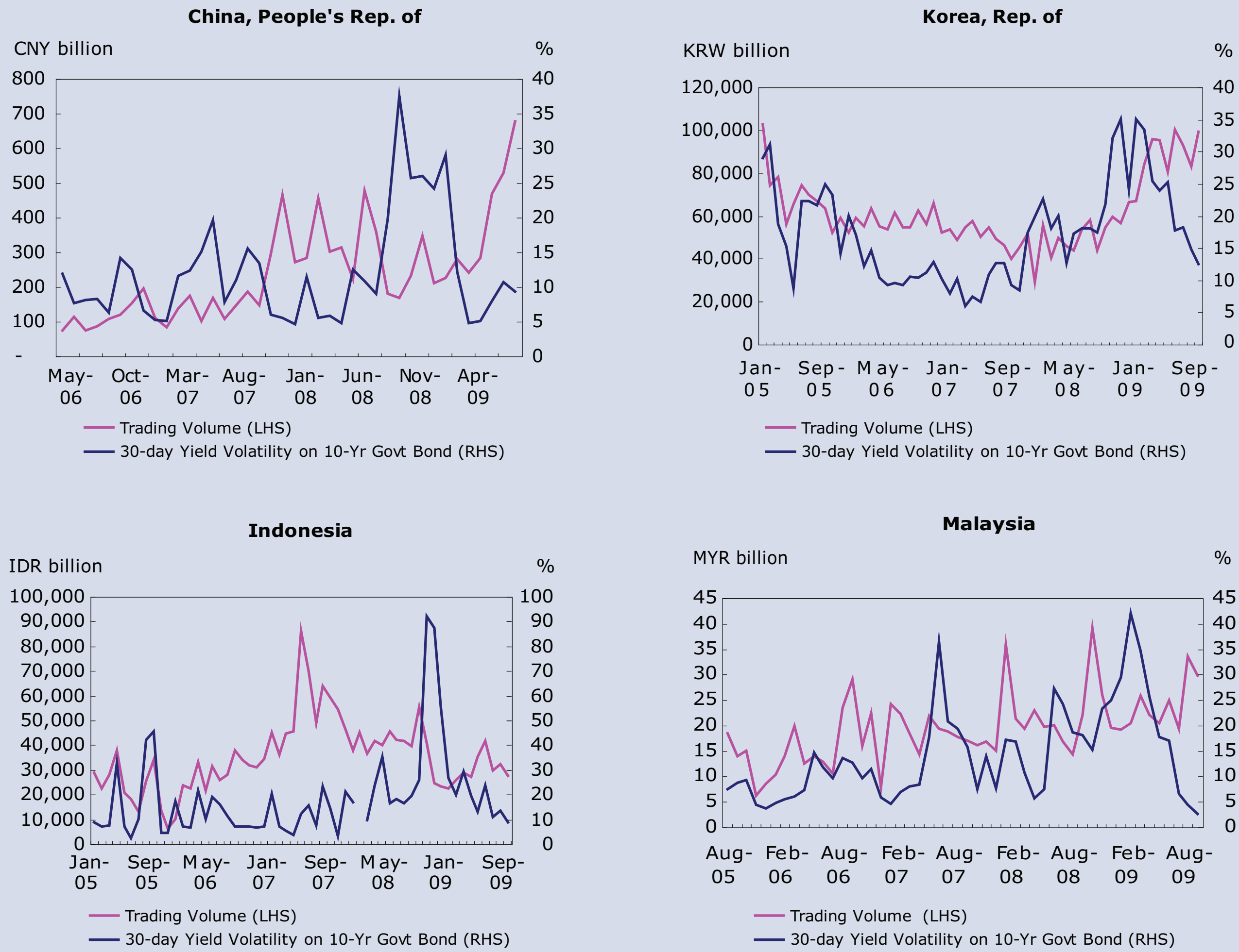
[6] Ibid.

Figure 15: Government Bond Issuance and Quarterly Turnover Ratios



Source:
People's Republic of China (*ChinaBond*); Indonesia (Indonesia Stock Exchange and Bloomberg LP); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); and Thailand (Bank of Thailand and Thai Bond Market Association).

Figure 16: Trading Volume and Yield Volatility



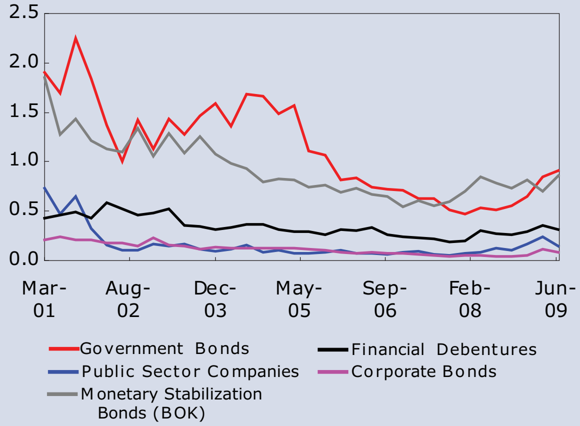
Source:
People's Republic of China (*ChinaBond* and Bloomberg LP); Indonesia (Indonesia Stock Exchange and Bloomberg LP); Republic of Korea (*KoreaBondWeb* and Blomberg LP); and Malaysia (Bank Negara Malaysia and Bloomberg LP).

Korean Bonds. Korean government and Bank of Korea (BOK) bond liquidity, as measured by turnover ratios for specific types of bonds, fell from the early 2000s until mid-2008 before recovering on the back of the rise in issuance in late 2008 and early 2009 **(Figure 17)**. Turnover ratios for the major types of corporate bonds, especially bonds issued by government-owned corporates and industrial finance debentures issued by financial institutions, have remained very low, reflecting the overall illiquidity of these bonds.

Malaysia. Central bank bills (Bank Negara Malaysia monetary notes) are the most liquid instrument in the Malaysian market, followed by treasury bills. Bonds—whether issued by the central government, government agencies, or corporates—are far less liquid **(Figure 18)**. There was a modest upturn in turnover ratios for treasury bills and Malaysian Government Securities (MGS) in 2Q09.

Philippines. Philippine Treasury bond turnover **(Figure 19)** has improved modestly in recent quarters. Meanwhile, turnover ratios for Treasury

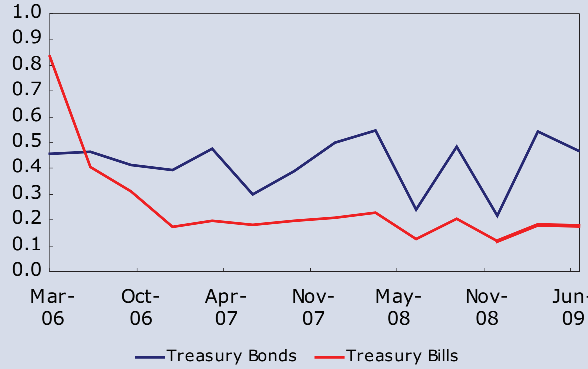
Figure 17: Quarterly Turnover Ratios Trends for Korean LCY Bonds



BOK = Bank of Korea.

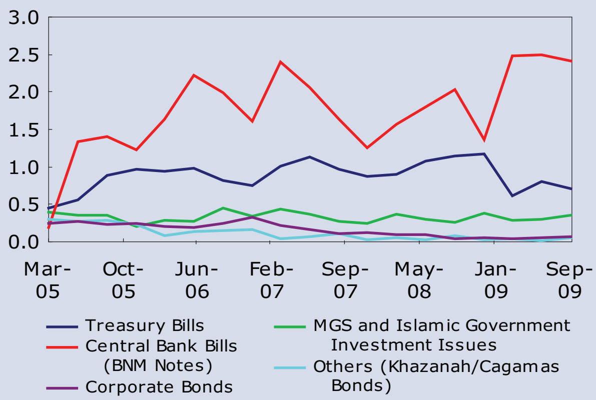
Source: Bank of Korea and *KoreaBondWeb*.

Figure 19: Quarterly Turnover Ratio Trends for Philippine Treasury Bonds and Bills



Source: Bureau of the Treasury.

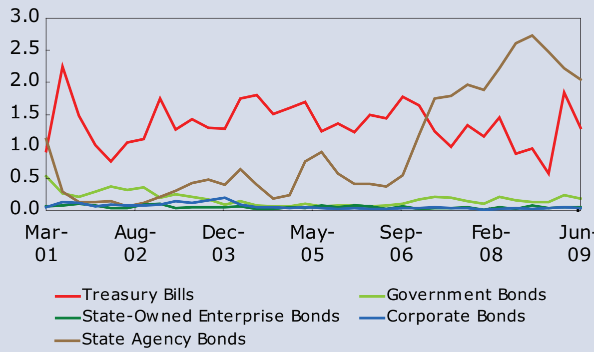
Figure 18: Quarterly Turnover Ratios Trends for Malaysian LCY Bonds



BNM = Bank Negara Malaysia, MGS = Malaysian Government Securities.

Source: Bank Negara Malaysia.

Figure 20: Quarterly Turnover Ratio Trends for Thai LCY Bonds



Source: Bank of Thailand and Thai Bond Market Association.

bills have been in decline since 2006, largely reflecting issuance trends. The Bureau of the Treasury has been rejecting bids for bills over the last year on the grounds that investors were asking for unreasonably high yields.

Thailand. Liquidity is mostly at the shorter end of the yield curve for Treasury bills, as well as for Bank of Thailand (BOT) instruments and Financial Institution Development Fund (FIDF) bonds **(Figure 20)**. Longer-term government bonds, state-owned enterprise (SOE) bonds, and corporate bonds are largely illiquid.

PRC Government Bonds. Turnover ratios for bonds issued by the People's Bank of China (PBOC) and policy banks are rising **(Figure 21a)**, while treasury bonds are much less liquid. The superior liquidity of PBOC bonds can largely be explained by their much shorter maturities. Approximately 70% of PBOC instruments comprise bills and bonds with maturities of less than one year. While policy bank

Figure 21a: Quarterly Turnover Ratio Trends for LCY Government Bonds in the PRC

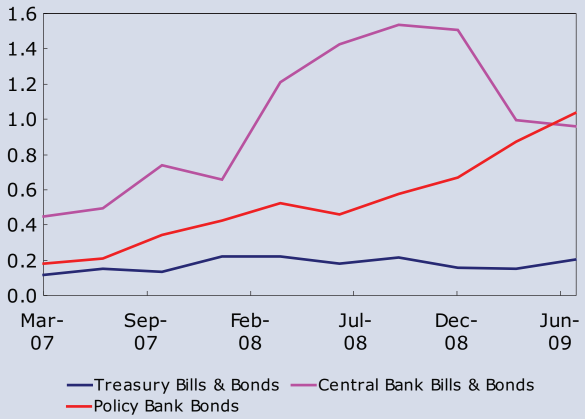
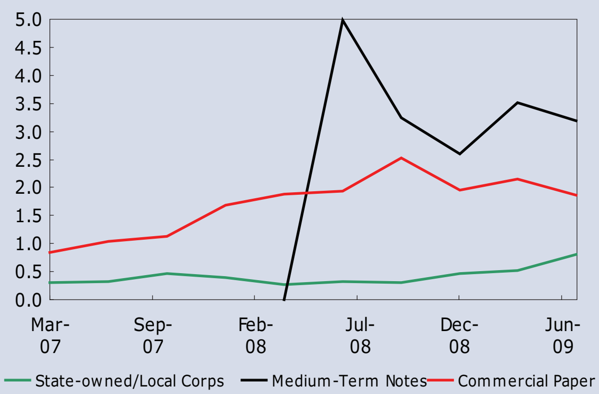


Figure 21b: Quarterly Turnover Ratio Trends for LCY Corporate Bonds in the PRC



PRC = People's Republic of China.

Source: *ChinaBond*.

bonds have longer maturities, their liquidity is being supported by a large volume of new issuance in 2009, with many such bonds issued this year in amounts of CNY20 billion (USD2.92 billion) or more.

PRC Corporate Bonds. The PRC corporate bond market **(Figure 21b)** is the exception to the regional rule of poor corporate bond liquidity. Huge increases in corporate and bank bond issuance in 2009 have raised liquidity to very high levels. Liquidity in the PRC corporate bond market has also been aided by a substantial commercial paper market and explosive growth of the newly opened medium-term note (MTN) market.

AsianBondsOnline Annual Bond Market Liquidity Survey

As in previous editions of the Asia Bond Monitor, *AsianBondsOnline* conducted its annual market liquidity survey in June/July.

This year's total number of survey participants increased to 106 from 40–50 participants in earlier years. About 56% of the respondents were domestic investors and traders, and 44% were foreign investors. Respondents were asked to give quantitative and qualitative responses on measures of liquidity and the appropriate policies needed to improve liquidity in the region's government and corporate bond markets.

For quantitative indicators, market participants were asked to provide data representative of bid–ask spreads and accepted bond transaction size for both "on-the-run" and "off-the-run" government benchmark bonds as of end-June/mid-July 2009. In the case of corporate bonds, survey participants were asked to provide data on typical issue and transaction sizes, and bid–ask spreads.

Bid–Ask Spreads. The bid–ask spread is perhaps the most commonly used measure of market liquidity as it directly measures the cost of executing a trade. However, it must be noted that bid–ask spreads are only valid for market-accepted transaction sizes and for a limited period of time.

The average on-the-run bid–ask spread reported by a total of 91 participants in nine markets was about 8.6 basis points (bps). The averages for individual markets, however, ranged from a low of 1.1 bps in Korea to highs of 26.6 bps in Indonesia and 25.6 bps in Viet Nam **(Table 9)**. The next lowest bid–ask spreads were 2.3 bps, 2.9 bps, and 3.4 bps for Malaysia, Singapore, and Thailand, respectively. Bid–ask spreads for the PRC; the Philippines; and Hong Kong, China were in the middle range of the survey at 5.1 bps, 6.6 bps, and 4.3 bps, respectively.

Table 9: Government Bond Markets: Quantitative Indicators

		PRC	HK	ID	KR	MY	PH	SG	TH	VN	Regional
Typical bid-ask spread—"on the run" (in basis points)	Average	5.1	4.3	26.6	1.1	2.3	6.6	2.9	3.4	25.6	8.6
	Count	13	5	9	14	11	9	7	14	9	91
	SD	1.7	1.6	18.7	0.6	1.5	4.4	0.5	1.3	13.4	10.0
Typical bid-ask spread—"off the run" (in basis points)	Average	8.6	5.8	33.3	2.0	5.6	9.9	3.4	8.4	30.0	11.9
	Count	10	2	8	14	10	7	7	14	8	80
	SD	1.9	1.1	26.9	1.2	2.8	6.7	0.9	3.4	13.4	11.5
Accepted LCY bond transaction size—"on the run" (USD million)	Average	14.3	6.7	1.5	8.0	1.5	1.1	3.5	1.6	2.7	4.5
	Count	14	5	8	13	12	10	7	15	11	95
	SD	12.0	7.4	1.0	1.3	0.3	0.2	1.2	1.3	1.9	4.4
Accepted LCY bond transaction size—"off the run" (USD million)	Average	4.8	3.2	1.2	7.7	1.3	1.0	3.3	0.9	1.9	2.8
	Count	11	2	6	13	12	9	7	15	10	85
	SD	3.1	1.8	1.2	1.6	0.4	0.2	1.3	0.7	1.4	2.3

PRC = People's Republic of China; HK = Hong Kong, China; ID = Indonesia; KR = Republic of Korea; MY = Malaysia; PH = Philippines; SG = Singapore; TH = Thailand; VN = Viet Nam.
LCY = local currency; SD = standard deviation.

Source: *AsianBondsOnline* 2009 Local Currency Bond Market Survey.

Another way of looking at liquidity in government bond markets is to look at the liquidity spread between on-the-run and off-the-run government benchmarks. The more liquid instruments have higher prices (lower yields) and tighter bid–ask spreads than less similar liquid instruments. In all markets, the on-the-run benchmark bonds exhibit tighter bid-ask spreads than off-the-run securities.

Average Transaction Size. A useful measure of market depth is the average transaction size. It is an ex-post measure of the quantity of bonds that can be traded at the bid or ask price. However, it underestimates market depth as the quantity traded is often less than the quantity that could have been traded at that price.[7]

In the survey, average transaction size for on-the-run bonds varied immensely between markets—from a low of USD1–2 million (equivalent) in Indonesia, Malaysia, the Philippines, and Thailand to a high of USD14.3 million (equivalent) in the PRC. Average transaction size for off-the-run bonds was significantly smaller in most markets, reflecting investor preference to trade larger sizes of the more liquid on-the-run government bonds.

