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Highlights

Bond Market Outlook

Bond markets in emerging East Asia have regained some of their recent losses as global financial markets have stabilized.[1] The United States (US) Federal Reserve's announcement on 18 September that economic conditions did not yet warrant the start of tapering buoyed financial markets and helped drive down bond yields in the US.

The delay in tapering can help ensure that the US economy is on stronger footing, which can provide a helpful boost to the region's growth prospects. This also offers more time for the region to prepare for the eventual normalization of US monetary policy.

Governments in emerging East Asia should use this window of opportunity to strengthen their economies and focus on further structural reforms. The resilience of the region's financial systems also needs to be improved to better handle the possible turmoil ahead.

The risks to the region's local currency (LCY) bond markets have receded slightly as the prospects of the Federal Reserve tapering its quantitative easing operations this year becomes increasingly unlikely. Specifically, risks include the following: (i) the region's bond markets remain susceptible to sudden shifts in global investor sentiment, (ii) tighter liquidity conditions could impact financial stability in the region's economies, and (iii) volatile capital flows make policymakers' efforts to stabilize the economy more difficult.

LCY Bond Market Growth in Emerging East Asia

Emerging East Asia's LCY bonds outstanding grew 2.4% quarter-on-quarter (q-o-q) and 12.5% year-on-year (y-o-y) to reach US$7.1 trillion in 3Q13, propelled by growth in both the government and corporate bond sectors. As a share of gross domestic product (GDP), the size of the region's bond market climbed to 55.6% in 3Q13 from 55.1% in 2Q13.

The most rapidly growing bond markets on a quarterly basis in 3Q13 were Indonesia (3.9%), the Philippines (3.6%), the People's Republic of China (PRC) (3.0%), the Republic of Korea (1.8%), and Malaysia (1.8%). On an annual basis, the fastest growing markets were Viet Nam (18.8%), Indonesia (16.3%), the PRC (14.4%), the Philippines (12.5%), and the Republic of Korea (10.4%).

The region's LCY government bond market expanded 2.1% q-o-q in 3Q13, up from 1.1% quarterly growth in 2Q13, to level off at US$4.4 trillion. The most rapidly growing government bond markets on a quarterly basis were the Philippines (4.0%), Indonesia (3.7%), the PRC (2.7%), and the Republic of Korea (1.3%).

Growth of the region's LCY corporate bond market reached 2.9% q-o-q in 3Q13, significantly less than the previous quarter's 8.0% growth. The market's size amounted to US$2.7 trillion at end-September. The most rapidly growing corporate bond markets on a quarterly basis were Indonesia (4.6%), the PRC (3.9%), Malaysia (3.8%), and the Republic of Korea (2.2%).

LCY bond issuance in emerging East Asia grew 0.9% q-o-q to US$843 billion in 3Q13. The slight quarterly increase stemmed from a 6.6% rise in treasury and other government bond issuance that offset decreases in issuances by central banks and monetary authorities (–2.1%) and the corporate sector (–0.6%).

LCY Bond Market Structural Developments

The ratio of bills to bonds issued by governments, central banks, and monetary authorities climbed

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

on a quarterly basis in Singapore and Viet Nam, remained unchanged in Indonesia and Thailand, and fell in the PRC; Hong Kong, China; the Republic of Korea; Malaysia; and the Philippines. The largest ratios of total LCY bonds outstanding to GDP at the end of 3Q13 were in the Republic of Korea (130.2%) and Malaysia (103.9%).

The share of foreign holdings of LCY government bonds increased in the Republic of Korea, Malaysia, and Thailand, and fell in Indonesia between 4Q12 and 3Q13. Since the end of 2012, the share of foreign holdings of Indonesian government bonds fell to 31.2% at end-September. However, in nominal terms, foreign holdings of Indonesian government bonds have continued to rise, reaching an all-time high of IDR294.1 trillion (US$25.8 billion) at the end of 3Q13.

Yield Curve Movements

Most government bond yield curves in emerging East Asia have shifted downward since the Federal Reserve decided in mid-September not to taper its asset purchase program in the near-term.

Yield curves dramatically steepened in Hong Kong, China; the Republic of Korea; Malaysia; Singapore; and Thailand; and shifted upward in Indonesia between end-May and end-July following the 19 June statement of the Federal Reserve that it may begin to taper its bond purchase program toward the latter part of this year.

The PRC yield curve shifted dramatically upward between end-May and end-July, reflecting the SHIBOR shock event that occurred in the first week of June, when liquidity demands pushed the SHIBOR rate to 7.49% and the 7-day repo rate to 7.80%.

Market sentiment became more relaxed after the 18 September announcement of the Federal Reserve that there would be no immediate tapering of its quantitative easing program, and after the US Congress approved an increase in the US government's borrowing limit in mid-October. This has resulted in an overall decline of interest rates except for the PRC and the Philippines, between the end of July and 18 October.

Special Section: 2013 *AsianBondsOnline* Bond Market Liquidity Survey

The 2013 *AsianBondsOnline* Bond Market Liquidity Survey received 106 responses for the government bond market and 72 responses for the corporate bond market in Emerging Asia.[2]

The survey results show that average bid–ask spreads for the region as a whole remained the same between this year and 2012 for government bonds, but narrowed for corporate bonds. The results this year also indicate that transaction sizes are lower for government bonds but higher for corporate bonds.

Turnover ratios for LCY government bonds have decreased in most emerging East Asian markets in 3Q13.

This year's survey identified investor diversity to be the most important structural issue for market participants in the region. This was followed by hedging mechanisms, transaction funding, foreign exchange regulations and transparency, market access and settlement and custody, and tax treatment.

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

Global and Regional Market Developments

Bond markets in emerging East Asia have regained some of their recent losses as global financial markets have stabilized.[4] The United States (US) Federal Reserve's announcement on 18 September that economic conditions did not yet warrant the start of tapering buoyed financial markets and helped drive down bond yields in the US. The region's bond yields also similarly fell in response to the news.

The uncertainties surrounding the raising of the US federal government's debt ceiling shifted focus away from emerging East Asia's economies. While the US Congress passed a last minute budget deal averting the threat of a looming debt default by the federal government, the debt impasse in the US remains unresolved and has merely been postponed until February. Unless a compromise deal is reached before then, which is unlikely given the deep divide between the Democratic and Republican parties, there is likely to be further policy uncertainty in 2014.

The timing of the Federal Reserve's move to taper its quantitative easing program will depend on how much the recent shutdown of the federal government and the threat of a default has hurt the US economy. The direct effect of the shutdown on the US economy is expected to be relatively small as it lasted a short time. Much more difficult to quantify has been the impact on consumer and business confidence. The budget deal that was passed is only temporary and the threat of further brinkmanship over the budget has not been completely lifted, only postponed until January. Given the continued uncertainty, consumers might opt to cut back on their spending and businesses refrain from investment and hiring.

These developments—specifically, their impact on consumer confidence and the delay in the government's publishing of economic data—may contribute to the Federal Reserve pushing plans to taper its quantitative easing operations further into the future. It might opt for caution and postpone any action until 2014. That said, there are also risks from prolonging quantitative easing longer than necessary as these operations may have reached the limits of their benefits to the economy. Additional bond purchases are likely to contribute to risks to the economy while producing smaller corresponding benefits.

All of this has implications for emerging East Asia's economies. The delay in tapering can help ensure that the US economy is on a stronger footing before interest rates rise further. With economic performance weakening in the region, an improving US economy can provide a helpful boost to the region's growth prospects. The delay in tapering also offers more time for the region to prepare for the eventual normalization of US monetary policy. Governments in emerging East Asia should use this window of opportunity to strengthen their economies and focus on further structural reforms. The resilience of the region's financial systems also needs to be improved to better handle the possible turmoil ahead.

Lower bond yields in the US due to the expected delay in tapering have boosted bond markets in emerging East Asia. This is reflected by lower bond yields and appreciating currencies in most of the region's economies in the period between 1 July 2013 and 18 October 2013 **(Table A)**. While government bond yields declined in most economies, the yield on the 10-year bond in the People's Republic of China's (PRC) rose 50 basis points (bps). This was due to moves by the People's Bank of China to tighten liquidity to slow credit growth in the economy. The yield on Indonesia's 10-year bond rose 30 bps, partly reflecting Bank Indonesia's decision to raise its policy rate twice by a total of 75 bps in August and September, following two previous rate increases totaling

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

Table A: Changes in Global Financial Conditions

	2-Year Government Bond (bps)	**10-Year Government Bond** (bps)	**5-Year Credit Default Swap Spread** (bps)	**Equity Index** (%)	**FX Rate** (%)
Major Advanced Economies					
United States	(4)	10	–	8.0	–
United Kingdom	9	30	(21)	5.0	(6.2)
Japan	(4)	(27)	(19)	4.6	1.9
Germany	(2)	11	(11)	11.0	(4.8)
Emerging East Asia					
China, People's Rep. of	78	50	(39)	10.0	0.6
Hong Kong, China	(6)	(1)	(8)	12.2	0.03
Indonesia	10	30	(2)	(4.8)	(9.8)
Korea, Rep. of	(17)	(7)	(25)	10.6	6.3
Malaysia	(21)	8	(6)	1.4	0.3
Philippines	(10)	(21)	(25)	1.2	0.1
Singapore	14	(35)	–	1.7	2.0
Thailand	(10)	5	(4)	2.3	(0.4)
Viet Nam	36	(7)	–	4.3	0.3
Select European Markets					
Greece	(87)	(163)	–	36.9	(4.8)
Ireland	(41)	(22)	(42)	9.2	(4.8)
Italy	(53)	(29)	(32)	24.7	(4.8)
Portugal	38	(10)	(6)	13.0	(4.8)
Spain	(69)	(37)	(53)	26.5	(4.8)

( ) = negative, – = not available, bps = basis points, FX = foreign exchange.
Notes:
1. Data reflect changes between 1 July 2013 and 18 October 2013.
2. For emerging East Asian markets, a positive (negative) value for the FX rate indicates the appreciation (depreciation) of the local currency against the US dollar.
3. For European markets, a positive (negative) value for the FX rate indicates the depreciation (appreciation) of the local currency against the US dollar.

Source: Bloomberg LP, Institute of International Finance (IIF), and Thomson Reuters.

75 bps in June and July. Meanwhile, both Malaysia and Thailand saw yields on their 10-year bonds increase only marginally.

Most of the region's currencies remained relatively stable against the US dollar in 3Q13. The exceptions were the Korean won, which posted a strong gain of 6.3% against the US dollar, and the Indonesian rupiah, which depreciated 9.8% against the US dollar.

As financial market conditions stabilize and investor confidence returns to the region, credit default swap (CDS) spreads on government bonds have been falling, particularly in Indonesia, where the CDS spread declined almost 100 bps from its peak in September **(Figure A)**. CDS spreads for most European economies have also moved downward in line with calmer financial conditions **(Figure B)**. Emerging market spreads have narrowed somewhat in recent months as investors regained their interest in emerging markets bonds **(Figure C)**.

Bond yields in the advanced economies have eased a little as it is becoming clear that the Federal Reserve is likely to delay its move to tighten monetary policy **(Figure D)**. Further, the debt ceiling standoff and partial government shutdown are likely to have weakened the US economy and will contribute to the postponement of tapering. Interest rates have eased across emerging East Asia in line with the pullback of global interest rates. In addition, Indonesia and Viet Nam saw large declines in their government bond yields, reflecting reduced risk perceptions in both economies **(Figure E)**.

The share of foreign holdings in the region's local currency (LCY) government bond markets has generally slipped since the beginning of this year. However, this mainly reflects a sharp increase

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

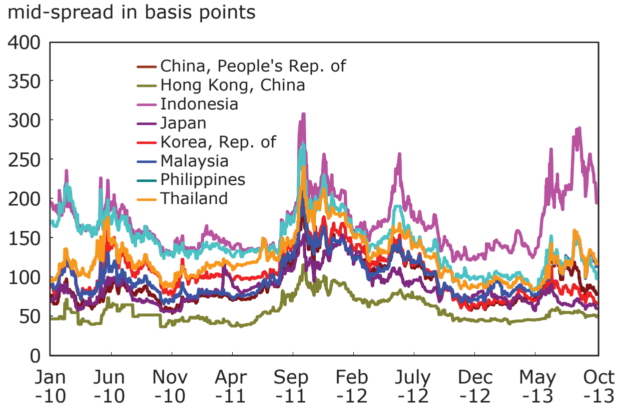


Figure B: Credit Default Swap Spreads for Select European Markets[a, b] (senior 5-year)

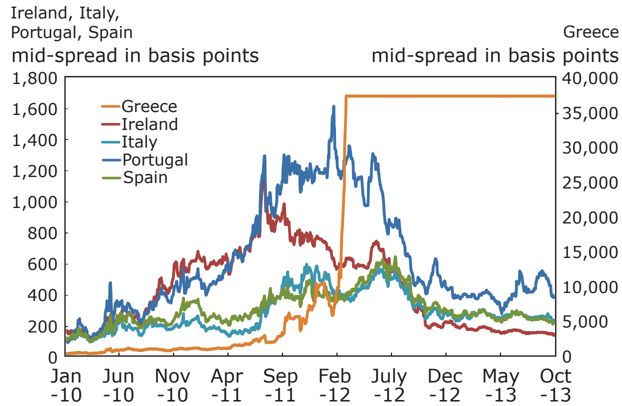


Figure C: US Equity Volatility and Emerging Market Sovereign Bond Spreads[b] (% per annum)

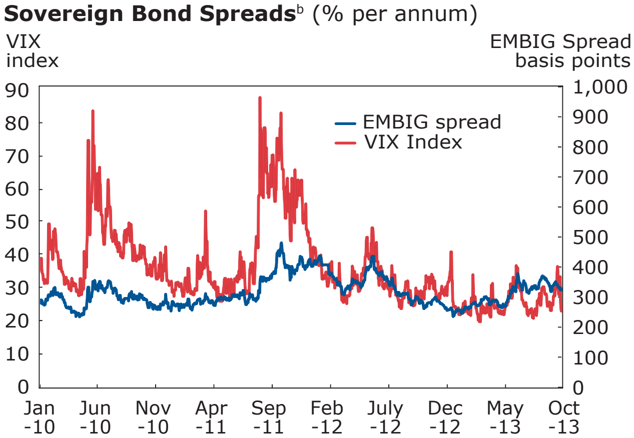


Figure D: 10-Year Government Bond Yields[b] (% per annum)

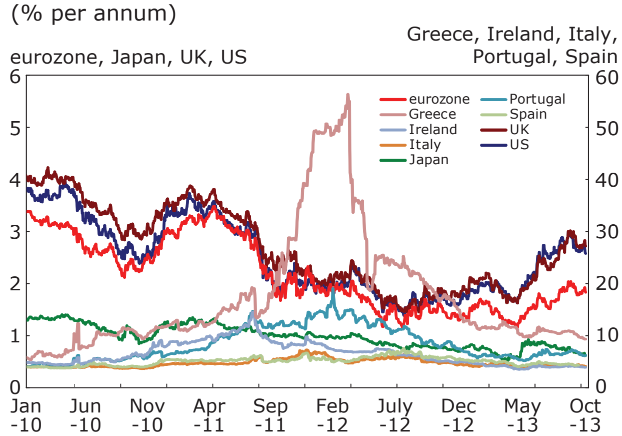


Figure E: JPMorgan EMBI Sovereign Stripped Spreads[a, b]

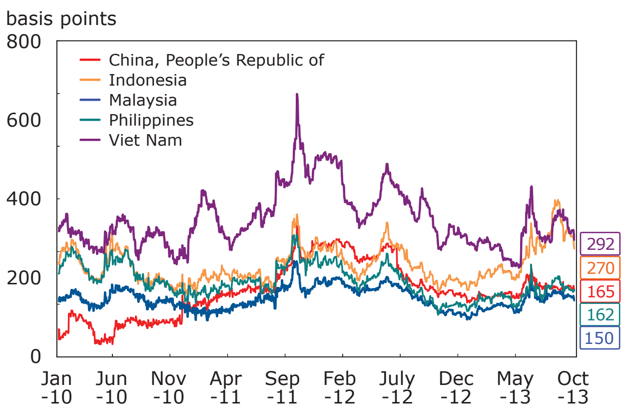
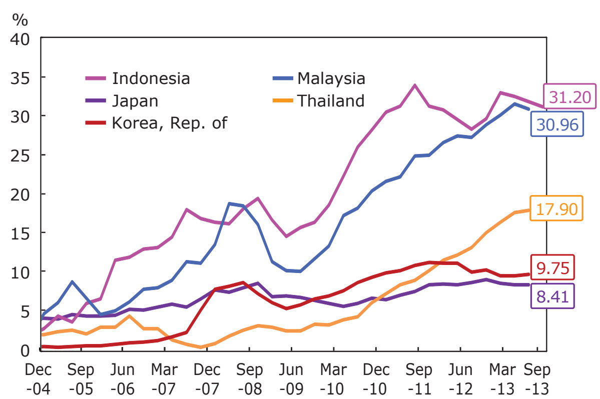


Figure F: Foreign Holdings of LCY Government Bonds in Select Asian Economies[c] (% of total)



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

Notes:

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

[b] Data as of 18 October 2013.

[c] Data as of end-June 2013 except for Indonesia as of end-September 2013.

Source: *AsianBondsOnline*, Bloomberg LP, and Thomson Reuters.

in LCY government bond holdings by domestic investors that have outstripped purchases by foreigners. Foreign holdings of LCY government bonds have continued to rise in nominal terms this year in most markets. (However, foreign holdings of Korean government bonds at end-June were just slightly below levels at end-March 2012.) The nominal value of foreign holdings of Malaysian and Thai bonds continued to rise through end-June and, in the case of Indonesia, through end-September. Indonesia continues to have the largest proportion of its government bonds held by foreigners at 31.2% **(Figure F)**.

The risks to the region's LCY bond markets have receded slightly as the prospect of the Federal Reserve tapering its quantitative easing operations this year becomes increasingly unlikely. Specifically, risks include the following:

The region's bond markets remain susceptible to sudden shifts in global investor sentiment. While global financial conditions have stabilized in recent months, they remain somewhat volatile and susceptible to sudden shifts in investors' risk perceptions toward the region. While US interest rates have been moving down recently, they could suddenly rise again if the Federal Reserve decided to change tack and tighten ahead of market expectations. The funds that have recently flowed back into emerging East Asia could reverse direction, driving up bond yields in the region.

Tighter liquidity conditions could impact financial stability in the region's economies. The region's economies face the prospect of tighter liquidity conditions as the global financial situation remains uncertain. Capital inflows are likely to be lower in the future, suggesting that the liquidity situation may tighten in the region. During the period of easy liquidity following the global financial crisis, asset prices in the region increased, especially in the property sector. Tighter liquidity conditions could result in a correction in asset prices that could affect the health of financial institutions with large exposures.

Volatile capital flows makes policymaker efforts to stabilize the economy more difficult. Most Asian markets have been affected by the recent outflow of funds. The sudden outflows have complicated authorities' efforts to manage their respective economies. They face the difficult choice of either allowing their currencies to sharply depreciate or intervening to smooth out the fluctuations. In many economies in the region, policymakers have allowed their currencies to find a new equilibrium without much intervention. The benefit of this approach is that it has allowed authorities to preserve their foreign exchange reserves. Some countries have raised their policy rates to try to stave off further capital outflows. While higher interest rates may help increase returns to investors and encourage inflows, they are likely to worsen growth prospects, which could hurt investor confidence.

Bond Market Developments in the Third Quarter of 2013

Size and Composition

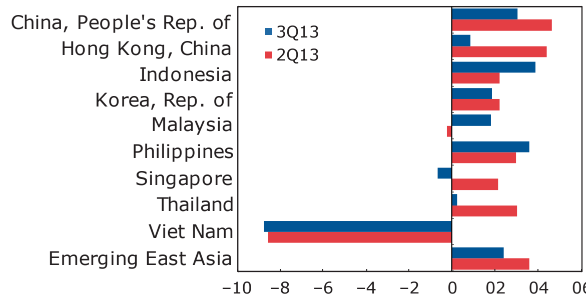
Total bonds outstanding in emerging East Asian bond markets grew 2.4% q-o-q and 12.5% y-o-y to reach US$7.1 trillion at the end of 3Q13, driven by growth in the region's government and corporate bond sectors.[5]

The quarter-on-quarter growth (q-o-q) growth rate for the emerging East Asian local currency (LCY) bond market in 3Q13 was 2.4%, down from 3.6% in 2Q13 **(Figure 1a).** The region's most rapidly growing markets on a q-o-q basis in 3Q13 were Indonesia (3.9%), the Philippines (3.6%), the People's Republic of China (PRC) (3.0%), and the Republic of Korea and Malaysia (1.8% each) **(Table 1)**. Indonesia's growth was evenly balanced between rapid q-o-q growth in both its government (3.7%) and corporate (4.6%) bond sectors. This was also the case in the PRC, where the government bond market grew 2.7% and the corporate bond market grew 3.9%. Growth in the Philippine market was driven primarily by its government bond sector (4.0%), while growth in the bond markets of the Republic of Korea and Malaysia was driven primarily by their corporate bond sectors.

Quarterly growth in the LCY bond markets of Hong Kong, China and Thailand in 3Q13 was only 0.8% and 0.2%, respectively, while the Singapore market contracted 0.7%, reflecting a 1.3% decline in its corporate bond sector. Viet Nam's bond market shrank 8.8%, reflecting steep declines in the size of both its government and corporate bond markets.

The rank order for year-on-year (y-o-y) growth in the region's LCY bond markets was somewhat different, with the most rapidly growing markets on a y-o-y basis being Viet Nam (18.8%),

Figure 1a: Growth of LCY Bond Markets in 2Q13 and 3Q13 (q-o-q, %)



LCY = local currency, q-o-q = quarter-on-quarter.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from an LCY base and do not include currency effects.
3. Emerging East Asia growth figures are based on end-September 2013 currency exchange rates and do not include currency effects.
4. For Hong Kong, China, 3Q13 corporate bonds outstanding based on *AsianBondsOnline* estimates. For the Philippines, 3Q13 government bonds outstanding data carried over from August 2013. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Thailand, 3Q13 corporate bonds outstanding data based on Bank of Thailand's August 2013 estimate.

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

Indonesia (16.3%), the PRC (14.4%), the Philippines (12.5%), and the Republic of Korea (10.4%) **(Figure 1b)**. Indonesia's y-o-y ranking was only one notch below its q-o-q ranking due to the vibrant growth of both its government and corporate bond sectors on both a q-o-q and y-o-y basis. The PRC held a third place ranking on both a q-o-q basis and y-o-y basis, due to substantive growth in both its government and corporate bond sectors. The Philippines' corporate sector grew much more rapidly on a y-o-y basis than on a q-o-q basis in 3Q13, but its government sector's y-o-y growth, while high at 13.6%, was still less than that of Viet Nam and Indonesia.

The Republic of Korea fell to a ranking of fifth on a y-o-y basis due the weaker performance of its government bond sector compared with its peers. The performance of the Hong Kong, China bond market was more vigorous on a y-o-y basis than on a q-o-q basis, due to the 16.2% y-o-y growth

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

Table 1: Size and Composition of LCY Bond Markets

	3Q12		2Q13		3Q13		Growth Rate (LCY-base %)				Growth Rate (US$-base %)			
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	3Q12		3Q13		3Q12		3Q13	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)														
Total	3,667	100.0	4,168	100.0	4,307	100.0	4.6	11.2	3.0	14.4	5.7	12.9	3.3	17.5
Government	2,724	74.3	2,875	69.0	2,960	68.7	4.4	8.4	2.7	5.8	5.6	10.1	3.0	8.7
Corporate	943	25.7	1,294	31.0	1,347	31.3	5.0	20.2	3.9	39.1	6.1	22.0	4.1	42.9
Hong Kong, China														
Total	176	100.0	192	100.0	194	100.0	1.4	3.3	0.8	10.1	1.4	3.8	0.8	10.0
Government	93	52.9	107	56.0	108	55.8	0.1	3.4	0.5	16.2	0.1	3.8	0.5	16.2
Corporate	83	47.1	84	44.0	86	44.2	3.0	3.3	1.3	3.2	3.0	3.7	1.3	3.2
Indonesia														
Total	110	100.0	118	100.0	108	100.0	0.4	7.4	3.9	16.3	(1.2)	(0.6)	(8.9)	(2.2)
Government	92	83.8	97	82.6	89	82.5	(0.1)	4.2	3.7	14.5	(1.7)	(3.6)	(9.0)	(3.7)
Corporate	18	16.2	21	17.4	19	17.5	3.1	27.2	4.6	25.4	1.4	17.7	(8.2)	5.5
Korea, Rep. of														
Total	1,370	100.0	1,445	100.0	1,564	100.0	2.1	9.6	1.8	10.4	5.2	16.2	8.2	14.1
Government	543	39.6	558	38.6	601	38.4	0.4	2.2	1.3	6.9	3.5	8.4	7.6	10.6
Corporate	827	60.4	887	61.4	963	61.6	3.3	15.1	2.2	12.6	6.4	22.0	8.6	16.5
Malaysia														
Total	318	100.0	314	100.0	310	100.0	4.1	15.7	1.8	4.1	8.1	20.7	(1.3)	(2.3)
Government	192	60.3	186	59.1	181	58.3	4.8	16.1	0.5	0.7	8.9	21.0	(2.6)	(5.5)
Corporate	126	39.7	128	40.9	129	41.7	2.9	15.3	3.8	9.1	6.9	20.2	0.6	2.4
Philippines														
Total	91	100.0	96	100.0	98	100.0	4.2	16.1	3.6	12.5	5.3	21.8	2.8	8.0
Government	79	86.5	83	86.9	86	87.3	4.3	14.7	4.0	13.6	5.3	20.3	3.2	9.0
Corporate	12	13.5	13	13.1	13	12.7	3.9	26.1	0.6	5.8	4.9	32.3	(0.2)	1.6
Singapore														
Total	225	100.0	239	100.0	240	100.0	4.4	12.0	(0.7)	9.2	7.6	19.3	0.3	6.7
Government	139	61.9	148	61.8	149	62.1	4.7	12.1	(0.3)	9.4	7.9	19.4	0.7	7.0
Corporate	86	38.1	91	38.2	91	37.9	3.9	11.9	(1.3)	8.7	7.1	19.1	(0.4)	6.2
Thailand														
Total	265	100.0	286	100.0	285	100.0	1.9	14.5	0.2	8.8	4.4	15.8	(0.4)	7.4
Government	212	79.8	226	78.9	224	78.7	1.3	12.1	(0.04)	7.3	3.7	13.4	(0.6)	5.9
Corporate	54	20.2	60	21.1	61	21.3	4.6	24.9	1.3	14.7	7.1	26.3	0.7	13.2
Viet Nam														
Total	21	100.0	27	100.0	25	100.0	(2.7)	21.4	(8.8)	18.8	(2.6)	21.1	(8.4)	17.6
Government	20	92.5	26	97.0	24	97.1	(1.7)	27.0	(8.7)	24.8	(1.7)	26.7	(8.3)	23.4
Corporate	2	7.5	0.8	3.0	0.7	2.9	(12.7)	(21.4)	(10.0)	(54.1)	(12.6)	(21.6)	(9.6)	(54.6)
Emerging East Asia (EEA)														
Total	6,243	100.0	6,886	100.0	7,131	100.0	3.7	11.0	2.4	12.5	5.4	13.9	3.6	14.2
Government	4,093	65.6	4,307	62.5	4,421	62.0	3.5	8.1	2.1	6.6	5.1	10.5	2.7	8.0
Corporate	2,150	34.4	2,579	37.5	2,709	38.0	4.0	17.0	2.9	23.7	6.2	21.0	5.1	26.0
EEA excl. PRC														
Total	2,576	100.0	2,717	100.0	2,823	100.0	2.4	10.7	1.4	9.7	5.1	15.4	3.9	9.6
Government	1,369	53.1	1,432	52.7	1,461	51.8	1.7	7.5	0.9	8.1	4.1	11.4	2.1	6.7
Corporate	1,207	46.9	1,285	47.3	1,362	48.2	3.3	14.6	2.0	11.5	6.2	20.3	6.0	12.8
Japan														
Total	12,847	100.0	10,408	100.0	10,660	100.0	0.7	2.9	1.5	4.6	3.1	1.8	2.4	(17.0)
Government	11,741	91.4	9,567	91.9	9,811	92.0	0.9	3.6	1.6	5.3	3.3	2.4	2.5	(16.4)
Corporate	1,106	8.6	840	8.1	848	8.0	(1.0)	(3.4)	0.1	(3.3)	1.3	(4.5)	1.0	(23.3)
Memo Item: CNH														
Total	49	100.0	57	100.0	61	100.0	(0.6)	64.4	6.0	20.6	0.5	66.9	6.3	23.9
Government	13	26.6	14	25.2	14	22.5	10.8	86.4	(5.4)	2.1	12.0	89.2	(5.1)	4.8
Corporate	36	73.4	43	74.8	47	77.5	(4.2)	57.7	9.9	27.3	(3.2)	60.1	10.2	30.8

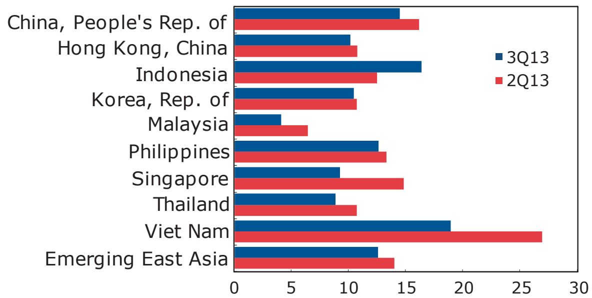
( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. For Hong Kong, China, 3Q13 corporate bonds outstanding based on *AsianBondsOnline* estimates. For the Philippines, 3Q13 government bonds outstanding data carried over from August 2013. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Thailand, 3Q13 corporate bonds outstanding data based on Bank of Thailand's August 2013 estimate. For Japan, 3Q13 government and corporate bonds outstanding data carried over from August 2013.
2. Corporate bonds include issues by financial institutions.
3. CNH bonds are renminbi-denominated bonds issued in Hong Kong, China. Data includes certificates of deposits and bonds issued by foreign companies.
4. Bloomberg LP end-of-period LCY—US$ rates are used.
5. For LCY base, emerging East Asia growth figures based on end-September 2013 currency exchange rates and do not include currency effects.
6. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

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

Figure 1b: Growth of LCY Bond Markets in 2Q13 and 3Q13 (y-o-y, %)



LCY = local currency, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from LCY base and do not include currency effects.
3. Emerging East Asia growth figures are based on end-September 2013 currency exchange rates and do not include currency effects.
4. For Hong Kong, China, 3Q13 corporate bonds outstanding data based on *AsianBondsOnline* estimates. For the Philippines, 3Q13 government bonds outstanding data carried over from August 2013. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Thailand, 3Q13 corporate bonds outstanding data based on Bank of Thailand's August 2013 estimate.

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

rate of its government bond sector. Hong Kong, China's overall y-o-y growth rate of 10.1% was, nevertheless, slightly less than that of the Republic of Korea.

Singapore and Thailand grew at broadly comparable y-o-y rates of 9.2% and 8.8%, respectively. This reflected balanced growth in Singapore's government and corporate bond sectors at high single-digit levels. Thailand's government sector grew at a y-o-y rate of only 7.3%, while its much smaller corporate bond sector grew at a more rapid rate of 14.7% y-o-y. Malaysia's bond market y-o-y growth rate was in the low single digits, due to almost negligible growth in its government bond market.

Total government bonds outstanding in emerging East Asia grew 2.1% q-o-q in 3Q13, up from 1.1% growth in 2Q13, to reach US$4.4 trillion.

The region's two most rapidly growing government bond markets on a q-o-q basis in 3Q13 were the Philippines (4.0%) and Indonesia (3.7%).Total Philippine government bonds outstanding reached PHP3.7 trillion (US$86 billion) at end-August. Treasury bills rose 0.3% q-o-q and 18.1% y-o-y to stand at PHP309.3 billion at end-August. Treasury bonds expanded 4.6% q-o-q and 14.1% y-o-y to reach PHP3.3 trillion. Meanwhile, fixed-income instruments issued by government-controlled companies registered a decline of 8.8% y-o-y to PHP113.5 billion at the end of 3Q13. In terms of issuance in 3Q13, PHP210 billion worth of treasury bonds and PHP130 billion of treasury bills were sold. More specifically, the Bureau of the Treasury sold PHP100 billion worth of 10-year Retail Treasury Bonds (RTBs) in August.

Growth in the Indonesian government bond market in 3Q13 was driven by central government bonds, consisting of treasury bills and bonds, which grew 6.1% q-o-q. The stock of central bank bills, or *Sertifikat* Bank Indonesia (SBI), fell 20.8% q-o-q to IDR68.6 trillion (US$6 billion) at the end of 3Q13.

The stock of Indonesian central government bonds climbed 6.1% q-o-q to IDR942.9 trillion at end-September. Conventional fixed-rate bonds, which account for the bulk of the central government bond stock, continued to drive growth, rising 6.8% q-o-q, while short-term instruments such as treasury bills, or *Surat Perbendaharaan Negara* (SPN), and Islamic treasury bills also contributed to growth, albeit from a low base. In 3Q13, new issuance of treasury bills and treasury bonds rose 64.0% q-o-q on the back of six auctions of conventional bonds and five auctions of *sukuk* (Islamic bonds). The high demand for treasuries was reflected in bids reaching IDR173.5 trillion in 3Q13 for an initial issuance target of IDR54 trillion.

The PRC had the third most rapidly growing government bond sector in 3Q13 with growth of 2.7% q-o-q, followed by the Republic of Korea at 1.3%. The PRC's government bond sector grew considerably more rapidly than it did in 2Q13 due to a 5.4% q-o-q increase in treasury bonds outstanding (defined to include savings bonds and local government bonds), while policy bank bonds grew 3.1% for the second consecutive quarter. At the end of 2Q13, the amounts of PRC treasury bonds and policy bank bonds outstanding were almost identical at CNY8.4 trillion (US$1.4 trillion), but treasury bonds rose to CNY8.9 trillion at the end of 3Q13, while policy bank bonds rose to CNY8.7 trillion. The PRC's stock of central bank bonds, on the other hand, fell 30.3% q-o-q as the People's Bank of China (PBOC) sharply reduced its issuance of bonds and did not issue any bills in 3Q13**.**

The government bond market in the Republic of Korea grew a modest 1.3% q-o-q in 3Q13. The largest component of the government sector in the Republic of Korea is central government bonds (68.9% of total government bonds at end-September), which amounted to KRW444.6 trillion (US$414 billion) and grew 1.3% q-o-q in 3Q13. The most rapidly growing segment of the government bond sector consisted of the industrial finance debentures issued by the Korean Development Bank, which grew 9.3% q-o-q, yet only amounted to KRW35.9 trillion at the end of 3Q13. The rapid growth of industrial finance debentures, however, offset the 0.3% q-o-q decline in the much larger stock of central bank bonds to KRW164.9 trillion, leading the overall government bond sector to grow at the same 1.3% q-o-q rate as that of central government bonds.

The other government bond markets in the region experienced little or no growth in 3Q13. The government bond markets of both Malaysia and Hong Kong, China, grew only 0.5% q-o-q in 3Q13, the government bond markets of Singapore, Thailand, and Viet Nam shrunk—by small amounts in the cases of Singapore and Thailand—and by 8.7% q-o-q in Viet Nam.

The LCY corporate bond market in emerging East Asia grew 2.9% q-o-q in 3Q13, significantly less than the 8.0% growth rate recorded in 2Q13, to reach US$2.7 trillion.

Indonesia's corporate bond market expanded 4.6% q-o-q to become the most rapidly growing corporate bond market in emerging East Asia in 3Q13, despite its small size of only US$19 billion. This growth was driven by 4.9% growth in conventional corporate bonds and 6.9% growth among subordinated bonds. The dominant issuer class for both types of bonds was banks and other financial institutions.

The largest stocks of corporate bonds outstanding at the end of 3Q13 were those of state power firm PLN, with bonds outstanding of IDR15.2 trillion, and two of Indonesia's most important financial institutions—Indonesia Eximbank with bonds outstanding of IDR12.6 trillion and Astra Sedaya Finance—with bonds outstanding of IDR10.6 trillion. The next most rapidly growing corporate bond markets on a q-o-q basis were the PRC (3.9%) and Malaysia (3.8%).

The PRC's corporate bond market remained the largest in region at US$1.3 trillion at the end of 3Q13, compared with a size of only US$19 billion for Indonesia. Even Malaysia's corporate bond market at US$129 billion greatly outstrips Indonesia in size. The largest sectors of the PRC corporate bond market at the end of 3Q13 were medium-term notes (MTNs) at CNY3.7 trillion and local corporate bonds at CNY1.6 trillion. MTNs grew 5.6% q-o-q in 3Q13, followed by local corporate bonds at 2.9%. Commercial bank bonds fell 2.2% q-o-q, even though they rose 17.5% y-o-y. The outstanding bonds of state-owned enterprises (SOEs) fell on both a q-o-q (–0.9%) and y-o-y basis (–34.7%) as PRC government support for SOEs has declined since the change in national political leadership in March. The financial conditions of local governments have also come under greater public scrutiny of late. The central government has promised to issue an update of its 2010 review of the financial conditions of local governments sometime in the coming months, with particular attention being paid to corporate entities owned by local governments.

Malaysia's LCY corporate bonds outstanding reached MYR421.6 billion (US$129 billion) at end-September, rising 3.8% q-o-q and 9.1% y-o-y.

The share between *sukuk* and conventional bonds remained constant, with *sukuk* accounting for 67% of the total and conventional bonds comprising 33%. The largest corporate LCY issuer in 3Q13 was Kapar Energy Ventures with issuance of Islamic MTNs totaling MYR2 billion. SOEs such as Cagamas and Prasarana were the next largest issuers in 3Q13, with issuances of MYR1.2 billion and MYR1 billion, respectively. Public Bank issued the single largest note in 3Q13 amounting to MYR1 billion. The subordinated MTN is the first tranche of Public Bank's MYR10 billion bond issue under its Basel III-compliant Tier 2 program. The bonds have a tenor of 10 years (5-year non-callable) and carry a coupon of 4.8%.

Malaysia's corporate bond sector was followed by that of the Republic of Korea, which grew 2.2% y-o-y. The outstanding size of LCY corporate bonds in the Republic of Korea stood at KRW1,035 trillion (US$963 billion) at end-September. Private sector corporate bonds, which occupied 46% of the corporate bond market, grew 1.6% q-o-q and 16.0% y-o-y; special public bonds, which accounted for 33% of total corporate bonds outstanding, increased 2.8% q-o-q and 13.0% y-o-y; and financial debentures (excluding KDB bonds), which comprised 21% of the corporate bond market, were up 2.6% q-o-q and 5.3% y-o-y.

The region's remaining corporate bond markets experienced little or no q-o-q growth in 3Q13. The corporate bond markets of Hong Kong, China and Thailand grew 1.3% each, and the Philippine corporate bond market grew 0.6%, while the corporate bond markets of Singapore and Viet Nam shrank. The Singapore market declined 1.3% q-o-q due to a sharp reduction in issuance from large government-linked companies and private sector blue chips. However, a number of mid-sized companies have come to market this year, offering much more attractive yields to investors, mostly in the form of private banking clients.

CNH Market Trends

Market appetite for CNH bonds was stable in 3Q13.[6] Total issuance in 3Q13 was CNH51 billion (US$8.3 billion) versus CNH56 billion in 2Q13 and CNH42 billion in 3Q12. Certificates of deposit again comprised the bulk of issuances (CNH44 billion) in 3Q13 and exceeded 2Q13's level (CNH27 billion). However, issuances from corporates have declined, with issuances from non-banks falling to only CNH3 billion in 3Q13 from CNH14 billion in 2Q13.

As a result of the issuances, outstanding CNH bonds reached CNH371 billion (US$61 billion) in 3Q13 from CNH350 billion in 2Q13.

The ongoing liberalization of the PRC's financial markets is offering alternatives to CNH investments. In addition to the Qualified Foreign Institutional Investor (QFII) and Renminbi Qualified Foreign Institutional Investor (RQFII) programs, a free trade zone in Shanghai has recently been established. While relatively new, there are expectations that the free trade zone will allow some capital account liberalization and provide another alternative to the CNH bond market.

Ratio of Bonds Outstanding to GDP

The ratio of LCY bonds outstanding to GDP in emerging East Asia rose slightly to 55.6% in 3Q13 from 55.1% in 2Q13.

The ratio of LCY bonds outstanding to gross domestic product (GDP) in emerging East Asia rose slightly to 55.6% in 3Q13 from 55.1% in 2Q13 **(Table 2)**.This rise was driven by a rise in the ratio of corporate bonds to GDP to 21.1% from 20.6% in 2Q13, while the ratio of government bonds to GDP remained unchanged at 34.5% of GDP. The ratio of total bonds to GDP rose in five markets in the region—the PRC; Hong Kong, China; the Republic of Korea; the Philippines; and Singapore—and fell in four markets—Indonesia, Malaysia, Thailand, and Viet Nam. The largest ratios of total LCY

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

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

	2Q12	1Q13	2Q13
China, People's Rep. of			
Total	45.7	47.5	47.8
Government	33.9	32.7	32.8
Corporate	11.7	14.7	14.9
Hong Kong, China			
Total	68.1	71.5	72.1
Government	36.0	40.0	40.2
Corporate	32.1	31.5	31.9
Indonesia			
Total	13.1	13.8	12.6
Government	10.9	11.4	10.4
Corporate	2.1	2.4	2.2
Korea, Rep. of			
Total	120.1	120.3	130.2
Government	47.6	46.5	50.0
Corporate	72.5	73.9	80.2
Malaysia			
Total	105.2	105.3	103.9
Government	63.4	62.2	60.6
Corporate	41.8	43.0	43.3
Philippines			
Total	36.8	37.4	38.5
Government	31.8	32.5	33.6
Corporate	5.0	4.9	4.9
Singapore			
Total	80.5	86.4	86.7
Government	49.8	53.4	53.8
Corporate	30.6	33.0	32.9
Thailand			
Total	75.3	75.8	75.5
Government	60.1	59.8	59.4
Corporate	15.2	16.0	16.1
Viet Nam			
Total	15.9	14.8	9.4
Government	14.7	14.4	9.1
Corporate	1.2	0.4	0.3
Emerging East Asia			
Total	53.9	55.1	55.6
Government	35.3	34.5	34.5
Corporate	18.6	20.6	21.1
Japan			
Total	210.4	217.1	222.3
Government	192.3	199.5	204.6
Corporate	18.1	17.5	17.7

GDP = gross domestic product, LCY = local currency.
Notes:
1. Data for GDP is from CEIC. 3Q13 GDP figures carried over from 2Q13 except for the People's Republic of China and Viet Nam.
2. For Hong Kong, China, 3Q13 corporate bonds outstanding based on *AsianBondsOnline* estimates. For the Philippines, 3Q13 government bonds outstanding data carried over from August 2013. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Thailand, 3Q13 corporate bonds outstanding data based on Bank of Thailand's August 2013 estimate. For Japan, 3Q13 government and corporate bonds outstanding data carried over from August 2013.

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

bonds outstanding to GDP at the end of 3Q13 were in the Republic of Korea (130.2%) and Malaysia (103.9%).

Issuance

LCY bond issuance in 3Q13 totaled US$843 billion, a marginal 0.9% q-o-q increase that reflected sharp decreases in issuance by central banks and the corporate sector.

LCY bond issuance in 3Q13 totaled US$843 billion, a marginal increase on both a q-o-q (0.9%) and y-o-y (1.4%) basis **(Table 3)**. The 0.9% q-o-q increase in total issuance reflected a 6.6% increase in issuance by treasuries and other government agencies, as well as a 2.1% decrease in issuance by central banks and monetary authorities and a 0.6% decrease in corporate issuance. In nominal terms, the largest component of bond market issuance in 3Q13 remained that of central banks and monetary authorities at US$394 billion, which accounted for 46.8% of the total.

Central bank issuance was driven by US$162 billion worth of Hong Kong Monetary Authority (HKMA) Exchange Fund Notes (EFNs) and Exchange Fund Bills (EFBs), followed by US$61 billion of bills from the Monetary Authority of Singapore (MAS). HKMA's EFBs and EFNs accounted for 41.2% of total issuance by central banks and monetary authorities, while issuance of MAS bills accounted for 15.4%. HKMA's issuance of EFBs and EFNs, however, declined 22.9% from 2Q13, while issuance of MAS bills rose 6.1%. Issuance by the PBOC rose to US$65 billion in 3Q13 from US$19 billion in 2Q13 and zero in 3Q12. The PBOC had ceased issuing short-term bills in 2011, and only resumed issuance during the SHIBOR crisis in June to rollover its short-term bills that were maturing at various commercial banks. The PBOC's issuance in 3Q13 consisted exclusively of 3-year notes, and its stock of short-term bills has returned to zero. Meanwhile, the central banks of Thailand, the Republic of Korea, and Malaysia issued amounts of US$46 billion, US$39 billion, and US$17 billion, respectively, in 3Q13.

Table 3: LCY-Denominated Bond Issuance (gross)

	3Q12		2Q13		3Q13		Growth Rate (LCY-base %)		Growth Rate (US$-base %)	
							3Q13		3Q13	
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)										
Total	277	100.0	240	100.0	328	100.0	36.2	15.6	36.5	18.7
Government	191	69.2	194	80.9	264	80.4	35.3	34.3	35.7	37.9
Central Bank	0	0.0	19	7.7	65	19.9	251.6	–	252.5	–
Treasury and Other Govt.	191	69.2	176	73.1	198	60.4	12.5	1.0	12.8	3.7
Corporate	85	30.8	46	19.1	64	19.6	39.7	(26.5)	40.0	(24.5)
Hong Kong, China										
Total	167	100.0	220	100.0	172	100.0	(22.0)	2.7	(22.0)	2.7
Government	159	94.8	212	96.1	163	95.0	(22.9)	2.9	(22.9)	2.9
Central Bank	157	93.7	210	95.3	162	94.4	(22.7)	3.5	(22.7)	3.5
Treasury and Other Govt.	2	1.1	2	0.8	1	0.5	(46.2)	(51.7)	(46.2)	(51.7)
Corporate	9	5.2	9	3.9	9	5.0	0.0	0.1	0.0	0.1
Indonesia										
Total	8	100.0	9	100.0	10	100.0	27.6	37.5	11.9	15.6
Government	7	87.6	7	77.2	9	89.2	47.3	40.0	29.2	17.7
Central Bank	3	36.9	2	22.2	2	18.5	5.9	(31.2)	(7.2)	(42.1)
Treasury and Other Govt.	4	50.7	5	55.0	7	70.7	64.0	91.7	43.9	61.2
Corporate	1	12.4	2	22.8	1	10.8	(39.4)	19.5	(46.8)	0.5
Korea, Rep. of										
Total	144	100.0	146	100.0	145	100.0	(6.5)	(2.4)	(0.7)	1.0
Government	57	39.6	67	45.6	69	47.7	(2.3)	17.7	3.9	21.7
Central Bank	35	24.4	39	26.7	39	26.6	(6.9)	6.8	(1.0)	10.4
Treasury and Other Govt.	22	15.2	28	18.8	31	21.0	4.3	35.1	10.8	39.8
Corporate	87	60.4	80	54.4	76	52.3	(10.1)	(15.5)	(4.5)	(12.6)
Malaysia										
Total	60	100.0	39	100.0	33	100.0	(12.6)	(41.8)	(15.3)	(45.4)
Government	46	77.3	32	83.0	26	80.2	(15.7)	(39.7)	(18.2)	(43.4)
Central Bank	37	61.3	24	61.7	17	51.0	(27.8)	(51.6)	(30.0)	(54.6)
Treasury and Other Govt.	10	16.0	8	21.4	10	29.2	19.2	5.9	15.6	(0.6)
Corporate	14	22.7	7	17.0	6	19.8	2.2	(49.0)	(0.9)	(52.2)
Philippines										
Total	6	100.0	3	100.0	9	100.0	175.9	59.2	173.7	52.9
Government	5	88.3	3	89.6	8	91.4	181.3	64.8	179.1	58.3
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	5	88.3	3	89.6	8	91.4	181.3	64.8	179.1	58.3
Corporate	1	11.7	0	10.4	1	8.6	128.6	16.7	126.8	12.1
Singapore										
Total	86	100.0	88	100.0	80	100.0	(10.0)	(4.7)	(9.2)	(6.9)
Government	78	90.5	85	96.6	77	95.8	(10.8)	0.9	(9.9)	(1.3)
Central Bank	32	36.8	56	64.1	61	75.6	6.1	95.9	7.2	91.4
Treasury and Other Govt.	46	53.7	29	32.5	16	20.2	(44.1)	(64.1)	(43.5)	(64.9)
Corporate	8	9.5	3	3.4	3	4.2	10.7	(58.4)	11.8	(59.4)
Thailand										
Total	78	100.0	79	100.0	63	100.0	(19.2)	(18.0)	(19.6)	(19.1)
Government	67	86.0	57	72.7	53	83.4	(7.3)	(20.6)	(7.8)	(21.6)
Central Bank	55	69.8	51	64.6	46	73.2	(8.3)	(14.1)	(8.9)	(15.2)
Treasury and Other Govt.	13	16.2	6	8.1	6	10.1	1.3	(48.7)	0.7	(49.4)
Corporate	11	14.0	22	27.3	11	16.6	(50.8)	(2.5)	(51.1)	(3.7)

continued on next page

Table 3 *continued*

	3Q12		2Q13		3Q13		Growth Rate (LCY-base %)		Growth Rate (US$-base %)	
							3Q13		3Q13	
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
Viet Nam										
Total	1	100.0	3	100.0	3	100.0	10.6	250.5	11.1	246.7
Government	1	95.0	3	100.0	3	100.0	10.6	269.0	11.1	265.0
Central Bank	0	0.0	0	0.0	2	77.8	–	–	–	–
Treasury and Other Govt.	1	95.0	3	100.0	1	22.2	(75.4)	(18.0)	(75.3)	(18.9)
Corporate	0	5.0	0	0.0	0	0.0	–	–	–	–
Emerging East Asia (EEA)										
Total	827	100.0	827	100.0	843	100.0	0.9	1.4	1.9	1.9
Government	611	73.9	659	79.7	671	79.7	1.3	9.8	1.8	9.8
Central Bank	318	38.5	401	48.5	394	46.8	(2.1)	25.1	(1.7)	24.0
Treasury and Other Govt.	293	35.5	259	31.3	277	32.9	6.6	(6.5)	7.3	(5.5)
Corporate	216	26.1	168	20.3	171	20.3	(0.6)	(21.9)	2.2	(20.5)
EEA excl. PRC										
Total	550	100.0	587	100.0	514	100.0	(13.4)	(5.9)	(12.3)	(6.5)
Government	420	76.3	465	79.3	408	79.2	(12.9)	(1.8)	(12.4)	(3.0)
Central Bank	318	57.8	382	65.2	329	63.9	(14.4)	4.3	(14.0)	3.4
Treasury and Other Govt.	102	18.6	83	14.1	79	15.3	(5.8)	(21.3)	(4.5)	(22.7)
Corporate	130	23.7	122	20.7	107	20.8	(15.3)	(18.9)	(12.2)	(17.9)
Japan										
Total	671	100.0	546	100.0	553	100.0	0.3	3.9	1.2	(17.6)
Government	628	93.7	503	92.1	513	92.8	1.1	2.9	2.0	(18.4)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	628	93.7	503	92.1	513	92.8	1.1	2.9	2.0	(18.4)
Corporate	42	6.3	43	7.9	40	7.2	(9.4)	18.2	(8.6)	(6.3)

( ) = negative, – = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. For Hong Kong, China, 3Q13 corporate bond issuance data carried over from 2Q13. For Japan, 3Q13 government bond issuance data based on *AsianBondsOnline* estimates. For Thailand, 3Q13 government and corporate bond issuance data taken from ThaiBMA.
2. Corporate bonds include issues by financial institutions.
3. Bloomberg LP end-of-period LCY—US$ rates are used.
4. For LCY-base, emerging East Asia growth figures are based on end-September 2013 currency exchange rates and do not include currency effects.

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

Issuance by treasuries and central government agencies rose 6.6% q-o-q to US$277 billion in 3Q13, accounting for 32.9% of total issuance in the region. The largest q-o-q increases in issuance of treasuries and other central government bonds came from the Philippines (181.3%), Indonesia (64.0%), and Malaysia (19.2%). However, these issuances were in amounts of US$10 billion or less, and thus relatively small compared with the US$198 billion of treasuries and policy bank bonds issued in the PRC, or even the US$31 billion of government bonds issued in the Republic of Korea. Issuance of treasuries and other government sector bonds rose 12.5% q-o-q in the PRC and 4.3% in the Republic of Korea.

Issuance of government sector bonds in other markets was either flat or sharply negative on a q-o-q basis. Issuance for government sector bonds rose only 1.3% in Thailand on a q-o-q basis, but fell sharply in Singapore (44.1%); Viet Nam (75.4%); and Hong Kong, China (46.2%). The unusually sharp decline in issuance in Viet Nam during 3Q13 reflected very high market interest rates of 8.0% or more, and a pattern of sharply reduced acceptance of market bids in Viet Nam's government bond auctions. Issuance of central government bonds had risen sharply in late 2012 and 1Q13. Issuance of Thai government bonds also fell sharply on a y-o-y basis in 3Q13, but this represented a return to a more normal issuance pattern after large increases in government bond issuance in 2012 that provided financing for the government's rehabilitation program following the severe flooding that occurred in late 2011.

Corporate issuance in emerging East Asia amounted to US$171 billion in 3Q13, or 20.3% of total issuance during the quarter. Corporate issuance declined 0.6% on a q-o-q basis in 3Q13 and by a much larger 21.9% on a y-o-y basis. The largest amount of corporate issuance in 3Q13 was US$76 billion in the Republic of Korea, although this actually represented a 10.1% q-o-q and 15.5% y-o-y decline. The next largest amount of corporate issuance—US$64 billion—came from the PRC, representing a 39.7% increase on a q-o-q basis, but a 26.5% decline on a y-o-y basis.

The third largest amount of corporate issuance in the region during 3Q13 came from Thailand at US$11 billion, representing a 50.8% decline on a q-o-q basis and a 2.5% decline on a y-o-y basis. The fourth largest amount of corporate issuance came from Hong Kong, China at US$9 billion, an amount that was virtually identical to issuance amounts in both 2Q13 and 3Q12. The fifth largest corporate issuer was Malaysia, where corporate issuance rose 2.2% on a q-o-q basis to US$6 billion, but fell 49.0% on a y-o-y basis. Corporate issuance in the remaining markets in 3Q13 ranged between US$1 billion and US$3 billion.

Singapore's US$3 billion of corporate issuance in 3Q13 demonstrated a good deal of diversity in issuers and product types. Almost US$2 billion of Singapore's corporate bond issuance consisted of SGD1.97 billion of bonds issued by the Housing and Development Bank—with yields of 1.17% for a 3-year maturity and 3.37% for a 5-year maturity—and a SGD850 million perpetual bond issued by United Overseas Bank. The remaining US$1 billion or so consisted of much smaller bonds issued by mid-sized companies with coupons of between 3.9% and 6.5%, providing a meaningful higher-yield segment to the Singapore corporate bond market.

These trends are summarized in **Figures 2a, 2b, and 2c**, which detail issuance in recent years in the region's government, corporate, and overall bond markets, as well as total LCY bond issuance in the PRC.

Bills-to-Bonds Ratios

The ratio of bills to bonds issued by governments fell in five out of the nine markets of emerging East Asia in 3Q13.

The ratio of bills to bonds issued by governments, central banks, and monetary authorities rose in Singapore and Viet Nam, remained unchanged in Indonesia and Thailand, and fell in the remaining five markets of the region in 3Q13 **(Figure 3a)**. The ratio of bills to bonds rose in Singapore because of the continued rapid growth of bills issued by MAS **(Figure 3b)**, even as the stock of bills issued on behalf of the Singapore Government declined. This resulted in the total ratio of bills to bonds for Singapore rising to 1.24 in 3Q13 from 1.17 in 2Q13. In Viet Nam, the stock of both treasury bills and central bank bills remained relatively stable between 2Q13 and 3Q13, but the stock of treasury bonds fell, resulting in a modest rise in the ratio of bills (both central and government) to treasury bonds.

In Indonesia, the stock of treasury bills nearly doubled between 2Q13 and 3Q13, albeit from a small base of only US$2 billion, which nevertheless offset a US$3 billion decline in SBI and resulted in the ratio of total bills to bonds remaining unchanged at 0.13 in 3Q13 **(Table 4)**. The stock of treasury bills in Thailand rose from zero to US$3 billion between 2Q13 and 3Q13, while the stock of central bank bills fell by US$4 billion, resulting in the total ratio of bills to bonds remaining unchanged at 0.32 in 3Q13. In the remaining markets, a combination of falling stocks of central bank and treasury bills and rising stocks of bonds resulted in declines in the ratio of bills to bonds. In Malaysia, the decline in the stock of central bank bill was especially pronounced, reflecting greatly reduced need for

Figure 2a: Government (including SOE) **and Central Bank Bond Issuance**

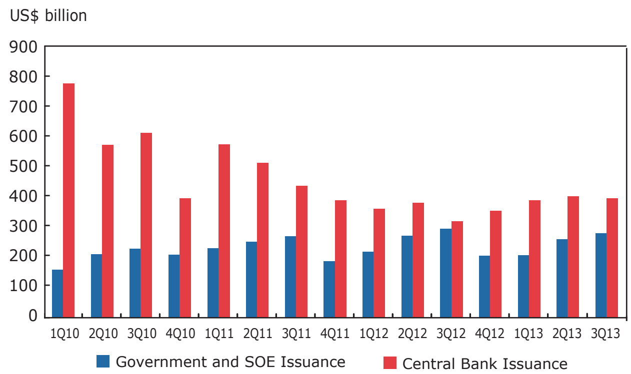


Figure 2b: Government (including SOE) **and Corporate Bond Issuance**

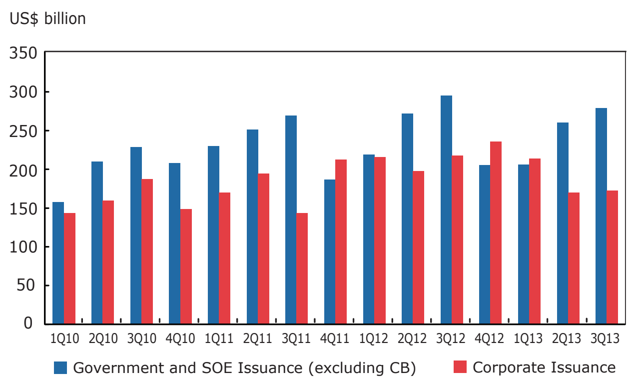
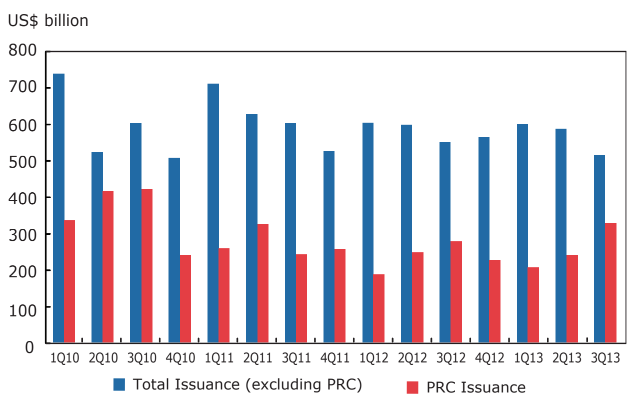


Figure 2c: Total LCY Bond Issuance

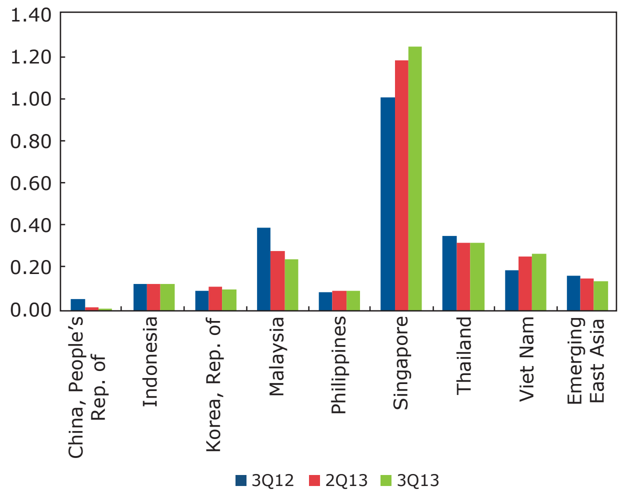


CB = central bank, LCY = local currency, PRC = People's Republic of China, SOE = state-owned enterprise.

Notes:
1. Includes data for the People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Viet Nam.
2. Bonds issued by state-owned entities are categorized as government bonds for the Philippines, Thailand, and Viet Nam.
3. For the PRC, government issuance includes policy bank bonds, local government bonds, and savings bonds.
4. For the Republic of Korea, government issuance include bonds issued by Korea Development Bank, Korea National Housing Corp., and Seoul Metro (formerly Seoul Metropolitan Subway Corp).

Source: *AsianBondsOnline*.

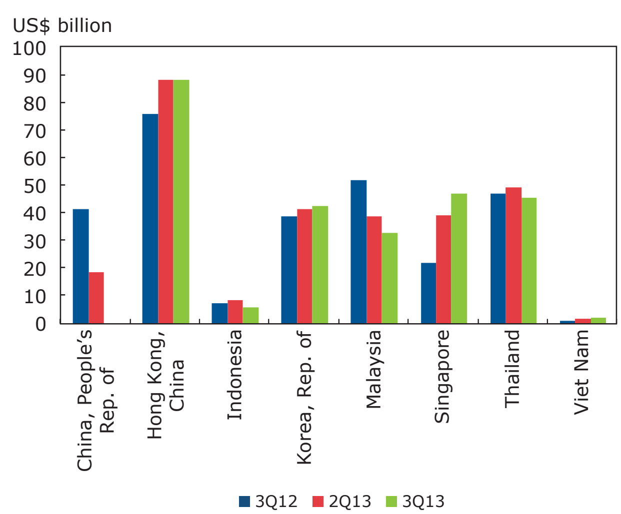
Figure 3a: Total Bills-to-Bonds Ratios



Notes:
1. 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.
2. Hong Kong, China is not included in the chart due to its much higher bills-to-bonds ratio.
3. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

Source: *AsianBondsOnline*.

Figure 3b: Central Bank Bills Outstanding



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

Source: *AsianBondsOnline*.

Table 4: Government Bills-to-Bonds Ratios in LCY Bond Markets

	3Q12		2Q13		3Q13		Government Bills-to-Bonds Ratio			Growth Rate (LCY-base %)		Growth Rate (US$-base %)	
										3Q13		3Q13	
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	3Q12	2Q13	3Q13	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)													
Total	1,354	100.0	1,338	100.0	1,333	100.0				(0.6)	(4.1)	(0.4)	(1.5)
Total Bills	69	5.1	23	1.7	13	1.0	0.05	0.02	0.01	(41.4)	(81.1)	(41.3)	(80.6)
Treasury Bills	28	2.1	4	0.3	13	1.0	0.03	0.00	0.01	215.3	(53.4)	216.2	(52.1)
Central Bank Bills	41	3.0	19	1.4	0	0.0	0.19	0.16	0.00	–	(100.0)	–	(100.0)
Total Bonds	1,285	94.9	1,315	98.3	1,320	99.0				0.1	0.1	0.4	2.8
Treasury Bonds	1,072	79.2	1,202	89.8	1,228	92.1				1.9	11.6	2.1	14.6
Central Bank Bonds	213	15.7	113	8.5	92	6.9				(18.9)	(57.9)	(18.7)	(56.7)
Hong Kong, China													
Total	93	100.0	107	100.0	108	100.0				0.5	16.2	0.5	16.2
Total Bills	76	81.5	88	81.8	88	81.4	4.42	4.49	4.39	0.1	16.0	0.1	16.0
Treasury Bills	0	0.0	0	0.0	0	0.0	–	–	–	–	–	–	–
Central Bank Bills	76	81.5	88	81.8	88	81.4	8.52	9.97	9.97	0.1	16.0	0.1	16.0
Total Bonds	17	18.5	20	18.2	20	18.6				2.3	16.8	2.3	16.8
Treasury Bonds	8	8.9	11	10.0	11	10.4				4.2	35.9	4.2	35.9
Central Bank Bonds	9	9.6	9	8.2	9	8.2				0.0	(0.9)	0.01	(0.9)
Indonesia													
Total	92	100.0	97	100.0	89	100.0				3.7	14.5	(9.0)	(3.7)
Total Bills	10	11.3	11	11.3	10	11.1	0.13	0.13	0.13	2.2	13.0	(10.4)	(5.0)
Treasury Bills	3	3.3	2	2.4	4	4.4	0.04	0.03	0.05	85.5	51.7	62.7	27.5
Central Bank Bills	7	8.0	9	8.9	6	6.8	–	–	–	(20.8)	(3.0)	(30.5)	(18.4)
Total Bonds	82	88.7	86	88.7	79	88.9				3.9	14.7	(8.8)	(3.6)
Treasury Bonds	82	88.7	86	88.7	79	88.9				3.9	14.7	(8.8)	(3.6)
Central Bank Bonds	0	0.0	0	0.0	0	0.0				–	–	–	–
Korea, Rep. of													
Total	497	100.0	516	100.0	551	100.0				0.4	7.2	6.7	10.9
Total Bills	43	8.6	52	10.0	49	9.0	0.09	0.11	0.10	(10.3)	11.9	(4.6)	15.7
Treasury Bills	4	0.8	11	2.0	7	1.2	0.01	0.03	0.02	(40.2)	60.1	(36.4)	65.6
Central Bank Bills	39	7.8	41	8.0	43	7.7	0.37	0.40	0.38	(2.6)	6.8	3.5	10.5
Total Bonds	454	91.4	464	90.0	502	91.0				1.6	6.8	8.0	10.4
Treasury Bonds	350	70.5	362	70.1	388	70.4				0.9	7.2	7.3	10.8
Central Bank Bonds	104	21.0	103	19.9	114	20.6				4.0	5.5	10.6	9.1
Malaysia													
Total	191	100.0	184	100.0	176	100.0				(1.1)	(1.5)	(4.1)	(7.6)
Total Bills	53	28.0	40	21.8	34	19.4	0.39	0.28	0.24	(12.1)	(31.7)	(14.8)	(35.9)
Treasury Bills	1	0.7	1	0.7	1	0.8	0.01	0.01	0.01	0.0	0.0	(3.0)	(6.2)
Central Bank Bills	52	27.3	39	21.1	33	18.7	–	–	–	(12.5)	(32.6)	(15.2)	(36.7)
Total Bonds	137	72.0	144	78.2	142	80.6				1.9	10.2	(1.2)	3.5
Treasury Bonds	137	72.0	144	78.2	142	80.6				1.9	10.2	(1.2)	3.5
Central Bank Bonds	0	0.0	0	0.0	0	0.0				–	–	–	–
Philippines													
Total	76	100.0	81	100.0	83	100.0				4.2	14.5	3.4	9.9
Total Bills	6	8.3	7	8.9	7	8.5	0.09	0.10	0.09	0.3	18.1	(0.4)	13.4
Treasury Bills	6	8.3	7	8.9	7	8.5	0.09	0.10	0.09	0.3	18.1	(0.4)	13.4
Central Bank Bills	0	0.0	0	0.0	0	0.0	–	–	–	–	–	–	–
Total Bonds	69	91.7	73	91.1	76	91.5				4.6	14.1	3.7	9.6
Treasury Bonds	69	91.7	73	91.1	76	91.5				4.6	14.1	3.7	9.6
Central Bank Bonds	0	0.0	0	0.0	0	0.0				–	–	–	–

continued on next page

Table 4 *continued*

	3Q12		2Q13		3Q13		Government Bills-to-Bonds Ratio			Growth Rate (LCY-base %)		Growth Rate (US$-base %)	
										3Q13		3Q13	
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	3Q12	2Q13	3Q13	q-o-q	y-o-y	q-o-q	y-o-y
Singapore													
Total	139	100.0	148	100.0	149	100.0				(0.3)	9.4	0.7	7.0
Total Bills	70	50.1	80	54.0	82	55.3	1.00	1.17	1.24	2.2	20.9	3.2	18.2
Treasury Bills	48	34.3	41	27.5	35	23.8	0.69	0.60	0.53	(14.0)	(24.2)	(13.1)	(25.9)
Central Bank Bills	22	15.7	39	26.5	47	31.6	–	–	–	19.0	119.3	20.1	114.4
Total Bonds	69	49.9	68	46.0	66	44.7				(3.1)	(2.1)	(2.2)	(4.3)
Treasury Bonds	69	49.9	68	46.0	66	44.7				(3.1)	(2.1)	(2.2)	(4.3)
Central Bank Bonds	0	0.0	0	0.0	0	0.0				–	–	–	–
Thailand													
Total	192	100.0	204	100.0	201	100.0				(0.6)	6.3	(1.2)	4.9
Total Bills	50	26.2	49	24.2	49	24.2	0.35	0.32	0.32	(0.4)	(1.6)	(1.0)	(2.9)
Treasury Bills	3	1.7	0	0.0	3	1.6	0.04	0.00	0.03	–	–	–	–
Central Bank Bills	47	24.4	49	24.2	45	22.6	0.97	0.97	0.95	(7.1)	(1.7)	(7.7)	(3.0)
Total Bonds	142	73.8	155	75.8	153	75.8				(0.7)	9.1	(1.3)	7.6
Treasury Bonds	94	48.7	104	51.0	105	52.0				1.2	13.3	0.6	11.8
Central Bank Bonds	48	25.1	51	24.8	48	23.8				(4.5)	0.8	(5.0)	(0.5)
Viet Nam													
Total	12	100.0	17	100.0	15	100.0				(14.5)	30.5	(14.2)	29.1
Total Bills	2	16.0	4	20.2	3	21.2	0.19	0.25	0.27	(10.2)	72.7	(9.8)	70.8
Treasury Bills	0.8	6.9	1.4	8.3	1.0	6.4	0.08	0.10	0.08	(34.0)	22.5	(33.7)	21.2
Central Bank Bills	1	9.2	2	11.9	2	14.8	–	–	–	6.5	110.3	6.9	108.0
Total Bonds	10	84.0	14	79.8	12	78.8				(15.6)	22.4	(15.3)	21.1
Treasury Bonds	10	84.0	14	79.8	12	78.8				(15.6)	22.4	(15.3)	21.1
Central Bank Bonds	0	0.0	0	0.0	0	0.0				–	–	–	–
Emerging East Asia (EEA)													
Total	2,645	100.0	2,693	100.0	2,706	100.0				(0.2)	1.6	0.5	2.3
Total Bills	379	14.3	353	13.1	336	12.4	0.17	0.15	0.14	(5.2)	(10.4)	(4.9)	(11.4)
Treasury Bills	95	3.6	68	2.5	72	2.7	0.05	0.03	0.03	5.1	(23.0)	6.2	(23.9)
Central Bank Bills	285	10.8	286	10.6	264	9.8	0.76	1.04	1.01	(7.6)	(6.2)	(7.5)	(7.3)
Total Bonds	2,266	85.7	2,339	86.9	2,370	87.6				0.6	3.6	1.3	4.6
Treasury Bonds	1,891	71.5	2,064	76.7	2,107	77.9				1.6	10.6	2.1	11.4
Central Bank Bonds	374	14.1	275	10.2	263	9.7				(6.8)	(31.4)	(4.7)	(29.8)
EEA excl. PRC													
Total	1,291	100.0	1,355	100.0	1,372	100.0				0.2	7.8	1.3	6.3
Total Bills	310	24.0	331	24.4	323	23.5	0.32	0.32	0.31	(2.7)	6.1	(2.3)	4.0
Treasury Bills	67	5.2	64	4.7	59	4.3	0.08	0.07	0.07	(8.8)	(9.6)	(7.8)	(12.0)
Central Bank Bills	244	18.9	267	19.7	264	19.3	1.51	1.65	1.55	(1.2)	10.3	(1.0)	8.4
Total Bonds	981	76.0	1,024	75.6	1,050	76.5				1.2	8.3	2.5	7.0
Treasury Bonds	820	63.5	862	63.6	879	64.1				1.1	9.3	2.0	7.3
Central Bank Bonds	161	12.5	162	12.0	170	12.4				1.3	3.8	5.1	5.7
Japan													
Total	10,208	100.0	8,326	100.0	8,545	100.0				1.7	5.5	2.6	(16.3)
Total Bills	385	3.8	303	3.6	305	3.6	0.04	0.04	0.04	0.0006	0.002	0.9	(20.7)
Treasury Bills	385	3.8	303	3.6	305	3.6	0.04	0.04	0.04	0.0006	0.002	0.9	(20.7)
Central Bank Bills	0	0.0	0	0.0	0	0.0	–	–	–	–	–	–	–
Total Bonds	9,823	96.2	8,023	96.4	8,240	96.4				1.8	5.7	2.7	(16.1)
Treasury Bonds	9,823	96.2	8,023	96.4	8,240	96.4				1.8	5.7	2.7	(16.1)
Central Bank Bonds	0	0.0	0	0.0	0	0.0				–	–	–	–

( ) = negative, – = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. Bloomberg LP end-of-period LCY–US$ rates are used.
2. For LCY base, emerging East Asia growth figures are based on end-September 2013 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. They exclude bonds issued by policy banks and state-owned enterprises. Bills are defined as securities with original maturities of 1 year or less.