Table 10 shows that liquidity in government bond markets, as measured by average bid–ask spreads, has improved in 2009 compared with 2008, when the global economic recession and collapse of financial markets led to a drying-up of dollar liquidity, with the contagion spilling over into domestic assets. Improved liquidity in 2009 has helped governments to raise funds to finance fiscal stimulus packages and provide support to the financial sector. The exception is Indonesia, which had temporarily ceased to issue government bonds in 4Q08 and, according to respondents, was also affected by the withdrawal of foreign investors who were acting as key providers of liquidity in the local market.

Qualitative Indicators for Government Bond Markets

Market participants were asked questions regarding important structural issues in both the government and corporate bond markets. The attached "spider charts" capture the perceptions of market participants with respect to the following bond market structure and policy issues:

[7]Ibid (1999).

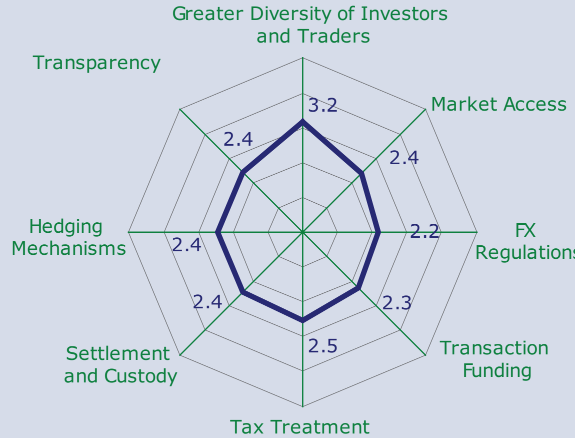
Table 10: Local Currency Bond Bid-Ask Spreads: Previous Surveys

	Government bonds (in basis points)					
	2000	**2004**	**2006**	**2007**	**2008**	**2009**
China, People's Rep. of	15.0	32.5	7.6	20.0	15.0	5.1
Hong Kong, China	3.5	3.0	3.0	8.0	4.0	4.3
Indonesia	100.0	140.8	16.9	42.0	24.5	26.6
Korea, Rep. of	1.8	4.8	1.4	4.5	1.7	1.1
Malaysia	4.9	3.5	2.3	1.5	12.2	2.3
Philippines	47.5	25.0	25.3	10.0	19.8	6.6
Singapore	1.6	5.5	2.7	3.4	20.0	2.9
Thailand	2.8	7.3	3.0	6.3	9.8	3.4
Viet Nam	n.a.	n.a.	n.a.	20.6	75.0	25.6

n.a. = not available.

Source:
AsianBondsOnline 2008 and 2009 Local Currency Bond Market Surveys.

Figure 22: Regional Average—Government Bond Market Structural Issues—All Markets



Source: *AsianBondsOnline 2009* Local Currency Bond Market Survey.

(i) greater diversity of investors and traders,
(ii) easing other restrictions on market access,
(iii) easing of foreign exchange regulations/ restrictions,
(iv) funding availability for market participants,
(v) tax treatment,
(vi) settlement and custody,
(vii) more efficient hedging mechanisms, and
(viii) transparency.

The respondents were asked to measure their responses on a scale of 1 to 4, with 1 being *unimportant* and 4 being *very important*. Issues or problems considered *important* were rated 3 and those considered *somewhat important* were rated 2.

Greater diversity of investors. Figure 22 shows that the survey's most important finding is that participants in both government and corporate markets agreed that increasing the diversity of the investor base is the most critical factor in improving liquidity in local currency bond markets.

Although investor diversity in domestic bond markets has improved in recent years, the most important and dominant investor class in most markets remains banks and financial institutions. The insurance industry is still in its early stages of development in most emerging East Asian markets. Domestic investment funds in many markets are focused on equities rather than bonds, while foreign investors are significant in only a few markets. The relevance of foreign portfolio investors is not just in terms of the inflow of foreign funds, but in their differing portfolio demands and risk exposures compared with domestic participants. Foreign investors help to improve liquidity in local markets.

Other Indicators. All of the other indicators in the regional average ranged between 2.2 to 2.5, implying that for the regional bond market as a whole all issues besides investor diversity are considered to be either *somewhat important* (2) or *important* (3).

Figure 23 contains similar spider charts for each individual government bond market in emerging East Asia. One interesting finding is in the results for Hong Kong, China, where respondents rated most indicators at less than 2. In rating most issues to be either *unimportant* or only *somewhat important*, respondents in Hong Kong, China, nevertheless, agreed with the region as a whole

Figure 23: Structural Issues for Individual Government Bond Markets

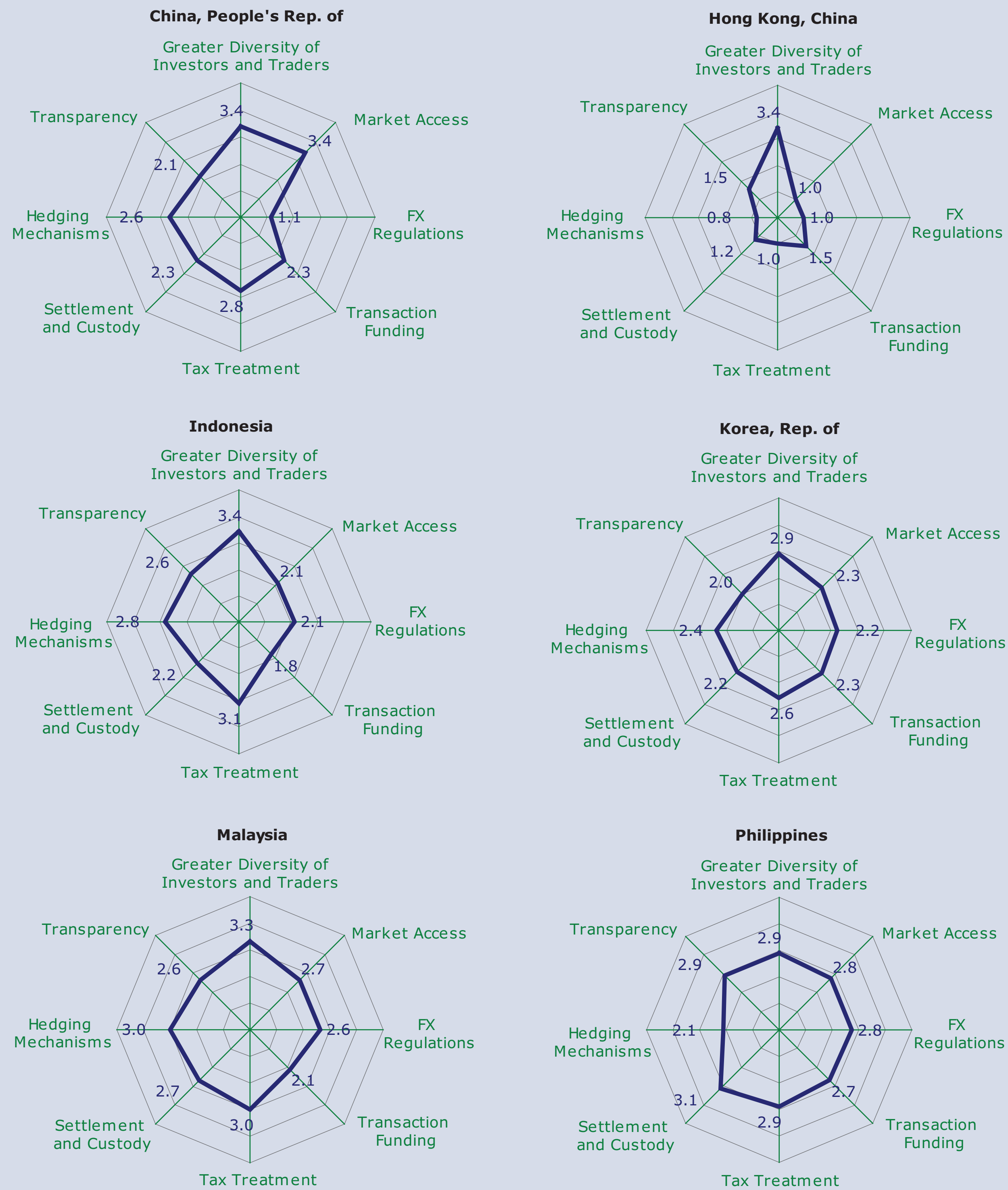
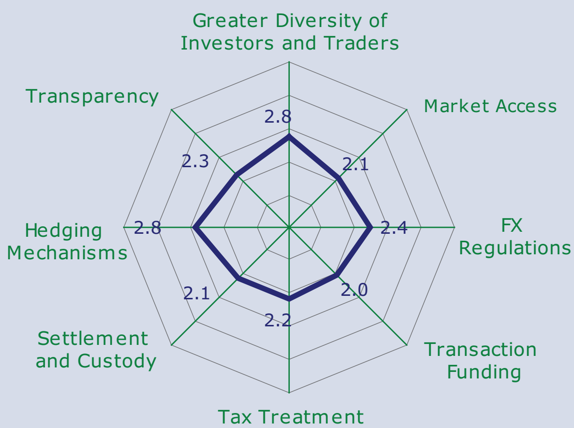
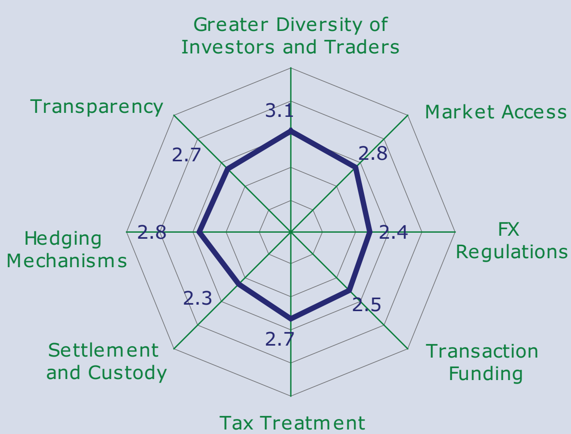


Figure 23 continued.

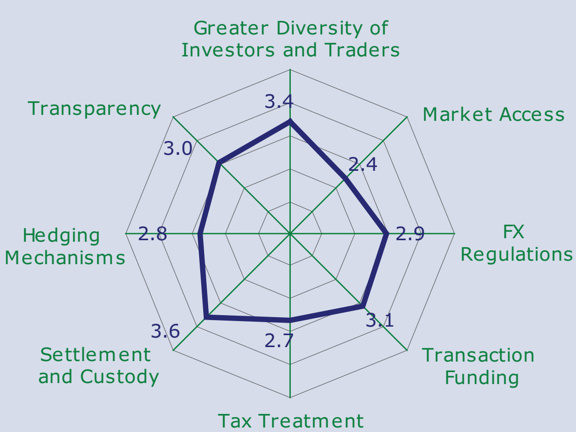
Singapore



Thailand



Viet Nam



FX = foreign exchange.

Source: *AsianBondsOnline* 2009 Local Currency Bond Market Survey.

and placed significantly more importance (3.4) on increasing the diversity of investors and traders.

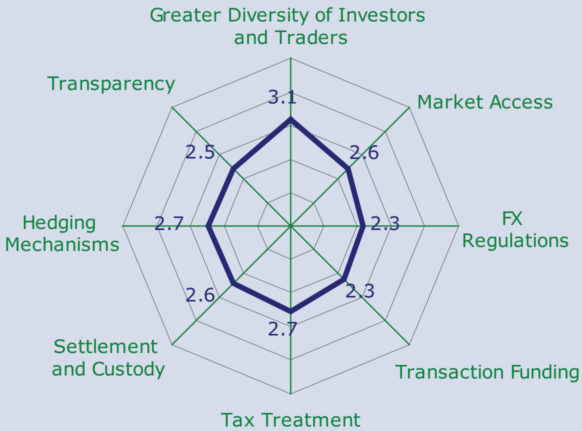
As a group, PRC respondents rated FX regulations and repatriation requirements as not being an issue of any real importance (1.1). While this appears surprising, one reason for the result could be that the majority of PRC respondents are employees of domestic banks and investment funds for whom foreign exchange (FX) regulations and repatriation procedures are not very important. However, even among foreign participants in the PRC survey, there is little expectation of near-term changes affecting any of these issues and, thus, they are not of immediate concern.

Viet Nam was the market in which participants most consistently rated the importance of the qualitative indicators at a level of 3 or more, reflecting the fact that the institutional development of the Vietnamese bond market still lags behind most other markets in the region.

The extremely low degree of importance assigned by respondents in Hong Kong, China to the qualitative issues makes this bond market an outlier. **Figure 24** presents a chart for the regional bond market as a whole, excluding (ex) Hong Kong, China. As can be seen, investor diversity still remains the top concern, but the importance of most other issues has been upgraded. Instead of a range of 2.2–2.5 for other issues, there is a slightly wider range of 2.3–2.7. Given Hong Kong, China's outlier status, the ex-Hong Kong, China chart will be used to continue the discussion of the major qualitative findings in the survey results.

Tax Treatment. The two issues at the high end of the 2.3–2.7 range for "other issues," excluding investor and trader diversity, are tax treatment and the availability of hedging mechanisms. The single overriding tax issue in the market is withholding taxes. Korea recently announced the exclusion of foreign investors from withholding tax on treasury bonds and monetary stabilization bonds (MSBs), which is a very positive step in bringing the Korean market into line with common practices in the bond markets of industrialized countries **(Table**

Figure 24: Regional Average—Government Bond Market Structural Issues—excluding Hong Kong, China



Source: *AsianBondsOnline 2009* Local Currency Bond Market Survey.

11). Three markets where participants rated tax treatment as a very serious problem inhibiting the further development of bond markets were Indonesia, Malaysia, and the Philippines, with an average tax treatment rating of 3.1, 3.0, and 2.9, respectively.

Hedging Mechanisms. The other major issue of interest was the availability of hedging tools, which received an average rating of 2.7 for the region as a whole. The average respondent rating for the availability of hedging mechanisms was 2.8 for four markets and 3.0 for one market (Malaysia). Lower scores were recorded for the PRC (2.6); the Philippines (2.1); and Hong Kong, China (0.8).

Table 11: Tax Treatments in Emerging East Asian Markets

Market	Withholding Tax	
	Government	Corporate
China, People's Rep. of	Exempt from tax.	Non-resident investors are subject to 10.0% withholding tax, which may be reduced due to tax treaties.
Hong Kong, China	Exempt from tax.	Individuals are exempt from tax. Corporations are subject to a 17.5% profits tax.
Indonesia	Residents and permanent establishments are subject to 15.0% tax. Non-residents are subject to 20.0% tax, which is subject to reductions based on treaty.	Residents and permanent establishments are subject to 15.0% tax. Non-residents are subject to 20.0% tax, which is subject to reductions based on treaty.
Korea, Rep. of	Subject to 15.4% withholding tax[1]; foreign investors investing in Treasury Bonds and Monetary Stabilization Bonds are exempted from tax pending submission of documentary requirements and approval by fiscal authorities as a result of revision of the relevant act in May 2009.	Subject to 15.4% withholding tax.
Malaysia	Exempt from tax.	Exempt from tax.
Philippines	Subject to 20.0% withholding tax.	Standard rate of withholding tax on income payments from corporate bonds is 30%.
Singapore	Exempt from tax.	Individual investors are tax exempt. Non-resident institutional investors are exempt from withholding tax, subject to qualifying conditions.
Thailand	Subject to 15.0% tax for individual resident investors and 1.0% tax for corporate resident investors; non-residents are tax exempt.	Subject to 15.0% tax for both residents and non-residents.
Viet Nam	Exempt from tax.	Individual investors are subject 5.0% tax on bond interest. National corporate investors are subject to 25.0% on net income and foreign corporate investors are subject to 10.0% on gross bond interest.

[1]1.4% local tax is added to 14.0% national income tax.

Source: *AsianBondsOnline* (Collated from finance ministries of each market).