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

central banks throughout the region to issue bills for sterilization purposes, as a combination of fears—that the US Federal Reserve will begin to tighten its highly accommodative monetary policy and that the current political environment in the US could produce at least a temporary default on US government debt—has drained funds out of emerging markets.

In the PRC, both treasury bill and PBOC bill stocks have been very small compared with the stock of treasury bonds. The ratio of total bills to bonds fell to only 0.01 at the end of 3Q13, as the PBOC wound down its stock of bills to zero. In any case, the total stock of treasury bills in the region is very tiny, amounting to only US$72 billion at the end of 3Q13, or 2.7% of the region's LCY government bond market. The stock of central bank bills was much larger at US$264 billion, or 9.8% of the total. Treasury bonds are the most common type of central government or central bank security in the region, amounting to US$2.1 trillion at the end of 3Q13, or 77.9% of the total. More than half of these treasury bonds were found in the PRC, which had US$1.2 trillion of treasury bonds outstanding at the end of 3Q13. The next two largest stocks of treasury bonds were in the Republic of Korea (US$388 billion) and Malaysia (US$142 billion).

The region's largest stock of central bank bills or monetary authority bills at the end of 3Q13 were those of HKMA at US$88 billion. The next largest stocks of central bank bills or monetary authority bills were those of Singapore (US$47 billion), Thailand (US$45 billion), the Republic of Korea (US$43 billion), and Malaysia (U$33 billion). Central bank bonds of any amount at the end of 3Q13 were only found in three markets: the PRC (US$92 billion), the Republic of Korea (US$114 billion), and Thailand (US$48 billion). Additionally, EFNs of the HKMA amounted to US$9 billion at the end of 3Q13.

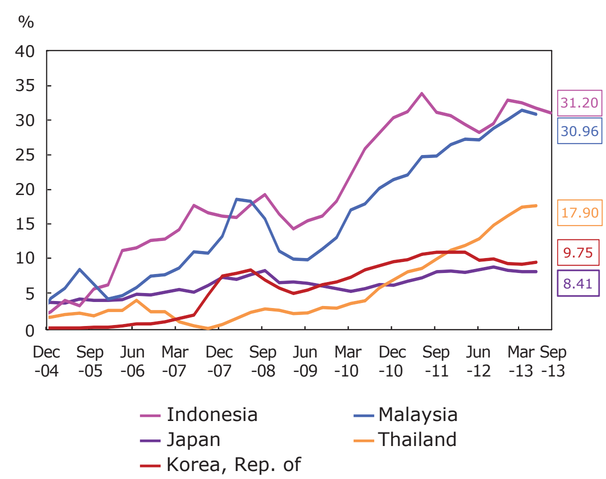
Foreign Holdings

The share of foreign holdings of Asian LCY government bonds has fluctuated greatly since the end of 2012.

Since end-December 2012, the share of foreign holdings of the government bonds of the Republic of Korea, Malaysia, and Thailand has increased, while the share of foreign holdings of Indonesian and Japanese government bonds has decreased **(Figure 4)**. The share of foreign holdings of Indonesian bonds fell to 31.2% at the end of September 2013. However, in nominal terms, foreign holdings of Indonesian government bonds have continued to rise, reaching an all-time high of IDR294.1 trillion at the end of 3Q13.

The share of foreign holdings of Malaysian government bonds had been closely tracking trends in the Indonesian bond market—with the possibility that the share of foreign holdings of Malaysian government bonds might overtake the foreign ownership share of Indonesian bonds. However, by end-June, the share of foreign holdings of Malaysian bonds suddenly dropped to 31.0% from

Figure 4: Foreign Holdings of LCY Government Bonds (% of total)



LCY = local currency.
Note: Data as of end-June 2013 except for Indonesia as of end-September 2013.
Source: *AsianBondsOnline*.

31.6% in the previous quarter. Foreign holdings of Malaysian government bonds, however, continued to rise in nominal terms in 2Q13, reaching an all-time high at end-June of MYR140.7 billion. The overall increase of foreign holdings in recent years for Malaysian government bonds reflects not only a positive outlook for the Malaysian economy, but also a highly constructive environment for both domestic and foreign investors in Malaysia's LCY bond market.

The share of foreign holdings of Thai government bonds has proceeded to grow—albeit at a slower pace—through 2Q13, undeterred by the various issues that have clouded the global financial and economic outlook to reach 17.9% of total holdings at end-June. The foreign holdings share of Korean government bonds increased slightly from 9.5% at end-December 2012 to 9.8% at end-June. However, the foreign holdings share of the Korean government bond market at end-June (9.8%) was well below levels reached in 2011 and the middle of 2012.

Government Bond Yield Curves

Most government bond yield curves in emerging East Asia have shifted downward since the US Federal Reserve decided in mid-September not to taper its asset purchase program in the near-term.

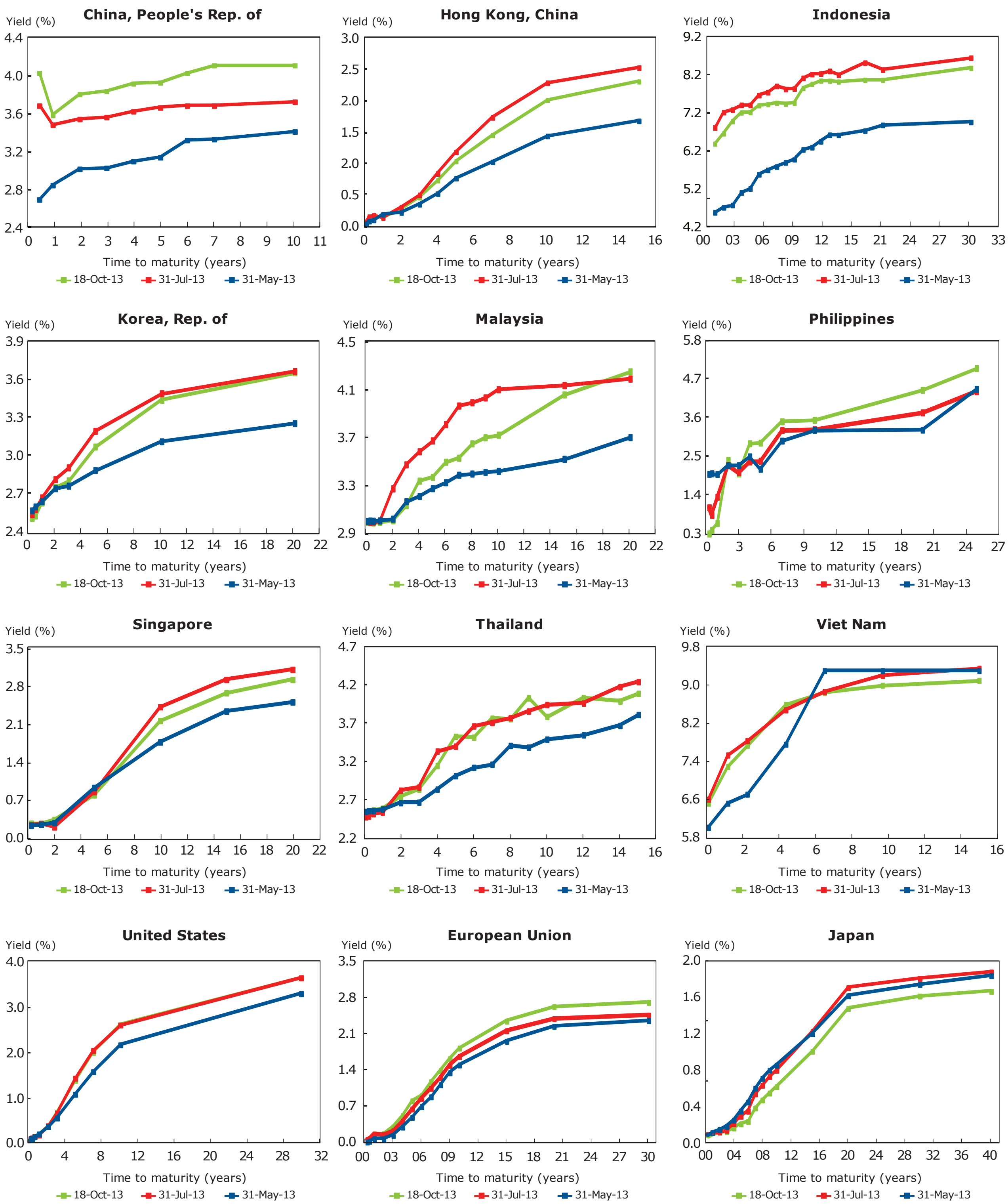
The statement of the US Federal Reserve on 19 June that it may begin to taper its bond purchase program toward the latter part of this year resulted in a dramatic steepening of yield curves between end-May and end-July in Hong Kong, China; the Republic of Korea; Malaysia; Singapore; and Thailand. In the case of Indonesia, a dramatic shift upward of the entire curve occurred over the same period **(Figure 5)**. Yields on the Viet Nam curve rose for some shorter-dated maturities, but remained more or less unchanged at the longer-end of the curve. Yields on the Philippine curve fell for some maturities under 5 years, but rose slightly for longer-dated maturities.

The PRC yield curve, however, shifted dramatically upward between end-May and end- July, reflecting the SHIBOR shock event in the first week of June when liquidity demands pushed the SHIBOR rate to 7.5% and the 7-day repo rate to 7.8%. Markets expected the PBOC to step in and provide additional liquidity but instead, for the first time since 2011, it issued central bank bills on 18 June. The PBOC issuance sent a signal to markets regarding the central bank's stance toward liquidity. As a result, the SHIBOR overnight rate rose to a high of 13.4% on 20 June and the 7-day repo rate rose to 11.2%. The PBOC released a statement on 26 June that sought to clarify its actions. The PBOC stated that the rise in money market rates was due to temporary seasonal factors and rapid loan growth, but overall liquidity in the system was sufficient. The PBOC also said that banks needed to be more prudent in their liquidity management.

The movements of yields for 10-year benchmark government bonds in the region since the beginning of the year are presented in **Figures 6a and 6b**. Figure 6a shows that yields for six members of the Association of Southeast Asian Nations (ASEAN), collectively known as ASEAN-6, were relatively stable until the 22 May statement of Federal Reserve Chairman Ben Bernanke, then rose moderately until the Federal Reserve's statement on June 19, after which they rose much more rapidly to reach individual highs in late August and early September. Philippine government 10-year bond yields, however, declined slightly on 31 July after an auction for RTBs in which the coupon was set at 3.25%. Philippine 10-year bonds had been trading at a yield of 3.7% preceding the auction, but then fell to trade in a range of between 3.38% and 3.43% in the weeks following the auction.

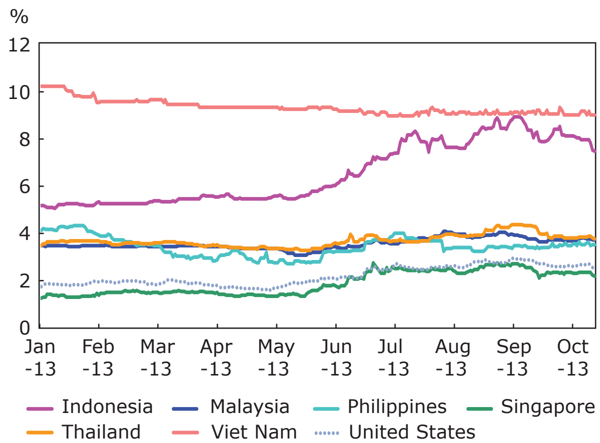
In August and early September, 10-year yields continued to rise in most other ASEAN-6 markets, until declining slightly after the US Federal Reserve's decision to continue with its quantitative easing program on 18 September, and then declined further after the US Congress reached an agreement to extend the federal government's

Figure 5: Benchmark Yield Curves—LCY Bonds



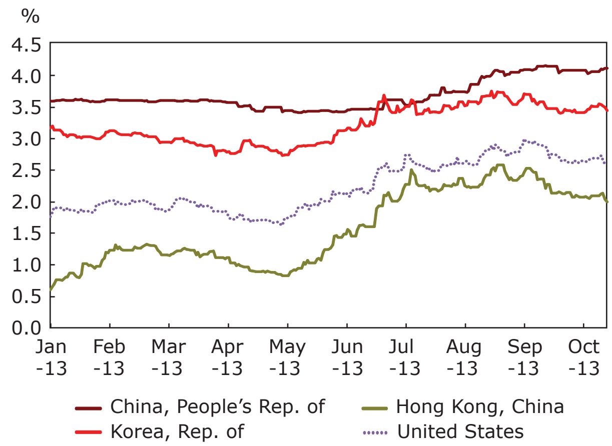
LCY = local currency.
Source: Based on data from Bloomberg LP.

Figure 6a: 10-Year LCY Bond Yields



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

Figure 6b: 10-Year LCY Bond Yields



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

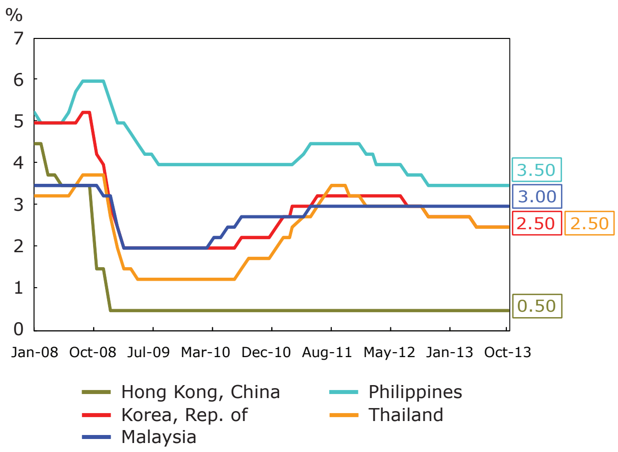
borrowing authority by raising the borrowing limit on 16 October. This agreement resulted in a shift downward in most of the yield curves in ASEAN-6 markets, except in the Philippines (Figure 5). Bangko Sentral ng Pilipinas (BSP) released a circular in late September that amended rules on the valuation of government securities held by banks and non-bank financial institutions. This led to the anticipation of negative mark-to-market valuations and induced a sell-off on the longer-end of the curve in the latter part of September.

Indonesia's 10-year yields followed an upward trend from June until early September, reflecting not only concern about the impact of financial policy developments in the US on the Indonesian bond market, but also domestic concerns, particularly the rise of inflation and a worsening current account deficit. Bank Indonesia (BI) responded with a series of policy rate hikes that began on 14 June (25 bps to 6.00%) and included hikes on 11 July (50 bps to 6.50%), 29 August (50 bps to 7.00%), and 12 September (25 bps to 7.25%). Policy rates elsewhere in the region have remained unchanged since the beginning of the year, except in the Republic of Korea and Thailand **(Figures 7a and 7b)**. The Bank of Korea reduced its 7-day repurchase rate 25 bps to 2.50% on 9 May, while the Bank of Thailand lowered its 1-day repurchase rate 25 bps to 2.50% in meetings on 28–29 May.

The main reason for the overall stability in policy rates thus far in 2013 is that inflation has generally been moderate in most markets, with the exception of Indonesia and Viet Nam, while consumer price levels have rose only slightly in the Philippines and the PRC in September **(Figures 8a and 8b)**. On 8 October, the meeting of BI's Board of Governors left the benchmark rate steady at 7.25%.

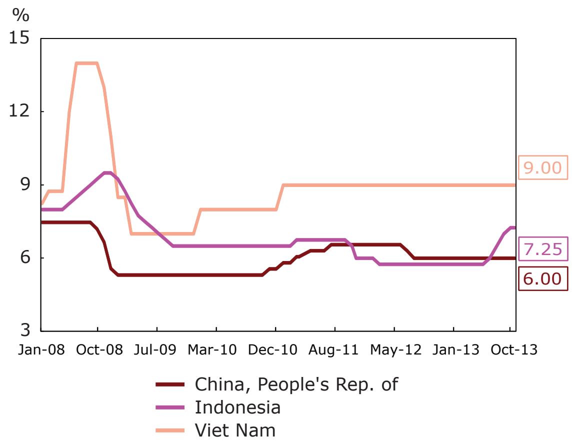
Yields on Viet Nam's 10-year government bonds, however, have not followed the trends described above. Instead, they have trended downward since the beginning of the year to 9.0% as of 18 October. These high yields have still not been sufficient to attract adequate market participation in many government bond auctions in 3Q13, resulting in the decline in Vietnamese government bond issuance described earlier. Inflation remains high in Viet Nam, although the monthly y-o-y inflation rate fell to 6.3% in September from a 15-month high of 7.5% in August. The State Bank of Vietnam (SBV) has not made any changes in its base interest rate this year, although it reduced both its discount and refinancing rates by 1% each in March and May and devalued the reference rate for the Vietnamese dong versus the US dollar by 1% in June. This had the effect of depreciating the

Figure 7a: Policy Rates



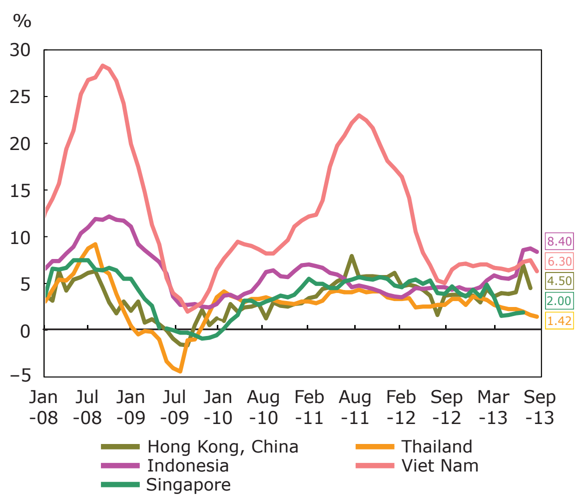
Note: Data as of 18 October 2013.
Source: Bloomberg LP.

Figure 7b: Policy Rates



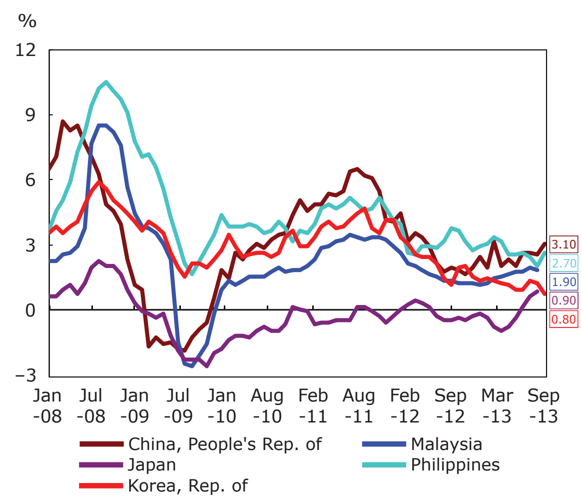
Notes:
1. Data as of 18 October 2013.
2. For Viet Nam, base interest rate was used.
Source: Bloomberg LP.

Figure 8a: Headline Inflation Rates



Note: Data as of end-September 2013 except for Hong Kong, China and Singapore as of end-August 2013.
Source: Bloomberg LP.

Figure 8b: Headline Inflation Rates



Note: Data as of end-September 2013 except for Japan and Malaysia as of end-August 2013.
Source: Bloomberg LP.

dong but had little noticeable effect on Viet Nam's 10-year bonds yields. The slight fluctuations that have occurred in the downward trend of Viet Nam's 10-year yield curve seem to mostly reflect policy developments in the US and their impact on global financial markets.

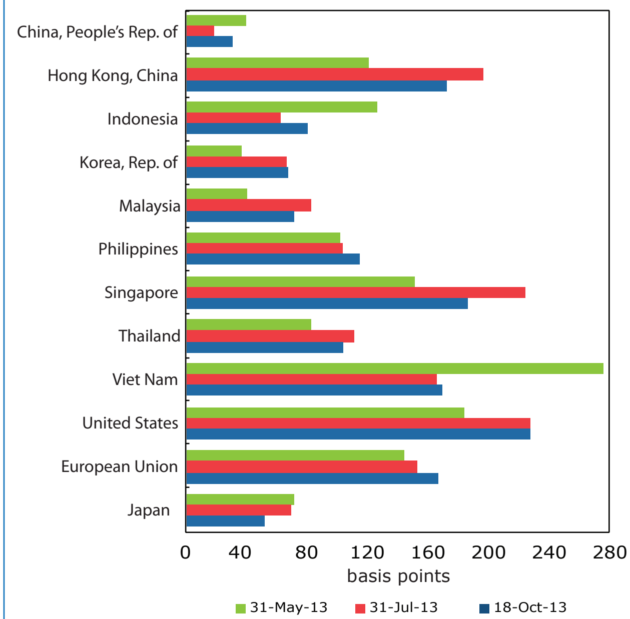
The overall trends described above for most ASEAN markets—except Viet Nam—generally also apply to 10-year yields for government bonds in the PRC; Hong Kong, China; and the Republic of Korea (Figure 6b). Yields in the PRC, however, have risen due to both regulatory factors and, more recently, money market trends. In May, the government launched a crackdown on illegal bond trading activities, causing a reduction in trading volumes. The government targeted individual traders, placing some traders under arrest. Policy measures were also taken including the removal of the interbank trading accounts of non-financial companies. The government said that some traders were guilty of skimming profits by trading with connected third parties.

More recently, the PRC experienced a sudden tightening of its money market. The PBOC suspended the selling of reverse repurchase contracts on 17 October, leading to a net withdrawal of CNY44.5 billion from the financial system in the following week. The 7-day repurchase rate rose to 5.2% on 25 October from 3.5% on 18 October. In order to help temper the rise in money market rates and calm markets, the PBOC resumed offering reverse repurchase agreements on 29 October. On 31 October, the 7-day repo rate fell to 5.0% from 5.7% on the previous day.

Yield curves have generally shifted downward since the US Federal Reserve decided in mid-September not to taper its asset purchase program in the near-term. The Thai curve, however, has shifted downward only at some select points. However, two yields curves—those of the Philippines and the PRC—continued to shift upward. This can be explained by current financial trends in the PRC and the Philippines. However, besides the change in rules for the revaluation of bond prices in the Philippines, investors in the Philippines remain concerned about the future path of US fiscal and monetary policies. The US Congress' recent extension of the federal government's borrowing authority is not a solution to the problem. It is only a postponement of an ongoing political conflict that is likely to re-emerge in late January or early February when the borrowing authority of the US Treasury has to be approved again.

The movement of yield spreads between 2- and 10-year yields between 31 July and 18 October was mixed across the region **(Figure 9).** Yield spreads rose in the PRC, Indonesia, the Republic of Korea, the Philippines, and Viet Nam, but fell in all other markets. This mixed trend primarily reflected the diverse impact of uncertainty about US Federal Reserve policy—and whether or not the US Congress would raise the federal government's borrowing limit—on the region's government bond yield curves.

Figure 9: Yield Spreads Between 2- and 10-Year Government Bonds



Source: Based on data from Bloomberg LP.

Corporate Bond Credit Spreads

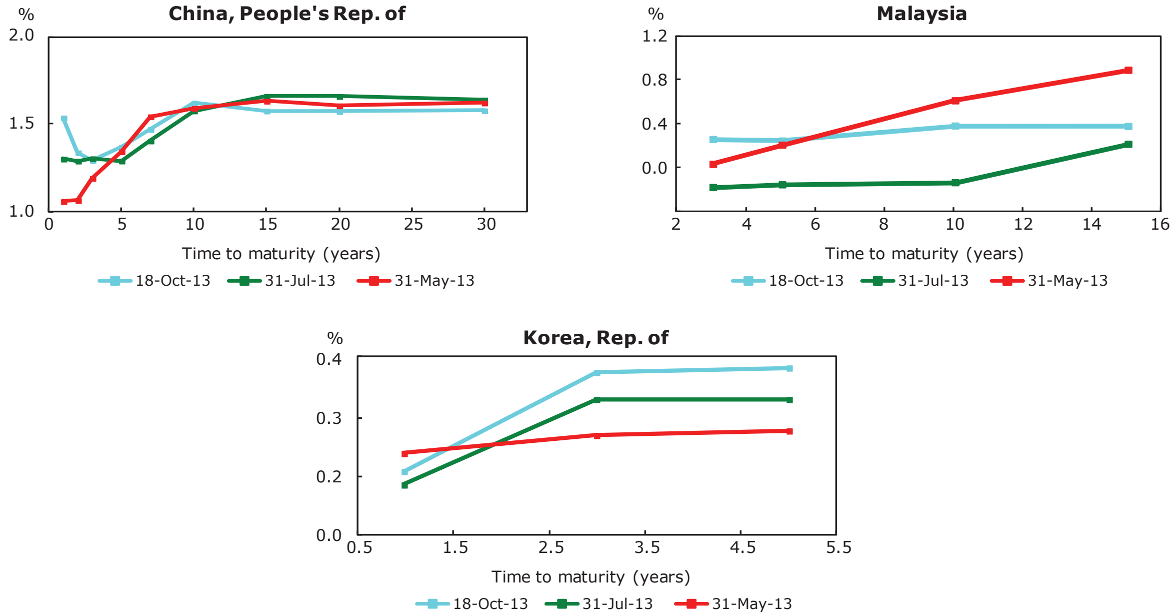
The movements of corporate credit spreads since end-May have varied across the region.

Credit spreads of high-grade corporate bonds have continued to demonstrate greater movement than those for lower-rated corporate bonds, which were largely unchanged between end-July and 18 October.

Credit spreads for shorter-dated maturities in the PRC's high-grade corporate market shifted upward between end-May and end-July, while tightening for longer-dated maturities, except at the longer-end of the curve **(Figure 10a)**. These credit spreads then tightened at the longer-end of the curve between end-July and 18 October.

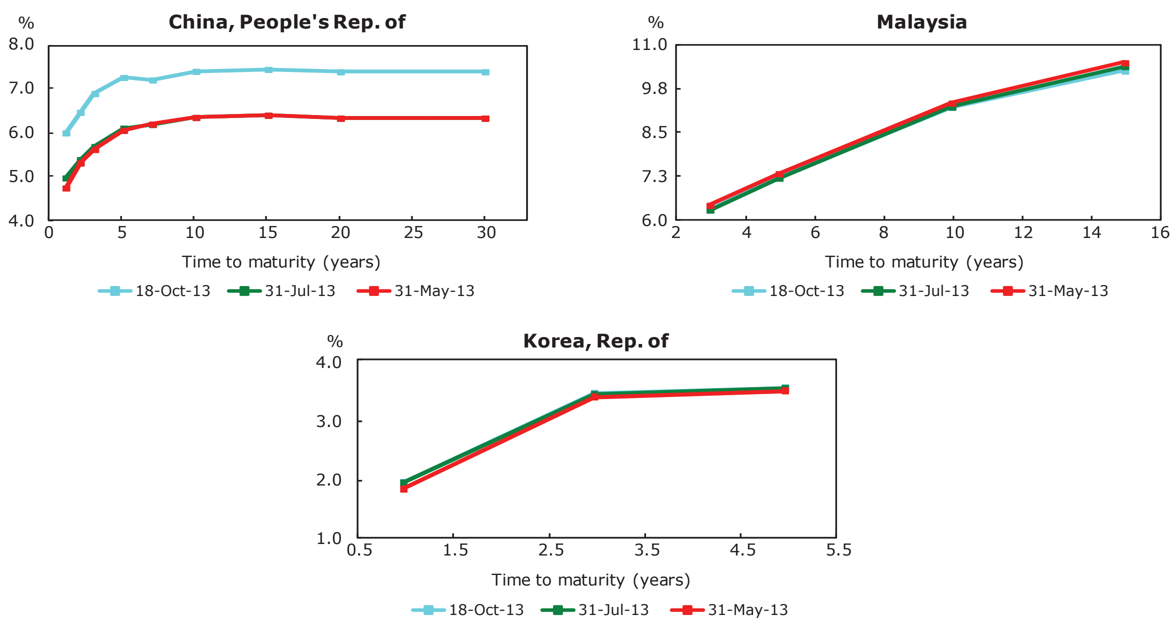
Movements for high-grade corporate bonds in Malaysia were much simpler. The whole curve shifted downward between end-May and end-July, and then shifted upward again between end-July and 18 October, although this movement between

Figure 10a: Credit Spreads—LCY Corporates Rated AAA vs. Government Bonds



LCY = local currency.
Notes:
1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
2. Malaysia corporate yields as of 21 October 2013.
Sources: People's Republic of China (*ChinaBond*), Republic of Korea (EDAILY *BondWeb*), and Malaysia (Bank Negara Malaysia).

Figure 10b: Credit Spreads—Lower-Rated LCY Corporates vs. LCY Corporates Rated AAA



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

end-July and 18 October was much greater for maturities of 10 years or less than for the 15-year maturity.

The movement of the high-grade credit spread curve for the Republic of Korea was even simpler. It first shifted upward from end-May until end-July, except at the very short-end of the curve. Following this, the whole curve shifted upward again between end-July and 18 October.

Credit spreads for lower-rated corporate bonds in Malaysia and the Republic of Korea hardly moved over the entire period between end-May and 18 October. Credit spreads for lower-rated bonds in the PRC also hardly moved between end-May and end-July. However, the entire credit spread curve for lower-rated PRC bonds shifted upward between end-July and 18 October **(Figure 10b)**.

G3 Currency Issuance

Emerging East Asian G3 currency issuance between 1 January and 18 October was US$121 billion, or approximately 93% of the record-breaking US$131 billion issued in 2012.

Emerging East Asian G3 currency issuance between 1 January and 18 October was US$121 billion, suggesting that issuance in 2013 may well exceed the record-breaking amount of US$131 billion issued in 2012 **(Table 5)**. The three largest G3 currency issuers were the PRC (US$47.8 billion); the Republic of Korea (US$24.1 billion); and Hong Kong, China (US$20 billion). It is interesting to note that the PRC and the Republic of Korea issued roughly similar amounts in 2012, but this year the PRC may end up issuing twice as much as the Republic of Korea.

The largest issue out of the PRC thus far in 2013 remains the US$2 billion bond of CNOOC Finance that was issued in May with a coupon of 3.0%. The second and third largest issues were the Sinopec Group bond for US$1.5 billion and the CNOOC Curtis Funding bond for US$1.3 billion, both of which were issued in October, suggesting that additional G3 currency bonds may still come to market from PRC corporates in the remaining months of the year. Furthermore, the Sinopec and CNOOC Curtis Funding bonds came to market with significantly higher coupons of 4.375% and 4.5%, respectively. One of the interesting aspects of the PRC segment of the G3 currency market is that it contains a sector offering higher-yield bonds.

The two largest G3 currency issues out of Hong Kong, China were from earlier this year: (i) Hutchison Whampoa's US$2.4 billion perpetual bond issued in May with a coupon of 3.75%, and (ii) Shimao Property's US$800 million bond issued in January with a coupon of 6.625%. The largest G3 bond out of the Republic of Korea was a US$1.4 billion bond from Korea Eximbank issued in April with a coupon of only 2.0%. The next two largest issues took place in September and had somewhat larger coupons: the Republic of Korea's US$1 billion bond with a coupon of 3.875% and a US$750 million bond from Korea Development Bank with a coupon of 3.0%.

The PRC's G3 currency bonds have been entirely US$-denominated in 2012, as were most of the G3 currency bonds issued in Hong Kong, China. However, a significant number of EUR-denominated bonds (20) and JPY-denominated bonds (22) were issued in the Republic of Korea between 1 January and 18 October. The great majority of G3 currency bonds issued in the Republic of Korea (105 out of 147), however, were issued in US dollars.

Indonesia was the fourth largest issuer of G3 currency bonds between 1 January and 18 October, with issuance of US$11.9 billion. Much of Indonesia's G3 currency issuance came from the government (US$5.5 billion), including a *sukuk* issue on 17 September that carried a much higher coupon (6.125%) than previous sovereign issues this year. Pertamina, the state oil company, issued two bonds in May, one for 10 years and another for 20 years, for a total of US$3.3 billion.

Table 5: G3 Currency Bond Issuance

2012		
Issuer	**US$ (million)**	**Issue Date**
China, People's Rep. of	**31,115**	
CNOOC Finance 3.875% 2022	1,500	2-May-12
Sinopec 2.75% 2017	1,000	17-May-12
Sinopec 3.9% 2022	1,000	17-May-12
Sinopec 4.875% 2042	1,000	17-May-12
COSL Finance 3.25% 2022	1,000	6-Sep-12
Others	25,615	
Hong Kong, China	**27,942**	
Hutchison Whampoa 2.5% 2017	1,649	6-Jun-12
Hutchison Whampoa 4.625% 2022	1,500	13-Jan-12
Others	24,793	
Indonesia	**12,136**	
Indonesia (Sovereign) 3.75% 2022	2,000	25-Apr-12
Indonesia (Sovereign) 5.25% 2042	1,750	17-Jan-12
Pertamina 6.0% 2042	1,250	3-May-12
Others	7,136	
Korea, Rep. of	**30,911**	
Korea Eximbank 4.0% 2017	1,250	11-Jan-12
Korea Eximbank 5.0% 2022	1,000	11-Jan-12
Korea Eximbank 1.25% 2015	1,000	20-Nov-12
Korea National Oil Corp. 3.125% 2017	1,000	3-Apr-12
Samsung Electronics 1.75% 2017	1,000	10-Apr-12
Others	25,661	
Malaysia	**6,778**	
1MDB Energy 5.99% 2022	1,750	21-May-12
Malayan Banking 3.25% 2022	800	20-Sep-12
SSG Resources 4.25% 2022	800	4-Oct-12
Others	3,428	
Philippines	**3,625**	
Philippines (Sovereign) 5.0% 2037	1,500	13-Jan-12
Philippines (Sovereign) 2.75% 2023	500	4-Dec-12
SM Investments 4.25% 2019	500	17-Oct-12
Others	1,125	
Singapore	**12,755**	
Temasek Financial 2.375% 2023	1,200	23-Jul-12
DBS Bank 2.35% 2017	1,000	28-Feb-12
OCBC Bank 1.625% 2015	1,000	13-Mar-12
OCBC Bank 3.15% 2023	1,000	11-Sep-12
Others	8,555	
Thailand	**5,000**	
PTT Global Chemical 4.25% 2022	1,000	19-Mar-12
Others	4,000	
Viet Nam	**550**	
Emerging East Asia Total	**130,814**	
Memo Items:		
India	**11,217**	
Reliance Holdings 5.4% 2022	1,500	14-Feb-12
State Bank of India 4.125% 2017	1,250	1-Aug-12
Others	8,467	
Sri Lanka	**2,434**	

1 January–18 October 2013		
Issuer	**US$ (million)**	**Issue Date**
China, People's Rep. of	**47,801**	
CNOOC Finance 3.0% 2023	2,000	9-May-13
Sinopec Group 4.375% 2023	1,500	17-Oct-13
CNOOC Curtis Funding 4.5% 2023	1,300	3-Oct-13
Sinopec Capital 3.125% 2023	1,250	24-Apr-13
MCE Finance 5.0% 2021	1,000	7-Feb-13
Others	40,751	
Hong Kong, China	**19,952**	
Hutchison Whampoa 3.75% Perpetual	2,367	10-May-13
Shimao Property 6.625% 2020	800	14-Jan-13
Others	16,785	
Indonesia	**11,925**	
Pertamina 4.3% 2023	1,625	20-May-13
Pertamina 5.625% 2043	1,625	20-May-13
Indonesia (Sovereign) 3.375% 2023	1,500	15-Apr-13
Indonesia (Sovereign) 4.625% 2043	1,500	15-Apr-13
Indonesia (Sovereign - *Sukuk*) 6.125% 2019	1,500	17-Sep-13
Others	4,175	
Korea, Rep. of	**24,084**	
Korea Eximbank 2.0% 2020	1,353	30-Apr-13
The Republic of Korea (Sovereign) 3.875% 2023	1,000	11-Sep-13
Korea Development Bank 3.0% 2019	750	17-Sep-13
Others	20,981	
Malaysia	**4,065**	
1MDB Global Investments 4.40% 2023	**3,000**	19-Mar-13
Sime Darby 2.053% 2018	**400**	29-Jan-13
Sime Darby 3.29% 2023	**400**	29-Jan-13
Others	**265**	
Philippines	**3,808**	
San Miguel Corporation 4.875% 2023	800	26-Apr-13
JG Summit 4.375% 2023	750	23-Jan-13
Petron Corporation 7.50% Perpetual	750	6-Feb-13
Others	1,508	
Singapore	**5,302**	
Olam International 6.75% 2018	750	29-Jan-13
Global A&T Electronics 10.0% 2019	625	7-Feb-13
Stats Chippac 4.5% 2018	611	20-Mar-13
Flextronics International 5.0% 2023	500	20-Feb-13
Others	2,816	
Thailand	**3,445**	
PTT Exploration & Production 3.707% 2018	500	16-Sep-13
Others	2,945	
Viet Nam	**627**	
Emerging East Asia Total	**121,009**	
Memo Items:		
India	**11,400**	
Bharti Airtel International 5.125% 2023	1,500	11-Mar-13
Vedanta Resources 6.0% 2019	1,200	3-Jun-13
Others	8,700	
Sri Lanka	**2,341**	

Sources: Bloomberg LP, newspaper and wire reports.

Market Returns

East Asian bond and equity markets had trimmed some of this year's losses by mid-October.

Market returns in emerging East Asia have improved somewhat in recent months. Year-to-date returns on the Pan-Asian index for LCY bonds through 18 October were still negative on a US$ unhedged total return basis at –1.6% **(Table 6)**. However, this was an improvement over returns of –3.5% through end-July, reflecting a modest recovery in recent months.[7]

Meanwhile, four markets had a positive return on an LCY total return basis between 1 January and 18 October: the Philippines (7.9%), Malaysia (1.8%), the Republic of Korea (1.3%), and Thailand (1.3%). However, only two of these four markets had a positive return on a US$ unhedged total return basis: the Philippines (2.9%) and the Republic of Korea (2.3%). The PRC also had a positive return on a US$ unhedged total return basis (1.9%), but a negative return on an LCY total return basis (–0.3%). This reflects a weakening of the PHP–US$ exchange rate, while the CNY–US$ and KRW–US$ exchange rates have strengthened modestly in recent months.

A somewhat stronger performance over the 1 January–October 18 period was seen in East Asian equity markets **(Table 7)**. The Far East ex-Japan index for January–July had a return of –2.5% in LCY terms and –5.0% in US$ terms. The comparable returns for 1 January–18 October were 4.2% in LCY terms and 3.1% in US$ terms. The strongest performer in LCY terms between 1 January and 18 October was the Philippines at 14.5%, followed by Hong Kong, China at 8.6% and Malaysia at 8.1%. Returns in US$ terms were lower at 9.1% in the Philippines and 4.8% in Malaysia, but returns in Hong Kong, China in US$ terms were identical to LCY returns of 8.6%. Meanwhile, the return on the MSCI index for the US equity market over the same period was 22.8%.

Table 6: iBoxx Asian Bond Fund Index Family Returns

Market	Modified Duration (years)	2011 Returns (%)		2012 Returns (%)		1 Jan–18 Oct 2013 Returns (%)	
		LCY Total Return Index	US$ Unhedged Total Return Index	LCY Total Return Index	US$ Unhedged Total Return Index	LCY Total Return Index	US$ Unhedged Total Return Index
China, People's Rep. of	6.1	5.6	10.4	2.4	3.6	(0.3)	1.9
Hong Kong, China	3.8	5.3	5.4	3.5	3.8	(2.3)	(2.4)
Indonesia	6.4	21.7	20.2	13.1	7.0	(9.3)	(22.7)
Korea, Rep. of	4.9	6.4	4.8	6.4	14.5	1.3	2.3
Malaysia	5.3	4.9	1.8	4.2	8.2	1.8	(1.1)
Philippines	7.1	15.9	15.8	10.4	17.9	7.9	2.9
Singapore	6.1	6.5	5.1	3.9	10.6	(2.5)	(3.8)
Thailand	5.1	5.0	0.3	3.3	6.5	1.3	(0.1)
Pan-Asian Index	5.5	–	7.0	–	7.9	–	(1.6)
HSBC ALBI	7.7	–	5.0	–	8.9	–	(3.0)
US Govt. 1–10 years	3.9	–	7.0	–	1.9	–	(0.8)

( ) = negative, – = not applicable, ALBI = Asian Local Bond Index, LCY = local currency, US = United States.
Notes:
1. Asian Bond Fund (ABF) indices contain only government debt and government-guaranteed debt obligations.
2. Market bond indices are from iBoxx Index Family. 1 January to 18 October 2013 returns reflect changes between end-December 2012 and 18 October 2013 values.
3. Duration as of end-18 October 2013.
Sources: *AsianBondsOnline* and Bloomberg LP.

[7] ADB. 2013. *Asia Bond Monitor*. Manila: ADB. (Tables 7 and 8).

Table 7: MSCI Equity Index Returns

Market	2011 Returns (%)		2012 Returns (%)		1 Jan–18 Oct 2013 Returns (%)	
	LCY terms	US$ terms	LCY terms	US$ terms	LCY terms	US$ terms
China, People's Rep. of	(20.4)	(20.3)	18.7	19.0	(0.3)	(0.3)
Hong Kong, China	(18.5)	(18.4)	24.2	24.4	8.6	8.6
Indonesia	4.7	4.0	8.8	2.4	2.5	(12.8)
Korea, Rep. of	(11.5)	(12.8)	11.7	20.2	4.1	5.1
Malaysia	(0.2)	(2.9)	6.8	10.8	8.1	4.8
Philippines	(3.1)	(3.2)	34.7	43.9	14.5	9.1
Singapore	(20.0)	(21.0)	19.2	26.4	2.0	0.7
Thailand	(1.2)	(5.6)	26.9	30.9	2.6	1.2
Far East ex-Japan Index	(15.6)	(16.8)	15.5	19.0	4.2	3.1
MSCI US	–	(0.1)	–	13.5	–	22.8

( ) = negative, – = not applicable, LCY = local currency, MSCI = Morgan Stanley Capital International, US = United States.
Notes:
1. Market indices are from MSCI country indexes. 1 January to 18 October 2013 returns reflect changes between end-December 2012 and 18 October 2013 values.
2. Far East ex-Japan includes the People’s Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Taipei,China; and Thailand.

Sources: *AsianBondsOnline* and Bloomberg LP.

Policy and Regulatory Developments

People's Republic of China

The PRC Tightens Rules on Interbank Bond Trading

On 9 May, the People's Republic of China (PRC) suspended trading of bond accounts by non-financial institutions on the interbank bond market. On 9 July, the People's Bank of China (PBOC) issued rules requiring interbank bond market participants to conduct all trades through the National Interbank Funding Center. The move is part of the government's crackdown on illegal bond trading activities. Among the activities that the government is targeting are the use of third parties by financial managers to move bonds off their balance sheets to manipulate profits and trading volumes, and the use of client funds to skim profits for personal gain.

The PRC Launches Treasury Bond Futures Trading

On 6 September, the trading of treasury bond futures, previously banned in 1995, resumed trading. The bond futures contract will be based on a hypothetical 5-year bond, but actual bonds with tenors between 4 years and 7 years will be allowed as the deliverable asset.

Shanghai Free Trade Zone Launched

On 29 September, the Shanghai Free Trade Zone was officially opened. At the time of the opening, 10 banks had already received approval to operate in the free trade zone. Companies' activities are subject to a "negative list" that details restrictions. Companies are free to conduct their activities so long as the acts are not specifically banned by the list, which includes restrictions on investments in telecommunications and broadcasting. Investments in news portals and online gaming are also banned. Also, foreign auto companies are still limited to a 50% stake in a joint venture and there will be restrictions on investments in financial institutions.

The free trade zone is expected to allow financial institutions to set their own borrowing and lending interest rates and the freer conversion of the renminbi is anticipated.

New Prime Lending Rate Launched

On 25 October, the PRC launched a benchmark lending rate to guide banks in setting lending rates to their prime customers. The benchmark is another step in the liberalization of the PRC's interest rates since it removed the limits on lending rates on 20 July. The new rate has a 1-year tenor and is set by nine commercial banks: Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, Bank of China, Bank of Communications, Citic Bank, Shanghai Pudong Development Bank, China Merchants Bank, and Industrial Bank.

Hong Kong, China

Malaysia and Hong Kong, China Agree to Strengthen Financial Cooperation

On 28 August, the Hong Kong Monetary Authority (HKMA) and Bank Negara Malaysia (BNM) held a meeting in Kuala Lumpur to discuss bilateral economic and financial issues. Following the meeting, the two central banks agreed to help strengthen economic cooperation by promoting trade and investment. Among the areas discussed were offshore renminbi business development and the internationalization of Islamic finance.

Indonesia

BI and PBOC Extend Bilateral Swap Arrangement

On 2 October, Bank Indonesia (BI) signed an extension of its bilateral swap arrangement with the PBOC amounting to CNY100 billion–IDR175 trillion (US$16.3 billion). The new agreement will run for 3 years and is subject to an extension depending on an agreement between the two parties. The new bilateral swap arrangement is expected to boost trade and direct investment between Indonesia and the PRC, and bolster the availability of short-term liquidity.

Indonesia and the Republic of Korea Establish Bilateral KRW–IDR Swap Arrangement

On 12 October, the ministries of finance and central banks of Indonesia and the Republic of Korea agreed to establish a bilateral KRW–IDR swap arrangement. The size of the swap arrangement is up to KRW10.7 trillion–IDR115 trillion (US$10 billion). The agreement will run for 3 years and is subject to an extension depending on an agreement between the two parties. The bilateral swap arrangement aims to promote bilateral trade and further strengthen financial cooperation between the two countries.

House of Representatives Approves the 2014 National Budget

On 25 October, the House of Representatives approved the 2014 national budget. The underlying macroeconomic assumptions included in the budget are (i) economic growth of 6.0%; (ii) an inflation rate target of 5.5%; (iii) an IDR–US$ exchange rate of IDR10,500–US$1, (iv) a 3-month treasury bill yield of 5.5%; (v) an Indonesian crude oil price of US$105 per barrel; and (vi) oil and gas lifting volumes set at 0.87 million barrels per day and 1.24 million barrels per day, respectively. The 2014 budget estimates central government revenues of IDR1,667.1 trillion and expenditures of IDR1,842.5 trillion, resulting in a budget deficit of IDR175.4 trillion, or the equivalent of 1.7% of gross domestic product (GDP).

Republic of Korea

Republic of Korea and UAE Establish Bilateral Currency Swap Arrangement

The Bank of Korea and the Central Bank of the United Arab Emirates (UAE) announced in October the establishment of a 3-year KRW–AED swap arrangement. The size of the bilateral currency swap arrangement is up to KRW5.8 trillion–AED20 billion (US$5.4 billion). The arrangement can be extended upon agreement by both parties and is aimed at promoting bilateral trade and financial cooperation between the Republic of Korea and the UAE.

Republic of Korea and Malaysia Establish Bilateral Currency Swap Arrangement

The Bank of Korea and Bank Negara Malaysia announced in October the establishment of a 3-year KRW–MYR swap arrangement. The size of the bilateral currency swap arrangement is up to KRW5 trillion–MYR15 billion (US$4.7 billion). The arrangement can be extended upon agreement by both parties and is aimed at promoting bilateral trade and financial cooperation between the Republic of Korea and Malaysia.

2013 Tax Revision Bill Finalized

The 2013 Tax Revision Bill was finalized in September, according to the Ministry of Strategy and Finance (MOSF). The revisions included increases in income tax deductions for long-term mortgage payments and rental payments, increases in the earned income tax credit and charitable donation tax credit, and reductions in sales taxes for rental houses and income taxes for small rental homes.

Malaysia

Malaysia, Singapore, and Thailand to Establish ASEAN CIS Framework

On 1 October, the Securities Commission Malaysia; Monetary Authority of Singapore (MAS), and Securities and Exchange Commission of Thailand signed a memorandum of understanding to establish the framework for an ASEAN Collective Investment Scheme (CIS) that will facilitate cross-border offerings to retail investors in Malaysia, Singapore, and Thailand. The signatories expect the framework to be implemented in the first half of 2014.

BNM and the Central Bank of the United Arab Emirates Enhance Cooperation

On 10 October, BNM signed a memorandum of understanding with the Central Bank of the United Arab Emirates to further strengthen Islamic financial services linkages between the two countries.

2014 Federal Budget Released

On 25 October, Malaysia announced the release of its 2014 federal budget covering economic activity; fiscal management; and human capital, urban, and rural development. The government's fiscal deficit will be reduced from 4.0% of GDP in 2013 to 3.5% in 2014 as Malaysia moves toward a balanced budget by 2020. The government assured the public that the federal debt level will not exceed the government's limit of 55% of GDP. Malaysia will implement a series of fiscal consolidation measures including a 6% goods and sales tax by 1 April 2015, the abolition of the sugar subsidy of MYR0.34 per kilogram effective 26 October, and an increase in the real property gains tax rates.

Philippines

BSP Releases Amended Rules on Market Valuation of Government Securities

On 27 September, BSP released the amended rules on the market valuation of government securities. As stated in BSP Circular 813, the benchmark or reference prices to be used for the market valuation shall be based on the weighted average of completed or executed deals in a trading market registered with the Securities and Exchange Commission (SEC). Only in the absence of completed or executed deals, shall the following be applied: (i) the simple average of all firm bids per benchmark tenor shall be used for benchmark government securities, and (ii) the interpolated yields derived from the benchmark or reference rates shall be used for non-benchmark government securities. The circular took effect 15 calendar days following its publication.

BSP Maintains Policy Rates

On 24 October, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) decided to keep its key policy rates—the overnight borrowing and lending rates—steady at 3.5% and 5.5%, respectively. The reserve requirement ratios and the interest rate for BSP's Special Deposit Account facility were also kept steady.

Singapore

Singapore and other APEC Economies to Launch Asia Region Funds Passport

On 20 September, the finance ministers of Singapore, Australia, the Republic of Korea, and New Zealand signed a statement of intent to jointly develop the Asia Region Funds Passport (ARFP), which will facilitate the cross-border offering of funds in the region. When implemented, the ARFP will offer fund managers operating in a passport economy a direct and efficient route to distribute their funds in other passport economies. Investors in the region will also benefit from having access to a broader range of quality investment products. As an inclusive regional initiative, the ARFP will strengthen the region's fund management capabilities, deepen its capital markets, and provide financing for sustainable economic growth.

The PRC Extends CNY50 Billion RQFII Quota to Singapore

On 22 October, the PRC and Singapore agreed on initiatives to strengthen their cooperation on financial sector development and regulation. One of these initiatives is for the PRC to extend its Renminbi Qualified Foreign Institutional Investor (RQFII) program to Singapore, with an aggregate quota of CNY50 billion, in order to allow qualified Singapore-based institutional investors to channel offshore renminbi from Singapore into the PRC's onshore securities markets. Under this initiative, RQFII license holders may also issue CNY-denominated investment products to investors based in Singapore, within the RQFII quota. This program will help diversify the investor base in the PRC's capital market and promote the renminbi for investment use. In addition, Singapore will be given consideration as one of the investment destinations under the new Renminbi Qualified Domestic Institutional Investor (RQDII) scheme. This will allow qualified PRC institutional investors to use renminbi to invest in Singapore's capital markets. The measure will help broaden the universe of assets available to PRC investors and expand the investor base in Singapore's capital markets.

Thailand

Thailand's Cabinet Approves Measures to Promote Stable Economic Growth

On 6 August, the Government of Thailand's Cabinet agreed on the implementation of measures focusing on stimulating private consumption, private investment, government spending, and exports. These measures, aimed at promoting stable economic growth, include (i) offering tax incentives to boost the tourism industry and promote the organization of seminars, (ii) promoting investments in the agro-processing industry, (iii) accelerating budget disbursements for fiscal years 2013 and 2014, (iv) expanding exports into potential new markets, and (v) increasing the access of small and medium-sized enterprises (SMEs) to financing.

Thailand Plans US$-Denominated Bond Issuance for Infrastructure Financing

The Government of Thailand plans to issue US$-denominated bonds worth between US$1 billion and US$1.5 billion in 2014 to help finance its infrastructure projects—such as transport infrastructure—as well as water management projects. The country's infrastructure needs for fiscal year 2014 was estimated at THB137 billion, and is part of the government's total funding needs worth THB756 billion for the fiscal year.

CGIF Guarantees Noble Group's THB2.85 Billion 3-Year Bond

The Credit Guarantee and Investment Facility (CGIF) announced in April its first guaranteed bond transaction, which is Noble Group's THB-denominated bond issuance worth THB2.85 billion sold in Thailand's LCY bond market. The bond has a tenor of 3 years, a coupon rate of 3.55%, and a rating of 'AAA(tha)' from Fitch Ratings (Thailand).

Viet Nam

SBV Issues New Rules on VAMC's Operations

On 6 September, SBV released Circular No.19/2013/TT-NHNN to regulate the purchase, sale, and resolution of nonperforming loans (NPLs) by the Viet Nam Asset Management Company (VAMC). The circular confirms that banks with a bad-debt ratio higher than 3% must sell their NPLs to VAMC, which will issue special bonds upon purchase of impaired loans. VAMC can restructure such loans and provide financial support to the debtors if the purchased loans satisfy all stipulated conditions such as ability to repay debts. VAMC can then sell the purchased impaired loans via auction, competitive offering, or an equity swap with corporate debtors.

AsianBondsOnline Annual Bond Market Liquidity Survey

Introduction

This year's *AsianBondsOnline* Bond Market Liquidity Survey was conducted in September and October for most markets in Emerging Asia.[8] This year's survey assessed the current state of liquidity in emerging Asia's local currency (LCY) bond markets by looking at major indicators of liquidity—turnover ratios, bid–ask spreads, representative trading sizes—as well as how market participants view potential changes in policies and improvements to market infrastructure.

The 2013 survey had 106 replies to the questionnaire for government bonds and 72 replies to the questionnaire for the corporate bond market **(Table 8)**. The replies came from a total of 107 respondents, representing trading desk staff and managers, portfolio managers, bond market analysts and strategists, and bond pricing agency staff. The number of responses from domestic-based and foreign firms was split 49 to 58, respectively.

In this year's survey the most important factors influencing market liquidity across Emerging Asia were external, including concerns about when the United States (US) Federal Reserve would begin to taper its asset purchase program and the recent delay by the US Congress in raising the borrowing limit of the federal government.

Market liquidity has also been driven by the rapidly growing presence of institutional investors such as pension funds, insurance companies, private banking institutions, and asset management companies. While government bond trading desks at commercial banks are still the largest and most important participants in most markets, institutional investors are assuming an increasingly important role in the larger and more well-developed markets.

Finally, issuance continued to be an important factor driving overall market liquidity in 2013, but its relative importance differed among market segments. Issuance from central governments,

Table 8: Number of Liquidity Survey Respondents

	Total Number of Respondents	Respondents for		Respondents from	
		Government Bond Market	Corporate Bond Market	Foreign Firms	Domestic Firms
China, People's Rep. of	17	17	13	9	8
Hong Kong, China	7	7	3	7	0
India	6	6	6	5	1
Indonesia	14	14	8	8	6
Korea, Rep. of	9	9	7	3	6
Malaysia	12	12	6	9	3
Philippines	15	15	10	4	11
Singapore	11	10	8	8	3
Thailand	12	12	7	5	7
Viet Nam	4	4	4	0	4
Total	**107**	**106**	**72**	**58**	**49**

Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

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

including treasuries and special purpose government entities, rose rapidly in the second and third quarters of 2013 as many governments in the region increased spending.

The growth rate for corporate bond issuance in emerging East Asia on a quarter-on-quarter (q-o-q) basis has been negative in recent quarters. However, corporate issuance in emerging East Asia was still substantial in nominal terms in 3Q13 at US$171 billion. Corporate bonds outstanding still grew rapidly in many markets. Furthermore, many large quasi-sovereign bonds in markets such as the Republic of Korea and Singapore are being issued with longer-dated maturities. Also, more frequent issuance of bonds by mid-sized companies in markets such as Singapore may help improve issuer diversity and liquidity over time.

A good number of survey participants, however, have pointed to structural changes as being more important to market development than the short-term developments described above. Many governments—as well as corporates—are issuing more longer-dated securities, thereby reducing their refinancing risk. Improvements in transparency and the appearance of more hedging and derivatives products are also important. The launch of a government bond futures market in the People's Republic of China (PRC) in September has been an important development, while discussions are underway in many markets for measures to develop more active repurchase (repo) markets. The PRC and India are undertaking measures to expand their quota systems for foreign investors, which is discussed in more detail in the "Market Summary" for each of these two markets. Thus, while market participants are concerned about the sharp fall in market liquidity this year, due largely to events in the US, they are in many cases optimistic about the underlying strength of the region's LCY bond market.

Recent Trends in Quarterly Turnover Ratios for LCY Government Bonds in Emerging Asia

Liquidity—as measured by quarterly turnover ratios—has weakened in most emerging Asian markets in 2013 on a year-to-date basis**.**

- In the PRC, quarterly turnover ratios for all types of government sector bonds, except policy bank bonds (whose turnover ratio has been falling since the middle of 2012), fell in 3Q13 after having risen in 2Q13. The sharpest fall in turnover ratios in 3Q13 was for central bank bonds issued by the People's Bank of China (PBOC), with the ratio falling to 1.22 from 3.06 in 2Q13 **(Figure 11a)**. The turnover ratios for policy bank and treasury bonds fell to almost identical levels of 1.89 and 1.87, respectively, in 3Q13.

- Repo turnover ratios have been holding up the average turnover ratio for all bond-trading transactions in the PRC. Spot turnover ratios for all types of PRC government sector bonds have been falling since the end of 2012, with the pace of this decline accelerating sharply in 3Q13. The turnover ratios for repo transactions actually rose in 2Q13, but have fallen since then by much more modest amounts than has been the case for spot turnover ratios. Repo turnover ratios for the PRC's central bank bonds, policy bank bonds, and treasury bonds are compared in **Figure 11b** with comparable turnover ratios for the same category of cash or spot bond transactions.

- The Republic of Korea has also seen its turnover ratios for central government bonds and central bank bonds fall in 3Q13, declining to similar levels of 0.93 for central government bonds and 0.92 for central bonk bonds. The turnover ratios for both central government and central bank bonds stood at identical levels of 1.06 at the end of 2012 **(Figure 11c)**.

Figure 11a: Trends in Quarterly Turnover Ratios for Spot and Repo Markets in the People's Republic of China

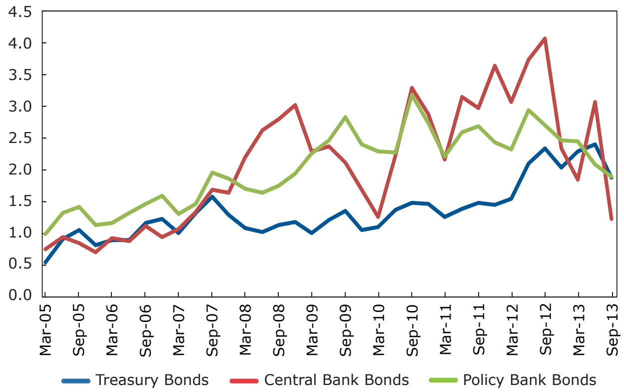


Figure 11b: Trends in Turnover Ratios for Spot and Repo Markets in the People's Republic of China

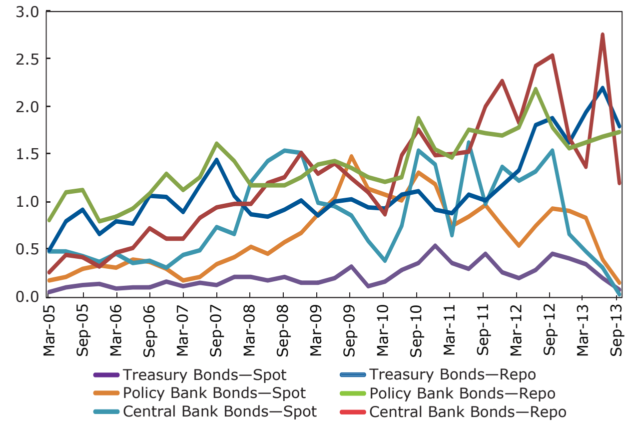


Figure 11c: Trends in Quarterly Turnover Ratios in the Republic of Korea

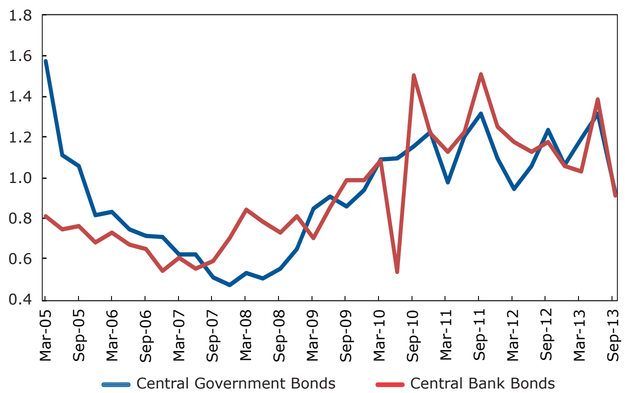


Figure 11d: Trends in Quarterly Turnover Ratios in Malaysia

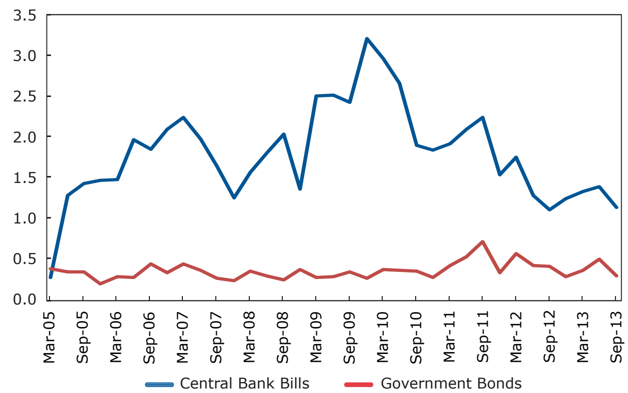


Figure 11e: Trends in Quarterly Turnover Ratios for Malaysian Government Securities

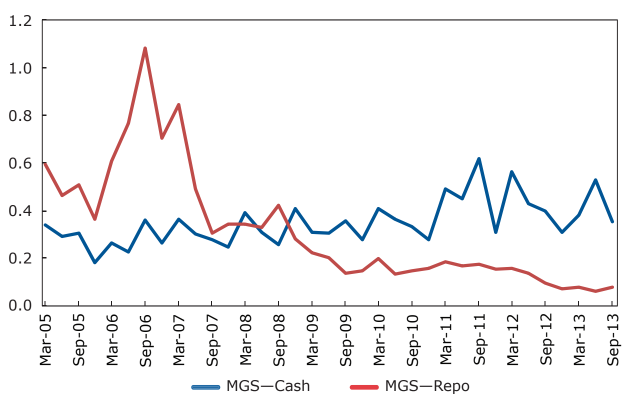
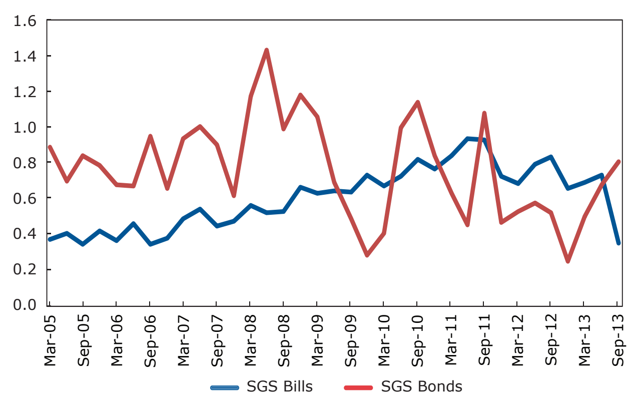


Figure 11f: Trends in Quarterly Turnover Ratios in Singapore



MGS = Malaysia Government Securities, Repo = repurchase, SGS = Singapore Government Securities.

Notes:

1. For the Republic of Korea, central government bonds include treasury bonds and National Housing Bonds.
2. For Malaysia, government bonds include Malaysian Government Securities (MGSs) and Government Investment Issues (GIIs).
3. Turnover ratios are calculated as LCY trading volume (sales amount only) divided by average LCY value of outstanding bonds during each 3-month period.

Source: *AsianBondsOnline*.

Figure 11g: Trends in Quarterly Turnover Ratios in the Philippines

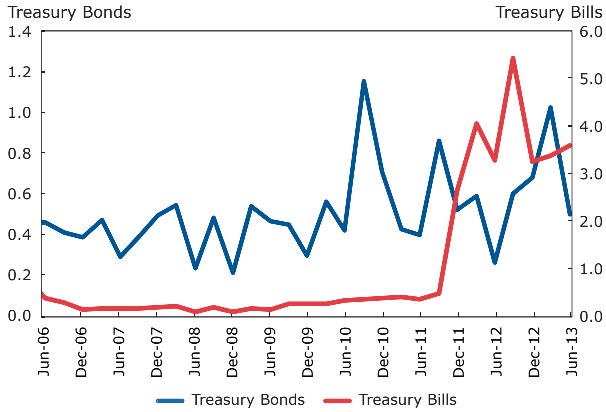


Figure 11h: Trends in Quarterly Turnover Ratios in Thailand

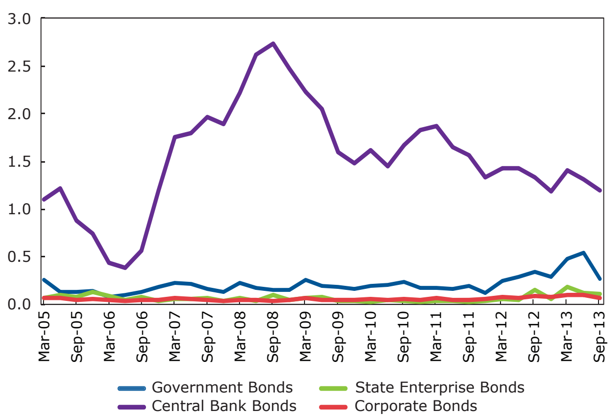
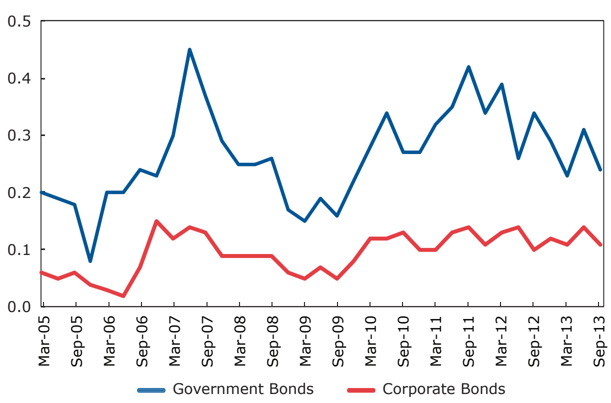


Figure 11i: Trends in Quarterly Turnover Ratios in Indonesia



Notes:
1. For Thailand, September 2013 data based on *AsianBondsOnline* estimates.
2. Turnover ratios are calculated as LCY trading volume (sales amount only) divided by average LCY value of outstanding bonds during each 3-month period.

Source: *AsianBondsOnline*.

- The turnover ratio for Malaysian government bonds declined to a level of 0.30 in 3Q13 from 0.51 in 2Q13, while the turnover ratio for Malaysia's central bank bills have also fallen, albeit from much higher levels of 1.39 in 2Q13 to 1.13 in 3Q13 **(Figure 11d)**.

- Some of the weakness in the turnover ratios for Malaysian government bonds reflects the decline in the turnover ratio for Malaysian Government Securities (MGS) repo bond transactions in 2013, continuing a trend in place since 2008 **(Figure 11e)**. The MGS cash turnover has been fluctuating in the same range in which it moved in 2012.

- Singapore's turnover ratios have been mixed over the last year **(Figure 11f)**. The turnover ratio for Singapore Government Securities (SGS) bills fell in 3Q13, while the turnover ratio for SGS bonds has trended upward. The SGS market is fairly stable with a relatively low turnover ratio.

- In the Philippines, the turnover ratio for treasury bonds rose to 1.03 at the end of 1Q13 before falling back to 0.51 at the end of 2Q13 **(Figure 11g)**. The turnover ratio for treasury bills has remained at much higher levels since early 2012, reflecting consistent demand for relatively small outstanding amounts, as the government has focused its issuance program on the longer-end of the curve.

- The highest turnover ratios in Thailand were for treasury bills (2.43) and central bank bonds and bills (1.18) in 3Q13. Turnover ratios for both government bonds and corporate bonds in Thailand were much lower **(Figure 11h)**. The turnover ratio for government bonds fell to 0.25 in 3Q13 from 0.53 in 2Q13, while the turnover ratio for corporate bonds stood at only 0.06 in 3Q13, reflecting the fact that corporate sector bonds are highly illiquid. Almost 50% of all corporate bonds are held by retail investors, who mainly purchase them on a buy-and-hold basis.

- The turnover ratio for Indonesian government bonds is relatively low, fluctuating in range below 0.5 over the last several years **(Figure 11i)**. The turnover ratio for corporate bonds has followed a similar pattern and was roughly one-half the ratio for government bonds in 3Q13.

Respondents were asked to give quantitative and qualitative feedback on measures of liquidity in emerging Asian LCY bond markets, as well as their views on the appropriate policies needed to improve market liquidity and efficiency. Market participants were asked to provide bid–ask spreads and typical transaction sizes for both "on-the-run" and "off-the-run" government bonds. In the case of corporate bonds, market participants were asked to provide bid–ask spreads at the time when a new bond is issued, as well as average transaction sizes. **Table 9** summarizes the survey results for the region's government bond markets.