Table 12: Corporate Bond Market: Quantitative Indicators

		PRC	HK	ID	KR	MY	PH	SG	TH	VN	Regional
Typical issue size of corporate bonds (USD million)	Average	173.1	53.8	90.5	89.8	149.2	108.1	75.5	85.5	42.2	96.4
	Count	11	3	2	8	9	7	4	12	12	68
	SD	141.4	16.2	18.3	76.5	82.8	24.8	33.6	58.0	19.0	42.1
Typical bid–ask spread for new corporate issue (in basis points)	Average	8.4	26.3	112.5	8.4	10.3	43.8	12.5	8.6	132.0	40.3
	Count	10	2	2	8	8	4	3	11	10	58
	SD	4.2	12.4	17.7	5.0	7.5	16.1	10.9	4.6	115.0	48.1
Typical transaction size of LCY corporate bonds (USD million)	Average	6.5	8.4	0.8	8.1	1.8	0.1	1.3	0.7	3.8	3.5
	Count	11	2	2	11	10	4	4	13	12	69
	SD	3.1	8.2	0.4	1.3	0.7	0.03	1.1	0.4	2.2	3.3

PRC = People's Republic of China; HK = Hong Kong, China; ID = Indonesia; KR = Republic of Korea; MY = Malaysia; PH = Philippines; SG = Singapore; TH = Thailand; VN = Viet Nam.
LCY = local currency, SD = standard deviation.

Source: *AsianBondsOnline* 2009 Local Currency Bond Market Survey.

Quantitative Indicators for the Corporate Bond Market

Market participants were asked to respond to questions similar to the ones regarding government bond markets, as well as questions about average or typical issuance size.

Bid–Ask Spreads. Bid–ask spreads for corporate bonds are typically much higher than for government bonds, reflecting their much lower degree of liquidity, which in many cases is limited to the months immediately following their issuance. Corporate bonds eventually tend to be absorbed by buy-and-hold investors and disappear entirely from the market. In the table above **(Table 12)**, Indonesia and Viet Nam show the highest average bid–ask spreads for corporate bonds at 112.5 bps and 132 bps, respectively. The bid–ask spreads in other markets ranged between 8.4 bps and 43.8 bps.

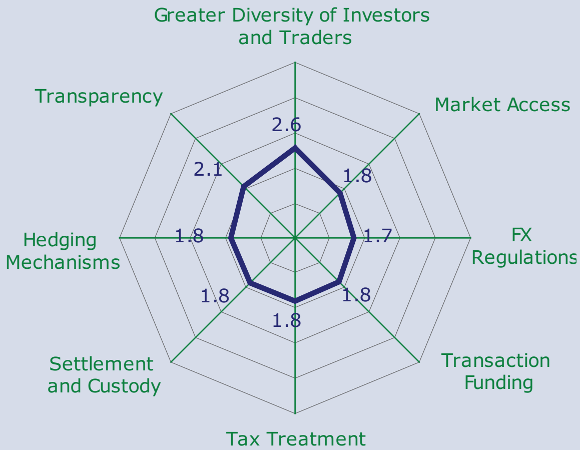
Issue Size.[8] The PRC reported the largest average issue size of USD173.1 million, followed by Malaysia at USD149.2 million. Average issue sizes for the Philippines and Indonesia were next in order of size at USD108.1 million and USD90.5 million, respectively.

Typical Transaction Size. Corporate bonds in Korea and Hong Kong, China reportedly trade in an average transaction size of slightly more than USD8 million, while the PRC's corporate bonds trade in an average size of USD6.5 million and Viet Nam trades in an average size of USD3.8 million. Corporate bonds in the region's other markets trade in average amounts of USD1.8 million or less.

Qualitative Issues. In the corporate market, the most important qualitative issue cited by respondents was the desire for new types of investors, followed by transparency, which is defined to extend beyond the relatively simple issue of price discovery to encompass firms' financial statements and the transparency of regulatory institutions **(Figure 25)**. Other issues were given an average rating of between 1 and 2, suggesting that they range between being perceived as *unimportant* or only *somewhat important*. The results are not surprising since most Asian corporate bond markets are highly illiquid due to the fact that corporate bonds generally trade for only a short time after issue and then disappear from the market. However, this trend might be changing, given the rapid growth of new corporate

[8]In discussing issue and transaction sizes in emerging East Asian bond markets, all values provided are the US dollar equivalent of the respective local currency based on end-September 2009 exchange rates.

Figure 25: Regional Average—Corporate Bond Market Structural Issues—All Markets



Source: *AsianBondsOnline* 2009 Local Currency Bond Market Survey.

issuance this year in markets as divergent as the PRC and the Philippines.

Respondents' perceptions of these qualitative issues are most easily summarized by reviewing the spider graphs generated from the survey results. Both the government and corporate bond spider graphs share a pointed head, reflecting increased investor diversity as the most important issue for improving liquidity.

Broadening the Investor Base

While there are various measures available to improve market liquidity, this discussion will focus on the need to improve and broaden the investor base.

Investor heterogeneity leads to more liquid bond markets as different investors have differing risk perceptions and employ varying trading strategies. A diverse investor base not only enlarges the size of the market, but having investors with different risk profiles can also dampen volatility during periods of market stress.[9] A large and diverse investor base can support the efficient pooling of long-term funds and help in risk mitigation. A varied class of market participants can also bring innovation in products and technology, thereby reducing transaction costs.

Increasing investor diversity in local currency bond markets essentially means promoting domestic institutional investors—banks, insurance companies, social security and pension funds, investment funds, as well as attracting foreign investors. The mobilization of funds is a secondary activity for all domestic institutional investors except investment funds. Therefore, governments in the region should assess the policies that are needed to support primary activities leading to higher levels of investment in domestic capital markets.

Banks and financial institutions are the largest holders of government bonds in emerging East Asia (see *Bond Market Summaries* in this report for country-level investor profiles). Bank lending still dominates domestic financing, although bank lending's share of domestic financing has decreased from 54% in 1995 to 44% in 2008, while the bond market's share increased from 13% to 31%. The equity market's share fell from 33% to 25%. As a result, domestic banks have significant capacity to invest in bonds and can greatly influence the development of bond markets in the region. But for them to do so, stability of monetary policy, especially in underdeveloped markets, is important.

Insurance companies and pension funds increasingly play a major role in shaping the development of many domestic bond markets, including, for example, bond markets in Latin America. Insurance penetration, measured in terms of premiums as a percentage of gross domestic product (GDP), is high in Korea (11.8%); Hong Kong, China (11.2%); and Singapore (7.8%). For other markets, Malaysia has an insurance penetration level of 4.3%, followed by Thailand

[9]Mohanty (2002).

and the PRC (3.3%), Viet Nam and the Philippines (1.4%), and Indonesia (1.3%).[10]

The development of these contractual savings vehicles is driven largely by the growth of liabilities, demographic changes, and welfare policies adopted by governments. Life insurance companies have a demand for longer-dated bonds based on their long-term liabilities. As the life insurance industry expands in the region, it will help to both grow the size of local currency bond markets and extend the maturity profile of benchmark government yield curves. On the other hand, non-life (general) insurance firms tend to expand in line with economic growth, which helps facilitate sales growth in automobile and housing mortgages.

Pension funds in the region have significant potential to grow in coming years as the authorities seek to meet the retirement income needs of rapidly growing and ageing populations. Many of the pension systems are relatively new and evolving. The oldest pension systems are found in Malaysia, the Philippines, and Singapore, although these systems are constantly evolving. Korea’s relatively advanced system was established in 1988 and continues to undergo reforms.[11]

The growth of pension funds and liberalization of pension asset investments has the potential to significantly influence the development of local currency bond markets in the coming years. However, the development of contractual savings vehicles needs to be supported in tandem with overall capital market development.

Mutual funds are popular vehicles for mobilizing retail funds. They also manage the investments of other institutional investors such as insurance and pension funds. The region has seen the mutual fund industry grow and mature in a number of domestic markets over the past few decades. The level of development of these funds varies across the region, with the most advanced markets found in Korea; Hong Kong, China; Singapore; and Malaysia. Sound regulation and pricing practices are important for the smooth functioning of investment funds, particularly during volatile periods.

Foreign investors have played a major role in improving liquidity in local currency domestic bond markets. Apart from expanding the investor base and improving liquidity, foreign investors also bring expertise and technology that are beneficial to the development of domestic markets. However, foreign investors can also be fickle and sensitive to macroeconomic imbalances.

Emerging East Asia has come a long way in promoting investor heterogeneity in local currency bond markets **(Figure 26)**. Nonetheless, wide differences exist within the region. In the PRC, for example, special members—PBOC, Ministry of Finance, policy banks, China Government Securities Depository Trust & Clearing Co. Ltd, China Securities Depository and Clearing Corp. Ltd.,—and national commercial banks held about 77% of treasury bonds at the end of September 2009. Insurance companies held 5% and funds institutions held 1.2%. The PRC has recently taken several positive steps to promote investor diversity, including allowing insurance companies to invest in instruments backed by infrastructure projects and raising the limits of the insurance companies to invest in corporate bonds. The PRC has also continued to liberalize and facilitate the participation of qualified foreign-funded financial institutions in local debt markets.

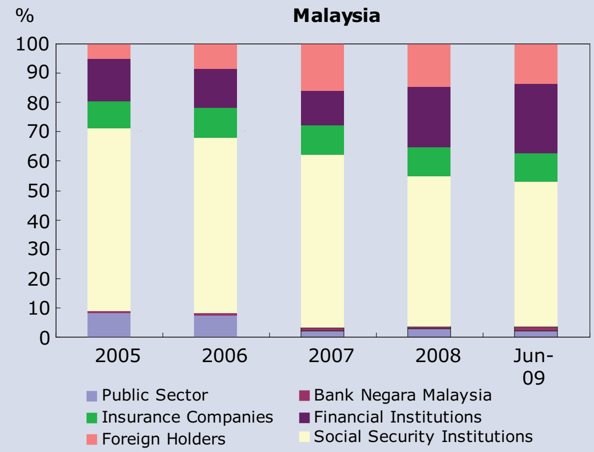
In Indonesia, the share of banks’ holdings of government debt has decreased over the past few years. There are also encouraging signs of increasing amounts of government bonds being held by insurance companies, pension funds, and mutual funds.

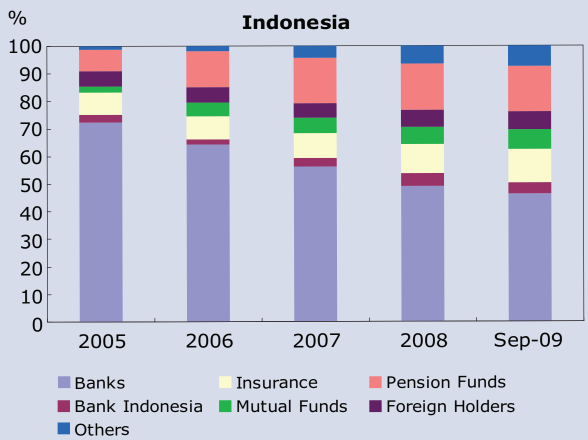
In Singapore, about 63% of the total assets of non-linked life insurance funds were invested in debt securities in 2008 against 59% in 2004. Recently, Singapore allowed retail investors to participate in government bond and treasury bill

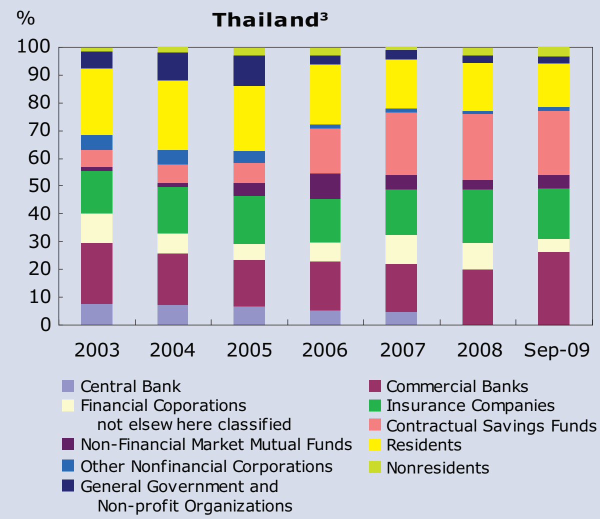
[10] Swiss Re. 2009. *World Insurance in 2008*. London.

[11] Park, D. 2009. *Ageing Asia’s Looming Pension Crisis*. Manila:ADB.

Figure 26: Investor Profile for LCY Government Bond Markets







[1]Tresury bonds. [2]Government and public bonds. [3]Government bonds and treasury bills.

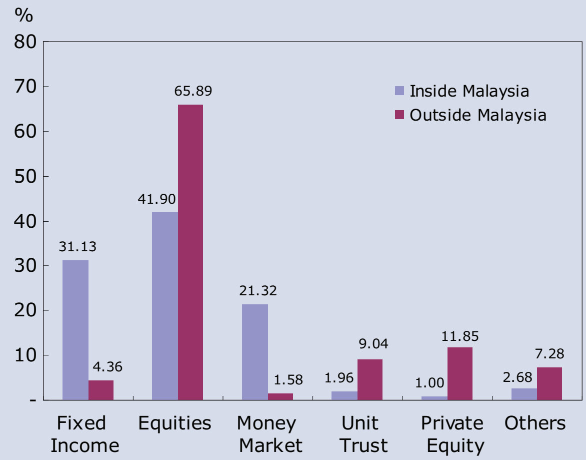
Source:
People's Republic of China (*ChinaBond*); Indonesia (Indonesia Debt Management Office); Republic of Korea (Bank of Korea); Malaysia (Bank Negara Malaysia); and Thailand (Bank of Thailand).

auctions through the automated teller machines of major banks.

Korea and Malaysia have also seen more active participation by different classes of investors in their government debt markets. In Malaysia, about 70% of total assets managed by life insurance companies were invested in local fixed income securities at the end of 2008 versus 65% in 2003. General insurance companies invested 49% of these assets under management in domestic debt markets. Meanwhile, domestic fund management companies allocated 31% of their domestic funds in fixed income instruments **(Figure 27)**.

The creation of a broad investor base takes time. It requires a combination of the right policies, regulatory environment, and market infrastructure to attract a heterogeneous class of investors that will allocate more funds to local currency bond markets. Thus, broadening the investor base, strengthening market infrastructure, and establishing a sound regulatory framework are all needed to complement the overall development of the region's bond markets.

Figure 27: Malaysian Fund Management Companies' Asset Allocation
(as of 31 December 2008)



Source: Securities Commission Malaysia.

Market Summaries

People's Republic of China—Update

Yield Movements

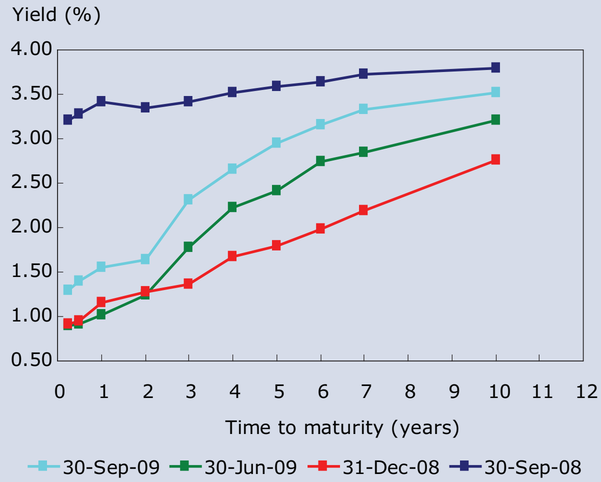
Despite low policy rates and ample liquidity, yields rose across all maturities at end 3Q09, resulting in an almost parallel shift of the yield curve upward from June levels **(Figure 1)**. At the shorter end of the curve, yields rose by a high of 54 basis points for 1-year paper and a low of 39 basis points for 2-year maturities. Yields further out along the curve increased by similar amounts, although the yield on the 10-year tenor increased by only 30 basis points, which was the smallest increase along the curve.

The widening out of the yield curve is attributable to concerns about future inflation, potential monetary tightening, and the apparent shift by investors into equities and other asset classes. The spread between 2- and 10-year government bonds declined to 187 basis points at the end of September as compared to a spread of 196 basis points at the end of June.

For the first three quarters of 2009, the People's Republic of China's (PRC) economy expanded 7.7% year-on-year (y-o-y) on the back of an aggressive government economic stimulus program and rapid credit expansion in the banking system. Gross domestic product (GDP) in 3Q09 grew 8.9% y-o-y. This compares with GDP growth of 7.9% in 2Q09 and 6.1% in 1Q09.

After twice lowering its lending and deposit benchmark rates late last year, the People's Bank of China (PBOC) maintained these benchmark rates at 5.31% and 2.25%, respectively, at the end of September. Consumer price inflation, which first turned negative in February, was reported at −0.8% y-o-y in September. This represented an uptick from inflation rates of −1.2% in August and −1.8% in July. Total new loans extended in the first three quarters of the year stood at CNY8.67 trillion, which was 73.4% above the government's initial annual target of CNY5 trillion. M2 money supply growth in September was 29.31% y-o-y, continuing the upward trend seen in previous months.

Figure 1: Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg LP.

Size and Composition

At the end of September 2009, the amount of the PRC's outstanding local currency (LCY) bonds stood at CNY16.483 trillion for a y-o-y rise of 13.9% and a quarter-on-quarter (q-o-q) increase of 4.5% **(Table 1)**. The amount of government bonds outstanding increased 5.7% y-o-y and 3.1% q-o-q. Reflecting the explosion of corporate issuance in 2Q09 and continued high issuance in 3Q09, the stock of corporate paper rose 87.7% y-o-y and 12.5% q-o-q.

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

	Amount (billion)								**Growth Rate** (%)						
	Jun-09		**Jul-09**		**Aug-09**		**Sep-09**		**Jun-09**		**Jul-09**	**Aug-09**	**Sep-09**		
	CNY	**USD**	**CNY**	**USD**	**CNY**	**USD**	**CNY**	**USD**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	15,770	2,309	15,946	2,334	16,176	2,368	16,483	2,415	14.8	5.3	1.1	1.4	13.9	4.5	1.9
Government	13,344	1,954	13,376	1,958	13,551	1,984	13,753	2,015	7.0	2.9	0.2	1.3	5.7	3.1	1.5
Treasury Bonds	5,345	782	5,504	806	5,554	813	5,655	828	12.5	9.1	3.0	0.9	18.3	5.8	1.8
Central Bank Bonds	4,161	609	4,016	588	4,044	592	4,020	589	(5.5)	(4.2)	(3.5)	0.7	(16.4)	(3.4)	(0.6)
Policy Bank Bonds	3,838	562	3,856	564	3,953	579	4,078	597	15.9	2.9	0.5	2.5	19.0	6.3	3.2
Corporate	2,426	355	2,570	376	2,625	384	2,729	400	90.9	21.1	5.9	2.1	87.7	12.5	4.0
Memo item: Policy Bank Bonds															
China Development Bank	2,769	405	2,769	405	2,819	413	2,939	431	9.8	2.8	0.0	1.8	14.8	6.2	4.3
Export-Import Bank of China	338	50	338	50	358	52	373	55	60.7	5.1	0.0	5.9	38.1	10.3	4.2
Agricultural Dvt. Bank of China	731	107	749	110	776	114	766	112	25.9	2.4	2.5	3.6	28.5	4.8	(1.3)

y-o-y = year-on-year, q-o-q = quarter-on-quarter, m-o-m = month-on-month.

Note:
1. Calculated using data from national sources.
2. Treasury Bonds include Savings Bonds and Local Government Bonds
3. Bloomberg end-of-period LCY–USD rate is used.
4. Growth rates are calculated from LCY base and do not include currency effects.

Source:
ChinaBond and Bloomberg LP.

Treasury Investor Profile

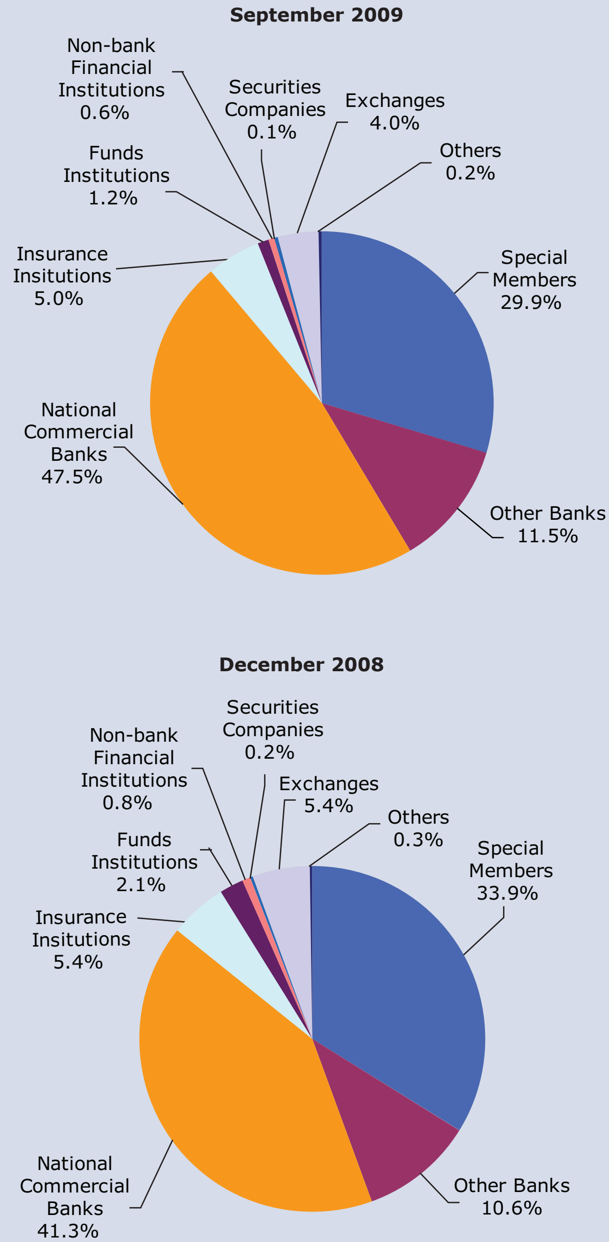
The first three quarters of 2009 saw the continued dominance of banks as treasury bond investors, with banks holding a larger share of treasury bonds than they did at the end of 2008 **(Figure 2)**. In September 2009, banks as a group held 59.0% of treasury bonds outstanding compared to their 51.9% share in December 2008. As was the case at end-June, the share of treasury bonds for all other investor classes declined compared to their holdings at the end of 2008. The share of bonds held by insurance institutions fell from 5.4% at end-2008 to 5.0% at end-September 2009. Of particular note was the decline of four percentage points in the share held by Special Members (see note to Figure 2 below).

Corporate Bonds

The first three quarters of 2009 saw an unprecedented expansion in the outstanding amount of PRC corporate bonds, with medium-term notes (MTNs) leading the way **(Table 2)**. The explosive growth of MTNs, particularly in 2Q09, was due to the shift in issuance from the window involving approval by the National Development and Reform Commission (NDRC) and Corporate Securities Regulatory Commission (CSRC) towards the MTN window regulated by the National Association of Financial Market Institutional Investors (NAFMII). One apparent reason for this shift is that the approval process for the MTN window is much quicker and can often be completed in 1–2 months.

In 3Q09, however, issuance of MTNs dropped off considerably compared to issuance levels in the previous quarter, although issuance of commercial bank, state-owned corporate bonds, and commercial paper picked up **(Figure 3)**. While y-o-y growth rates of corporate bonds outstanding have remained robust, most categories of corporate bonds experienced a decline in their q-o-q growth rates in 3Q09, with the exception of commercial bank bonds and state-owned corporate bonds. However, these growth rates were still positive and

Figure 2: Treasury Bonds Investor Profile



Note:
Special Members include the People’s Bank of China (PBOC), Ministry of Finance, policy banks, China Government Securities Depository Trust and Clearing Co., and China Securities Depository and Clearing Corporation.

Source:
ChinaBond.

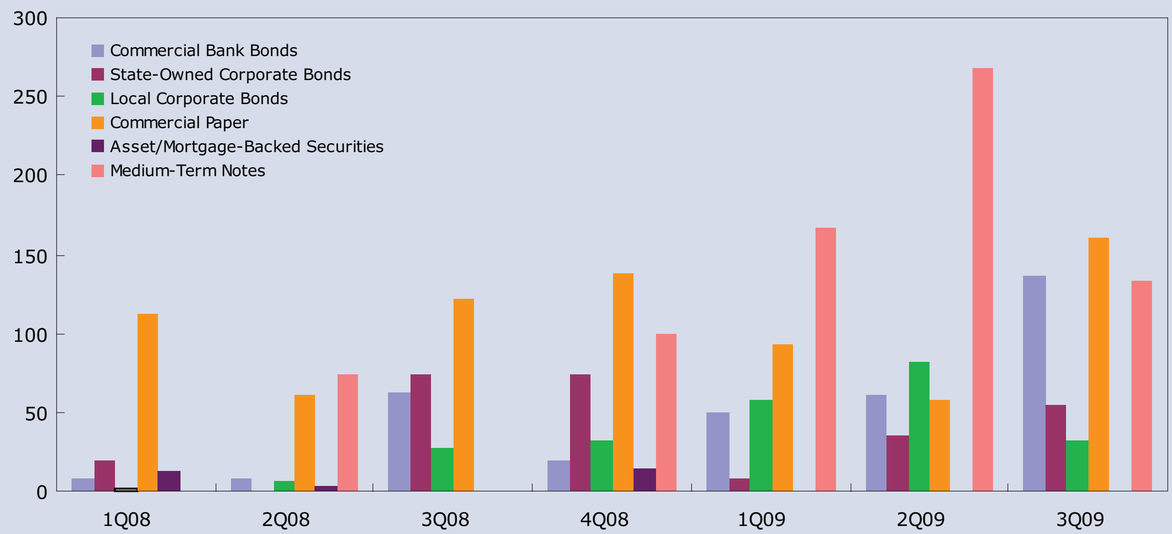
Table 2: Corporate Bonds Outstanding in Key Sectors (CNY billion)

	Amount						Growth Rates (q-o-q, %)					
	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09
Commercial Bank Bonds	327.47	384.47	388.67	437.67	486.37	589.15	4.13	17.41	1.09	12.61	11.13	21.13
State-owned Corporate Bonds	376.60	446.60	521.90	526.50	565.30	619.30	0.13	18.59	16.86	0.88	7.37	9.55
Local Corporate Bonds	100.25	125.25	158.45	196.95	295.67	328.81	8.08	24.94	26.51	24.30	50.13	11.21
Commercial Paper	313.38	344.76	420.31	409.36	384.28	353.07	(15.67)	10.01	21.91	(2.61)	(6.13)	(8.12)
Asset/Mortgage-backed Securities	43.44	43.44	55.11	56.61	55.41	46.04	16.89	0.00	26.86	2.72	(2.12)	(16.90)
Medium-Term Notes	73.50	73.50	167.20	340.80	592.10	742.10	—	0.00	127.48	103.83	73.74	25.33

— = data not applicable.

Source: *ChinaBond*.

Figure 3: Corporate Bond Issuance in Key Sectors (CNY billion)



Source: *ChinaBond.*

quite substantial except for commercial paper and asset-backed securities.

Policy, Institutional, and Regulatory Developments

Relaxation of Rules on Insurance Companies' Bond Investments

In March, the China Insurance Regulatory Commission (CIRC) said that it would permit insurers in the life and the non-life sectors to invest in paper backed by infrastructure projects, with life insurers and non-life insurers being allowed to invest 6% and 4% of their assets, respectively, in such instruments. To make these investments, insurers would be required to have maintained a solvency ratio above 120% in the previous two years. CIRC also issued regulations allowing smaller insurance companies to invest in stocks directly, subject to meeting solvency ratio requirements. Previously, such insurers could make equity investments only through asset management companies.

In April, CIRC issued regulations expanding the range of bonds insurers can invest in. The regulations allow insurers to invest in bonds issued by local governments and more notably, in unsecured bonds–corporate bonds without third party or bank guarantees. Insurers are allowed to invest 15% of their assets in these instruments.

In October, CIRC raised the cap on PRC insurers' investments in corporate bonds from 30% of their assets to 40%. However, insurers are limited to investing in bonds of large state-owned enterprises; Hong Kong, China-listed "red chips"; and companies with "H-share" issuance. Furthermore, the bonds eligible for investment must be rated BBB and above.

Re-opening of Bond Issuance by Publicly-Listed Companies

In July, the listed company Shanghai Yuyuan Tourist Mart was approved by CSRC to issue up to CNY1 billion in bonds, which marked the resumption of listed-company bond issuance after a 10-month suspension. As of July, about 35 listed companies were reported to be preparing to issue bonds totaling about CNY115 billion. CSRC approved these bonds on a preliminary basis, but has yet to give the final permits needed to proceed with issuance. The resumption of listed-company issuance will be accompanied by new regulations on the distribution of these bonds and retail investors' access to them.

Foreign Participation in Bond Trading and Issuance

In January 2009, PBOC announced that it would allow foreign banks to underwrite CNY-denominated bonds and trade corporate bonds in the country's interbank market. Previously, foreign banks could trade only government bonds, central bank bills, bonds issued by financial institutions, and some derivative instruments on the local bond market. The PRC was also considering allowing qualified foreign-funded financial institutions to issue CNY-denominated bonds in the mainland or in Hong Kong, China. By 2Q09, the initial phases of these measures were underway:

- In April, Standard Chartered Bank announced that its Shanghai unit had traded PRC commercial paper, which made it the first foreign bank to participate in the PRC corporate debt market.

- In May, HSBC and the Bank of East Asia gained approval to issue CNY-denominated bonds in Hong Kong, China to become the first non-PRC banks to receive such approval. In mid-July, HSBC issued CNY1 billion in floating rate notes in Hong Kong, China. Also in July, the Bank of East Asia issued bonds worth CNY4 billion. In September, HSBC issued an additional CNY2 billion in fixed rate paper.

Domestic Bank Participation in Bond Trading on Exchanges

In a move geared towards providing a bridge between the PRC's two primary venues for bond trading, the interbank market and stock exchanges, the China Banking Regulatory Commission (CBRC) and CSRC issued a joint set of preliminary rules in January allowing listed banks to trade bonds on the country's stock exchanges. The interbank bond market is significantly larger than the exchange-traded market. Regulations for the entry of domestic-listed banks into exchange-based bond trading were released in early July.

The opening up of exchange-based bond trading is aimed at strengthening demand for the bonds of listed companies. With banks as active participants in exchange-based trading, large issuers are expected to have increased confidence in the distribution of their bonds on the exchanges.

In early November, three large state-owned banks – the Bank of Communications (BOC), China Construction Bank (CCB), and the Industrial and Commercial Bank of China (ICBC) – won approval from the CBRC to engage in exchange-based bond trading. In addition to approval from regulators, the banks need to be approved by the stock exchanges. BOC and CCB have received approval from the Shanghai Stock Exchange, while ICBC is the process of obtaining stock exchange approval.

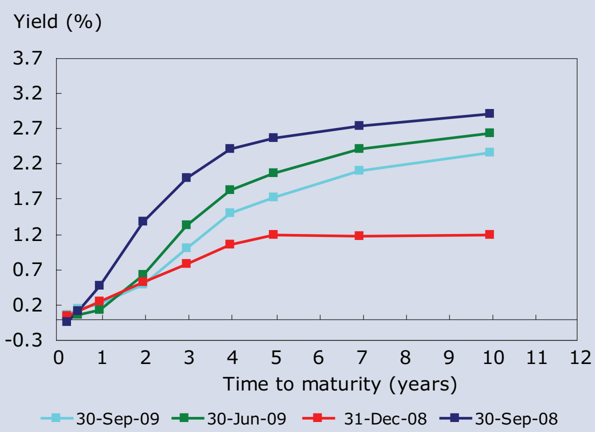
Hong Kong, China—Update

Yield Movements

The yield curve for Hong Kong, China's Exchange Fund Bills and Notes (EFBNs) flattened at the end of September from the 2-year tenor through the rest of the curve compared to yield levels at the end of June **(Figure 1)**. Yields at the shorter end of the curve, however, increased slightly from their end-June levels, with yields on 3-month, 6-month, and 1-year paper rising by 3, 9, and 9 basis points, respectively.

Yields on 2-year notes declined 14 basis points between end-June and end-September, while the decline on yields for maturities of 3 years and longer ranged between 29 basis points (10-year notes) and 34 basis points (5-year notes). The flatter yield curve is reflected by the spread between 2- and 10-year EFBNs, which stood at 187 basis points as of end-September compared to 201 basis points as of end-June.

Figure 1: Hong Kong, China's EFBN Yield Curve



EFBN=Exchange Fund Bills and Notes.

Source: Bloomberg, LP.