Bid–ask Spreads. The bid–ask spread is one of the other most commonly used measures of market liquidity since it directly measures the cost of executing a trade. Bid–ask spreads, however, are only valid for market-accepted transaction sizes and for a limited amount of time. The average reported on-the-run bid–ask spread for a government benchmark bond (typically a treasury bond) in each of the 10 markets surveyed was 5.8 basis points (bps), which is identical to the average of 5.8 bps from the annual *AsianBondsOnline* survey in 2012. Although the region's overall average bid–ask spreads were the same in 2012 and 2013, there were considerable differences in average bid–ask spreads between 2012 and 2013 among individual markets. The lowest on-the-run bid–ask spreads in 2013 were found in the Republic of Korea and India (0.7 bps and 1.3 bps, respectively), followed by Thailand (2.4 bps), Singapore (2.6 bps), Malaysia (3.8 bps), and the PRC (4.1 bps). The widest on-the-run bid–ask spreads were in Viet Nam (21.7 bps); Indonesia (8.6 bps); and Hong Kong, China (7.3 bps). Bid–ask spreads tightened in 2013 in Viet Nam, Singapore, and Thailand, and widened in all other markets surveyed, reflecting the impact on the bond markets of emerging Asia of the 22 May statement of US Federal Reserve Chairman Ben Bernanke and the Federal Reserve's subsequent statement on 19 June. The markets have calmed

Table 9: LCY Government Bond Markets Quantitative Indicators

		PRC	HKG	IND	INO	KOR	MAL	PHI	SIN	THA	VIE	Regional
Typical Bid–Ask Spread "On-the-Run"	Average (bps)	4.1	7.3	1.3	8.6	0.7	3.8	5.4	2.6	2.4	21.7	5.8
	SD	2.7	6.2	0.6	3.3	0.3	2.2	4.3	1.2	1.2	5.8	6.1
	CV	0.6	0.8	0.4	0.4	0.5	0.6	0.8	0.5	0.5	0.3	1.1
Typical Bid–Ask Spread "Off-the-Run"	Average (bps)	6.0	8.0	7.4	13.6	1.3	9.0	16.8	4.3	5.4	40.0	11.2
	SD	3.3	6.4	1.7	4.2	0.8	6.1	8.3	3.1	2.1	10.0	11.1
	CV	0.6	0.8	0.2	0.3	0.7	0.7	0.5	0.7	0.4	0.3	1.0
Accepted LCY Bond Transaction Size "On-the-Run"	Average (US$ million)	11.8	5.1	2.9	2.0	9.3	4.8	1.4	6.2	1.9	3.2	4.8
	SD	7.3	2.9	3.7	1.3	0.0	3.9	0.4	2.1	1.7	0.7	3.4
	CV	0.6	0.6	1.3	0.6	0.0	0.8	0.3	0.3	0.9	0.2	0.7
Accepted LCY Bond Transaction Size "Off-the-Run"	Average (US$ million)	12.7	4.9	0.8	2.8	9.3	3.1	1.1	5.0	1.2	3.2	4.4
	SD	9.9	2.9	0.0	2.7	0.0	1.2	0.5	1.5	0.8	1.7	3.8
	CV	0.8	0.6	0.0	1.0	0.0	0.4	0.5	0.3	0.7	0.5	0.9

bps = basis points; CV = coefficient of variation; HKG = Hong Kong, China; IND = India; INO = Indonesia; KOR = Republic of Korea; LCY = local currency; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; SD = standard deviation; SIN = Singapore; THA = Thailand; VIE = Viet Nam.

Note: The bid–ask spreads for Indonesian treasury bonds presented above are expressed in terms of yields or basis points to make them comparable with bid–ask spreads in other Asian markets. Bid–ask spreads for government bonds are most often expressed in terms of "cents" in the Indonesian market. In our 2013 survey, the average treasury bond bid–ask spread was 50.0 bps.

Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

somewhat since the US Federal Reserve suggested in mid-September that the tapering of its current bond-buying program would not occur in the near-term, and the deadlock over extending the US government's borrowing authority was resolved at least temporarily. Yet, market participants remain concerned that these issues will arise again.

Liquidity can also be measured by the difference between on-the-run and off-the-run bid–ask spreads. The greatest differences were in Viet Nam and the Philippines at 18.3 bps and 11.4 bps, respectively. Viet Nam and the Philippines also had the largest differences between their on-the-run and off-the-run bid–ask spreads last year as well at 10.0 bps and 9.6 bps, respectively. The differences between Viet Nam's on-the-run and off-the-run bid–ask spreads can be explained by the fact that it is still a small and illiquid market in which a large number of individually illiquid bonds are being issued. The difference in bid–ask spreads in the Philippines reflects the fact that liquidity is concentrated in just a few large-sized bonds with long-dated maturities.

The smallest differences between off-the-run and on-the-run bid–ask spreads in the 2013 survey were those for the Republic of Korea (0.6 bps); Hong Kong, China (0.7 bps); and Singapore (1.7 bps). These three markets have well-developed domestic financial markets, stable external financial positions, and assured access to international financial markets. The PRC also has a relatively small difference between its on-the-run and off-the-run bid–ask spreads (1.9 bps).

Table 10 shows that average bid–ask spreads in most government bond markets has increased over 2012 levels in most markets. This widening, however, is only a return to 2011 levels in most cases, revealing that the much narrower bid–ask spreads in 2012 were influenced by the large foreign capital inflows into emerging Asia at that time. Bid–ask spreads in 2009 and 2010, however, were lower than in 2007 and 2008, as bid–ask spreads fell on the back of monetary easing measures in response to the Lehman Brothers shock of 2008.

Average Transaction Size. Transaction size is also is a useful measure of market depth, given that it is an ex post measure of the quantity of bonds that can be traded at the bid or ask price. In this year's survey, average on-the-run transaction sizes (US$ equivalent) for government bonds ranged from a low of US$1.4 million and US$1.9 million for the Philippines and Thailand, respectively, to a high of US$11.8 million for the PRC, followed by US$9.3 million for the Republic of Korea and US$6.2 million for Singapore**.**

Table 10: LCY Government Bond Bid–Ask Spreads

	2006	2007	2008	2009	2010	2011	2012	2013
China, People's Rep. of	7.6	20.0	15.0	5.1	2.2	4.0	2.7	4.1
Hong Kong, China	3.0	8.0	4.0	4.3	5.1	4.7	6.4	7.3
India	–	–	–	–	–	1.0	0.6	1.3
Indonesia	16.9	42.0	24.5	26.6	31.7	32.9	38.8	50.0
Korea, Rep. of	1.4	4.5	1.7	1.1	1.1	0.7	0.6	0.7
Malaysia	2.3	1.5	12.2	2.3	2.6	3.3	2.7	3.8
Philippines	25.3	10.0	19.8	6.6	3.1	5.3	2.1	5.4
Singapore	2.7	3.4	20.0	2.9	3.0	3.8	3.1	2.6
Thailand	3.0	6.3	9.8	3.4	3.1	3.3	3.2	2.4
Viet Nam	–	20.6	75.0	25.6	13.2	33.5	30.5	21.7

– = data not available, LCY = local currency.
Note: Indonesian bid–ask spreads are expressed in "cents."
Source: *AsianBondsOnline* Annual LCY Bond Market Liquidity Survey.

Characteristics of Individual Government Bond Markets

People's Republic of China

Overall, bid−ask spreads and average trading sizes for the PRC in 2013 showed that liquidity worsened when compared with 2012 **(Table 11).** Liquidity in the PRC's bond market was affected by a combination of both domestic and external factors in the second half of 2013.

Central bank bonds were the most affected in 2013 in terms of liquidity. Based on the survey, the bid−ask spreads for PBOC bills and bonds were 2−3 basis bps higher than those for treasury bills and bonds, and policy bank bonds. PBOC bills and bonds also showed a much sharper rise in bid−ask spreads from the prior year, rising 5 bps and 3 bps. In contrast, the bid−ask spread for treasury bills rose less than 2 bps, while the spread for policy bank bonds rose 0.9 bps in the same period.

Average trading declined significantly in 2013. The average trading size for treasury bonds fell to CNY72 million from CNY146 million in the prior year. The policy bank bond average trading size fell to CNY74.3 million from CNY156.7 million, and for PBOC bonds the average fell to CNY84 million from CNY195 million.

More significantly, the spot trading of central bank bills and bonds was nearly zero in 3Q13, based on *ChinaBond* data, as the total trading volume was only 6% of 2Q13's central bank bills and bonds trading volume. In addition to the external and domestic shocks affecting the market, demand for central bank bills and bonds was also down due to a lack of interest from domestic participants given the low yields versus comparable treasury bonds in other markets.

External factors in the second half of the year came mostly from the US. In May, bond markets were rattled when the Federal Reserve began discussions over the tapering of its quantitative easing program. In September, concerns abated when the Federal Reserve announced it would not taper in the near-term. However, in October, the crisis over debt ceiling negotiations in the US added to market concerns before the federal government's extended borrowing authority was ultimately approved by the US Congress.

Yet, the biggest factors contributing to the decline of overall liquidity were mostly related to domestic issues. In June, liquidity was severely impacted by the SHIBOR shock event. At the beginning of June, the overnight SHIBOR was 4.6% and the 7-day interbank repo rate stood at 4.8%. By 8 June, liquidity demands had driven the overnight SHIBOR to 7.5% and the 7-day repo rate to 7.8%. The PBOC worsened conditions in choosing to mop up additional liquidity by issuing central bank bills on 18 June.

However, market participants responding to the liquidity survey said that the SHIBOR shock event was unlikely to be repeated and was therefore no longer a concern. The PBOC's move was meant to serve as a warning for banks to be more prudent

Table 11: LCY Government Bond Survey Results—People's Republic of China

	Treasury Bills	Treasury Bonds	Policy Bank Bonds	PBOC Bills	PBOC Bonds
On-the-Run					
Bid–Ask Spread (bps)	4.0	4.1	4.9	7.3	6.0
Average Trading Size (CNY million)	95.4	72.0	74.3	99.1	84.0
Off-the-Run					
Bid–Ask Spread (bps)	5.9	6.0	7.0	8.2	7.0
Average Trading Size (CNY million)	75.8	77.5	77.3	100.5	89.4

bps = basis points, LCY = local currency, PBOC = People's Bank of China.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

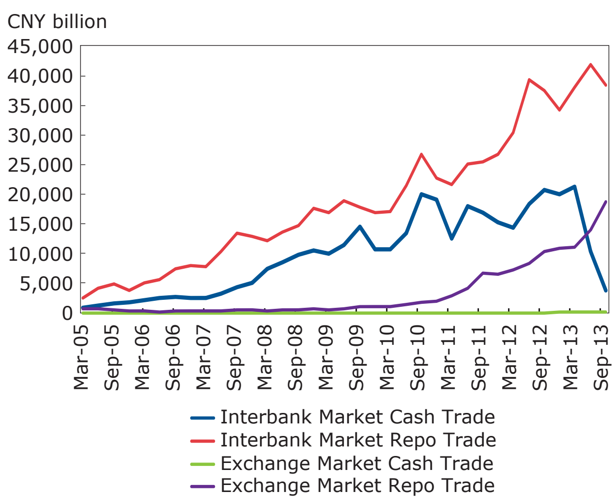
in their liquidity management. The PBOC also released a statement on 26 June saying that the rise in liquidity demand was due mostly to seasonal factors and loan growth, but that overall liquidity in the system was still healthy.

Despite money market rates recovering after the SHIBOR shock, overall trading volumes have yet to recover **(Figure 12)**. The decline in volumes is significant, with the Interbank Spot Market volume falling 51% quarter-on-quarter (q-o-q) in 2Q13. Trading volume fell again in 3Q13, this time by 62% q-o-q, so that the trading volume in 3Q13 was only 19% that of 1Q13.

The significant decline in trading volumes was due to a crackdown by regulators over illegal trade practices. In April, regulators arrested several bond traders for using trades to skim profits from client accounts. The practice involves using a technique called "substitute holding" where the trader temporarily transfers bonds to another account. In connection to this, in October, regulators banned Class C accounts, or non-financial accounts, from trading in the interbank bond market.

While the arrests have centered on individual bond trader improprieties, market participants said that

Figure 12: Repurchase (Repo) and Cash Bond Trading Volumes in the PRC's Interbank and Exchange Bond Markets



Source: Wind.

regulators may be more concerned with potential risks from institutions as the practice of substitute holdings can be also used to manipulate trading profits or hide assets away from banking books.

Liquidity in the PRC's financial markets is also supported by a robust interest rate swap and repo market. The repo market is used mainly by participants as an alternative short-term funding source and is active in the PRC as shown by the much larger volumes in the repo market compared to spot trades. The volumes in the repo market show that it was not hampered by the PRC's crackdown on illegal bond trading. Also, a new product that is expected to help further market development was the launch of treasury bond futures in September. The new instrument will allow market participants to hedge their government bond exposures.

Overall, market participants expressed a fair degree of comfort and satisfaction with the condition of the market when the survey was conducted in mid-September, despite the volatility of the SHIBOR shock event in June and the decline in measured liquidity in 3Q13. However, they are mindful that market liquidity may tighten further this year.

More recently, the PBOC stopped injecting liquidity into the market by ceasing issuance of reverse repos on 17 October, leading to speculation that the PBOC will be tightening monetary policy. Interbank money market rates have been rising again. At the start of October, the 1-week SHIBOR was 4.4%, and by 28 October it had risen to 4.9%. The 1-week interbank repo rate rose from 4.4% to 5.6% in the same period. To help calm markets, the PBOC resumed issuance of reverse repos in the last week of October.

Hong Kong, China

The Hong Kong, China liquidity survey shows that Exchange Fund Bills (EFBs) are the most liquid government bond **(Table 12)**. Bid–asks spreads for Hong Kong, China's EFBs are 4 bps–5bps lower than those for Exchange Fund Notes (EFNs) and HKSAR Bonds. Outstanding amounts of

Table 12: LCY Government Bond Survey Results—Hong Kong, China

	Exchange Fund Bills	Exchange Fund Notes	HKSAR Bonds
On-the-Run			
Bid–Ask Spread (bps)	2.9	7.3	7.7
Average Trading Size (CNY million)	132.7	39.5	23.6
Off-the-Run			
Bid–Ask Spread (bps)	2.8	8.0	8.6
Average Trading Size (CNY million)	119.3	37.8	19.6

bps = basis points, HKSAR = Hong Kong Special Administrative Region, LCY = local currency.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

EFBs are also significantly larger than the other two. Secondary trading volumes and average trading sizes of EFBs are again significantly larger than for EFNs and HKSAR Bonds, as is the overall size of the sector in terms of bonds outstanding.

Market participants have noted that demand for bonds in the Hong Kong, China government space has been limited in 3Q13. Demand has also been lower this year versus the prior year, partly due to lower yields. Market participants have noted that institutional investors have little incentive to hold Hong Kong, China government bonds given the fixed exchange rate, making US Treasuries more attractive because of their liquidity. Hong Kong, China yields are also highly correlated with US interest rate movements. Investments in Hong Kong, China government bonds are mostly for regulatory purposes such as meeting liquidity ratio requirements.

Of the three government bond types, HKSAR bonds are the least liquid. One reason for this is that the Hong Kong Monetary Authority (HKMA) provides a repo facility for banks to raise liquidity but collateral is limited to EFBs and EFNs. Market participants have also noted that the Hong Kong, China local market did not see significant outflows in recent months as fears mounted over the expected tapering of US Federal Reserve bond purchases. Participants said one reason for this was Hong Kong, China's status as a developed economy and strong financial sector. Markets that suffered the most from the tapering fears were those that were vulnerable to current account deficits and capital flow volatility.

India

The 2013 survey results reveal that Government of India (GOI) securities—which are medium- to long-term debt instruments issued to meet the government's financing requirements, especially the financing of the fiscal deficit and infrastructure projects—continue to have the lowest bid–ask spread, as the average for their on-the-run bonds stood at 1.3 bps in 3Q13 **(Table 13)**. This was followed by treasury bills with an average spread of 6.0 bps. Special government bonds—which are special securities issued to entities such as fertilizer companies, the Food Corporation of India, and oil marketing companies to serve as compensation in lieu of cash subsidies—recorded an average spread of 8.0 bps.

The survey results for India also show that treasury bills posted the highest trading size across these three types of sovereign bonds, recording an average of INR212.5 million compared with GOI bonds' INR179.2 million and special government bonds' INR90 million. Compared with the 2012 survey results, the average trading size for this year's survey was higher for GOI bonds, but lower for treasury bills and special government bonds.

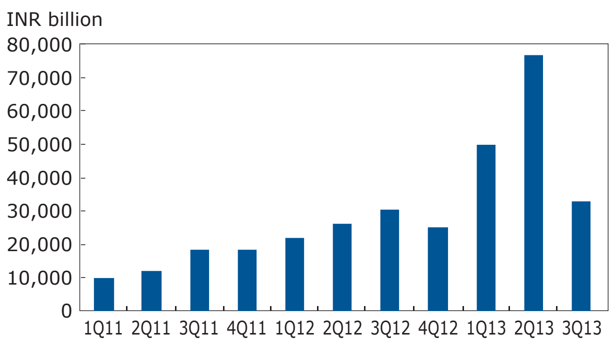
Table 13: LCY Government Bond Survey Results—India

	Treasury Bills	Government of India Bonds	Special Government Bonds
On-the-Run			
Bid–Ask Spread (bps)	6.0	1.3	8.0
Average Trading Size (INR million)	212.5	179.2	90.0

bps = basis points, LCY = local currency.
Note: Special government bonds are issued by the government to entities such as fertilizer companies, oil marketing companies, and the Food Corporation of India as compensation in lieu of cash subsidies.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

Meanwhile, the trading volume of LCY government securities—comprising GOI bonds and treasury bills—dropped 57.5% q-o-q to INR32.4 trillion in 3Q13; it was, however, up 8.1% year-on-year (y-o-y) **(Figure 13)**. In the first 3 quarters of the year, the trading volume of LCY government securities stood at INR157.8 trillion, which was up sharply by 104.2% y-o-y, supporting the sentiment of most survey respondents that liquidity in the LCY government securities market has improved over the last year.

Figure 13: Trading Volume for LCY Government Securities in India



LCY = local currency.
Source: Reserve Bank of India.

Most survey respondents from the Indian market pointed out that (i) the 10-year benchmark GOI bond is the most liquid, (ii) treasury bills are generally liquid, and (iii) special government bonds are illiquid. Several respondents also shared their views that liquidity in the government bond market has improved overall this year compared with the previous year. However, some have commented that concerns over the planned tapering of the US Federal Reserve's asset purchase program in recent months resulted in a sharp depreciation in the Indian rupee and the outflow of foreign capital from the LCY bond market. One respondent commented that the foreign exchange pressures led the central bank to defend the rupee by raising short-term interest rates in July, which in turn resulted in an inverted yield curve for LCY government bonds.

Some participants have identified certain measures being undertaken in India that would help preserve liquidity in the LCY bond market, and these include (i) the central bank's open market operations, (ii) development of the money and derivatives markets, (iii) inclusion of LCY government bonds in international bond indices, and (iv) reforms to the debt limit allocation and registration norms of foreign investors. In September, the Securities and Exchange Board of India (SEBI) decided to permit foreign institutional investors (FIIs) to invest in government debt without buying debt limits until the overall investment reaches 90%, after which an auction will be initiated to allocate the remaining limits.

Indonesia

Liquidity remains concentrated in the fixed-rate benchmark series of treasury bonds: FR0066, FR0063, FR0064, and FR065, with maturities of 5, 10, 15, and 20 years, respectively. More recently, however, increased trading activity has been noted among FR0069, FR0070, FR0071, and FR0068, which will make up the new benchmark bonds for 2014. Each year, the Indonesia Debt Management Office assigns the benchmark series for the year. Generally, these benchmark series attract the most liquidity in any given year.

Bond market liquidity in Indonesia worsened this year compared with 2012, as the economy has been negatively affected by both domestic issues—such as rising inflation expectations, a widening current account deficit, and a weakening Indonesian rupiah—as well as concerns over the US Federal Reserve's expected tapering of its quantitative easing program. Both domestic and external factors contributed to the widening of bid–ask spreads this year. On-the run bid–ask spreads for treasury bonds averaged 8.6 bps, up from 6.6 bps in the 2012 survey **(Table 14)**.

Bid–ask spreads for short-term instruments were much higher compared with treasury bonds. However, bid–ask spreads have tightened for treasury bills and *Sertifikat* Bank Indonesia (SBI) in 2013 compared with the 2012 survey. There is hardly any activity in these short-term instruments due to their relatively small size compared with

Table 14: LCY Government Bond Survey Results—Indonesia

	Treasury Bills	Treasury Bonds	SBI
On-the-Run			
Bid–Ask Spread (bps)	19.1	8.6	23.8
Average Trading Size (IDR billion)	36.7	23.3	41.3
Off-the-Run			
Bid–Ask Spread (bps)	32.3	13.6	36.0
Average Trading Size (IDR billion)	63.3	31.9	35.0

bps = basis points, LCY = local currency, SBI = *Sertifikat* Bank Indonesia.
Note: The bid–ask spreads for Indonesian treasury bonds presented above are expressed in terms of yield or basis points to make them comparable with bid–ask spreads in other Asian markets. Bid–ask spreads for government bonds are most often expressed in terms of "cents" in the Indonesian market. In the 2013 survey, the average treasury bond bid–ask spread was 50 cents. The Indonesian market quotes bid–ask spread for treasury bills and SBI in terms of yield or basis points.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

treasury bonds. Also, interest in SBI remains limited, despite Bank Indonesia's (BI) decision to reduce the minimum holding period from 6 months to 1 month in August.

Despite the market volatility mentioned above, most market participants remain optimistic in their outlook for the Indonesian bond market in the remaining months of the year and next year. Coordinated efforts by the central bank and the government are showing positive signs of stabilizing the economy as inflation eased in September and a trade surplus was posted in August, abating the decline in the rupiah exchange rate. Some survey respondents say there is still room for another rate hike, but believe it will be unlikely as economic fundamentals have started to improve. Market participants in Indonesia unanimously agree with the central bank's policy of raising policy rates in recent months, citing it as necessary to dampen the high inflation expectations.

Overall, the average on-the-run transaction size was higher this year for treasury bonds and treasury bills. The average on-the-run transaction size for treasury bonds rose to IDR23.3 billion, compared with only IDR17.6 billion in 2012. The average transaction size for treasury bills increased to IDR36.7 billion this year compared with IDR30.3 billion in the previous year's survey. On the other hand, the average transaction size for SBI declined to IDR41.3 billion this year from an average of IDR52 billion in 2012.

The turnover ratio for government bonds in Indonesia remains low at below 0.5. In 3Q13, the government bond turnover ratio fell to 0.24 due to thinner trade volume. Trade volumes dropped significantly in July and August on concerns over the Federal Reserve's anticipated withdrawal of its quantitative easing program. Coupled with domestic factors, this resulted in some foreign funds pulling out from the rupiah bond market. Foreign investors play a significant role in the Indonesian bond market as they hold nearly a third of government bonds. Foreign participation in the bond market was weak in 3Q13 as noted by market participants responding to the survey.

Thus, the need to develop the domestic investor base is very important to ensure that in times of capital flight, there is still adequate support for the market. Most of the survey respondents noted that local investors normally choose to take a "wait-and-see" attitude during times of market pressure. To help develop the local investor base, the government should provide support by giving incentives for local investors to invest in government bonds. For instance, some institutional investors used to be tax-free. But changes in tax policies levied a withholding tax on mutual funds of 5% in 2011–2013, and 15% thereafter. This is a disincentive for mutual funds to invest in bonds. Also, survey respondents cited market education and improving ease of market access as important factors in developing the domestic investor base, especially with regard to retail investors.

Finally, while having a well-developed repo market helps to improve liquidity, this issue remains a challenge for Indonesia. Until now, the standardized repo transaction terms and legal agreement based on the Global Master Repo Agreement (GMRA) have yet to be finalized. Most market participants undertake repo transactions only through bilateral agreements, which sometimes tend to be costly, or through transactions with the central bank, which are limited to banking institutions as counterparties. Other non-bank financial institutions—such as mutual funds, pension funds, and insurance companies—cannot participate in repo transactions with Bank Indonesia (BI). Market participants said that the standard repo agreement is unlikely to be finalized in the near-term.

Republic of Korea

Korea Treasury Bonds (KTBs) and central bank bonds appear to be more liquid government bond instruments, based on their relatively low bid–ask spreads, than short-term sovereign debt instruments. The average on-the-run bid–ask spread was lowest for KTBs at 0.7 bps, followed by central bank bonds at 0.8 bps. Bid–ask spreads were 1.1 bps and 1.2 bps for treasury bills and central bank bills, respectively **(Table 15).** Similarly, the average off-the-run bid–ask spread was lowest for KTBs at 1.3 bps, followed by central bank bonds at 1.4 bps, treasury bills at 1.5 bps, and central bank bills at 1.6 bps. By tenor, most survey respondents participating in the Republic of Korea's LCY bond market indicated the 5-year KTB benchmark and the 2-year Monetary Stabilization Bond (MSB), issued by The Bank of Korea, to be the most liquid sovereign debt securities.

Table 15: LCY Government Bond Survey Results—Republic of Korea

	Treasury Bonds	Treasury Bills	Central Bank Bonds	Central Bank Bills
On-the-Run				
Bid–Ask Spread (bps)	0.7	1.1	0.8	1.2
Average Trading Size (KRW billion)	10.0	10.0	10.0	10.0
Off-the-Run				
Bid–Ask Spread (bps)	1.3	1.5	1.4	1.6
Average Trading Size (KRW billion)	10.0	10.0	10.0	10.0

bps = basis points, LCY = local currency.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

Compared with the previous year's survey results, bid–ask spreads in the 2013 survey were higher for on-the-run KTBs, treasury bills, and central bank bills, while the spread for central bank bonds remained the same. Bid–ask spreads were also higher for all off-the-run sovereign bills and bonds. Meanwhile, the 3Q13 trading volume and the turnover ratio for LCY government bonds in the Republic of Korea were down on both a quarterly and an annual basis. These trends may indicate a tightening in the liquidity conditions in the Republic of Korea's LCY government bond market, specifically during 3Q13, partly due to market concerns over the expected tapering in the asset purchase program of the US Federal Reserve. Some market participants involved in the survey commented that these concerns have put upward pressure on LCY government bond yields.

The average trading sizes in 2013 for on-the-run and off-the-run KTBs, central bank bills and bonds, and treasury bills were all the same: KRW10 billion.

The Republic of Korea's Ministry of Strategy and Finance (MOSF) announced in July amendments to regulations on the KTB issuance system and primary dealer system in order to generate more primary dealer participation in both the primary and secondary markets. MOSF also reported in April that a supplementary budget of KRW17.3 trillion will be utilized to help stimulate the domestic economy through the remainder of 2013. Most survey respondents, however, commented that these policy measures appear to have not had a strong impact on issuance and liquidity conditions in the LCY government bond market.

Malaysia

The 2013 survey results show that Bank Negara Malaysia (BNM) bills are the most liquid type of government bonds in Malaysia as measured by bid–ask spreads **(Table 16)**. BNM bills experienced the smallest increase in bid–ask spreads in 2013 among government securities at 3.4 bps compared with 3.1 bps a year earlier. The average bid–ask spreads of treasury bills and MGSs widened to

Table 16: LCY Government Bond Survey Results—Malaysia

	MGSs	GIIs	BNM Bills	Treasury Bills
On-the-Run				
Bid–Ask Spread (bps)	3.8	4.7	3.4	3.6
Average Trading Size (MYR million)	15.5	10.6	36.0	14.8
Off-the-Run				
Bid–Ask Spread (bps)	9.0	10.2	5.5	4.8
Average Trading Size (MYR million)	10.0	9.4	29.3	12.9

BNM = Bank Negara Malaysia, bps = basis points, GIIs = Government Investment Issues, LCY = local currency, MGSs = Malaysian Government Securities.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

3.6 bps and 3.8 bps, respectively, from 2.9 bps and 2.7 bps in 2012. The largest increase in bid–ask spreads was for Government Investment Issues (GIIs), which climbed to 4.7 bps from 2.9 bps in 2012.

The turnover ratio for Malaysia's most prominent government bonds—MGSs and GIIs—fell to 0.23 in 3Q13 from 0.27 in 3Q12 in the case of MGSs, and to 0.07 from 0.15 in the case of GIIs. Market analysts attribute the lower liquidity of Islamic bonds, when compared with MGSs, to (i) the unfamiliarity of offshore investors with the GII structure and credit concepts; (ii) the fact that GIIs are not included in any government bond benchmarking indices; and (iii) the scarcity of Islamic paper, which encourages market participants to buy and hold.

Meanwhile, the average trading size has fallen between 24% and 50% for all government securities since 2012. Although BNM bills continued to have the highest average trading size, the market accepted transaction size for this instrument dropped 41% to MYR36 million from MYR61.4 million in 2012. The average trading size of MGSs has become broadly comparable to treasury bills due to a decline of 50% in its accepted transaction size compared with a year ago.

The 2014 budget statement released on 25 October resonated with market analyst expectations on Goods and Services Tax (GST) reforms (see Policy, Institutional, and Regulatory Developments for more details). Market participants were asked about measures to trim the budget deficit. They were in agreement that implementing GST is critical to bridge the gap of a growing budget deficit. GST was deemed necessary to provide better revenue-generating mechanisms for the government and to lighten the burden on personal income tax payers to promote growth in the economy. Other policies mentioned were the securitization of government civil servant loans and the streamlining of tax collection revenues.

Malaysian market analysts see liberalization measures as adding to the liquidity of the LCY government bond market. Key issues highlighted among survey respondents included (i) cross-border issuance through the Islamic fund management industry; (ii) liberalization of the foreign exchange market by making the Malaysian ringgit available off-shore and freely floating; (iii) deepening the bond futures market as a hedging tool; (iv) developing a more active repo market; (v) developing CDS markets, hybrids, and hedging instruments; and (vi) establishing a few liquid benchmark bonds.

Philippines

The average bid–ask spread for on-the-run Philippine treasury bonds increased in 2013 to 5.4 bps from 2.1 bps in 2012, while the bid–ask spread for treasury bills rose to 20.9 bps from 8.0 bps **(Table 17)**. This rise in bid–ask spreads and the deterioration of underlying market liquidity reflected market concern that the US Federal Reserve would start to taper its quantitative easing program. Moreover, liquidity in the Philippine market during the latter part of September was affected by the release of Bangko Sentral ng Pilipinas (BSP) Circular 813 that amended rules on the valuation of government securities held by banks and non-bank financial institutions. Anticipation of negative mark-to-market valuations by market participants induced a sell-off on longer-dated bonds.

The rise in the bid–ask spread for on-the-run treasury bonds increased to 5.4 bps and

Table 17: LCY Government Bond Survey Results—Philippines

	Treasury Bonds	Treasury Bills
On-the-Run		
Bid–Ask Spread (bps)	5.4	20.9
Average Trading Size (PHP million)	61.0	81.3
Off-the-Run		
Bid–Ask Spread (bps)	16.8	21.9
Average Trading Size (PHP million)	48.3	41.4

bps = basis points, LCY = local currency.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

was within the range of average bid–ask spreads in 2009–2011 of between 3.1 bps and 6.6 bps. Meanwhile, the average trading size for treasury bonds fell to PHP61 million in 2013 from PHP126.6 million in 2012. The average trading size for treasury bills, however, rose to PHP81.3 million in 2013 from PHP58.7 million in 2012, as demand for short-term paper increased relative to the long-term bonds given the uncertainty in the market.

Bid–ask spreads for off-the-run government securities also increased in 2013. The average bid–ask spread for off-the-run treasury bills rose to 21.9 bps in 2013 from 12.5 bps in 2012. Off-the-run treasury bonds' average bid–ask spread also increased to 16.8 bps from 11.7 bps. Average trading sizes of off-the-run treasury bills slightly increased to PHP41.4 million in 2013 from PHP40.3 million in 2012, while the average trading size of off-the-run treasury bonds fell to PHP48.3 million from PHP56.9 million.

Despite the volatility in the market this year, market participants responding to the survey view market liquidity as being much improved. The Bureau of the Treasury's debt liability management program, which includes bond swaps and re-issuances, has deepened liquidity in the LCY bond market. Banks have been able to convert their illiquid holdings to liquid benchmark securities, thus increasing trading volume in the LCY bond market. Moreover, this has also led to the lengthening of the maturities of issued securities, which has allowed the market to diversify holdings in terms of tenor. As a result, the most actively traded securities are at the longer-end of the curve, specifically FXTN 20-17, FXTN 25-8, RTB 25-1, and RTB 20-1.

Moreover, market participants are impressed by the fact that the Philippines' strong economic fundamentals have capped the rise in bid–ask spreads, limiting the rise to what had been normal prior to the unusually liquid market in 2012, which was largely a product of massive capital inflows. Inflation remains benign, which has allowed BSP to maintain its policy rates at low levels, and the Philippines surpassed expectations after posting 7.6% gross domestic product (GDP) growth in the first half of 2013. Finally, the recent credit rating upgrades to investment grade by S&P, R&I, and Moody's have underscored these positive factors.

In addition to trading volume and bid–ask spread, the market considers issue size as another indicator of the liquidity of a particular bond. Such has been the case for Retail Treasury Bond (RTB) issuance in the Philippines in past years. On average, RTBs remain liquid from 6 months to 1 year after issuance, given their large issue size, which allows the larger trading counterparties to remain active in trading these securities.

The majority of survey respondents cited the further development of the repo market as an important tool to improve liquidity in the market. In particular, a repo market to allow the short-selling of securities would be beneficial. Industry players have been in consultations with the relevant government regulators on the establishment of the repo market's formal pricing and trading guidelines.

Singapore

The average on-the-run bid–ask spreads for SGS bonds and MAS bills were both 2.6 bps, while SGS bills' average spread was higher at 2.9 bps, according to this year's bond market liquidity survey for Singapore **(Table 18)**. These averages compare with 2012, when the average bid–ask

Table 18: LCY Government Bond Survey Results—Singapore

	SGS Bonds	SGS Bills	MAS Bills
On-the-Run			
Bid–Ask Spread (bps)	2.6	2.9	2.6
Average Trading Size (SGD million)	7.8	27.5	27.5
Off-the-Run			
Bid–Ask Spread (bps)	4.3	3.2	2.8
Average Trading Size (SGD million)	6.3	35.6	35.6

bps = basis points, LCY = local currency, MAS = Monetary Authority of Singapore, SGS = Singapore Government Securities.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

spreads for SGS bonds, SGS bills, and MAS bills were 3.1 bps, 3.4bps, and 3.0 bps, respectively,

In terms of average off-the-run bid–ask spreads, the liquidity situation for the three types of government bonds varies. In 2013, average bid–ask spreads for off-the-run SGS bonds were higher at 4.3 bps compared with 3.6 in 2012. Average bid–ask spreads for off-the-run SGS bills came in slightly lower at 3.2 bps compared with 3.4 bps in 2012. Lastly, off-the-run MAS bills had slightly better liquidity this year at 2.8 bps from 3.0 bps last year.

The liquidity of SGS bonds is maintained across all tenors due to mandatory quoting by all primary dealers in Singapore. The SGS were initially issued to meet banks' needs for a risk-free asset in their liquid asset portfolios and to develop a benchmark to encourage domestic corporate bond market development, as the Singaporean government runs a consistent surplus and has no funding needs of its own. Investment in the government bond market is most attractive during periods when the Singapore dollar is appreciating. The MAS intervenes in the foreign exchange market in order to maintain the Singapore dollar nominal effective exchange rate (NEER) within its policy band.