Size and Composition

As of end-September, the outstanding amount of government bonds, comprising EFBNs and bonds issued under Hong China's newly-introduced Institutional Issuance Program, reached HKD416.54 billion, which represented a 187.3% year-on-year (y-o-y) increase **(Table 1)**. The rise in government bonds outstanding is due largely to issuance of Exchange Fund bills by the Hong Kong Monetary Authority (HKMA) to meet strong bank demand.

The demand for Exchange Fund bills soared in the wake of the Lehman Brothers bankruptcy in September 2008 as concerns about counterparty risk led banks to invest surplus funds in these instruments, which were viewed as a safe haven, instead of lending in the interbank market. HKMA responded by increasing issuance of its paper. With banks' HKMA reserve accounts increasing as a result of the substantial capital inflows into Hong Kong, China since 2Q09, bank demand for short-dated EFBNs has remained high. Exchange Fund bills are key instruments in bank liquidity management since they can be used as collateral by banks when borrowing from HKMA through repurchase agreements.

In September, the amount of Exchange Fund bills outstanding totaled HKD343.44 billion—up 333.2% y-o-y and 56.2% quarter-on-quarter (q-o-q). By contrast, the stock of Exchange Fund notes at end-September grew more modestly—5.9% and 1.5% on a y-o-y and q-o-q basis, respectively. In September, HKMA announced that it would further expand issuance of Exchange Fund bills in October by a total of HKD23.1 billion.

In September, Hong Kong, China issued a total of HKD3.5 billion in 2-year bonds in the first sale of government paper in 5 years. The sale was also the first under the Special Administrative Region's Institutional Issuance Program (the program is

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

	Amount (billion)								Growth Rate (%)						
	Jun-09		Jul-09		Aug-09		Sep-09		Jun-09		Jul-09	Aug-09	Sep-09		
	HKD	USD	HKD	USD	HKD	USD	HKD	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	862.48	111.29	926.04	119.49	968.67	124.98	996.01	128.52	19.4	9.8	7.4	4.6	39.0	15.5	2.8
Government	288.42	37.22	350.18	45.18	391.01	50.45	416.54	53.75	99.9	31.8	21.4	11.7	187.3	44.4	6.5
Exchange Fund Notes	68.6	8.85	68.60	8.85	69.20	8.93	69.60	8.98	5.1	1.0	0.0	0.9	5.9	1.5	0.6
Exchange Fund Bills	219.82	28.36	281.58	36.33	321.81	41.52	343.44	44.31	178.2	45.6	28.1	14.3	333.2	56.2	6.7
HKSAR Bonds	—	—	—	—	—	—	3.50	0.45	—	—	—	—	—	—	—
Corporate	574.06	74.07	575.86	74.30	577.66	74.53	579.47	74.77	-0.7	1.3	0.3	0.3	1.4	0.9	0.3

— = data not applicable, y-o-y = year-on-year, q-o-q = quarter-on-quarter, m-o-m = month-on-month, HKSAR = Hong Kong Special Administrative Region.

Note:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–USD rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. The amount of corporate bonds outstanding for July-09 and Aug-09 were estimated based on the compounded monthly growth rate between Jun-08 and Sep-09.

Source: Hong Kong Monetary Authority (HKMA), and Bloomberg LP.

discussed further under the Policy, Institutional, and Regulatory Developments heading below).

The amount of outstanding corporate paper in 3Q09 stood at HKD579.47 billion, up 1.4% y-o-y and 0.9% q-o-q.

Policy, Institutional, and Regulatory Developments

Institutional Issuance Program Bonds

In July, Hong Kong, China's Legislative Council approved the Special Administrative Region's Institutional Issuance Program. The program calls for issuance of government debt totaling HKD100 billion over the next few years, with a view towards developing the domestic bond market and providing a benchmark for the pricing of corporate debt.

Bonds issued under the program are liabilities of the Government of the Hong Kong Special Administrative Region and are distinct from EFBNs, which are backed by foreign reserves under Hong Kong, China's currency board system.

Following the initial sale in September of HKD3.5 billion of bonds under the program, another HKD2 billion of 5-year bonds were issued in November.

Yuan Trade Settlement

The People's Republic of China (PRC) and Hong Kong, China signed an agreement in June establishing a pilot scheme to permit the yuan to be used for settling cross-border trade transactions. Prior to the deal, banks based in Hong Kong, China could take yuan deposits and provide other yuan-denominated services on a limited basis, but were not allowed to engage in cross-border yuan trade settlement.

In July, the People's Bank of China (PBOC) began to allow certain companies in Shanghai and four cities in Guangdong province to settle trade transactions with firms in Hong Kong, China; Macau, China;

and the 10 member countries of the Association of Southeast Asian Nations (ASEAN). The first yuan settlement transactions occurred on 6 July.

By September, the PRC units of HSBC, Standard Chartered Bank, and the Bank of East Asia, as well as 10 domestic PRC banks, had qualified to conduct cross-border trade settlement in yuan. Forty-three banks in Hong Kong, China participate in the yuan settlement clearing system and can course transactions either through correspondent banks in the PRC mainland or through clearing banks in Hong Kong, China. (At the time of writing, only the Hong Kong, China unit of the Bank of China serves as a clearing bank for yuan settlements in the Special Administrative Region).

Issuance of PRC Treasury Bonds in Hong Kong, China

The PRC's Ministry of Finance reported on 20 October that its CNY6 billion Treasury bond offering in Hong Kong, China attracted subscriptions totaling CNY18 billion—three times the offered amount. The sale, which capitalizes on Hong Kong, China's role as an international financial center, is seen as part of the PRC's efforts to broaden the use of the yuan internationally and to help further develop the Hong Kong, China bond market.

Indonesia—Update

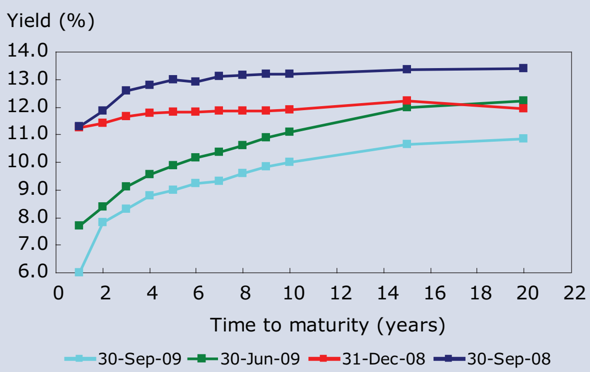
Yield Movements

In September, the government bond yield curve in Indonesia fell dramatically across all maturities from its end-December and end-June levels **(Figure 1)**. Yields declined the most at the shorter end of the curve, shedding 171 basis points for the 1-year maturity. The yield curve also flattened from the belly through the longer end of the curve. As a result, the spread between 2- and 10-year bonds narrowed to 216 basis points at end-September from 269 basis points at end-June.

The downward shift in yield curves reflects improving confidence in Indonesia's economy. Indonesia's economy expanded 4.2% year-on-year (y-o-y) in 3Q09, boosted by strong domestic demand. Private consumption and government consumption grew 4.7% y-o-y and 10.2% y-o-y, respectively. The Finance Ministry is optimistic that the full year annual GDP target of 4.3% will be met.

The Indonesian rupiah strengthened substantially against the United States dollar in 3Q09 amid increased investor appetite for IDR-denominated assets. The IDR–USD exchange rate appreciated to IDR9,665–USD1 in September from IDR10,208–USD1 in June.

Figure 1: Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg LP.

Slight upticks in consumer price inflation were noted for August (2.75%) and September (2.83%) compared to July. Despite these inflationary spikes, year-to-date consumer price inflation has been kept to only 2.28%, substantially below Bank Indonesia's (BI) 2009 inflation target of 3.5%—5.5%. Subsequently, BI has kept its benchmark interest rate at a record low of 6.5% since July of this year.

Size and Composition

The size of the local currency (LCY) bond market in Indonesia contracted marginally month-on-month (m-o-m) in August **(Table 1)**. However, total bonds outstanding in August grew 13.09% y-o-y.

As of end-August, outstanding government bonds stood at IDR788.55 trillion. Government bonds consist of central government bonds (issued by the Ministry of Finance) and central bank bonds (issued by BI as *Sertifikat Bank Indonesia* [SBI]). The stock of central government bonds was up 2.0% m-o-m in August and rose further in September, rising 0.5% m-o-m and 4.7% y-o-y. As of end-August, the stock of SBI had risen substantially for the year—up 48.86% y-o-y—while falling 5.2% m-o-m.

The Finance Ministry has tapped various treasury instruments—including treasury bonds, treasury bills, retail bonds, *shari'a* compliant securities, and *samurai* bonds—to raise funds to finance its budget deficit. In mid-October, the government started auctions for Islamic bonds, or *sukuk*, which will be conducted twice a month. Previously, the issuance of *sukuk* was done through the bookbuilding method. The first scheduled auction for *sukuk* was held on 13 October. The auction failed as the average yields asked were higher than yields of comparable treasuries in the secondary market.

Table 1: Size and Composition of Local Currency Bond Market in Indonesia

	Amount (billion)								Growth Rate (%)						
	Jun-09		Jul-09		Aug-09		Sep-09		Jun-09		Jul-09	Aug-09	Sep-09		
	IDR	USD	IDR	USD	IDR	USD	IDR	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	861,167	84	869,387	88	868,140	86	—	—	12.3	1.0	1.0	(0.1)	—	—	—
Government	785,957	77	789,640	80	788,552	78	—	—	14.9	0.8	0.5	(0.1)	—	—	—
Central Govt Bonds	553,227	54	553,604	56	564,776	56	567,367	59	6.6	1.2	0.1	2.0	4.7	2.6	0.5
Central Bank Bonds	232,731	23	236,036	24	223,776	22	—	—	40.9	0.0	1.4	(5.2)	—	—	—
Corporate	75,210	7	79,747	8	79,588	8	78,930	8	(8.9)	2.6	6.0	(0.2)	1.3	4.9	(0.8)

— = data not available, y-o-y = year-on-year, q-o-q = quarter-on-quarter, m-o-m = month-on-month.

Note:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.

Source:
Bank Indonesia, Indonesia Stock Exchange, and Bloomberg LP.

Table 2: Top 10 Corporate Issuers as of end-June 2009

Top 10 Corporate Issuers	Outstanding Amount (IDR billion)
PLN	9,100
Indosat	6,590
Jasa Marga (Toll operator)	4,150
Indofood Sukses Makmur	3,610
Perum Pegadaian (Pawn shop)	3,270
Bank BTN	3,250
Bank Panin	3,150
Bank Ekspor Indonesia	3,050
Astra Sedaya Finance	2,202
Federal International Finance	2,200

Source: Indonesia Stock Exchange.

The stock of corporate bonds in August stood at nearly IDR80 trillion. The amount of corporate bonds outstanding had risen in June and July before declining slightly in August (–0.2% m-o-m) and September (–0.8% m-o-m). Nonetheless, the September level of corporate bonds outstanding reflected growth of 1.3% y-o-y and 4.9% q-o-q.

The top 10 corporate issuers in Indonesia made up about 52% of total corporate bonds outstanding as of end-September **(Table 2)**. PT PLN remained Indonesia's top corporate issuer of LCY bonds at IDR9.10 trillion. The next two largest issuers were the telecommunications company, Indosat, and toll operator, Jasa Marga. Meanwhile, banks and financial institutions dominated the lower end of the top 10 list.

According to the Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK), corporate bond issuance in 2009 may exceed its initial target of IDR15.0 trillion. The agency released a list of planned corporate bond issues in the next 3 months, including Bank Mandiri (IDR3 trillion), PT Indosat (IDR1 trillion in conventional bonds and IDR500 billion in *shari'a* bonds), Otomobil Artha (IDR600 billion), and Mitra Adi Perkas (IDR500 billion).

Foreign Currency (FCY) Bonds

The volume of FCY bond issuance by Indonesian corporates and the government in 2009 reached USD7.57 billion in early November. This figure may grow to over USD8 billion by the end of the year as a number of corporate issuers announced plans to issue FCY-denominated bonds. The recent USD800 million bond issue of mining company PT Adaro—priced to yield 7.75%—was well received by a market that has been starved of high yield issues over the last 2 years.

Rating Changes

Moody's upgraded Indonesia's foreign and local currency sovereign debt ratings to Ba2 from Ba3 on 16 September **(Table 3)**. The outlook was stable. According to Moody's, the ratings upgrade was prompted by Indonesia's relatively strong resilience to the global recession as well as its healthy medium-term growth prospects.

S&P revised Indonesia's outlook to positive from stable on 23 October. It also affirmed ratings of BB- for long-term FCY, BB+ for long-term LCY, and B for short-term debt. The change in outlook took into account S&P's expectation that debt reduction and cautious fiscal management would remain key elements of the government's macroeconomic policy.

Table 3: Selected Sovereign Ratings and Outlook for Indonesia

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Ba2	BB-	BB
Outlook	stable	positive	stable

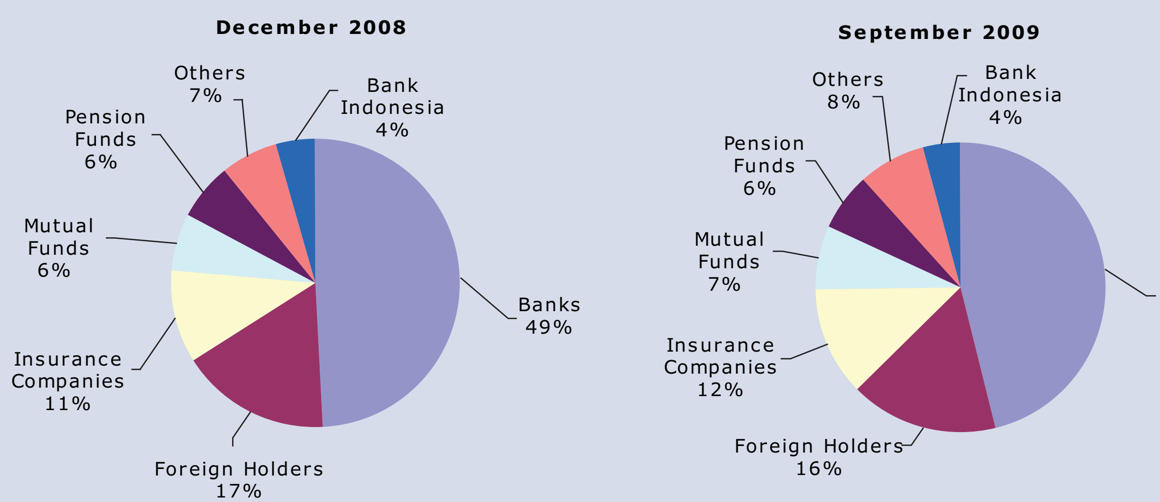
FCY = foreign currency and LT = long-term.

Source: Rating agencies.

Investor Profile

As of end-September, banking institutions remained the biggest holder of government bonds at IDR261.8 trillion, which is equivalent to 47.0% of total bonds outstanding. However, this was less than the banking institutions' 49.0% share of holdings at end-December **(Figure 2)**. The share of foreign holders in LCY government bonds was almost unchanged at 16.4% despite a 6.4% increase in the value of bonds held by them. As of end-September, bonds held by foreign investors had steadily grown to IDR93.2 trillion—the highest level in one year.

Figure 2: Investor Profile for Local Currency Government Bonds



Source: Indonesia Debt Management Office.

In addition, there was a notable increase in the share of insurance companies' LCY bond holdings (from 10.6% to 12.0%), mutual funds (from 6.3% to 7.3%), and pension funds (from 6.3% to 6.5%) between end-December and end-September.

Policy, Institutional, and Regulatory Developments

Bank Indonesia Requires 2.5% Secondary Reserve Requirement

Effective 24 October, BI required commercial banks to comply with a 2.5% secondary reserve requirement for unexpected liquidity needs. The secondary reserve requirement can be held in Treasury bonds, Treasury bills, SBIs, and/or excess reserves. This regulation is expected to bolster Treasury bond prices as banks are likely to invest in Treasury bonds to meet the additional reserve requirement.

Bank Indonesia to Set New Capital Requirements

In September, BI announced plans to assign capital requirements for commercial banks based on a bank's level of risk. Under current rules, banks in Indonesia have until the end of 2010 to meet the minimum capital requirement of IDR100 billion. Banks that cannot meet the requirement are encouraged to merge to increase their capitalization.

Republic of Korea—Update

Yield Movements

The Republic of Korea's (Korea) government bond yield curve widened at the end of September 2009 from its end-June level as yields rose for all maturities **(Figure 1)**. The increase in yields was most significant over the short end of the curve, with yields climbing by 36 basis points for 2-year maturities and 15 basis points for 10-year maturities, which narrowed the spread between 2- and 10-year maturities to 21 basis points.

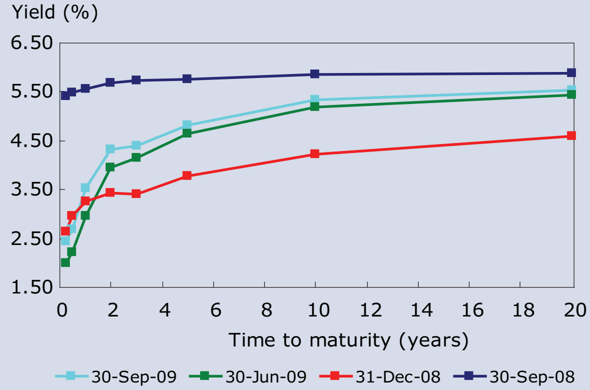
The rise in government bond yields in Korea can be attributed to expectations of an economic recovery. Gross domestic product (GDP) for 3Q09 posted 3.2% growth from the previous quarter, following 2.6% quarter-on-quarter (q-o-q) growth in 2Q09. GDP also grew 0.9% year-on-year (y-o-y) in 3Q09. In addition, consumer price inflation has been rising in recent months, reaching 2.2% y-o-y in September after registering 2.0% in June.

In October, the Bank of Korea (BOK) maintained its base rate at the historically-low level of 2.0%, which has been in place since February 2009. BOK is continuing its accommodative monetary policy stance in order to sustain recent improvements in the domestic growth outlook and the stabilization of financial markets. However, the recent improvement in GDP has raised questions over when BOK will begin to raise the policy rate and phase-out its accommodative monetary policy.

Size and Composition

Total local currency (LCY) bonds outstanding in September 2009 grew by 16.0% y-o-y and 2.6% q-o-q to about KRW1,177 trillion (USD1 trillion) **(Table 1)**.

Figure 1: Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg LP.

In September, government bonds rose by 17.1% y-o-y to KRW540.4 trillion as central government bonds, central bank bonds, and industrial finance debentures climbed 19.0%, 15.9%, and 9.1%, respectively. On a quarterly basis, government bonds rose by 2.4% in 3Q09, led by growth of 7.3% in central government bonds, which more than offset the 6.2% decline in central bank bonds. Meanwhile, industrial finance debentures climbed by only 0.6% q-o-q.

The size of the corporate bond market in Korea also expanded in September as the total amount outstanding grew by 15.1% y-o-y and 2.9% q-o-q to KRW636.6 trillion. Private non-financial corporates accounted for 37% of total corporate bonds, followed by banks and special public corporates with shares of 34% and 29%, respectively **(Table 2)**.

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

	Amount (billion)								Growth Rate (%)						
	Jun-09 KRW	Jun-09 USD	Jul-09 KRW	Jul-09 USD	Aug-09 KRW	Aug-09 USD	Sep-09 KRW	Sep-09 USD	Jun-09 y-o-y	Jun-09 q-o-q	Jul-09 m-o-m	Aug-09 m-o-m	Sep-09 y-o-y	Sep-09 q-o-q	Sep-09 m-o-m
Total	1,146,610	901	1,150,594	941	1,157,799	927	1,176,962	1,001	13.1	5.3	0.3	0.6	16.0	2.6	1.7
Government	527,678	415	531,150	434	537,235	430	540,357	460	10.7	5.9	0.7	1.1	17.1	2.4	0.6
Central Govt Bonds	311,405	245	319,254	261	326,532	261	334,130	284	7.0	2.6	2.5	2.3	19.0	7.3	2.3
Central Bank Bonds	165,677	130	162,197	133	160,587	129	155,327	132	16.3	14.5	(2.1)	(1.0)	15.9	(6.2)	(3.3)
Industrial Finance Debentures	50,596	40	49,698	41	50,116	40	50,900	43	16.7	0.5	(1.8)	0.8	9.1	0.6	1.6
Corporate	618,931	486	619,444	507	620,564	497	636,605	542	15.2	4.8	0.1	0.2	15.1	2.9	2.6

y-o-y = year-on-year, q-o-q = quarter-on-quarter, m-o-m = month-on-month.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.

Source: Bank of Korea and *KoreaBondWeb*.

Table 2: Structure of the Korean Corporate Bond Market (KRW billion)

Total Corporate Bonds	**636,605**
Special Public Corps	**186,956**
of which:	
KDIC	28,091
KHFC	26,667
Korea Land	19,666
KEPCO	14,733
Korea Highway	15,715
SBC	13,613
Korea Gas	8,628
Korea Train Express	8,525
Banks	**216,507**
of which:	
Kookmin Bank	36,880
IBK	33,474
Private Non Financial Corporates	**233,142**

Source: *KoreaBondWeb*.

Rating Changes

In September, Fitch Ratings affirmed Korea's long-term issuer default rating at A+, the short-term issuer default rating at F1, the local currency long-term issuer default rating at AA, and the country ceiling at AA **(Table 3)**. Also, Fitch revised Korea's ratings outlook from negative to stable.

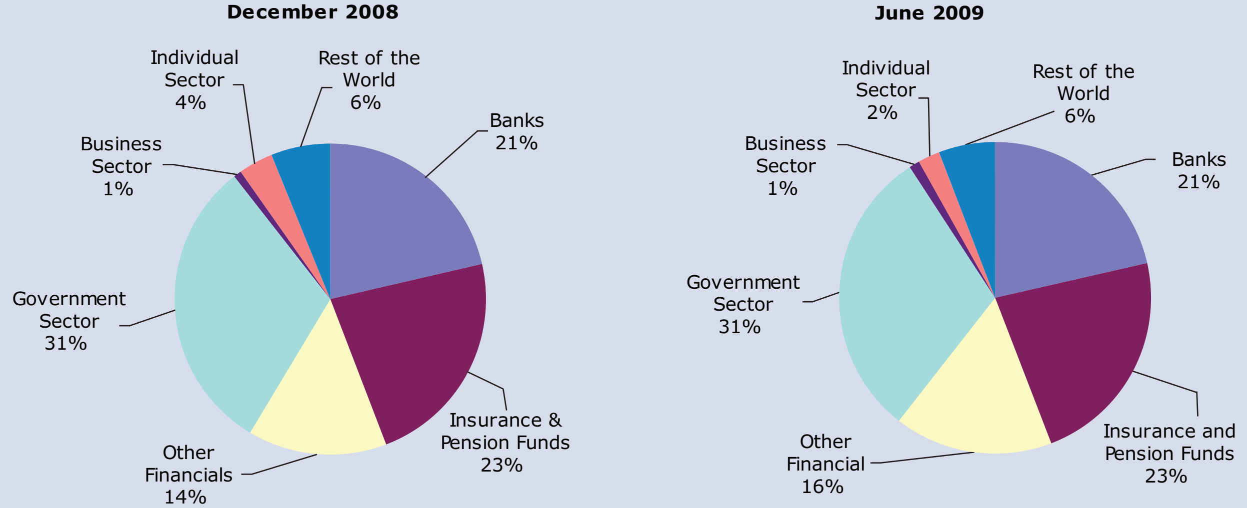
Table 3: Selected Sovereign Ratings and Outlook for Korea

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	A2	A	A+
Outlook	stable	stable	stable

FCY = foreign currency and LT = long-term.

Source: Rating agencies.

Figure 2: Investor Profile for Local Currency Government Bonds



Source: Bank of Korea.

Investor Profile

As of June 2009, the financial sector held about 60% of LCY government bonds in Korea, led by insurance and pension funds with a 23% share, and followed by banks and other financial institutions with shares of 21% and 16%, respectively **(Figure 2)**. The government owned 31% of LCY government bonds, while businesses, individuals, and the rest of the world registered shares of 1%, 2%, and 6%, respectively. Compared to end-December 2008, other financial institutions saw their share climb by 2 percentage points, while the share for individuals declined by the same amount.

Policy, Institutional, and Regulatory Developments

2009–2013 Budget Plan

In October, Korea released its 2009–2013 Budget Plan, which aims to develop the country's growth potential, improve fiscal health, and support economic recovery. The Plan projected, among other things, an annual rise in government revenue of 5.6% and that the country's fiscal deficit would fall each year to reach fiscal balance in either 2013 or 2014.

Tax Incentives to Encourage Islamic Bonds

Korea announced in September that it will provide tax incentives on investment proceeds of Islamic bonds starting in 2010. The incentives are designed to attract more investment in Islamic bonds, broaden the investment sources of firms to improve corporate financing decisions, and lessen dependence on the United States (US) and Europe.

Suspension of Currency Stabilization Bonds

In October, Korea temporarily stopped the issuance of currency stabilization bonds in order to limit US dollar inflows and mitigate the rapid appreciation of the local currency (Korean won).

Extension of Currency Swap Facility with Japan

In October, Korea announced an extension of its USD20 billion currency swap facility with Japan for 3 months until 1 February 2010 in order to support the stabilization of domestic financial markets.

Malaysia—Update

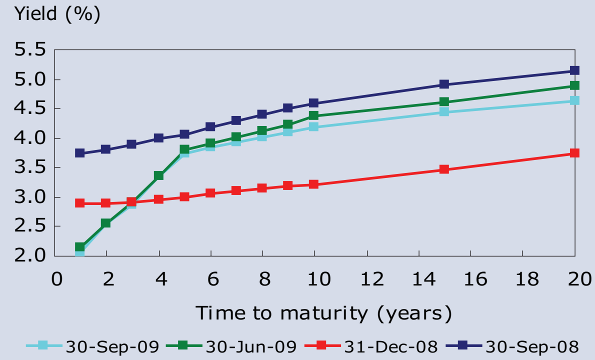
Yield Movements

At the end of September, Malaysian government bond yields were largely unchanged from their end-June levels in the short to middle part of the curve, while yields at the long end dropped **(Figure 1)**. The drop in the yields at the long end of the curve was due to a number of different factors, including an outlook of continued low policy rates and sluggish economic recovery in 2010, and little risk of inflation rebounding to significant levels over the next 1–2 years.

Bank Negara Malaysia (BNM) is expected to maintain its low interest rate policy as the consumer price inflation continues to drop. Inflation has declined from 3.9% year-on-year (y-o-y) in January to 2.4% in May. In June, inflation fell to –1.4% and remained in negative territory in July, August, and September at –2.4%, –2.4%, and –2.0%, respectively. The y-o-y declines were due mainly to base effects after the government allowed a massive hike in petrol prices in June 2008. The consumer price index (CPI) for the January–September period increased 0.9% y-o-y. The government expects 2009 consumer price inflation to range between 1.0% and 2.0%.

Malaysia announced its budget for 2010 on 23 October, forecasting gross domestic product (GDP) growth of 2%–3% in 2010 and a reduction of the budget deficit as a percentage of GDP from 7.4% in 2009 to 5.6% in 2010. Government revenues are expected to fall to MYR148.3 billion in 2010 from MYR162.1 billion in 2009. In light of the expected drop in revenues, the government announced plans to cut spending in 2010 by 11.2%, with operating expenditure falling by 13.7% to MYR138 billion and development expenditure being reduced by 4.5% to MYR50 billion.

Figure 1: Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg LP.

Size and Composition

Total local currency (LCY) bonds outstanding for Malaysia as of end-September stood at MYR626.64 billion—a 5.5% y-o-y increase—with outstanding government bonds increasing by 4.7% **(Table 1)**. Outstanding Bank Negara Malaysia (BNM) bills fell by 50.1%. However, this decline was offset by a substantial increase in central government bonds (e.g., Malaysian Treasury bills, Malaysian Islamic Treasury bills, Government Investment Issues [GII], and Malaysian Government Securities [MGS]), which surged 24.4% y-o-y.

Total LCY government bonds rose by 2.7% quarter-on-quarter (q-o-q) during 3Q09. Outstanding government bonds rose by 2.8% q-o-q as the government continued with its expansionary fiscal policy. However, outstanding BNM bills dropped by 1.8% q-o-q. LCY corporate bonds outstanding amounted to MYR278 billion at the end of 3Q09 for increases of 6.5% y-o-y and 1.5% q-o-q.

GII, which are a type of Islamic bond, accounted for 18.4% of total central government bonds at the end of 3Q09, while corporate Islamic bonds (IBONDS) accounted for 25.9% of total corporate

Table 1. Size and Composition of Local Currency Bond Market in Malaysia

	Amount (billion)								Growth Rate (%)						
	Jun-09		Jul-09		Aug-09		Sep-09		Jun-09		Jul-09	Aug-09	Sep-09		
	MYR	USD	MYR	USD	MYR	USD	MYR	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	610.3	173.6	616.3	175.5	625.3	177.6	626.6	180.7	0.3	4.6	1.0	1.5	5.5	2.7	0.2
Government	339.1	96.5	344.2	98.0	351.6	99.8	348.6	100.5	(4.2)	5.5	1.5	2.1	4.7	2.8	(0.8)
Central Government Bonds	288.0	81.9	297.5	84.7	307.0	87.2	307.0	88.5	17.6	7.3	3.3	3.2	24.4	6.6	-
Central Bank Bills	43.7	12.4	39.3	11.2	38.0	10.8	37.4	10.8	(53.9)	(1.8)	(10.1)	(3.3)	(50.1)	(14.4)	(1.6)
Others	7.4	2.1	7.4	2.1	6.6	1.9	4.3	1.2	(49.0)	(12.4)	—	(10.9)	(62.7)	(42.5)	(35.5)
Corporate	271.3	77.2	272.1	77.5	273.7	77.7	278.0	80.2	6.8	3.5	0.3	0.6	6.5	2.5	1.6

y-o-y = year-on-year, q-o-q = quarter-on-quarter, m-o-m = month-on-month.

Note:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–USD rate is used.
3. Growth rates are calculated from LCY-base and do not include currency effects.
4. Other refers to Khazanah Bonds issued by Khazanah Nasional Berhad and Cagamas Bonds and Notes, Bithaman Ajil Islamic Securities, Sanadat ABBA Cagamas and Sanadat Mudharabah Cagamas issued by Cagamas Berhad.

Source:
Bank Negara Malaysia, Fully Automated System for Issuing/Tendering (FAST), and Bloomberg LP.

Table 2: Outstanding Islamic Bonds

	Dec-08		Sep-09	
	Amount (billion MYR)	**as % of Total Bonds**	**Amount** (billion MYR)	**as % of Total Bonds**
Government Bonds	307.68	54.5	348.63	55.6
of which, GIIs	42.50	7.5	64.00	10.2
Corporate Bonds	257.13	45.5	278.01	44.4
of which, IBONDS	70.91	12.6	71.87	11.5

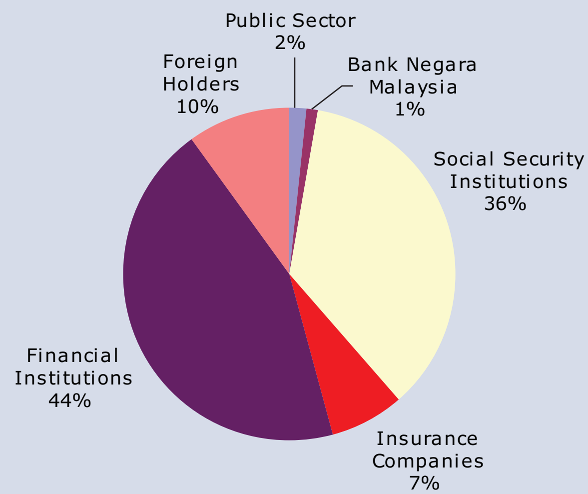
Source: Bank Negara Malaysia.

bonds at the end of 3Q09 **(Table 2)**. The top issuers of corporate bonds include an investment holding company, Binariang GSM (MYR15.1 billion); the national mortgage corporation, Cagamas Berhad (MYR14.4 billion); and the government investment-holding arm, Khazahan Nasional (MYR12 billion). At the end of 3Q09, the top 20 corporate bond issuers account for 48.7% of total corporate bonds outstanding **(Table 3)**.

Investor Profile

As of end-September 2009, financial institutions were the largest holders of MGS, with 44% of

Figure 2: Local Currency Government Bonds Investor Profile (June 2009)



Source: Bank Negara Malaysia.