Average trading sizes have fallen in 2013. The average trading size for on-the-run SGS bonds was SGD7.8 million compared with SGD9.7 million in 2012. Similarly, off-the-run SGS bonds were also traded at a lower average size of SGD6.3 million compared with SGD9.4 million in 2012. Finally, SGS bills and MAS bills were traded at the same levels in 2013 at SGD27.5 million for the on-the-run and SGD35.6 million for off-the-run.

Thailand

Average bid–ask spreads, based on 2013 survey results, were relatively low for short-term sovereign debt securities, specifically, treasury bills and Bank of Thailand (BOT) bills when compared with government bonds and BOT bonds **(Table 19)**. (This same trend was also evident in the 2012 survey results.) For on-the-run sovereign debt instruments, the average bid–ask spread was lowest at 2.1 bps for BOT bills. This was followed by treasury bills at 2.2 bps, government bonds at 2.4 bps, and BOT bonds at 3.4 bps. Compared with the previous year's survey results, on-the-run bid–ask spreads narrowed for BOT bills, government bonds, and treasury bills, while they widened for BOT bonds. Meanwhile, off-the-run bid–ask spreads narrowed for all four types of sovereign debt securities in Thailand in 2013. Meanwhile, the average trading size for both on-the-run and of-the-run sovereign debt instruments was largest for BOT bills and smallest for government bonds.

Table 19: LCY Government Bond Survey Results—Thailand

	Government Bonds	Treasury Bills	BOT Bonds	BOT Bills
On-the-Run				
Bid–Ask Spread (bps)	2.4	2.2	3.4	2.1
Average Trading Size (THB million)	60.0	91.4	90.5	118.6
Off-the-Run				
Bid–Ask Spread (bps)	5.4	3.2	5.7	3.2
Average Trading Size (THB million)	38.9	81.3	78.9	86.6

BOT = Bank of Thailand, bps = basis points, LCY = local currency.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

The turnover ratio for LCY government bonds fell to 0.65 in 3Q13 from 0.84 in 2Q13 and 0.80 in 3Q12. By government bond type, the turnover ratios for LCY bonds issued by the central government and the central bank dropped in 3Q13 from 2Q13 and 3Q12, as the trading volume of these bonds in 3Q13 also dropped on both a q-o-q and y-o-y basis. Some survey respondents shared their view that concerns over the planned tapering of the US Federal Reserve's asset purchase program resulted in an increase in LCY government bond yields and lower bond trading activity in 3Q13. Indeed, 3Q13 saw net outflows of foreign capital from the LCY bond market amid expectations of the US Federal Reserve's asset purchase program tapering and a slowdown in Thailand's economic growth.

Most survey respondents commented, however, that liquidity conditions in the LCY government bond market are still better this year overall compared with the previous year. According to ThaiBMA data, the trading volume of LCY government debt securities—which comprise treasury bills, government bonds, central bank bonds, and state-owned enterprise (SOE) bonds—stood at THB16.2 trillion in the first 9 months of 2013, compared with THB15.2 trillion in the same period in 2012. By government security type, the y-o-y increases in trading volume in the first 9 months of the year were most evident for government bonds at 66.6% and SOE bonds at 115.7%, while the trading volumes for treasury bills and central bank bonds recorded annual declines of 53.2% and 1.3%, respectively.

Viet Nam

Viet Nam's slowing rate of GDP growth—5.1% y-o-y in 3Q13 and 4.9% in 2Q13—has motivated the government to expand its economic stimulus programs and finance much of this effort with LCY government bond issuance, leading to 24.8% y-o-y growth in the government bond sector in 3Q13. The government's stimulus program also is motivated by a relatively low loan growth rate for the banking system, as many banks have faced credit quality problems over the last year and have had to reduce their lending programs. Market appetite for new government bond issuance, however, has been limited. Many government bond issuances this year have been undersubscribed, and the government has steadily reduced the maturities of its issuance to satisfy an increasingly risk-adverse investor base.

The 2013 survey results show that the tenors with the most liquidity are 2-years for treasury bonds and 3-years for SOE bonds. Between treasury and SOE bonds, the former are more liquid based on bid−ask spreads. The average bid−ask spread for treasury bonds was 21.7 bps, compared with 25 bps for SOE bonds. Market participants reported that bid−ask spreads for treasury bonds often change daily or weekly. Meanwhile, the average market transaction size of a government bond traded on the Hanoi Stock Exchange is VND66.7 billion (US$3.2 million).

Market analysts responding to the survey state that investor diversity is the most important key to enhancing the liquidity of Viet Nam's LCY bond market. Investors like banks, insurance companies, and individuals typically purchase bonds at initial auctions and hold them until maturity. In the absence of pension funds, only the banks are currently trading bonds while other institutional investors such as insurance companies adopt a passive investment strategy. Survey respondents believe that public pension reform is an important element in promoting the development of Viet Nam's government bond market. Other measures mentioned include launching a mandatory benchmark bond and creating an active, well-developed repo market and a money market derivatives market.

Qualitative Indicators for Government Bond Markets

The 2013 *AsianBondsOnline* Bond Market Liquidity Survey asked participants in the region's LCY government and corporate bond markets for their views on market structure and ways to improve liquidity. The "spider charts" included in this section capture market participants' perceptions of the importance of the following structural and policy issues in strengthening and deepening LCY bond markets:

(i) **Greater Diversity of Investor Profile**: the need for a more diversified investor base in terms of residence (domestic or foreign), classification (individual or institutional), and type of industry (e.g., banking, insurance, industrial), as well as greater trader participation in the LCY bond market. In some markets, most government bonds are held by commercial banks, which are focused on generating trading profits or have shorter holding periods. Greater involvement of institutional investors, who have a need to hold longer-dated securities and may be more interested in holding different types of bonds, such as inflation-adjusted securities and perpetuals, contributes greatly to the development of the market.

(ii) **Market Access**: the degree of ease or difficulty for investors to access the bond market, taking into account investor registration and investment quotas. Many markets limit participation from some types of institutional investors and foreign investors. Permitting a greater variety of financial institutions and investors to participate in a market improves its liquidity.

(iii) **Foreign Exchange Regulations**: the extent of liberal or restrictive foreign exchange and repatriation policies, as well as degree of capital mobility in the bond market. Foreign exchange regulations can reduce market liquidity by preventing or reducing the participation of foreign investors in the market, and can also impede the ability of domestic investors to re-allocate their funds to offshore investments when market conditions justify doing so.

(iv) **Transaction Funding**: the role of funding availability in the money market, and the importance of having an active or developed repo market. Market participants other than commercial banks can sometimes find it difficult to secure funding for their bond investments, either due to regulations limiting or forbidding financial institutions and private investors from lending to bond market participants. The absence of a repo market, or the absence of a well-functioning repo market, is a significant problem in some markets.

(v) **Tax Treatment**: the role of reducing withholding taxes on interest income and capital gains from LCY bond investments. The absence or existence of taxation on bond holdings can be an important factor in either promoting or hindering liquidity in a given bond market. Also, different tax treatment for different types of investors is another obstacle to improving bond market liquidity. Taxes due on governments are waived for certain types of investors in a number of jurisdictions, but corporate bonds are rarely tax exempt.

(vi) **Settlement and Custody**: the importance of straight-through processing of bond transactions, timely settlements of bond trades, and existence of a global or accredited custodian(s). The role of custodians and regulations on their operations are critical to the liquidity of any bond market. The timeliness of settlement (ideally t+1) is an important factor, as are structures to prevent failed trades. However, settlement and custody practices differ greatly among the bond markets of emerging Asia, and are an obstacle to the creation of a more integrated regional bond market.

(vii) **Hedging Mechanisms**: the importance of having a more efficient and active derivatives market. The emergence of a greater range of derivative products in individual markets has been an important development in recent years since derivatives are financial contracts that commit counterparties to exchange cash payments related to the value of a commodity or financial asset (underlying asset) with no actual delivery of the underlying asset.There are four major types of financial contracts: futures, forwards, swaps, and options. Development of these products is still in its early stages in many markets, but new derivative products are beginning to emerge on an almost yearly basis for the region as a whole. The launch of a government bond futures contract in the PRC in September is a recent example.

(viii) **Transparency**: the significance of having transparent bond prices and ratings, as well as bond market regulatory procedures. Clarity of bond pricing and regulatory procedures are an important element in the development of LCY bond markets. Bond pricing agencies have an important role to play in this process.

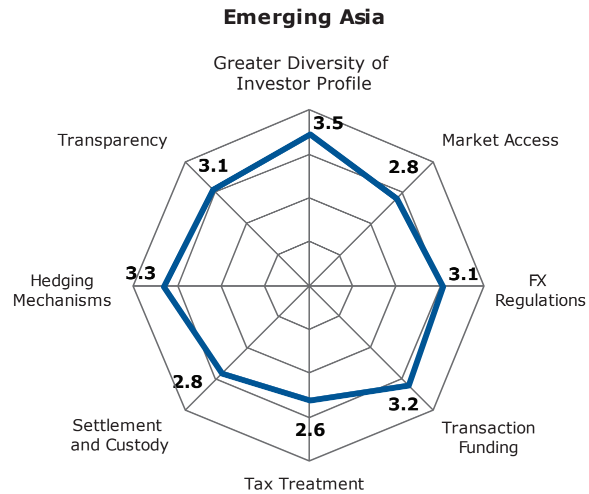
Market participants were asked to characterize each of these issues by degree of importance:

(1) Not important
(2) Somewhat Important
(3) Important
(4) Very Important

Numerical values were assigned for each issue, ranging from 1 (Not Important) to 4 (Very important) in order to construct the following spider charts.

Figure 14 summarizes the results as they relate to the region's LCY government bond market as a whole. The most important structural issue for market participants was investor diversity, which had a score of 3.5, followed by hedging mechanisms (3.3), transaction funding (3.2), foreign exchange regulations and transparency (3.1 each), market access and settlement and custody (2.8 each), and tax treatment (2.6). It is interesting to note that transaction funding had an average rating of 3.1 in last year's survey. This year, however, the average rating for transaction funding rose to 3.2, while the average ratings for foreign exchange regulations and transparency remained at 3.1 each.

Figure 14: Regional Averages—LCY Government Bond Market Structural Issues



FX = foreign exchange, LCY = local currency.
Note: Emerging Asia comprises the People's Republic of China; Hong Kong, China; India; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

Greater Diversity of Investors and Traders. Greater diversity of investors and traders was assigned an average importance rating of 3.8 in India, the Philippines, and Viet Nam, and an average importance rating of 3.6 in Indonesia, Malaysia, and Thailand **(Figure 15)**. Banks still hold a dominant share of treasury bonds (77.3%) in the PRC, and their share of treasury bonds is slowly rising. Banks' share of treasury bonds in other markets, however, is much lower and falling. In the Republic of Korea, banks' share of government bonds has fallen to 18%, while other types of financial institutions hold 21% of the total, and insurance companies and pension funds have increased their share of total government bond holdings to 27%. In Malaysia, financial institutions as a group hold 45% of government bonds, social security institutions and insurance companies together hold 24% of the total, and foreigners hold 31%.

Hedging Mechanisms. Hedging mechanisms received their highest ranking in importance in Viet Nam (4.0), the PRC (3.8), and India and Malaysia (3.5 each). A number of hedging mechanisms are currently available in emerging

Figure 15: Structural Issues for Individual LCY Government Bond Markets

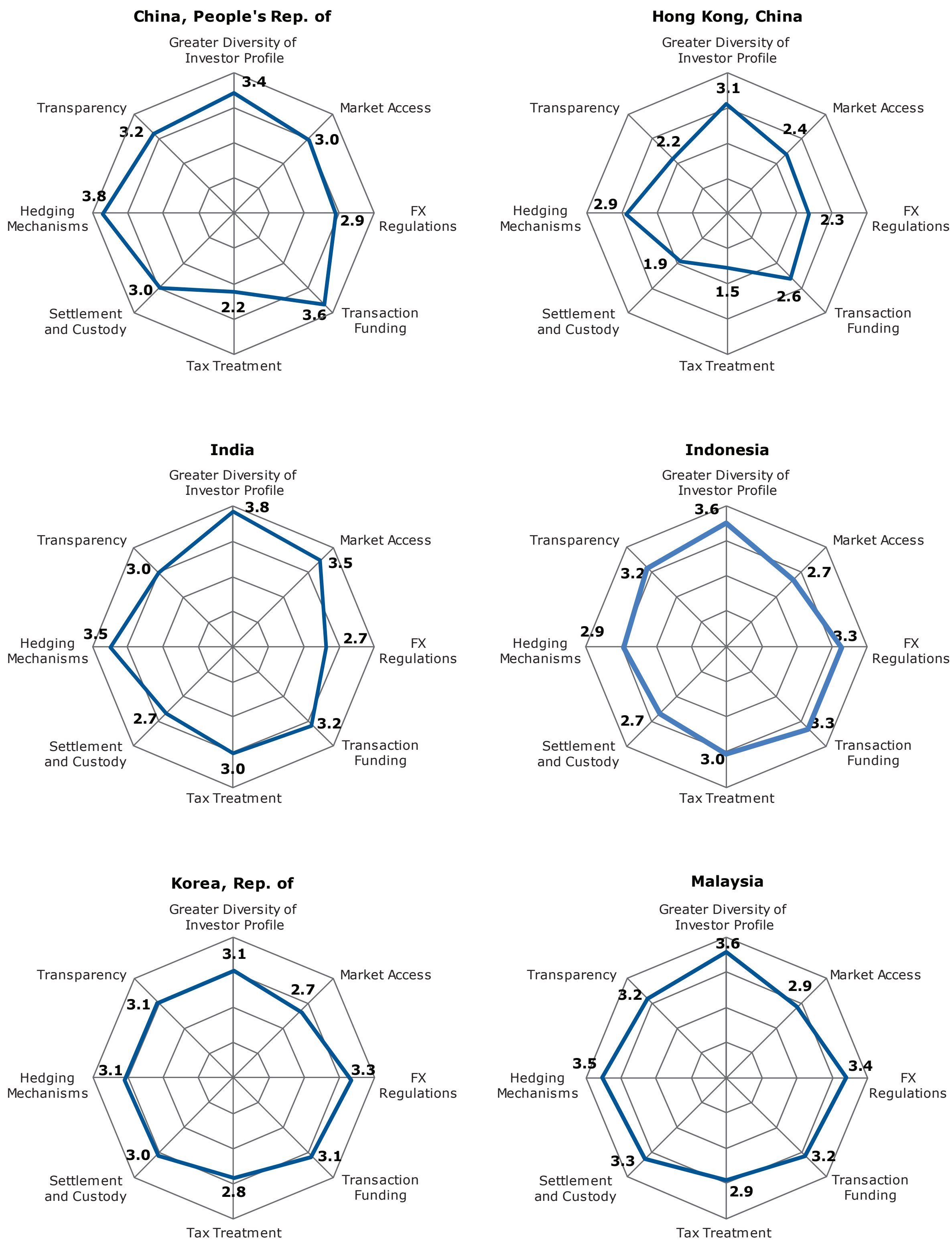


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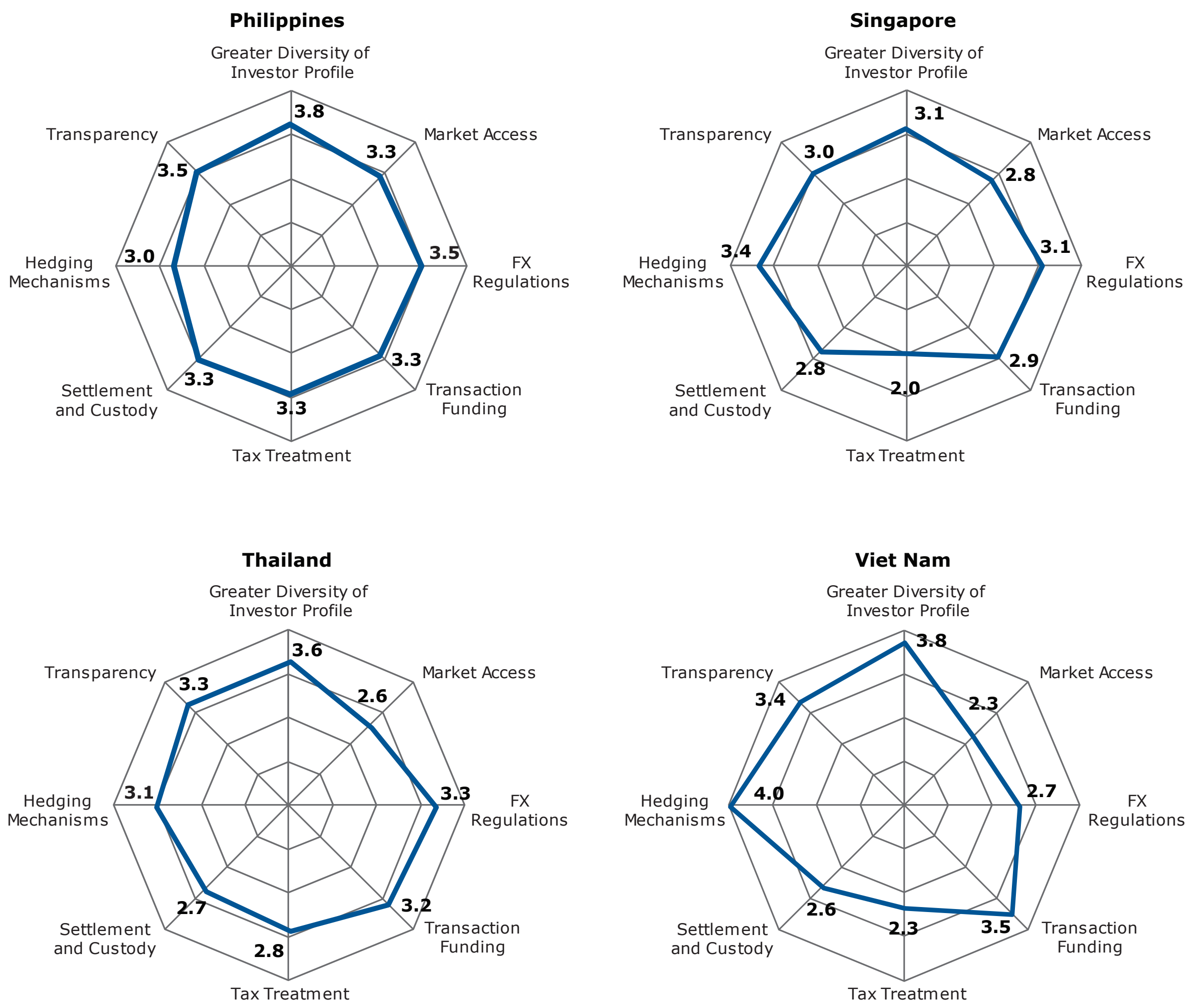
Figure 15 *continued*



FX = foreign exchange, LCY = local currency.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

Asian markets. For example, the PRC recently launched a government bond futures market. In Hong Kong, China, interest rate and cross-currency swaps are available and relatively liquid, as are 3-year EFN futures. In the Republic of Korea, 3- and 10-year KTB futures serve as important hedging instruments for the KTB market.

Transaction Funding. Transaction funding was identified as an important issue this year in the PRC (3.6); Viet Nam (3.5); the Philippines and Indonesia (3.3 each); and India, Malaysia, and Thailand (3.2 each). Transaction funding was considered moderately important in the Republic of Korea (3.1) and Singapore (2.9), and considered somewhat less important in Hong Kong, China (2.6). Transaction funding in the PRC was seen as an important issue, because of the SHIBOR shock event in June and continued liquidity shortages since then. Viet Nam's market also has faced poor participation in government bond auctions and market liquidity has been hampered by the restructuring of some weaker financial institutions by the Viet Nam Asset Management Company.

Additionally, repo transactions are still not operational in Indonesia.

Foreign exchange regulations. Participants in several major markets—the Philippines, Malaysia, the Republic of Korea, and Indonesia—rated foreign exchange regulations as important in a range of 3.3 to 3.5. Participants from the PRC, India, Singapore, and Viet Nam rated the importance of foreign exchange regulations in a range of 3.1 to 2.7, implying that foreign exchange regulations are still an important, but not necessarily a critical, issue in these markets. Finally, market participants from Hong Kong, China rated foreign exchange regulations as somewhat important (2.3). Some of these ratings (Philippines; Malaysia; Hong Kong, China; Singapore; and Viet Nam) are lower than last year's ratings, suggesting that market participants either are managing their operations so that the limitations of local foreign exchange regulations do not materially impede their businesses or, perhaps, that the uncertainties of the global financial markets this year have relegated foreign exchange regulations to a lower level of concern.

The rating of foreign exchange regulations by Thai survey participants at an average level of 3.3 would seem to reflect the influence of the BOT's Capital Account Liberalization Master Plan announced in October 2012 to encourage both companies and depositors to diversify their investments and enhance business efficiency as part of BOT's goal of creating an environment that supports more balanced capital flows and more rapid financial market development en route to further economic integration under the Association of Southeast Asian Nations (ASEAN) Economic Community (AEC) by 2015.

Survey participants from the PRC were somewhat less concerned about foreign exchange regulations, with an average rating of 2.9 for this issue. Nevertheless, some significant new measures have been announced by the State Administration of Foreign Exchange (SAFE) regarding the Qualified Domestic Institutional Investors (QDII) program. The changes to be implemented include relaxation of the types of foreign currency to be used as well as a simplified exchange quota application process and simplified foreign exchange settlement. Also the PRC's newly launched Shanghai Free Trade Zone is mainly a space for investment activity. Nevertheless, the free trade zone is expected to allow financial institutions to set their own interest rates for borrowing and lending, and eventually permit freer conversion of the renminbi. Cross-border portfolio investment regulations in select emerging Asian markets are summarized in **Table 20**.

Transparency. Transparency was deemed an important issue by most government bond market participants in emerging Asia, garnering a score of 3.1 for the region as a whole. Specifically, participants rated transparency as being very important or important in the Philippines (3.5); Viet Nam (3.4); Thailand (3.3); and the PRC, Indonesia, and Malaysia (3.2 each). Other markets had an average rating suggesting transparency is relatively less important. Specifically, the Republic of Korea was at 3.1, while the average rating for transparency in India and Singapore was 3.0. Hong Kong, China had the lowest average rating for transparency at only 2.2.

Other Indicators. The other structural and regulatory indicators for government bond markets in this survey—market access, tax treatment, and settlement and custody—were rated as less important issues for market participants than the five indicators detailed above. Market access and settlement and custody were rated 2.8 in the region as a whole, while tax treatment was rated 2.6. **Table 21** provides a summary of tax treatments among domestic bond markets in the region.

Corporate Bond Markets

Corporate bonds are generally less liquid than government bond markets. Corporate bonds, often issued in smaller sizes, trade for only 1–2 months after issue before they are bought up by buy-and-hold investors, and may have structural features

Table 20: Cross-Border Portfolio Investment Regulation in Select Emerging Asian Markets

Market	Capital Inflow			Capital Outflow	
	Money Market Instruments	Bond Market Instruments	Equity Instruments	Resident Investors	Nonresident Investors
China, People's Republic of	Nonresidents are not allowed to invest in money market instruments.	Qualified Foreign Institutional Investors (QFII) are allowed to invest in listed bonds subject to quotas. As of July 2013, the total aggregate quota (covering both bond and equity investments) authorized for all QFIIs was US$150 billion. Renminbi Qualified Foreign Institutional Investors (RQFII) are allowed to invest in listed bonds and equities subject to quotas. RQFIIs are allowed to fund investments using renminbi sourced abroad. The first participants were financial institutions from Hong Kong, China. As of December 2012, the total aggregate quota was CNY270 billion. Eligible financial institutions may invest in the interbank bond market subject to limits. Eligible institutions include foreign central banks engaged in cross-border renminbi settlement; Hong Kong, China's and Macau, China's central banks; and other monetary authorities seeking renminbi to diversify financial reserves.	QFIIs are allowed to invest in A-shares subject to quotas. No single QFII may hold more than 10% of a listed company. As of July 2013, the total aggregate quota (covering both equity and bond investments) authorized for all QFIIs was US$150 billion. Renminbi Qualified Foreign Institutional Investors (RQFII) are allowed to invest in listed bonds and equities subject to quotas. RQFIIs are allowed to fund investments using renminbi sourced abroad. The first participants are financial institutions from Hong Kong, China. As of December 2012, the total aggregate quota was CNY270 billion.	Qualified Domestic Institutional Investors (QDII) are allowed to buy and hold offshore securities subject to certain quotas.	QFII pension and insurance funds, mutual funds, charitable foundations, endowment funds, government investment management companies, and open-end funds have a principal lock-up of 3-months. Other QFIIs are required to keep their investments in the People's Republic of China (PRC) for 1 year. For listed bonds, there is no holding period. Repatriation of foreign exchange requires the approval of the State Administration for Foreign Exchange.
Hong Kong, China	There are no specific restrictions on portfolio investments and foreign investors may place funds directly in money market instruments.	Nonresidents are free to purchase debt instruments.	Nonresidents are free to purchase equity securities. Investment in banks requires Hong Kong Monetary Authority (HKMA) approval.	Residents are generally free to invest abroad. Overseas investment by institutional investors (e.g., insurance companies, banks) must be within certain limits and may require HKMA approval.	No restrictions on repatriation of capital and profits.

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Table 20 *continued*

Market	Capital Inflow			Capital Outflow	
	Money Market Instruments	Bond Market Instruments	Equity Instruments	Resident Investors	Nonresident Investors
India	Non-Resident Indians (NRIs) may invest in money market mutual funds floated by commercial banks and other public or private financial institutions that are duly authorized by the Securities and Exchange Board of India (SEBI) on a repatriation basis.	Registered foreign institutional investors (FIIs) and non-residents are allowed to invest in local currency (LCY)-denominated perpetual bonds and other bonds issued by banks subject to certain conditions. FII investment in government and corporate debt securities is allowed and is subject to certain limits. Nonresidents can invest in bonds issued by infrastructure debt funds (IDFs).	FIIs have to be registered with SEBI in order to invest in the equity market. There is no cap on FII investment in shares of an Indian company, but the holdings of FIIs in any Indian company are subject to a certain ceiling.	Residents may remit up to the equivalent of US$200,000 per financial year for any permissible current or capital account transaction, or a combination of both.	All foreign investments are freely repatriable except in cases where: (i) the foreign investment is subject to a lock-in period and (ii) NRIs choose to invest specifically under non-repatriable schemes.
Indonesia	Foreign investors are allowed to purchase money market instruments locally.	Foreign investors are allowed to purchase debt securities without limit except for retail bonds for which they are only allowed to purchase in the secondary market. Nonresidents may not purchase more than 1% of any investment fund.	Foreign investors are allowed to purchase shares without limit with the exception of shares in finance company joint ventures. Nonresidents may not purchase more than 1% of any investment fund.	Resident banks are not allowed to invest in LCY-denominated securities issued by nonresidents. Pension funds are not allowed to invest in securities abroad while mutual funds may invest up to 15% of their net asset value. Insurance and reinsurance companies are allowed to invest abroad in shares listed on a stock exchange, bonds and medium-term notes rated A or higher, and private placements.	No restrictions apply to repatriation of capital, remittance of dividends, and profits.
Japan	Nonresidents are free to purchase money market securities.	Nonresidents are free to purchase debt securities.	Controls will only apply if the purchase of equity instruments is affected by inward direct investment laws.	Controls will apply to an insurance company's purchase of securities issued on a foreign financial market if it would result FCY-denominated assets exceeding 30% of its total assets.	No restrictions on repatriation of capital, profits, dividends, and interest.

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Table 20 *continued*

Market	Capital Inflow			Capital Outflow	
	Money Market Instruments	Bond Market Instruments	Equity Instruments	Resident Investors	Nonresident Investors
Korea, Republic of	Nonresidents are allowed to invest in domestic money market instruments. The sale of FCY-denominated money market instruments abroad requires notification to a designated foreign exchange bank. Sale of FCY-denominated money market instruments exceeding US$30 million or LCY-denominated money market instruments by residents abroad requires notification to the Ministry of Strategy and Finance (MOSF).	Nonresidents are allowed to buy bonds and other debt securities sold by residents, but notification to a foreign exchange bank or The Bank of Korea is required if the purchase is not made through an account exclusively for investment.	Nonresidents are freely allowed to invest in shares of local companies, but notification to a foreign exchange bank or The Bank of Korea is required if the purchase is not made through an account exclusively for investment. The purchase of listed shares issued by resident public sector utilities in the process of privatization is subject to controls.	Residents are allowed to buy bonds issued abroad, but notification to The Bank of Korea is required if the purchase is not made through an account exclusively for investment.	Proceeds from capital transactions in excess of US$500,000 or its equivalent must be repatriated within 1.5 years of the settlement date.
Malaysia	Nonresidents are allowed to purchase money market instruments without any restrictions.	Nonresidents are allowed to purchase bond market instruments without any restrictions.	Nonresidents are allowed to purchase equity instruments without any restrictions.	Resident with domestic borrowing may invest abroad subject to certain limits. Unit trust management companies, fund management companies, insurers and *takaful* (Islamic insurance) operators' investment abroad are subject to limits.	Nonresidents are free to repatriate funds from divestment of LCY-denominated assets or profits and dividends arising from investments.
Philippines	There are no restrictions on the purchase of money market instruments.	There are no restrictions on the purchase of bonds.	There are no restrictions on the purchase of shares in the local stock market.	A resident's investments abroad in excess of US$60 million a year requires prior regulatory approval. Registration is required if foreign exchange used for investments will be purchased from Bangko Sentral ng Pilipinas (BSP) authorized agent banks (AABs) and/or AAB-foreign exchange corporations.	Regulatory approval and registration are required if the foreign exchange needed to service the capital repatriation of dividend, profits, and earnings is sourced from BSP AABs and/or AAB-foreign exchange corporations.
Singapore	No restrictions on nonresidents purchasing money market instruments.	No restrictions on nonresidents purchasing bond market instruments.	No restrictions on nonresidents purchasing equity instruments.	No restrictions on investments by residents abroad.	Nonresident financial entities must convert Singapore dollar proceeds from Singapore dollar loans (exceeding SGD5 million), equity listings, and bond issuances into FCY before using such funds to finance activities outside Singapore.

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Table 20 *continued*

Market	Capital Inflow			Capital Outflow	
	Money Market Instruments	Bond Market Instruments	Equity Instruments	Resident Investors	Nonresident Investors
Thailand	Nonresidents are allowed to invest in LCY money market instruments, but their investment in instruments issued by local financial institutions is subject to a certain borrowing limit.	Nonresidents are allowed to invest in LCY bonds, but their investment in LCY bonds issued by local financial institutions is subject to a borrowing limit.	Nonresidents are allowed to buy shares of a local company, but their equity participation may be limited to various thresholds if the company is subject to the provisions of the Foreign Business Act or other related laws.	Institutional investors—the Government Pension Fund, Social Security Fund, insurance companies, mutual funds, provident funds, securities companies, specialized financial institutions, and Thai firms with asset size of at least THB5 billion—can invest without limit in securities issued abroad by Thai juridical persons as well as in foreign securities issued by nonresidents of up to US$50 million (per investor) without Bank of Thailand (BOT) approval. Individual and corporate investors can invest in foreign securities via private funds or securities companies per rules of the Securities and Exchange Commission (SEC) subject to BOT approval.	Proceeds of up to US$50,000 or its equivalent can be retained abroad, while proceeds exceeding the threshold must be repatriated on receipt and within 360 days of the transaction date.
Viet Nam	Foreign investors are allowed to purchase money market instruments locally.	Foreign investors are required to open a VND-denominated securities trading account to sell or purchase debt securities.	Foreign investors are required to open a VND-denominated securities trading account to sell or purchase listed securities on the stock exchange. Foreign investors are allowed to hold up to 49% of a company's current shares, except in the banking sector, which has a limit of 30%.	Residents may invest in shares and bonds abroad subject to certain limits. Institutional investors are not allowed to invest in securities issued by nonresidents.	Repatriation of profits is allowed within 60 days of the end of the fiscal year during which the investment took place.

Sources: International Monetary Fund's Annual Report on Exchange Arrangements and Exchange Restrictions 2012, and local market sources.

Table 21: Tax Treatments in Emerging East Asian Markets

Market	Withholding Tax on Interest Income	
	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 on bonds and 20.0% tax on *Sertifikat* Bank Indonesia. Non-residents are subject to 20.0% tax, which is subject to reductions based on treaty. For mutual funds registered with Bapepam LK, the tax rate is 5% for 2011 to 2013, and 15% thereafter.	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. For mutual funds registered with Bapepam LK, the tax rate is 5% for 2011 to 2013, and 15% thereafter.
Korea, Republic of	Domestic institutional investors are subject to 14.0% withholding tax. Individual resident investors are subject to 15.4% withholding tax.[a] Non-resident investors are subject to 14.0% withholding tax on interest income.	Domestic institutional investors are subject to 14.0% withholding tax. Individual resident investors are subject to 15.4% withholding tax.[a] Non-resident investors are subject to 14.0% withholding tax on interest income.
Malaysia	Exempt from tax	Exempt from tax
Philippines	Subject to 20% tax withheld at source. Foreign corporations are subject to 30% tax on the gross amount of income derived within the Philippines. Non-resident individuals not engaged in trade or business are subject to 25% tax on the gross amount of income derived in the Philippines.	Standard rate of withholding tax on income payments from corporate bonds is 20%.
Singapore	Exempt from tax	Individual investors are tax exempt. Resident and non-resident institutional investors are exempt from withholding tax, subject to qualifying conditions.
Thailand	Individual resident investors are subject to 15.0% withholding tax. Institutional resident investors are subject to 1.0% withholding tax. Non-resident investors are except from tax.	Individual resident investors and non-resident investors are subject to 15.0% withholding tax.
Viet Nam	Subject to 5% withholding tax	Subject to 10% withholding tax.

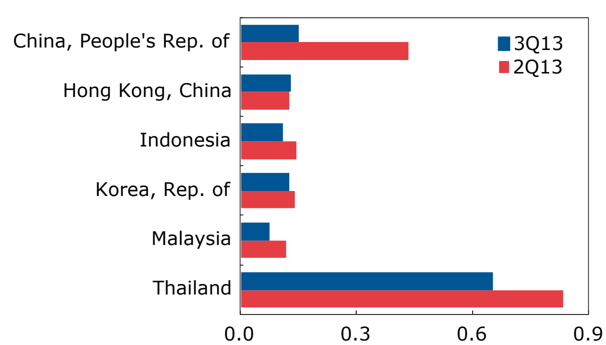
[a] 1.4% local tax is added to 14% national income tax.
Source: *AsianBondsOnline*.

that make them less liquid. Perpetual bonds and *sukuk* (Islamic bonds) would be examples of this. **Figure 16** graphs recent quarterly turnover ratios for corporate bonds in the region. Trading volume data is not available for Singapore or the Philippines.

Corporate bond market participants were asked to respond to questions similar to ones put to government bond market participants. **Table 22** compiles responses from corporate bond market participants with regard to average issue sizes, bid−ask spreads, and average trading sizes.

Average Issue Size. The average issue size for corporate bonds declined in 2013 for six out of the 10 markets surveyed. Lower average issue sizes were noted for Indonesia, the Republic of

Figure 16 : LCY Corporate Bond Turnover Ratios



LCY = local currency.
Note: Turnover ratios are calculated as LCY trading volume (sales amount only) divided by average LCY value of outstanding bonds during each 3-month period.
Sources: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange); Republic of Korea (EDAILY *Bondweb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); and Thailand (Bank of Thailand and Thai Bond Market Association).

Table 22: LCY Corporate Bond Markets Quantitative Indicators

		PRC	HKG	IND	INO	KOR	MAL	PHI	SIN	THA	VIE	Regional
Typical Issue Size of Corporate Bonds	Average (US$ million)	722.9	54.8	123.8	84.7	60.0	120.3	126.5	142.7	91.5	130.3	165.7
Typical Bid–Ask Spread for New Corporate Issues	Average (bps)	11.4	31.9	11.1	26.1	4.4	9.8	36.6	21.9	8.6	–	18.0
	SD	4.7	21.0	3.4	13.2	4.7	6.0	29.0	15.6	4.0	–	12.2
	CV	0.4	0.7	0.3	0.5	1.1	0.6	0.8	0.7	0.5	–	0.8
Typical Transaction Size of LCY Corporate Bonds	Average (US$ million)	5.3	3.4	3.2	0.6	9.3	2.3	0.2	1.2	0.7	14.2	4.0
	SD	2.2	2.9	1.3	0.6	0.0	1.7	0.2	0.7	0.5	–	4.5
	CV	0.4	0.8	0.4	0.9	0.0	0.7	0.9	0.6	0.7	–	1.1

– = not applicable, bps = basis points; CV = coefficient of variation; HKG = Hong Kong, China; IND = India; INO = Indonesia; KOR = Republic of Korea; LCY = local currency; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; SD = standard deviation; SIN = Singapore; THA = Thailand; VIE = Viet Nam.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

Korea, Malaysia, the Philippines, Singapore, and Thailand. The largest average issue size was recorded in the PRC (US$722.9 million), followed by Singapore (US$142.7 million) and Viet Nam (US$130.3 million). The smallest average sizes were in Hong Kong, China (US$54.8 million); the Republic of Korea (US$60.0 million); and Indonesia (US$84.7 million).

Bid−ask Spreads. Bid−ask spreads for a newly issued corporate bond were wider for all markets this year compared with 2012 except for Thailand, where bid−ask spreads fell to 8.6 bps. The highest bid−ask spreads this year came from the Philippines at 36.6 bps, followed by Hong Kong, China at 31.9 bps and Indonesia at 26.1 bps. The lowest bid−ask spreads were noted in the Republic of Korea at 4.4 bps, Thailand at 8.6 bps, and Malaysia at 9.8 bps.

Bid−ask spreads for corporate bonds are typically wider vis-à-vis government bonds, due to their low levels of liquidity. In most markets, corporate bond liquidity only lasts for a few months (or even just a few weeks in some cases) after issuance.

Average Trading Size. The average transaction size for corporate bonds rose in four markets in 2013—Hong Kong, China; India; the Republic of Korea; and Singapore—while falling in four—the PRC, Malaysia, the Philippines, and Thailand. Meanwhile, average transaction size was unchanged in Indonesia at US$0.6 million. The largest average transaction sizes were noted in the Republic of Korea at US$9.3 million, Viet Nam at US$14.2 million, and the PRC at US$5.3 million. The smallest trading sizes were found in the Philippines at US$0.2 million, Indonesia at US$0.6 million, and Thailand at US$0.7 million.

Inter-Market Comparisons

People's Republic of China

Market participants said that the most traded corporate bonds in the PRC are commercial paper and medium-term notes. This is evident in the bid−ask spreads as well **(Table 23)**. Corporate bond turnover ratios also show that medium-term notes are the most highly traded bonds **(Figure 17)**.

SOE bonds have low bid−ask spreads as a result of the larger SOEs, which carry very high credit ratings and are known as "Golden AAA." Examples include the State Grid Corporation of China and the China National Petroleum Corporation. While carrying no government guarantee, the market expects that these institutions carry such economic significance that the government will take steps to ensure that they do not default.

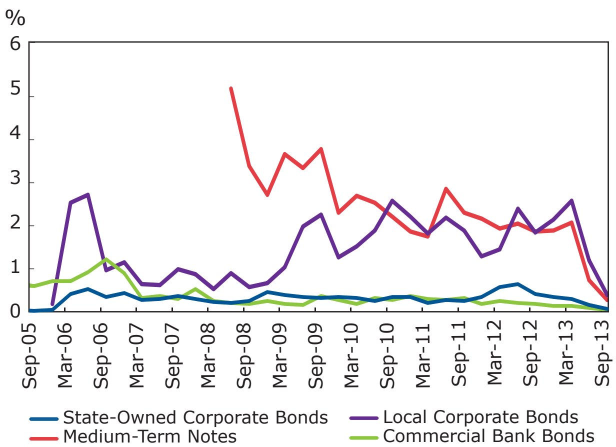
The custodianship and settlement of medium-term notes and commercial paper has been moved from *ChinaBond* to the Shanghai Clearing House.

Table 23: LCY Corporate Bond Survey Results—People's Republic of China

	SOE Bonds	Local Corporate Bonds	MTNs	Commercial Bank Bonds	Commercial Paper
Average Issue Size (CNY million)	11,375.0	4,425.0	4,725.0	19,000.0	9,062.5
Bid–Ask Spread (bps)	7.4	11.4	9.5	14.4	8.7
Average Trading Size (CNY million)	47.7	32.5	47.2	58.0	43.3

bps = basis points, LCY = local currency, MTNs = medium-term notes, SOE = state-owned enterprise.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

Figure 17: Trends in the PRC's LCY Corporate Bond Turnover Ratios



LCY = local currency, PRC = People's Republic of China.
Source: *ChinaBond*.

The Shanghai Clearing House is also responsible for settling trades on the Shanghai Exchange Market. The exchange market allows for the use of corporate bonds in the use of repo transactions and the removal of counterparty risk.

India

The average bid–ask spread for LCY corporate bonds in India is about 11.1 bps, based on the 2013 survey results. This was, however higher than the average spread from the survey results in the previous year. By type of corporate bond, the bid–ask spread for bonds issued by financial institutions averaged 7.9 bps, less than the 11.3 bps for bonds issued by industrial companies and the 16.7 bps for bonds issued by non-financial and non-industrial corporates **(Table 24)**. These results indicate that financial bonds appear to be the most liquid type of corporate bond.

In terms of the average trading size of LCY corporate bonds, the survey results showed an average of INR202.8 million, which was larger than the previous year's average. Furthermore, the results reveal that average trading sizes were the same for bonds issued by financial institutions and industrial firms. Among bonds issued by financial institutions, market participants in the survey identified those of the Housing Development Finance Corporation, Power Finance Corporation, and Rural Electrification Corporation as among the most frequently traded bonds. For bonds issued by industrial companies, the most commonly traded names include Hindalco Industries and Sterlite Industries.

Based on data from the Securities and Exchange Board of India (SEBI), the trading volume for LCY corporate bonds fell 24.2% q-o-q, but rose 27.9% y-o-y to reach INR2.4 trillion in 3Q13 **(Figure 18)**.

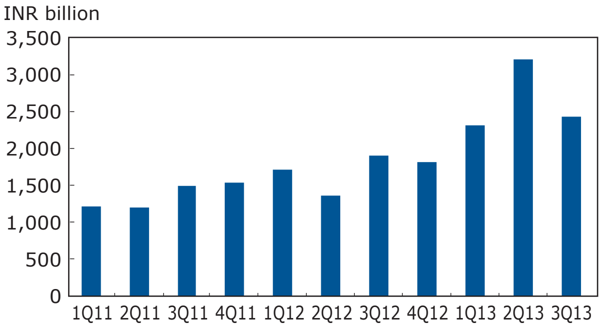
Market participants in the survey have shared their thoughts on the potential impact of higher interest rates on LCY corporate issuers in India. There is a view that there is a limited probability of default in the market as it comprises mostly

Table 24: LCY Corporate Bond Survey Results—India

	Financial Institutions	Industrials	Other Corporates
Average Issue Size (INR million)	11,972.2	5,083.3	4,916.7
Bid–Ask Spread (bps)	7.9	11.3	16.7
Average Trading Size (INR million)	216.7	216.7	100.0

bps = basis points, LCY = local currency.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

Figure 18: Trading Volume for LCY Corporate Bonds in India



LCY = local currency.
Source: Securities and Exchange Board of India.

high-grade issuers such as quasi-government entities and large corporates. However, those corporates that have low credit ratings and/or high leverage ratios are believed to be in a more difficult position amid high interest rates. Moreover, market participants expressed their concern that the banking system appears to be under more stress recently as shown by a rise in its non-performing assets (NPAs).

In the survey, some market players have proposed measures that they believe can contribute to the further development of India's LCY corporate bond market. These include (i) deepening the interest rate derivatives market and providing an appropriate benchmark for interest rate swaps; (ii) establishing a centralized information source for corporate bonds and addressing the problem of asymmetric information in the market; (iii) promoting the use of credit default swaps as a hedging tool; and (iv) increasing the participation of individual retail investors, provident and pension funds, and foreign institutional investors (FIIs). In October, SEBI released a circular mandating that the two securities depository institutions—National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL)—jointly create, host, maintain, and disseminate a centralized database for corporate bonds. In April, SEBI decided to permit FIIs to invest in corporate debt without buying debt limits until the total investment reaches 90%, after which an auction mechanism will be initiated to allocate the remaining limits.

Republic of Korea

In the Republic of Korea's LCY corporate bond market, special public bonds and financial debentures appear to be more liquid than corporate bonds issued by private sector companies. The 2013 survey results show that the lowest average bid–ask spread stood at 1.9 bps, for both special public bonds and financial debentures, while the average spread was relatively high for private corporate bonds at 5.4 bps **(Table 25)**. Compared with the previous year's survey results, the bid–ask spreads for all three corporate bond types were higher in 2013, implying a tightening of liquidity conditions in the LCY corporate bond market. Average trading sizes stood at KRW10 billion for all three types of corporate bonds, the same level in the previous year. In addition, average issue sizes were about the same for special public bonds and financial debentures at KRW70 billion, while the average issue size for private corporate bonds was a lower KRW53 billion.

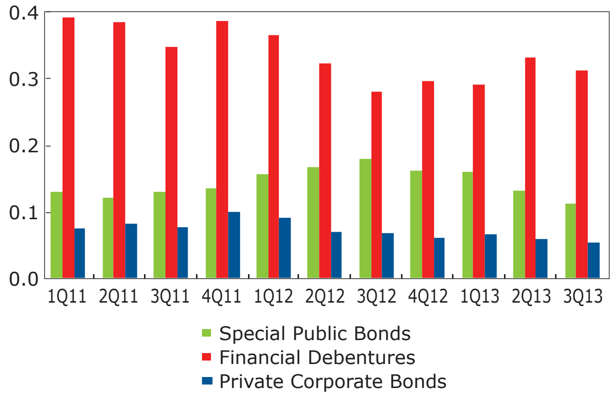
This view of corporate sector liquidity is broadly consistent with the turnover ratios for the different types of corporate bonds. The turnover ratios for special public bonds, financial debentures, and private corporate bonds in 3Q13 stood at 0.11, 0.31, and 0.05, and these were all lower compared with 2Q13 and 3Q12—except for financial debentures, which recorded an annual

Table 25: LCY Corporate Bond Survey Results—Republic of Korea

	Special Public Bonds	Financial Debentures	Private Corporate Bonds
Average Issue Size (KRW billion)	70.0	70.0	53.3
Bid–Ask Spread (bps)	1.9	1.9	5.4
Average Trading Size (KRW billion)	10.0	10.0	10.0

bps = basis points, LCY = local currency.
Note: Special public bonds are bonds issued by state-owned enterprises, financial debentures are issued mostly by banks and financing companies, and private corporate bonds are issued mostly securities companies and by private non-financial corporates.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

Figure 19: Turnover Ratio for Special Public Bonds, Financial Debentures, and Private Corporate Bonds in the Republic of Korea



Source: EDAILY *BondWeb*.

increase in the turnover ratio **(Figure 19)**. For LCY corporate bonds as a whole, the turnover ratio slipped to 0.13 in 3Q13 from 0.14 in 2Q13 and 0.15 in 3Q12.

Most survey respondents from the Republic of Korea's LCY corporate bond market cited bonds issued by the Korea Electric Power Corporation (KEPCO) and Korea Deposit Insurance Corporation (KDIC) as two of the most commonly traded special public bond types. For bonds issued by banks, most respondents identified Korea Development Bank (KDB) bonds as one of the most traded. And for private corporate bonds, those issued by POSCO were among the most traded, according to the market participants surveyed.

In July, the Financial Services Commission (FSC) announced measures to invigorate the LCY corporate bond market and prevent the worsening of corporate funding conditions. Specifically, these measures include (i) a liquidity support program through government issuance of primary collateralized bond obligations, (ii) tax incentives for dividends of corporate bond funds with more than 30% of bonds rated BBB− or below, (iii) improvements in the Qualified Institutional Buyer system, (iv) easing of relevant regulations to boost demand for corporate bonds, (v) revisions to the regulations on asset-backed securities, (vi) reforms in the credit rating system, (vii) enhancements to the system of corporate bond issuance, (viii) improvements to the system of corporate bond management, and (ix) strengthened effectiveness and transparency of the bond distribution system. A majority of survey respondents shared their view that these measures would be beneficial in developing the LCY corporate bond market.

FSC also made an announcement in August that Basel III capital regulations will be applied to bank holding companies effective 1 December 2013. The regulations provide that the minimum capital requirement ratios for these companies be set at 4.5% for common equity capital, 6.0% for Tier 1 capital, and 8.0% for total capital. In addition, a capital conservation buffer will be introduced to bank holding companies starting in 2016. However, some survey respondents expect that such measures may reduce the issuance of financial debentures.

Several survey responses have indicated that the rise in interest rates and the tightening of liquidity conditions will have potential negative effects for certain sectors in the Republic of Korea. One respondent opined that this will put an increased financial burden on households. Another felt that a few conglomerates may encounter more difficulties in meeting their interest payments, and that such trends may not just impact negatively on corporate profitability but also on corporate credit ratings and funding costs. Another believed that this phenomenon of tighter liquidity and higher rates may hurt SMEs.

Malaysia

Malaysia's corporate bond market turnover ratio fell to 0.07 in 3Q13 from 0.12 in 2Q13. The lower turnover ratio shows that the extent of corporate bond trading in the secondary market relative to the bonds outstanding has been less active in previous months. The decline in liquidity was more pronounced in Islamic instruments than in conventional bonds, as the majority of private debt securities (PDSs) have Islamic structures. Trading activity for *sukuk* accounted for 67% of the trading volume in 3Q13 compared with 74% in 2Q13. In absolute terms, the trading of *sukuk* dropped to MYR20.6 billion in 3Q13 from MYR35 billion in 2Q13, resulting in a decline in the turnover ratio for Islamic bonds to 0.05 from 0.09 in the previous quarter.

By instrument, trading volume tends to concentrate in MTNs, both conventional and Islamic. Islamic medium-term notes (IMTNs) comprised 57% of total corporate bond trading volume, while MTNs represented 23%. The turnover ratio for IMTNs tumbled to 0.04 in 3Q13 from 0.07 in 2Q13, as the trading volume of IMTNs plummeted to MYR17.4 billion in 3Q13 from MYR29.8 billion in the previous quarter.

Average bid–ask spreads for Malaysian corporate bonds widened to 9.8 bps in 2013 from 9.4 bps in 2012. Bonds (conventional and Islamic) had a bid–ask spread of 9.2 bps, while MTNs (conventional and Islamic) had a spread of 11.5 bps **(Table 26)**.

Most of the PDSs have an average trading size of MYR8.1 million except for conventional bonds, which have an average transaction size of MYR7.5 million.

Market analysts observed that liquidity for newly issued LCY corporate bonds dries up quickly, usually within 2 weeks, unless the lead arrangers provide a two-way price quote. Liquidity may re-emerge depending on market conditions and the trading interest of participants. On the other hand, liquidity can remain meaningful beyond a few weeks for bonds with an issuance size of at least MYR1 billion and a credit rating of AA1 to AAA.

Table 26: LCY Corporate Bond Survey Results—Malaysia

	Conventional Bonds	Islamic Bonds	MTNs	Islamic MTNs
On-the-Run				
Bid–Ask Spread (bps)	9.2	9.2	11.5	11.5
Average Trading Size (MYR million)	7.5	8.1	8.1	8.1
Off-the-Run				
Bid–Ask Spread (bps)	15.6	15.6	14.2	14.2
Average Trading Size (MYR million)	6.9	6.9	6.9	6.9

bps = basis points, LCY = local currency, MTNs = medium-term notes.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

Potential improvements to the market include the application of a range of policies and measures to achieve ample liquidity. Many of these policies and measures have been aimed at widening the investor base and improving transparency. To enhance investor diversity, market participants cited the standardization of regulations and tax regimes to facilitate intra-ASEAN trading and investments, and a reduction in the standard trading lot to MYR1 million from MYR5 million to encourage retail investor participation. For greater transparency, survey respondents mentioned effective price discovery at primary (issuance) levels and more reliable domestic bond pricing data.

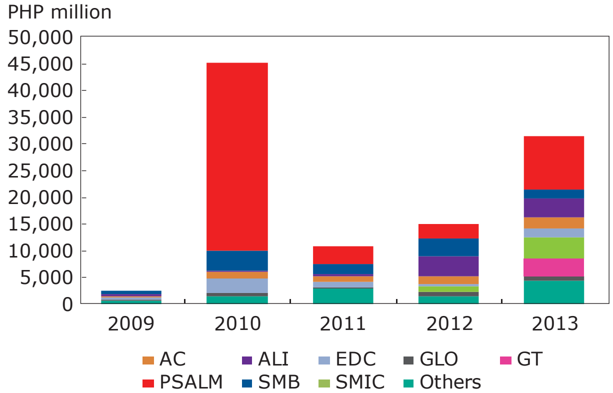
Other desired policies and measures identified by respondents support the deepening of the bond market. Examples include the creation of a market for distressed issues and other fixed-income products, such as a high-yield bond market, and the enhancement of information infrastructure, such as a one-stop resource for primary and secondary market information.

Philippines

The average bid–ask spread for Philippine corporate bonds increased slightly to 37 bps in 2013 from 35 bps in 2012, while the average trading size fell to PHP9.7 million from PHP20.9 million in 2012. The average issue size for corporate bonds also fell to PHP5.5 million in 2013 from PHP6.1 billion in 2012.

Trading volume data is not available for the Philippine corporate bond market as a whole. However, PDEx maintains a database on the secondary trading of corporate bonds listed on its

Figure 20: PDEx Trading Volume Trends—Corporate Bonds in the Philippines



AC = Ayala Corporation; ALI = Ayala Land, Inc.; EDC = Energy Development Corporation; GLO = Globe Telecom; GT = GT Capital Holdings; PDEx = Philippine Dealing and Exchange Corporation; PSALM = Power Sector Assets and Liabilities Management Corp.; SMB = San Miguel Brewery, Inc.; SMIC = SM Investment Corp.
Note: PDEx reports one side of the trade only.
Source: Philippine Dealing and Exchange Corporation (PDEx).

platform **(Figure 20)**. At the end of 3Q13, there were 20 Philippine companies that had their bonds listed with the exchange. This includes bonds issued by the National Home Mortgage Finance Corporation, known as *Bahay* Bonds 2, and Power Sector Assets and Liabilities Management Corporation (PSALM) bonds. *AsianBondsOnline* classifies the issuances of these two companies under government securities, since they are government-owned or -controlled corporations.

The secondary trading volume of corporate bonds is negligible compared to that of government securities, accounting for less than 1% of total bonds (government and corporate) traded in 2013. Nevertheless, the volume of secondary trading of corporate bonds grew to PHP31 billion in the first 9 months of 2013, up 141% compared with the same period in 2012.

Trading volume in 2010 was centered on PSALM bonds, comprising almost 78% of total trades that year. From 2011 to 2013, the trading volume of PSALM bonds declined to levels more comparable with those of the leading private sector issuers. The three companies with the highest trading volumes in 2013 were (i) SM Investment Corporation (PHP3.8 billion), (ii) Ayala Land, Inc. (PHP3.4 billion), and (iii) GT Capital Holdings (PHP3.3 billion).

Liquidity in the Philippine corporate bond market is very limited, since it is still a buy-and-hold market. Most investors tend to hold the corporate bonds up to maturity, due to yields that are better than most money market instruments presently available in the market.

Singapore

The average bid–ask spread for corporate bonds in Singapore widened to 21.9 bps in 2013 from 15.9 bps in 2012. Although the average trading size has increased slightly this year to SGD1.5 million from SGD1.4 million in 2012. The average issue size, on the other hand, has decreased to SGD179.2 million in 2013 from SGD194.5 million in 2012 **(Table 27)**.

Survey participants placed the typical tenor for a corporate bond in a range of around 5 years and made the following points:

- About 80% of Singapore corporate bonds remained unrated;
- Institutional investors (e.g., commercial banks) create their own internal ratings of select corporate issues, but this rating information is not made publicly available;
- Issuance by mid-sized companies became more frequent in 2013 due to demand for higher-yielding assets among private bank clients;

Table 27: LCY Corporate Bond Survey Results—Singapore

	Corporate Bonds
Average Issue Size (SGD million)	179.2
Bid–Ask Spread (bps)	21.9
Average Trading Size (SGD million)	1.5

bps = basis points, LCY = local currency.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

- Since the loan-to-deposits ratio for Singaporean banks has risen above 100%, banks are less eager to expand their loan books for smaller-sized companies;

- One constraint to the further participation of private banking clients in the corporate bond market is a regulation limiting the minimum trading size to SGD250,000 for securities on offer to institutional and sophisticated private investors; and

- If this limit could be reduced to a lower level, such as SGD125,000, it would improve market liquidity among the private banking client base, but regulators are unlikely to allow this.

Generally, the Singapore corporate bond market has evolved from one dominated by issuance from government–linked companies (e.g., Housing and Development Board) and blue chip private corporates to a market where mid-sized companies, high–yield corporates, and foreign issuers play an increasingly important role.

According to survey participants, the Singapore corporate bond market can be classified into four different sectors:

(i) large blue chips, including government-linked corporations (e.g., Housing and Development Board, Land and Transport Authority, and Public Utilities Board);

(ii) prominent local corporates, most of which are not government-linked corporations (e.g., UOB Bank, DBS Bank, Mapletree, Singtel, and Singapore Airlines);

(iii) mid-tier corporations, including companies that have established parent companies (e.g., Neptune Orient Lines, Hyflux, and Goodpack); and

(iv) corporations with higher-yielding bonds, most of which are mid–sized companies (e.g., Ezion Holdings, Aspial Corporation, Oxley Holdings, Hiap Hoe, and Mencast).

Perpetual bonds have also been highly successful in Singapore. Examples of perpetual issues in recent quarters include a SGD200 million perpetual bond issued by Sembcorp Industries at a coupon of 5.0% and a SGD850 million perpetual bond issued by UOB Bank at a coupon of 4.9%.

Foreign issuers have developed an appetite for issuance in Singapore, as Singapore dollar bonds provide cheap funding in a relatively stable currency. Quite a number of Indian corporations have issued SGD-denominated bonds—such as Tata Industries, Indian Oil Corporation, and ICICI Bank—to take advantage of this cheap funding. However, according to the survey participants, the performance of these bonds tends to lag US$-denominated bonds in any sell-off and recovery cycle. Liquidity in the Singapore dollar bond market is not as deep as the US dollar bond market.

In 2013, renminbi-denominated bonds are in the process of being introduced into Singapore's corporate bond market. Singapore has become the third offshore center for renminbi-denominated bonds in May of this year with issuance by HSBC, Standard Chartered, and the DBS Group. Renminbi-denominated bonds and SGD-denominated bonds share one important characteristic: investor interest in both types of bonds is driven in large part by expectations of currency appreciation. If Singapore-based banks and investment houses can offer a choice of either renminbi- or SGD-denominated bonds, they can greatly expand their product range.

Recently, the PRC and Singapore agreed on a set of initiatives to strengthen cooperation on financial sector development and regulation. One of these initiatives is for the PRC to extend its Renminbi Qualified Foreign Institutional Investor (RQFII) program to Singapore, with an aggregate quota of CNY50 billion, in order to allow qualified Singapore-based institutional investors to channel offshore renminbi from Singapore into the PRC's onshore securities markets.

Survey participants offered a number of policy prescriptions to help improve liquidity in Singapore's bond market:

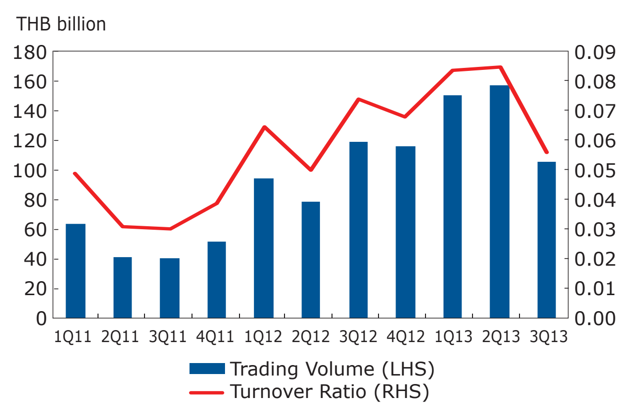
- more transparency in terms of price and volume (e.g., listing all bonds on the stock exchange);
- analysis of the investor base of corporate bonds;
- more corporate benchmarks as currently only HSBC offers local corporate benchmark, which comprises mostly high-grade names;
- reduced bond swap spreads to allow cross-border flows;
- public ratings to help improve corporate transparency and liquidity, and reduce capital charges for insurance companies;
- greater diversity of issuers and sectors involved in the bond market;
- a minimum benchmark size for new issues as a means of improving liquidity;
- broadened hedging avenues, especially for foreign investors;
- further development of the repo market, with repos extended into the corporate bond market;
- more comprehensive bond covenants; and
- increased investor education, especially with regard to complex-structured transactions.

THAILAND

The 2013 survey results show the average bid–ask spread for Thai LCY corporate bonds to be 8.6 bps, while the average trading size for on-the-run corporate debt stood at THB20.8 million, which was down from THB34.5 million in 2012. Meanwhile, the turnover ratio for LCY corporate bonds fell to 0.06 in 3Q13 from 0.08 in 2Q13 and 0.07 in 3Q12, with 3Q13's trading volume falling 32.8% q-o-q and 11.4% y-o-y **(Figure 21)**. Overall, these trends appear to reflect a tightening of liquidity in the Thai LCY corporate bond market in 3Q13. However, in the first 9 months of 2013, it appears that liquidity improved based on Thai Bond Market Association (ThaiBMA) data showing the trading volume of LCY corporate bonds in January–September reaching THB409.4 billion, up from THB288.8 billion in the same period in 2012.

A majority of survey respondents identified PTT Global Chemical as one of the most commonly traded names in the LCY corporate bond market. Other corporate names mentioned in the survey include Ayudhya Capital Auto Lease and Siam Cement. Some market participants believe that a rise in interest rates amid tighter liquidity conditions would raise funding costs and refinancing risks for corporates. Several respondents also shared the view that a tapering of the US Federal Reserve's asset purchase program would result in capital outflows from its LCY corporate bond market, restrain corporate debt issuance, and tighten market liquidity. Some survey respondents suggested that there was a need to entice more investors to participate in the market, develop

Figure 21: Turnover Ratio for LCY Corporate Bonds in Thailand



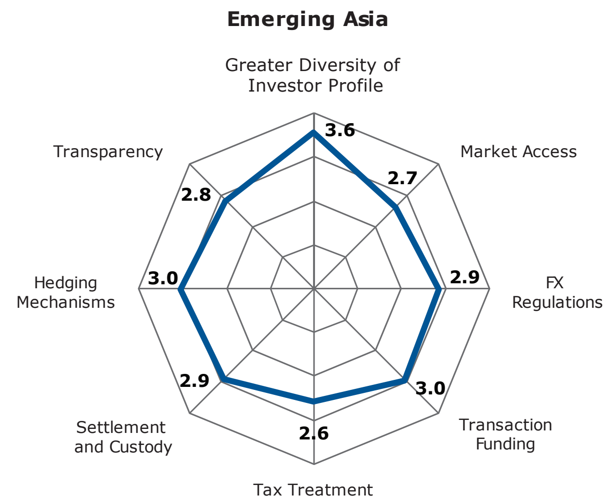
LCY = local currency.
Source: Bank of Thailand and The Thai Bond Market Association (ThaiBMA).

the repo market, and create more hedging instruments to deepen the market.

Qualitative Indicators for Corporate Bond Markets

Figure 22 summarizes the feedback of market participants on the structural and regulatory issues of the corporate bond markets in the region. The results for the region are similar to those from the government bond market survey, but the relative importance of the various types of structural issues are generally rated at lower levels for the corporate bond market than for the government bond market. Two exceptions to this, however are: greater diversity of investors and traders (3.6 for the corporate bond market and 3.5 for the government bond market) and settlement and custody (2.9 for the corporate bond market and 2.8 for the government bond market)

Figure 22: Regional Averages—LCY Corporate Bond Market Structural Issues



FX = foreign exchange, LCY = local currency.
Note: Emerging Asia comprises the People's Republic of China; Hong Kong, China; India; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

Greater Diversity of Investors and Traders. While participants rate greater diversity of investors and traders as the most important factor for both government and corporate bond markets, participants rated investor diversity slightly higher for corporate bond markets (3.6) than for government bond markets (3.5). One reason for this is that corporate bonds tend to be more heterogeneous than government bonds. Thus, greater diversity, among investors, with differing standards for returns and credit quality, would help promote further development of the corporate bond sector.

Hedging Mechanisms. Hedging mechanisms were rated less important in the corporate bond market (3.0) than in the government bond market (3.3). Hedging mechanisms have less of an impact on corporate bonds because a large part of corporate bond risk tends to be idiosyncratic or issuer-specific in nature, making them less suitable for typical hedging instruments. Participants are also more tolerant of the risks in corporate bond markets than in government bond markets as they accept this fact in order to improve returns. Hedging mechanisms received their highest ratings in the corporate bond markets of Malaysia (3.7) and the PRC (3.5), and the lowest ratings in the Philippines and Viet Nam (2.5 each), and Hong Kong, China (2.3) **(Figure 23)**.

Transaction Funding. Transaction funding was rated as one of the more important structural issues (3.0) for the region's corporate bond market as a whole, although its rating was slightly less than the 3.2 rating for the region's government bond market. The highest rating for transaction funding was in the PRC (3.8) and would seem to reflect the liquidity concerns generated by the SHIBOR shock event in June.

Foreign Exchange Regulations.Foreign exchange regulations were rated less important for the region's corporate bond market (2.9) than the government bond market (3.1). These scores show that preferences for corporate bond investors are quite different from government bond investors and they typically have a much broader set of concerns.

Figure 23: Structural Issues for Individual LCY Corporate Bond Markets

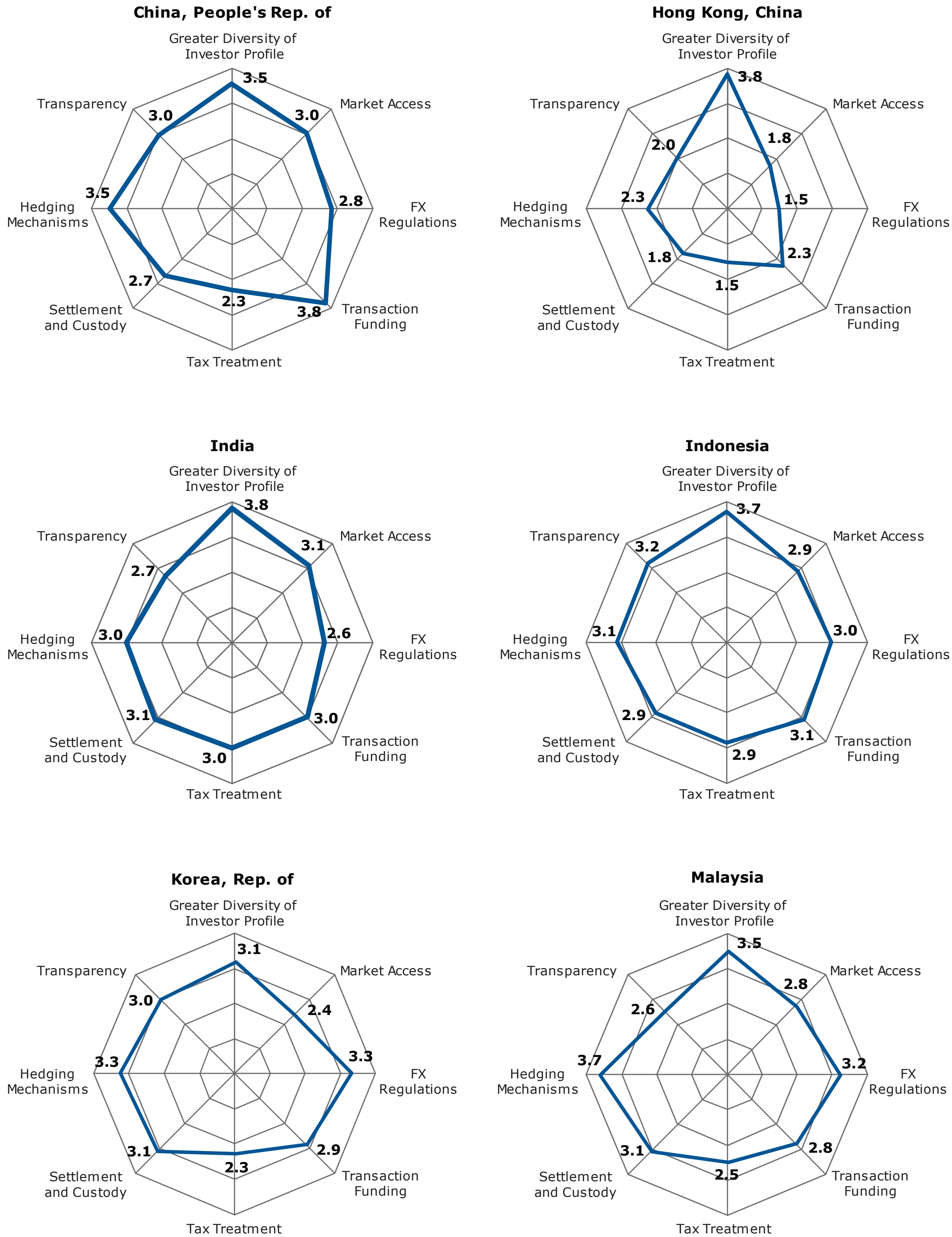


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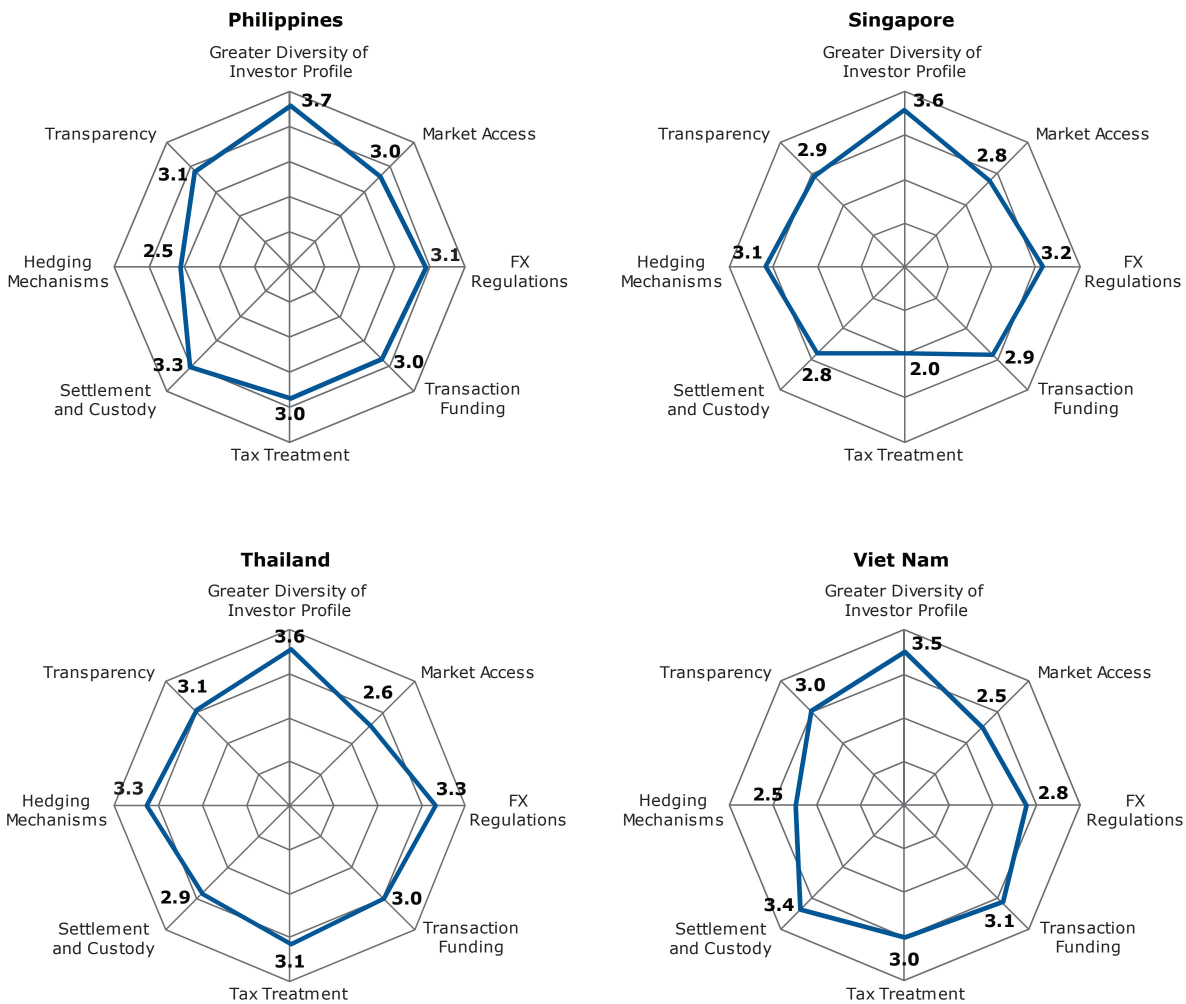
Figure 23 *continued*



FX = foreign exchange, LCY = local currency.
Source: *AsianBondsOnline* 2013 LCY Bond Market Liquidity Survey.