Table 3: Top 20 Corporate Issuers (MYR billion)

Issuer	Conventional Bonds	Islamic Bonds	Conventional MTN	Islamic MTN	Total
Binariang GSM	–	3.0	–	12.1	15.1
Cagamas	–	–	8.0	6.4	14.4
Khazanah[1]	–	12.0	–	–	12.0
Project Lebuhraya (PLUS)	–	7.1	–	2.7	9.8
Prasarana	5.1	2.0	–	2.0	9.1
Maybank	6.1	2.5	–	–	8.6
Rantau Abang Capital Berhad	–	–	–	8.0	8.0
Malakoff Corp.	–	1.7	–	5.6	7.3
KL International Airport	1.6	5.3	–	–	6.9
Tanjung Bin Power	–	–	–	5.1	5.1
ValueCap	5.1	–	–	–	5.1
Terengganu Investment Authority	–	–	–	5.0	5.0
Jimah Energy Ventures	–	–	–	4.8	4.8
Putrajaya Holdings	–	1.1	–	3.1	4.2
YTL Power International	2.2	–	1.7	–	3.9
Tenaga Nasional Berhad	1.5	2.2	–	–	3.7
Cekap Mentari Berhad	3.5	–	–	–	3.5
CIMP, Bank	3.5	–	–	–	3.5
Hijrah Pertama Berhad	–	2.9	–	–	2.9
Public Bank Berhad	1.2	–	1.4	–	2.6
Total	**29.8**	**39.8**	**11.1**	**54.8**	**135.5**
% of total corporate outstanding					**48.7%**

MTN = Medium-Term Notes.
[1]Refers to corporate bonds issued by Khazanah Nasional. The figure does not include Khazanah Bonds issues, which were issued for the specific purpose of serving as a benchmark for Islamic corporate bonds. Issuance of these bonds, however, has not occurred since 2006, and the outstanding amount of these bonds has fallen precipitously to only MYR1 billion as of 3Q09.

Source: Bank Negara Malaysia.

total outstanding MGS, followed by social security institutions, which held 36% **(Figure 2)**. Foreign holders and insurance companies hold 10% and 7%, respectively, of total outstanding MGS.

Policy, Institutional, and Regulatory Developments

Malaysia Establishes Corporate Debt Restructuring Committee

To provide assistance to corporations facing difficulties in servicing their debt obligations amid unfavorable economic conditions, the Corporate Debt Restructuring Committee (CDRC) was formed to provide a platform for corporate borrowers and their creditors to work out feasible debt resolutions without having to resort to legal proceedings.

The committee was first established in 1998 and has successfully resolved 57 cases involving a total of MYR45.8 billion in outstanding debt. As of end-September, CDRC had received three applications with debts amounting to MYR478.7 million and a preliminary enquiry from a company with debt of MYR188.3 million.

Companies seeking to resolve their debt obligations under CDRC must fulfill the following criteria:

- debt obligations of at least MYR100 million,
- at least three financial creditors (banks or private debt securities), and
- not already in receivership or liquidation.

Malaysia Establishes National Financial Guarantee Institution to Support Corporations Raising Funds in Bond Market

In May, the government established a national financial guarantee institution, Danajamin National Berhad (Danajamin). Danajamin will provide financial guarantee insurance for securities issued by investment grade companies, which are defined as rated BBB or higher by a Malaysian rating agency. With Danajamin insurance, an issue would enjoy a rating of AAA. Danajamin has the capacity to insure up to MYR15 billion of investment grade private debt and Islamic securities.

Securities Commission Issues Additional Capital Market Initiatives

In September, the Malaysian Securities Commission (SC) issued the Venture Capital Tax Incentives Guidelines which incorporated new tax incentives for the venture capital industry as stipulated in the government's Income Tax (Exemption) Order 2009. This order stipulates that venture capital companies registered with the SC are eligible for a 5-year tax exemption if they have invested at least 30% of their invested funds in the form of seed capital, as well as start-up and/or early stage financing, in qualified investee companies.

After the Prime Minister's 2010 budget speech in October, the SC announced two additional measures to strengthen Malaysian capital markets: (i) phased liberalization of commission sharing arrangements, and (ii) promotion of electronic payments.

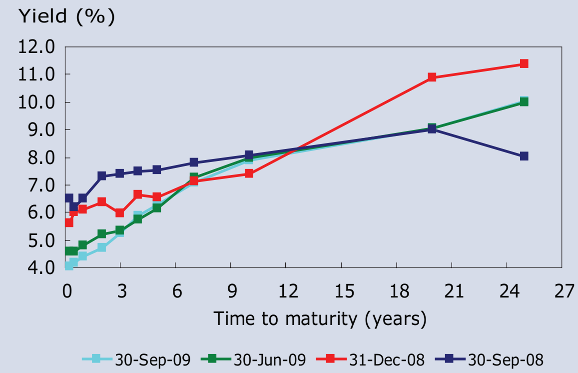
The first stage of liberalization, which took effect immediately, provided for a flexible brokerage sharing rate, with a minimum sharing rate of 40% for *remisiers* (stockbroking agents). The second stage, which will take effect on 1 January 2011, will fully liberalize commission sharing arrangements. Also, all publicly-listed companies will be required to provide e-dividends, or the electronic payment of dividends, by 3Q10.

Philippines—Update

Yield Movements

Philippine government bond yields declined across all tenors, except at the very long end of the curve, as of end-September 2009 relative to the same period last year. Yields on 2-year bonds have fallen by as much as 257.5 basis points, while yields on 10-year debt have dropped by 15 basis points. On a quarterly basis, 2- and 10-year yields dropped by 48.3 and 10 basis points, respectively, as strong demand for retail bonds issued in September pushed yields down, reflecting positive market sentiment. The yield spread between 2- and 10-year government bonds gradually widened to 317.5 basis points from 279.2 basis points as of end-June 2009 **(Figure 1)**.

Figure 1: Benchmark Yield Curve–Local Currency Government Bonds



Source: Bloomberg LP.

Bangko Sentral ng Pilipinas (BSP) has kept its key overnight borrowing rate at a record low of 4.0% since July 2009 to help sustain economic growth. BSP, however, has recently expressed its concern over rising food prices. September inflation increased to 0.7% year-on-year (y-o-y) from 0.1% in August due to price increases for specific food items. Also, the base effects that contributed to low inflation during the earlier part of the year have started to diminish. BSP predicted that the economy would likely grow faster in 3Q09 due to the continuing rise of remittances from overseas Filipino workers and an increase of foreign direct and portfolio investments. BSP expects 3Q09 gross domestic product (GDP) growth to exceed 1Q09 and 2Q09 GDP growth rates of 0.6% and 1.5%, respectively.

Size and Composition

As of September 2009, total government local currency (LCY) bonds stood at PHP2.5 trillion, of which 72% were Treasury bonds (PHP1.8 trillion) and 24% Treasury bills (PHP607 billion), while the remaining 4% were government-guaranteed bonds (PHP89 billion). The increase of 2.3% in the stock of total government bonds from end-June 2009 levels was brought about by a 7.1% increase in Treasury bonds. However, Treasury bills fell by 10.6% quarter-on-quarter (q-o-q). The Bureau of the Treasury rejected numerous bids on short-term paper during August–October auctions after market players asked for higher rates. On a month-on-month (m-o-m) basis, total government stock grew 4.8% in September, with Treasury bonds posting the highest growth rates **(Table 1)**.

On a quarterly basis, issuance by the national government soared 196.9% to PHP233 billion in 3Q09. The government successfully sold PHP25 billion worth of retail treasury bonds carrying 3-, 5- and 7-year tenors on 15 September. On 16 October, the Philippines sold USD1 billion of 25-year bonds—the third international global bond sale in 2009 and the first 25-year bond offer since January 2007. The government also plans to issue PHP50 billion of reconstruction bonds for typhoon-affected areas. In addition, the government is also considering a *samurai* debt sale this year to fund the deficit.

The Department of Finance (DOF) reported that the government's January–September fiscal deficit reached PHP237.5 billion, which was just below the annual deficit ceiling of PHP250 billion.

Table 1: Size and Composition of Philippine Local Currency Bond Market in the Philippines

	Amount (billion)								**Growth Rate** (%)						
	Jun-09		**Jul-09**		**Aug-09**		**Sep-09**		**Jun-09**		**Jul-09**	**Aug-09**	**Sep-09**		
	PHP	**USD**	**PHP**	**USD**	**PHP**	**USD**	**PHP**	**USD**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	2,753	57	2,742	57	2,707	55	2,817	59	8.2	2.1	(0.4)	(1.3)	7.5	2.3	4.1
Government	2,456	51	2,421	50	2,389	49	2,504	53	4.0	(0.2)	(1.4)	(1.3)	3.0	2.0	4.8
Treasury Bills	680	14	648	14	616	13	607	13	(8.3)	(11.5)	(4.6)	(4.9)	(20.5)	(10.6)	(1.4)
Treasury Bonds	1,687	35	1,684	35	1,684	35	1,807	38	9.6	4.8	(0.2)	0.0	14.2	7.1	7.3
Others	89	2	89	2	89	2	89	2	11.3	7.9	0.0	0.0	5.8	0.0	0.0
Corporate	297	6	321	7	318	7	313	7	62.4	25.6	8.1	(1.0)	65.8	5.4	(1.6)

y-o-y = year-on-year, q-o-q = quarter-on-quarter, m-o-m = month-on-month.

Note:

1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. "Others" includes government-guaranteed bonds such as Land Bank of the Philippines and National Power Corporation (Napocor).

Source: Bureau of the Treasury and Bloomberg LP.

Corporate bonds outstanding as of end-September 2009 stood at PHP313 billion. Issues from Robinsons Land (PHP10 billion) contributed to the 5.4% q-o-q growth rate in corporate bonds. San Miguel Brewery remains the largest corporate issuer, with outstanding bonds totaling PHP38.8 billion, followed by Banco de Oro Universal Bank (PHP33 billion) and Metropolitan Bank and Trust Company (PHP18.5 billion). The amount of bonds outstanding among the top 20 corporate issuers comprised 85% of the total corporate bond market **(Table 2)**.

Table 2: Top 20 LCY Corporate Bonds Outstanding by Issuers (as of 30 September)

Rank	Issuer	Amount Outstanding (PHP billion)
1	San Miguel Brewery Inc.	38.80
2	Banco de Oro Unibank Inc.	33.00
3	Metropolitan Bank & Trust Co.	18.50
4	Philippine National Bank	17.75
5	Manila Electric Company	17.00
6	Petron Corp.	16.30
7	Rizal Commercial Banking Corp.	16.00
8	Globe Telecom	15.80
9	Robinsons Land Corp.	15.00
10	SM Prime Holdings Inc.	11.50
11	Bank of Philippine Islands	10.00
12	SM Investment Corp.	9.40
13	Ayala Land Inc.	7.00
14	Aboitiz Power Corp.	6.89
15	Ayala Corporation	6.00
16	Security Bank Corp.	6.00
17	International Container Terminal Services	5.71
18	Manila North Tollways Co.	5.50
19	China Banking Corp.	5.00
20	First Gen Corp.	5.00
	Top 20 Total	**266.15**
	Total Corporate Bonds Outstanding	**312.58**
	Top 20/Total Corporate Bonds Outstanding	**85%**

Source: Bloomberg LP.

There were also series of USD-denominated issues in 3Q09 as companies took advantage of the low cost of borrowing in the international bond market. In September, for example, SM Investments issued a 5-year bond for USD500 million for general corporate purposes, which include refinancing some of its maturing obligations.

Policy, Institutional, and Regulatory Developments

Order-Taking Facility launched in June

In June, the Philippine Dealing System (PDS) launched an internet-based, order-taking system, the Fixed Income Broker Internet Order System (FI-BIOS). Brokers with access to FI-BIOS facilities are able to provide their client investors located in the Philippines' provinces with up-to-the-minute market information for investment decisions, while also allowing them to enter orders into the central trading system in real time.

BSP to Implement Retirement Account Law in 2010

BSP plans to implement the Personal Equity and Retirement Account (PERA) Law next year following the signing of a memorandum of agreement on 21 October with the Department of Finance, Bureau of Internal Revenue, Securities and Exchange Commission, and Insurance Commission. The PERA Law will create a savings investment vehicle of at least 5 years for those who are not covered by the Social Security System (SSS) and the Government Service Insurance System (GSIS), as well as Filipinos working abroad. It would also develop the domestic capital market by giving incentives to long-term investments and creating more institutional investors. Contributors could establish an account with a maximum annual contribution of PHP100,000, while overseas Filipino workers (OFWs) could contribute up to PHP200,000 per year and avail of a 5% tax credit. The funds would be managed by administrators and regulated by a number of government agencies. Savings could be placed in investment funds, mutual funds, annuity contacts, insurance pension products, pre-need pension plans, shares of stocks listed and traded on the local stock exchange, exchange-traded bonds, and other investment products. Each administrator managing a trust fund will be required to maintain a fund with a net worth of at least PHP100 million.

Singapore—Update

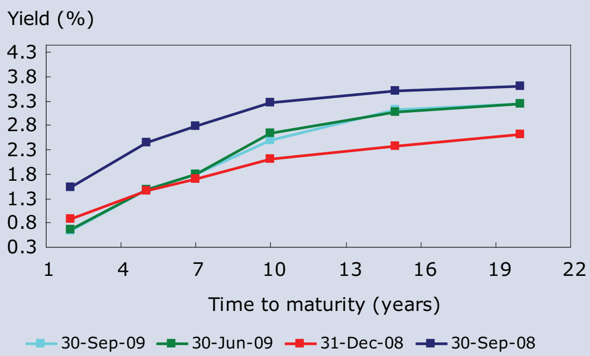
Yield Movements

At the end of September, Singapore benchmark bond yields were largely unchanged from their levels at end-June 2009 **(Figure 1)**. On 27 August, the government auctioned a new 15-year benchmark Singapore Government Security (SGS) amounting to SGD 1.4 billion, which was lower than the expected issuance of SGD2 billion. Aside from the 1-year bond issued in November, there is no further issuance scheduled for the rest of the year.

Based on advance estimates released by the Ministry of Trade and Industry (MTI), Singapore's economy expanded 0.6% year-on-year (y-o-y) in 3Q09. Growth was driven by the expansion of manufacturing output, particularly in the electronics and biomedical sectors. The Monetary Authority of Singapore (MAS) has revised its 2009 gross domestic product (GDP) forecast to a contraction of 2.0%–2.5% from an earlier projection of a 4.0%–6.0% contraction.

While recent developments point to a modest recovery, sustained economic growth will depend largely on an improvement in Singapore's key export markets. In October, MAS kept its currency appreciation policy stance fixed at zero percent, which was put in place in October 2008 amidst the weakening global economy. The central bank also maintained the level and width of its exchange rate policy band, which was last re-centered following a policy review in April 2009.

Figure 1: Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg LP.

On a y-o-y basis, the consumer price inflation remained in negative territory in July, August, and September at –0.5%, –0.3%, and –0.4%, respectively. The consumer price index (CPI) for the January–September period increased by only 0.4% y-o-y. MTI has forecast that inflation will range between –1.0% and zero for the whole of 2009.

Size and Composition

As of September 2009, the amount of total local currency (LCY) bonds outstanding was SGD215 billion, which represented a 17.3% y-o-y increase. Government bonds outstanding surged 20.7% y-o-y to SGD123 billion, while corporate bonds outstanding rose 13.1% y-o-y and 9.4% quarter-on-quarter (q-o-q) **(Table 1)**. One notable corporate issuance during 3Q09 was that of CapitaLand, which issued USD1.2 billion in 7-year convertible bonds.

At the end of September, the top 20 corporate issuers accounted for 35% of total corporate bonds outstanding **(Table 2)**.

Policy, Institutional, and Regulatory Developments

MAS Announces Measures to Increase Bank Liquidity

MAS enhanced its standing facility to provide ample liquidity to domestic financial institutions. In July, MAS announced that the facility would accept as collateral all AAA-rated, SGD-debt securities issued by sovereigns, supranationals, and sovereign-

Table 1. Size and Composition of Local Currency Bond Market in Singapore

	Amount (billion)								**Growth Rate (%)**						
	Jun-09		**Jul-09**		**Aug-09**		**Sep-09**		**Jun-09**		**Jul-09**	**Aug-09**	**Sep-09**		
	SGD	**USD**	**SGD**	**USD**	**SGD**	**USD**	**SGD**	**USD**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	201	139	206	143	208	144	215	153	6.3	6.5	2.8	0.8	17.3	7.4	3.6
Government	116	80	120	83	121	84	123	87	7.1	6.9	3.3	0.8	20.7	6.0	1.7
Bills	46	32	48	33	49	34	49	35	17.9	11.4	3.5	2.1	46.7	7.2	1.4
Bonds	70	48	72	50	72	50	73	52	1.0	4.2	3.2	-	7.8	5.2	1.9
Corporate	85	59	87	60	87	61	93	66	5.2	6.0	2.2	0.7	13.1	9.4	6.3

y-o-y = year-on-year, q-o-q = quarter-on-quarter, m-o-m = month-on-month.

Note:

1. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondsOnline* estimates.
2. Bloomberg end-of-period LCY-USD rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.

Source: Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP.

Table 2. Bonds Outstanding of Top Corporate Issuers (SGD billion)

Issuer	Outstanding Amount
Housing & Development BRD (Public Housing Auth.)	5.15
CapitaLand Ltd. (Real Estate)	4.88
United Overseas Bank Ltd (Banking)	3.62
SP Power Assets Ltd. (Electricity Transmission and Distribution)	2.41
Oversea-Chinese Banking (Banking)	2.2
Public Utilities Board (National Water Authority)	1.85
Land Transport Authority (Building and Contruction)	1.80
DBS Bank Ltd/Singapore (Banking)	1.61
F&N Treasury Pte Ltd (Food Service, Property, and Pub & Printing)	1.40
PSA Corp. Ltd. (Container Transhipment Hub)	1.20
Yanlord Land Group (Real-estate Developer PRC-based)	1.05
Singapore Airlines (Airlines)	0.90
Clover Holdings Limited (Special Purpose Entity)	0.88
Winmall Ltd (Financial)	0.77
Ascott Capital Pte Ltd (Real Estate)	0.76
Capitaland Treasury Ltd (Real Estate Operations)	0.70
HK Land Treasury Service (Property Investment Management)	0.70
Guocoland Ltd (Property Development and Investment)	0.69
Capitamall Trust (REITS-Shopping Centers)	0.65
Mapletree Treasury Svcs (Special Purpose Entity)	0.60
Total	**33.81**
% of total corporate outstanding	**36.40%**

Source: Bloomberg LP.

backed corporates. The central bank also will allow banks to treat these securities as Tier 2 liquid assets.

MAS signed a memorandum of agreement with De Nederlandsche Bank (DNB), the Dutch Central Bank, as part of its efforts to promote cross-border collateral arrangements with other central banks. The agreement allows Dutch banks operating in Singapore to approach MAS, as well as Singaporean banks operating in the Netherlands to approach DNB, for liquidity assistance if the need arises.

Singapore Improves Retail Investors' Access to SGS

Retail investors are allowed to participate in SGS and Treasury Bill auctions through the automated teller machines (ATMs) of major banks starting 1 July. Individuals with an existing Central Depository (CDP) account will have their purchased SGS custodized via book entry at the CDP, which will allow security holders to trade them in the secondary market. Individuals with SGS holdings issued before July will also be given the opportunity to migrate their SGS holdings to CDP.

Thailand—Update

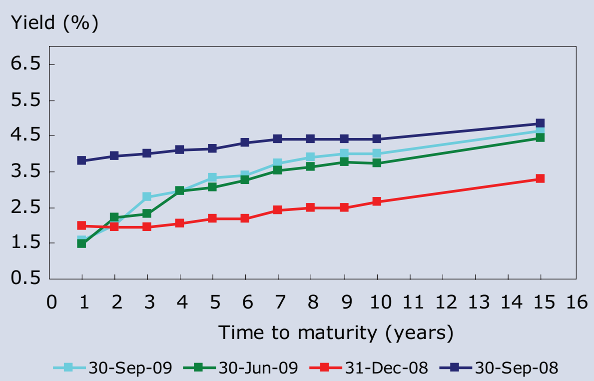
Yield Movements

The Thai government's bond yield curve steepened in September from June 2009 levels, reflecting the pressure of expanding supply as a result of new government bonds and private debentures **(Figure 1)**. The spread between the 2- and 10-year government benchmark yields widened from 153 basis points in June to 198 basis points at end-September 2009, reflecting signs of economic recovery and rising stock prices.

Since April, the Bank of Thailand (BOT) has kept its policy rate—the 1-day repurchase rate—at the 5-year low of 1.25%. Sectors such as manufacturing, export, and tourism have shown signs of improvement, as monetary policy and fiscal stimulus measures support economic recovery. Gross domestic product (GDP) shrank 4.9% year-on-year (y-o-y) in 2Q09 after contracting 7.1% in 1Q09. Annual GDP growth in 2009 is projected to range between –3.5% and –2.5%.

Meanwhile, consumer price inflation for the month of September was at –1.0% y-o-y, which was the same level as in August. This is the ninth straight month that consumer prices dropped due mainly to lower fuel and transportation costs. Inflation for the whole year is expected to range between –1.5% and -0.5%.

Figure 1: Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg LP.

Size and Composition

As of September, total local currency (LCY) bonds outstanding in Thailand reached THB5.8 trillion, increasing 15.8% y-o-y and 6.2% on a quarter-on-quarter (q-o-q) basis **(Table 1)**. Government bonds were up 13.1% y-o-y and 6.6% q-o-q, with the total amount outstanding worth THB4.6 trillion. Treasury bonds represented 52.0% of total government bond outstanding, while central bank bonds and state enterprise bonds accounted for 36.0% and 12.0%, respectively. Meanwhile, the value of corporate bonds outstanding in September grew 27.2% y-o-y and 5.0% q-o-q.

The Thai Finance Ministry has allowed three foreign entities to issue local currency bonds in the Thai debt market. The Commonwealth Bank of Australia (CBA) issued THB2 billion each of 4-year and 7-year bonds. The Swedish Export Credit Corporation (SEK) issued THB2 billion each of 3-year and 7-year bonds. Finally, Agence Francaise de Developpement (AFD) issued THB2.2 billion of 3-year bonds as well as THB1.8 billion of 7-year bonds.

As of September, more than half of the total LCY corporate and state-owned enterprise (SOE) bonds had been issued by the top 10 corporate and SOE issuers. Issuers were mainly from the industrial and financial sectors **(Table 2)**.

Investor Profile

Commercial banks (26.4%) remain the largest holders of Thai government bonds, including domestically-registered commercial banks and

Table 1: Size and Composition of Local Currency Bond Market in Thailand

	Amount (billion)								Growth Rate (%)						
	Jun-09		Jul-09		Aug-09		Sep-09		Jun-09		Jul-09	Aug-09	Sep-09		
	THB	USD	THB	USD	THB	USD	THB	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	5,419.4	159.0	5,599.3	164.6	5,616.5	165.1	5,757.2	172.1	7.8	3.6	3.3	0.3	15.8	6.2	2.5
Government	4,280.0	125.6	4,432.4	130.3	4,424.6	130.1	4,561.3	136.4	5.6	1.6	3.6	(0.2)	13.1	6.6	3.1
Treasury Bonds	2,241.9	65.8	2,368.9	69.6	2,387.8	70.2	2,380.5	71.2	13.1	2.5	5.7	0.8	19.8	6.2	(0.3)
Central Bank Bonds	1,521.8	44.6	1,546.7	45.5	1,514.5	44.5	1,650.3	49.3	(4.3)	(0.1)	1.6	(2.1)	7.6	8.4	9.0
State Enterprise Bonds & Other Bonds	516.3	15.1	516.8	15.2	522.3	15.4	530.4	15.9	7.3	2.9	0.1	1.1	3.7	2.7	1.6
Corporate	1,139.4	33.4	1,166.9	34.3	1,191.9	35.0	1,195.9	35.8	17.1	11.8	2.4	2.1	27.2	5.0	0.3

y-o-y = year-on-year, q-o-q = quarter-on-quarter, m-o-m = month-on-month.

Note:

1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.

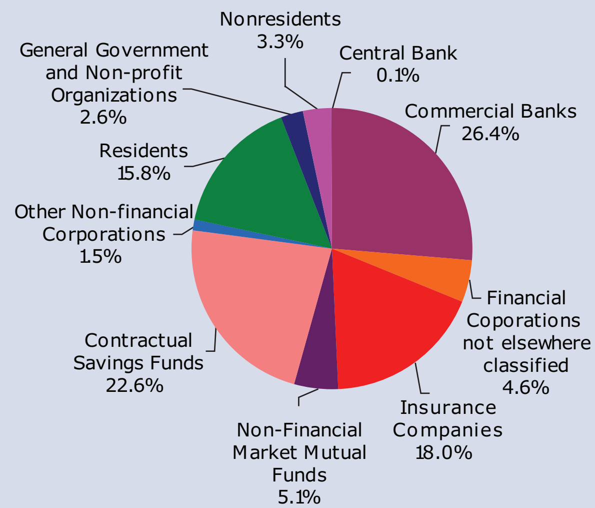
Source: Bank of Thailand (BOT) and Bloomberg LP.

Table 2: Top 10 Corporate and SOE Issuers as of September 2009 (THB billion)

Issuer	Amount Outstanding
1. PTT (parent oil company)	184.2
2. Siam Cement	114.0
3. Bank of Ayudhya	67.6
4. PTT Exploration & Production	58.5
5. Krung Thai Bank	50.3
6. Thai Airways	47.8
7. Kasikorn Bank	29.6
8. Toyota Laasing	28.8
9. True Corporation	25.3
10. DAD SPV	24.0
Total—Top 10	**630.1**
Total—Corp. and SOE Bond Outstanding	**1,132.1**
% of Total Corp. and SOE Bond Outstanding	**55.7**

Source: Bloomberg LP.

Figure 2: Local Currency Government Bonds Investor Profile (September 2009)



Source: Bank of Thailand (BOT)

branches of foreign banks **(Figure 2)**. Contractual savings funds came in as the second-largest bondholders of government bonds with 22.6%, followed by insurance companies (18.0%), residents (15.8%), non-financial market mutual funds (5.1%), financial corporations not elsewhere classified (4.6%), nonresidents (3.3%), general government and nonprofit organizations (2.6%), other non-financial corporations (1.5%) and the central bank (0.1%).

Rating Changes

Moody's announced in September that its negative outlook on Thailand will be maintained because of "ongoing concerns over the country's political stability," but pointed out that Thailand's credit fundamentals have held up well since late 2006.

Table 3: Selected Sovereign Ratings and Outlook for Thailand

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Baa1	BBB+	BBB
Outlook	negative	negative	stable

FCY = foreign currency and LT = long-term.

Source: Rating agencies.

Policy, Institutional and Regulatory Developments

ThaiBMA to Explore Municipal Bonds

In early October, the Thai Bond Market Association (ThaiBMA) was considering expanding the role of municipal bonds in the development of Thailand's bond market. ThaiBMA lists municipalities that could potentially raise funds for local infrastructure investment through issuance of bonds (e.g., Phuket and Pattaya). However, current government regulations limit bond issues to only 10% of a municipality's total budget.

BOT Plans to Raise Offshore Investment Ceiling

In September, the Bank of Thailand announced plans to increase the offshore investment ceiling of institutional investors as the current ceiling of USD30 billion might soon be exhausted. To date, the Securities and Exchange Commission (SEC) has approved USD20.7 billion of overseas investments, which are mostly directed to Korean fixed-income funds. Institutional investors are likely to expand their holdings of longer maturities as they seek higher returns, according to BOT.

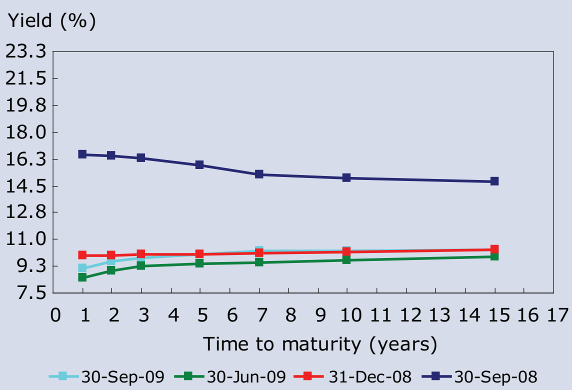
Viet Nam—Update

Yield Movements

The yield curve for Viet Nam's government bonds widened at the end of September 2009 from its end-June 2009 level as yields rose across all maturities **(Figure 1)**. Yields for 2- and 10-year maturities climbed by 63 basis points and 60 basis points, respectively, to narrow the yield spread between 2- and 10-year maturities and produce a relatively flat yield curve.

The rise in government bond yields over the June–September period reflects expectations of economic recovery and renewed inflationary pressures in the near future. Viet Nam's gross domestic product (GDP) grew by 5.76% year-on-year (y-o-y) in 3Q09. Consumer price inflation for the month of September was 2.42% y-o-y, which was slightly higher than inflation of 1.97% in August. In addition, the government reported that GDP is expected to grow by 6.5% y-o-y in 2010, while annual consumer price inflation is likely to rise to 7.0%.

Figure 1: Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg LP

Size and Composition

As of end-September 2009, the total amount of local currency (LCY) bonds outstanding in Viet Nam was about VND217 trillion (USD12.2 billion), which represented an increase of 0.6% quarter-on-quarter (q-o-q) and 2.2% y-o-y **(Table 1)**. Government bonds, which comprised around 94% of total bonds, totaled VND203.3 trillion for a decline of 0.5% q-o-q. The quarterly drop in government bonds was induced by a 2.9% q-o-q fall in treasury bonds to a level of VND100.8 trillion. On the other hand, corporate bonds climbed by 16.9% q-o-q, or 54.6% y-o-y, to VND13.7 trillion on the back of a few large corporate issues in 3Q09, including Saigon Thuong Tin Commercial Bank (Sacombank) at VND2.0 trillion.

Policy, Institutional, and Regulatory Developments

Policy Rate Remains Unchanged

In September, the State Bank of Viet Nam (SBV) maintained the base interest rate at 7.0% per annum. SBV also kept other interest rates at their current levels, including the discount rate at 5.0% and the refinancing interest rate at 7.0%.

Hanoi Stock Exchange Introduces New Bond Trading System

The Hanoi Stock Exchange established an electronic bond trading system for government bonds in September. The newly-launched trading platform provides basic bond-related information such as issues, members, prices, schedules, and settlement, among others.

Bank for Investment and Development of Viet Nam to Provide Bond Services

In October, SBV granted the Bank for Investment and Development of Viet Nam (BIDV) the authority to render bond-related services (e.g., bond underwriting) and to serve as an issuing agent.

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

	Amount (billion)								Growth Rate (%)						
	Jun-09		Jul-09		Aug-09		Sep-09		Jun-09		Jul-09	Aug-09	Sep-09		
	VND	USD	VND	USD	VND	USD	VND	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	215,636.4	12.1	219,313.1	12.3	220,863.1	12.4	216,966.6	12.2	7.6	3.9	1.7	0.7	2.2	0.6	(1.8)
Government	204,380.0	11.5	207,528.0	11.6	207,078.0	11.6	203,313.0	11.4	5.3	2.9	1.5	(0.2)	(0.0)	(0.5)	(1.8)
Treasury Bonds	103,860.7	5.8	105,210.7	5.9	104,585.7	5.9	100,820.7	5.7	18.9	(0.4)	1.3	(0.6)	4.8	(2.9)	(3.6)
Central Bank Bonds	0.0	0.0	1,736.0	0.1	1,736.0	0.1	1,736.0	0.1	(100.0)	—	—	0.0	(92.7)	—	0.0
Viet Nam Development Bank Bonds, State-Owned Enterprise Bonds and Other Bonds	100,094.3	5.6	100,581.3	5.6	100,756.3	5.7	100,756.3	5.6	20.6	6.1	0.5	0.2	20.6	0.7	0.0
Corporate	11,681.4	0.7	11,785.1	0.7	13,785.1	0.8	13,653.6	0.8	84.5	29.3	0.9	17.0	54.6	16.9	(1.0)

y-o-y = year-on-year, q-o-q = quarter-on-quarter, m-o-m = month-on-month.

Note:

1. Bloomberg end-of-period LCY–USD rates are used.
2. Growth rates are calculated from LCY base and do not include currency effects.

Source: Bloomberg LP.

Asia Bond Monitor November 2009

The Asia Bond Monitor (ABM) reviews recent developments in East Asian local currency bond markets along with the outlook, risks, and policy options. The ABM covers the 10 Association of Southeast Asian Nations member countries plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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