Settlement and Custody. Settlement and custody was rated as slightly more important in the corporate bond market (2.9) than in the government bond market (2.8). The infrastructure for trading and settlement tends to be more developed for government bonds than corporate bonds. One reason is that some governments will develop the infrastructure for government bond trading since this is used as a funding source. Government bond markets also tend to develop first, with the corporate bond market development lagging behind.

Market Access. The importance of market access in the region's corporate bond market (2.7) was rated below that of the government bond market (2.8).

Transparency and Tax Treatment. Transparency received a lower score in corporate bond markets (2.8) than in government bond markets (3.1), while tax treatment in both markets was rated similarly (2.6).

Responses on structural issues differed considerably among individual corporate bond markets:

- In 2013, PRC market participants rated transaction funding very highly at 3.8. As mentioned above, this score reflects the liquidity concerns in the PRC's corporate bond market arising from the SHIBOR shock event in June. The transaction funding rating in the PRC corporate bond market in 2012 was lower, albeit still significant, at 3.3.

- Hong Kong, China rates almost all categories of structural issues at low levels, reflecting its status as one of the most open capital markets in Asia.

- In the Republic of Korea, foreign exchange regulations are rated highly at 3.3, reflecting the government's macroprudential measures on capital flows. This is also the reason why hedging mechanisms were rated highly (3.3) in the Republic of Korea.

- In Singapore, foreign exchange regulations were the second highest qualitative liquidity indicator in its market, with a rating of 3.2, demonstrating the importance of the Singapore corporate bond market as a funding platform for foreign issuers.

Market Summaries

People's Republic of China

Yield Movements

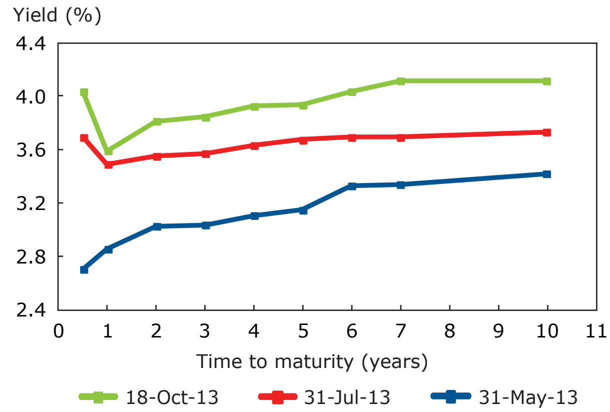
The government bond yield curve for the People's Republic of China (PRC) dramatically shifted upward between end-May and end-July **(Figure 1)**. At the shorter-end of the curve, yields rose between 63 basis points (bps) and 111 bps for tenors of 1 year or less. Yields rose between 31 bps and 53 bps for tenors longer than 1 year.

The steep rise in yields between end-May and end-July was the result of the SHIBOR shock event in June. The overnight SHIBOR rate was 4.6% and the 7-day interbank repurchase (repo) rate was 4.8% at the beginning of June. By 8 June, liquidity demands had driven the SHIBOR rate up to 7.5% and the 7-day repo rate to 7.8%. The People's Bank of China's (PBOC) issuance of bills in June for the first time since 2011 exacerbated the situation, further reducing liquidity in the market.

Yields between end-July and 18 October also rose, particularly for the 6-month tenor, which rose 34 bps. Yields rose between 26 bps and 42 bps for tenors longer than 1 year. Yields have risen due to both economic and regulatory factors. In May, the government launched a crackdown on illegal bond trading activities, causing a reduction in trading volumes. Policy measures were taken including the removal of the interbank trading accounts of non-financial companies. Trading volumes have also declined due to uncertainty over the United States (US) Federal Reserve's monetary policy as well as concern over the recent confrontation in the US Congress over renewing approval of the federal government's borrowing authority.

At the same time, yields have risen, particularly at the shorter-end of the curve, on concerns that the PBOC might tighten the money supply. On 17 October, the PBOC suspended reverse repo operations, reducing overall liquidity in the system. The market is concerned that the central bank may tighten in response to rising inflation and amid a gross domestic product (GDP) growth outlook that remains stable. As a result, at the start of October the 1-week SHIBOR stood at 4.4%, but by 28 October had risen to 4.9%. The 1-week interbank repo rate rose from 4.4% to 5.6% in the same period. In order to calm the market, the PBOC resumed reverse repo operations in the last week of October.

Figure 1: The People's Republic of China's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

GDP grew 7.8% year-on-year (y-o-y) in 3Q13 following 7.5% growth in 2Q13. The year-to-date GDP growth rate stood at 7.7% at end-September, exceeding the government's target of 7.5%. Domestic demand is driving growth as the government seeks to rebalance the country's economy amid concern over the external environment. Demand from developed nations remains weak, with exports from the PRC falling 0.3% y-o-y in September from 7.1% in August.

Consumer price inflation rose to 3.1% y-o-y in September from 2.6% in August. The increase in prices for September was mostly due to rising food prices.

Size and Composition

The amount of outstanding local currency (LCY) bonds in the PRC market reached CNY26.4 trillion (US$4.3 trillion) at end-September, an increase of 3.0% quarter-on-quarter (q-o-q) and 14.4% y-o-y, largely driven by growth in policy bank and corporate bonds **(Table 1)**.

Government Bonds. LCY government bonds outstanding grew 2.7% q-o-q and 5.8% y-o-y in 3Q13, largely driven by growth in policy bank bonds, which expanded 3.1% q-o-q and 13.8% y-o-y, and treasury bonds, which rose 5.4% q-o-q and 12.4% y-o-y. Central bank bonds fell 30.3% q-o-q and 64.7% y-o-y. The PBOC, due to the SHIBOR shock event in June, allowed a number of central bank bills and bonds to mature while issuing only 3-year bonds in 3Q13. At end-September, there were no central bank bills outstanding.

Corporate Bonds. Corporate bonds outstanding grew 3.9% q-o-q and 39.1% y-o-y in 3Q13 **(Table 2)**. Growth was driven mainly by increases of 5.6% q-o-q and 58.3% y-o-y in medium-term notes, and a 2.9% q-o-q and 47.4% y-o-y

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

	Outstanding Amount (billion)						Growth Rates (%)			
	3Q12		2Q13		3Q13		3Q12		3Q13	
	CNY	US$	CNY	US$	CNY	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**23,046**	**3,667**	**25,584**	**4,168**	**26,364**	**4,307**	**4.6**	**11.2**	**3.0**	**14.4**
Government	17,119	2,724	17,644	2,875	18,117	2,960	4.4	8.4	2.7	5.8
Treasury Bonds	7,915	1,259	8,438	1,375	8,895	1,453	5.5	8.8	5.4	12.4
Central Bank Bonds	1,597	254	809	132	564	92	(2.9)	(24.5)	(30.3)	(64.7)
Policy Bank Bonds	7,606	1,210	8,397	1,368	8,658	1,415	4.9	18.9	3.1	13.8
Corporate	5,927	943	7,940	1,294	8,247	1,347	5.0	20.2	3.9	39.1
Policy Bank Bonds										
China Development Bank	5,142	818	5,525	900	5,678	928	4.5	15.4	2.8	10.4
Export–Import Bank of China	1,008	160	1,268	207	1,277	209	8.4	29.2	0.7	26.7
Agricultural Devt. Bank of China	1,457	232	1,604	261	1,703	278	4.1	25.4	6.2	16.9

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Treasury bonds include savings bonds and local government bonds.
3. Bloomberg LP end-of-period LCY–US$ rate is used.
4. Growth rates are calculated from an LCY base and do not include currency effects.
5. The balance of outstanding commercial paper as of 3Q13 was CNY1.5 trillion based on data from *Wind*.
Sources: Bloomberg LP, *ChinaBond,* and *Wind*.

Table 2: Corporate Bonds Outstanding in Key Sectors

	Outstanding Amount (CNY billion)				Growth Rates (%)				
					q-o-q				y-o-y
	4Q12	1Q13	2Q13	3Q13	4Q12	1Q13	2Q13	3Q13	3Q13
Commercial Bank Bonds	1,265	1,304	1,329	1,299	14.4	3.1	1.9	(2.2)	17.5
State-Owned Corporate Bonds	993	1,024	653	647	0.2	3.2	(36.3)	(0.9)	(34.7)
Local Corporate Bonds	1,305	1,484	1,580	1,626	18.3	13.7	6.4	2.9	47.4
Medium-Term Notes	2,492	2,662	3,509	3,705	6.5	6.8	31.8	5.6	58.3

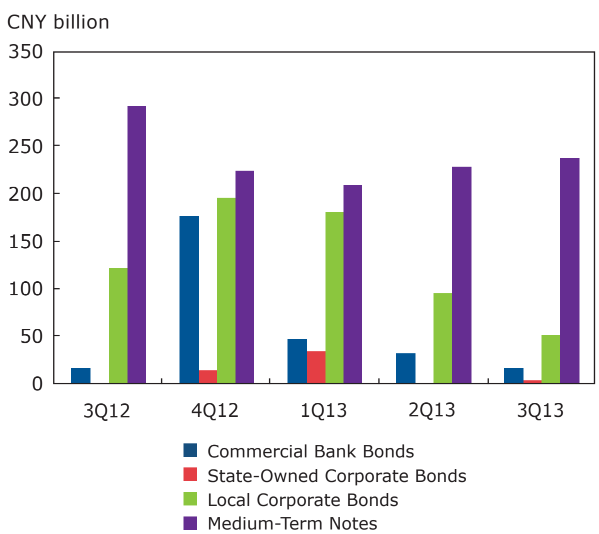
( ) = negative, – = not available, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Source: *ChinaBond.*

increase in local corporate bonds outstanding. Commercial bank bonds fell 2.2% q-o-q but grew 17.5% y-o-y, largely due a carryover effect from the issuance of subordinated notes in 2012 as the PRC's banks sought to bolster their capital bases ahead of the implementation of Basel III capital adequacy requirements. State-owned enterprise (SOE) bonds outstanding fell 0.9% q-o-q and 34.7% y-o-y in 3Q13.

The overall issuance of corporate bonds was lower in 3Q13 compared with 2Q13 **(Figure 2)**, with the exception of medium-term notes (MTNs) and SOE bonds. Commercial bank bonds have been on the decline; 4Q12 was the last time banks issued bonds ahead of the implementation of Basel III requirements.

A relatively small number of issuers dominate the PRC's corporate bond market **(Table 3)**. As of 3Q13, the top 30 corporate bond issuers accounted for CNY4 trillion worth of corporate bonds outstanding, or about 49% of the market. Among the top 30 corporate issuers, the 10 largest accounted for CNY2.6 trillion worth of bonds outstanding.

Figure 2: Corporate Bond Issuance in Key Sectors



Source: *ChinaBond.*

State-owned companies—defined as majority-owned by the government—continued to dominate the corporate bond market in 3Q13. Among the top 30 corporate issuers at end-September, 23 were state-owned, with a total of CNY3.5 trillion worth of bonds outstanding.

Table 4 presents the most significant issuances of 3Q13.

Investor Profile

Treasury Bonds. Banks remained the largest category of investors in the PRC's treasury bond market, which includes policy bank bonds, holding a slightly larger share of these bonds at the end of 3Q13 (77.3%) than at the end of 3Q12 (77.0%) **(Figure 3)**. The share held by special members fell to 9.7% from 10.8% during the same period. Special members comprise the PBOC, Ministry of Finance, policy banks, China Government Securities Depository Trust and Clearing Company, and China Securities Depository and Clearing Corporation.

Corporate Bonds. Banks were also the largest holder of corporate bonds at the end of 3Q13, albeit with a comparatively smaller share than their holdings of treasury bonds and policy bank bonds. Banks' share of corporate bonds fell to 30.7% at the end of 3Q13 from 38.5% a year earlier **(Figure 4)**. The second largest holder of corporate bonds was insurance companies, with a 15.8% share at end-September, down from their 24.9% share at end-September 2012.

Figure 5 presents the investor profile across different bond categories. Based on the latest data available, banks were the largest holders of MTNs at end-September with more than 50% of MTNs. Meanwhile, insurance companies were the largest holders of commercial bank bonds.

Liquidity

Figure 6 presents the turnover ratio for government bonds, including both spot trading and repo trading volumes. The volume of repo

Table 3: Top 30 Issuers of LCY Corporate Bonds in the People's Republic of China

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (CNY billion)	LCY Bonds (US$ billion)			
1. China Railway	827.0	135.11	Yes	No	Transportation
2. China National Petroleum	340.0	55.55	Yes	No	Energy
3. State Grid Corporation of China	339.5	55.47	Yes	No	Public Utilities
4. Industrial and Commercial Bank of China	230.0	37.58	Yes	Yes	Banking
5. Bank of China	219.9	35.93	Yes	Yes	Banking
6. China Construction Bank	200.0	32.67	Yes	Yes	Banking
7. Agricultural Bank of China	150.0	24.51	Yes	Yes	Banking
8. China Petroleum & Chemical	134.7	22.01	Yes	Yes	Energy
9. Central Huijin Investment	109.0	17.81	Yes	No	Diversified Financial
10. Petrochina	107.5	17.56	Yes	Yes	Energy
11. China Guodian	107.1	17.50	Yes	No	Public Utilities
12. China Minsheng Bank	102.3	16.71	No	Yes	Banking
13. Shenhua Group	92.0	15.03	Yes	No	Energy
14. China Power Investment	87.9	14.36	Yes	No	Public Utilities
15. Bank of Communications	86.0	14.05	No	Yes	Banking
16. Shanghai Pudong Development Bank	79.2	12.94	No	Yes	Banking
17. China Three Gorges Project	77.5	12.66	Yes	No	Public Utilities
18. China Southern Power Grid	70.5	11.52	Yes	No	Public Utilities
19. Industrial Bank	68.0	11.11	No	Yes	Banking
20. China Life	68.0	11.11	Yes	Yes	Insurance
21. China Merchants Bank	61.7	10.08	No	Yes	Banking
22. State-Owned Capital Operation and Management Center of Beijing	58.5	9.56	Yes	No	Diversified Financial
23. China Huaneng Group	58.2	9.51	Yes	No	Public Utilities
24. Citic Group	53.5	8.74	Yes	No	Diversified Financial
25. Huaneng Power International	53.0	8.66	Yes	Yes	Public Utilities
26. China Everbright Bank	52.7	8.61	No	Yes	Banking
27. Tianjin Infrastructure Investment Group	47.8	7.81	Yes	No	Capital Goods
28. China Datang	45.7	7.47	Yes	No	Public Utilities
29. Bank of Beijing	43.5	7.11	No	Yes	Banking
30. Aluminum Corporation of China Limited	43.0	7.03	Yes	Yes	Raw Materials
Total Top 30 LCY Corporate Issuers	**4,013.74**	**655.74**			
Total LCY Corporate Bonds	**8,246.74**	**1,347.31**			
Top 30 as % of Total LCY Corporate Bonds	**49%**	**49%**			

LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on *Wind* data.

Table 4: Notable LCY Corporate Bond Issuance in 3Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China Railway Construction		
7-year bond	5.06	20
7-year bond	5.2	15
10-year bond	4.97	10
10-year bond	5.1	10
20-year bond	5.35	10
China State Grid		
3-year bond	4.68	10
Bank of Communications		
5-year bond	4.37	10
Wuhan Iron and Steel Group		
3-year bond	4.99	7
Shenyin & Wanguo Securities		
6-year bond	5.2	6
Shanghai Shengtong Metro Group		
5-year bond	5.35	6

LCY = local currency.
Source: *Wind*.

trading is larger than that of spot trading in the PRC bond market, and the repo market is also the more active of the two. In 3Q13, spot turnover ratios for treasury, central bank, and policy bank bonds all fell dramatically due to a government crackdown on illegal bond trading.

Interest Rate Swaps

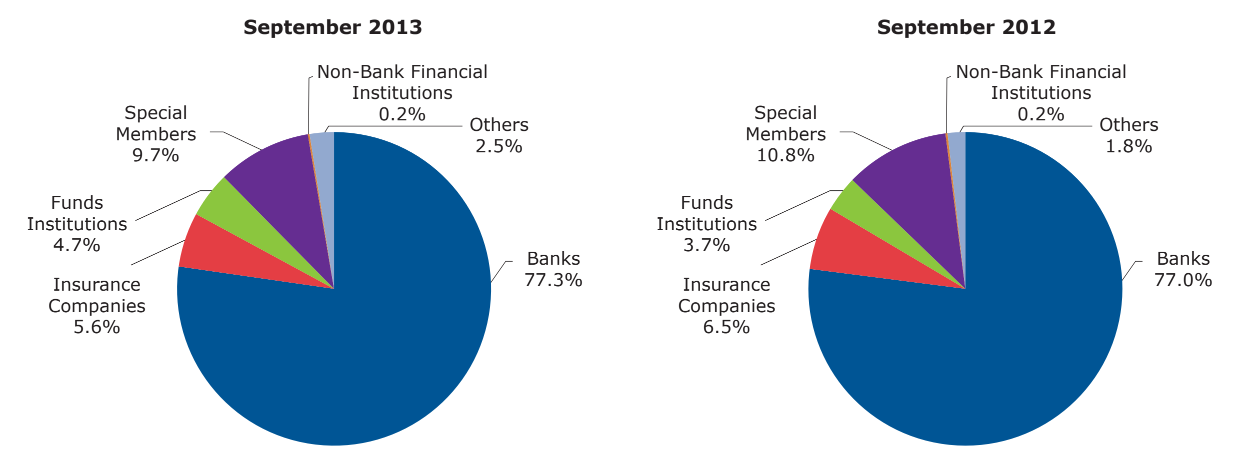
In 3Q13, the total notional amount of signed interest rate swap (IRS) agreements in the PRC reached CNY569.8 billion on 5,634 transactions **(Table 5)**. The most popular benchmark is the 7-day repo, which accounts for 70.9% of all transactions.

Policy, Institutional, and Regulatory Developments

The PRC Tightens Rules on Interbank Bond Trading

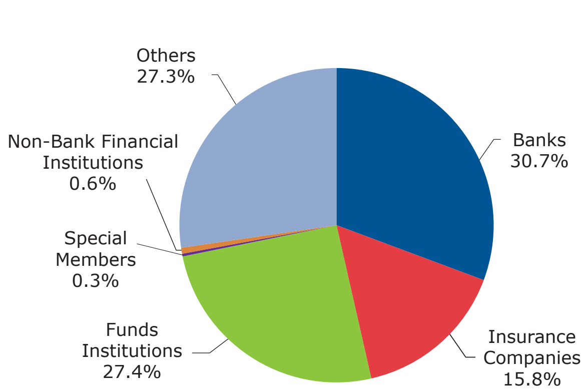
On 9 May, the PRC suspended trading of bond accounts by non-financial institutions on the interbank bond market. On 9 July, the PBOC issued rules requiring interbank bond market participants to conduct all trades through the National Interbank Funding Center. The move is part of the government's crackdown on illegal bond trading activities. Among the activities that the government is targeting are the use of third parties by financial managers to move bonds off their balance sheets to manipulate profits and trading volumes, and the use of client funds to skim profits for personal gain.

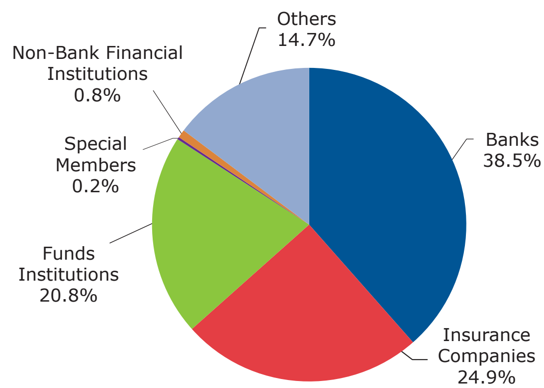
Figure 3: LCY Treasury Bonds Investor Profile



LCY = local currency.
Source: *ChinaBond*.

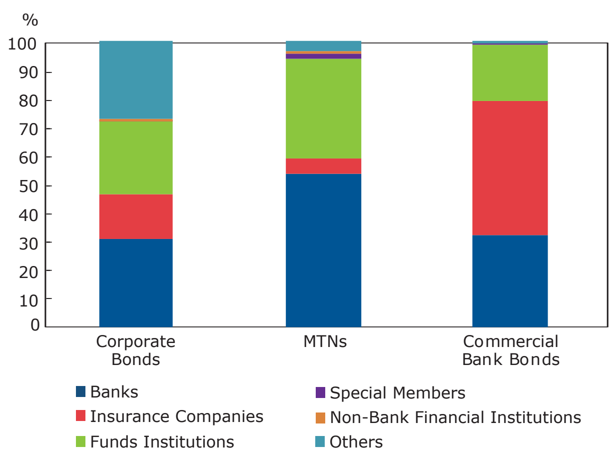
Figure 4: LCY Corporate Bonds Investor Profile





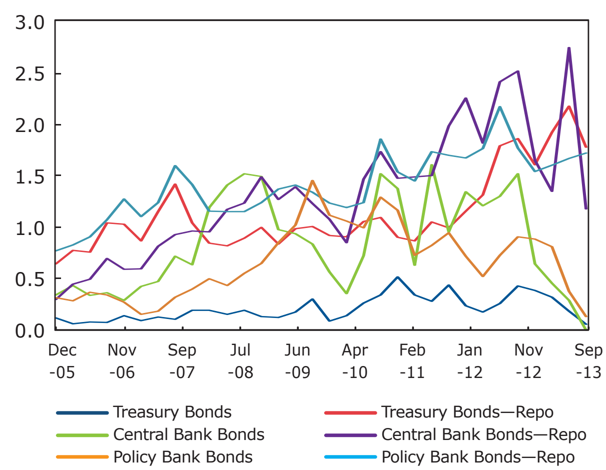
LCY = local currency.
Source: *ChinaBond*.

Figure 5: Investor Profile across Bond Categories



MTNs = medium-term notes.
Note: Data as of end-September 2013.
Source: *ChinaBond*.

Figure 6: Turnover Ratios for Government Bonds



Repo = repurchase.
Source: *ChinaBond*.

SME Pilot Bond Program to be Expanded

On 26 August, the China Securities Regulatory Commission said it will expand the number of participating companies in the private placement bond program for small and medium-sized enterprises (SMEs). The list will be expanded to include more companies that are listed on the Third Board.

SAFE Expands QDII Program

On 28 August, the State Administration of Foreign Exchange (SAFE) said that it will relax the requirements of the Qualified Domestic Institutional Investor (QDII) program, making it easier to make foreign investments. Among the changes to be implemented include relaxation on the types of foreign currency to be used, simplified foreign exchange quota applications, and foreign exchange settlement.

Table 5: Notional Values of the PRC's Interest Rate Swap Market in 3Q13

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	% of Total Notional Amount	Number of Transactions	Growth Rate (%)	
	3Q13			q-o-q	y-o-y
7-Day Repo Rate	403.9	70.9	4,518	(24.2)	(4.7)
Overnight SHIBOR	79.0	13.9	156	(55.9)	(68.8)
3-Month SHIBOR	80.1	14.1	833	8.5	1.8
1-Year Term Deposit Rate	4.1	0.7	36	7.9	(84.8)
1-Year Lending Rate	1.7	0.3	82	(68.0)	(87.3)
3-Year Lending Rate	1.0	0.2	9	(8.3)	(70.0)
Total	**569.8**	**100.0**	**5,634**	**(28.4)**	**(28.9)**

( ) = negative, PRC = People's Republic of China, q-o-q = quarter-on-quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate, y-o-y = year on year.
Sources: *AsianBondsOnline* and *ChinaMoney*.

The PRC Launches Treasury Bond Futures Trading

On 6 September, the trading of treasury bond futures, previously banned in 1995, resumed. The bond futures contract will be based on a hypothetical 5-year bond but actual bonds with tenors of between 4 years and 7 years will be allowed as the deliverable asset.

PBOC Preparing for Self-Regulatory Pricing Mechanism

On 24 September, the PBOC conducted its first meeting on the Self-Regulatory Pricing Mechanism. The meeting identified tasks to be performed in order to allow a more market-based setting of interest rates. The tasks include setting up a self-regulatory pricing mechanism that will allow coordination among participating financial institutions in setting interest rates. A quotation system for providing lending rate quotes will also be established, expanding the quotation of interest rates from the money market to the include the credit market as well. Finally, the development of tradable certificates of deposit will be promoted. The meeting is widely regarded as the first step toward the PRC government's liberalization of interest rates.

Shanghai Free Trade Zone Launched

On 29 September, the Shanghai Free Trade Zone was officially opened. At the time of the opening, 10 banks had already received approval to operate in the free trade zone. Companies' activities are subject to a "negative list" that details restrictions. Companies are free to conduct their activities so long as the acts are not specifically banned by the list, which includes restrictions on investments in telecommunications and broadcasting. Investments in news portals and online gaming are also banned. Also, foreign auto companies are still limited to a 50% stake in a joint venture and there will be restrictions on investments in financial institutions.

The free trade zone is expected to allow financial institutions to set their own borrowing and lending interest rates, and the freer conversion of the renminbi is also expected.

New Prime Lending Rate Launched

On 25 October, the PRC launched a benchmark lending rate to guide banks in setting lending rates to their prime customers. The benchmark is another step in the liberalization of the PRC's interest rates since it removed the limits on lending rates on 20 July. The new rate has a 1-year tenor and is set by nine commercial banks: Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, Bank of China, Bank of Communications, Citic Bank, Shanghai Pudong Development Bank, China Merchants Bank, and Industrial Bank.

Hong Kong, China

Yield Movements

The yield curve for Hong Kong, China's Exchange Fund Bills and Notes (EFBNs) steepened dramatically between end-May and end-July **(Figure 1)**, with yields rising between 3 basis points (bps) and 15 bps on tenors of 3-years or less, and between 41 bps and 84 bps on longer-dated tenors. The rise in yields was prompted by statements from United States (US) Federal Reserve Chairman Ben Bernanke in May that the pace of bond purchases could be tapered later in 2013 and halted in 2014 should economic data support such action.

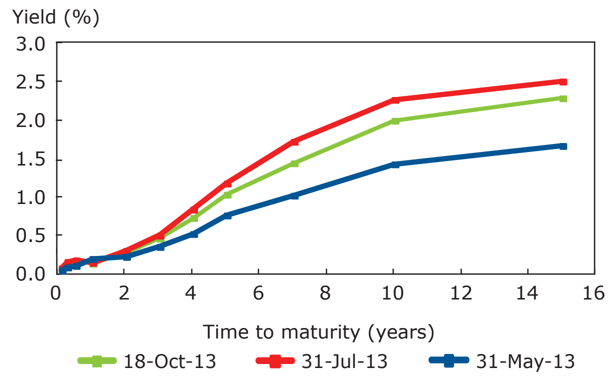
Between end-July and mid-October, yields fell between 1 bp and 4 bps on tenors of 3-years or less, and between 10 bps and 28 bps on longer-dated tenors. The declines were driven by statements of the US Federal Reserve Bank in mid-September that the tapering of its bond-buying program was not imminent and by the resolution in mid-October of the dispute in the US Congress over raising the federal government's debt ceiling. Hong Kong, China's bond yields track closely with yield changes in the US Treasury market as Hong Kong, China does not have an independent monetary policy and pegs its currency to the US dollar.

The rise in yields also reflected improvements in Hong Kong, China's economy as well as rising inflation. Specifically, Hong Kong, China's economic growth accelerated to 3.3% year-on-year (y-o-y) in 2Q13 from 2.8% y-o-y in 1Q13. Growth in 2Q13 was supported mostly by domestic demand, with private consumption adding 2.9 percentage points to GDP growth. In June, retail sales rose 14.7% y-o-y from 12.8% in May.

The government now expects GDP growth for 2013 to be between 2.5% and 3.5%, compared with an original forecast of 1.5%–3.5%.

Inflation has since come down from July's 6.9% y-o-y rise. August's inflation was 4.5% and September's inflation was 4.6%. July's 6.9% inflation was driven by a low base effect in 2012 due to the government's subsidy of public housing rentals for the month. Inflation rose slightly in September from August due to higher food prices. The government expects further upside risks to inflation to be contained as the feed-through effect of housing rents in late 2012 passes and imported inflation continues to be subdued.

Figure 1: Hong Kong, China's Benchmark Yield Curve—EFBNs



EFBN = Exchange Fund Bills and Notes.
Source: Bloomberg LP.

Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market grew 0.8% quarter-on-quarter (q-o-q) to reach HKD1.5 trillion (US$194 billion) at end-September **(Table 1)**. On a y-o-y basis, LCY bonds outstanding rose 10.1% in 3Q13.

Total LCY government bonds outstanding rose 0.5% q-o-q and 16.2% y-o-y at end-September. Government bonds include Exchange Fund Bills (EFBs), Exchange Fund Notes (EFNs), and bonds issued under the Institutional Bond Issuance Programme (HKSAR Bonds).

The amount of LCY government bonds reached HKD838 billion at end-September. Most of the growth in government bonds in 3Q13 could be attributed to growth in HKSAR bonds, which

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

	Outstanding Amount (billion)						**Growth Rate** (%)			
	3Q12		**2Q13**		**3Q13**		**3Q12**		**3Q13**	
	HKD	**US$**	**HKD**	**US$**	**HKD**	**US$**	**q-o-q**	**y-o-y**	**q-o-q**	**y-o-y**
Total	**1,364**	**176**	**1,488**	**192**	**1,501**	**194**	**1.4**	**3.3**	**0.8**	**10.1**
Government	721	93	834	107	838	108	0.1	3.4	0.5	16.2
Exchange Fund Bills	588	76	682	88	682	88	0.1	0.5	0.1	16.0
Exchange Fund Notes	69	9	68	9	68	8.8	0.0	(0.9)	0.0	(0.9)
HKSAR Bonds	64.0	8.2	84	11	87	11	0.0	50.6	4.2	35.9
Corporate	643	83	655	84	663	86	3.0	3.3	1.3	3.2

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

expanded 4.2% q-o-q to HKD87 billion from HKD84 billion at end-June. On the other hand, the stock of EFNs remained unchanged on a q-o-q basis at HKD68 billion, while EFBs rose a marginal 0.1%.

Under the Institutional Bond Issuance Programme, HKD2 billion of 5-year HKSAR bonds were issued in July, HKD1.5 billion of 10-year HKSAR bonds were issued in August, and HKD3.5 billion of 2-year bonds were issued in September.

The amount of LCY corporate bonds outstanding rose to HKD663 billion at end-September, reflecting growth of 1.3% q-o-q and 3.2% y-o-y. The top 27 non-bank corporate issuers in Hong Kong, China accounted for about 16% of total corporate bonds outstanding in 3Q13 **(Table 2)**. Hong Kong, China's top corporate issuer of LCY bonds remained the state-owned Hong Kong Mortgage Corporation (HKMC) with outstanding bonds valued at HKD13.8 billion at end-September. CLP Power Hong Kong Financing Ltd. was the next largest issuer with outstanding bonds of HKD10.4 billion. Sun Hung Kai Properties (Capital Market) Ltd. was the third largest issuer with outstanding bonds of HKD10 billion.

Real estate firms dominated the list of the top 27 non-bank corporate issuers in 3Q13, accounting for nine of the 27 issuers. Five state-owned companies were included on the list, while 22 were privately owned. Among the companies in Table 2, eight are listed on the Hong Kong Exchange. **Table 3** presents some notable issuances from non-bank institutions in 3Q13.

Policy, Institutional, and Regulatory Developments

Malaysia and Hong Kong, China Agree to Strengthen Financial Cooperation

On 28 August, the Hong Kong Monetary Authority (HKMA) and Bank Negara Malaysia (BNM) held a meeting in Kuala Lumpur to discuss bilateral economic and financial issues. Following the meeting, the two central banks agreed to help strengthen economic cooperation by promoting trade and investment. Among the areas discussed were offshore renminbi business development and the internationalization of Islamic finance.

Table 2: Top 27 Non-Bank Corporate Issuers in Hong Kong, China

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (HKD billion)	LCY Bonds (US$ billion)			
1. The Hong Kong Mortgage Corporate Ltd.	13.83	1.78	Yes	No	Finance
2. CLP Power Hong Kong Financing Ltd.	10.43	1.34	No	No	Electric
3. Sun Hung Kai Properties (Capital Market) Ltd.	10.01	1.29	No	No	Real Estate
4. MTR Corporation (C.I.) Ltd.	6.35	0.82	Yes	Yes	Transportation
5. Wharf Finance Ltd.	6.24	0.80	No	No	Diversified
6. The Link Finance (Cayman) 2009 Ltd.	6.14	0.79	No	No	Finance
7. HKCG (Finance) Limited	5.60	0.72	No	No	Gas
8. Hongkong Electric Finance Ltd.	5.51	0.71	No	No	Electric
9. Swire Pacific Ltd.	4.83	0.62	No	Yes	Diversified
10. Kowloon-Canton Railway Corporation	4.80	0.62	Yes	No	Transportation
11. Cheung Kong Bond Finance Ltd.	4.62	0.60	No	Yes	Real Estate
12. Urban Renewal Authority	3.90	0.50	Yes	No	Real Estate
13. Wheelock Finance Ltd.	3.74	0.48	No	No	Diversified
14. NWD (MTN) Ltd.	3.50	0.45	No	Yes	Real Estate
15. Airport Authority Hong Kong	3.30	0.43	Yes	No	Transportation
16. Yue Xiu Enterprises (Holdings) Ltd.	3.00	0.39	No	No	Diversified
17. Hysan (MTN) Ltd.	2.43	0.31	No	No	Finance
18. Henderson Land MTN Ltd.	1.83	0.24	No	Yes	Finance
19. Cathay Pacific MTN Financing Ltd.	1.70	0.22	No	Yes	Airlines
20. Nan Fung Treasury Ltd.	1.31	0.17	No	No	Real Estate
21. Dragon Drays Ltd.	1.00	0.13	No	No	Diversified
22. Swire Properties MTN Financing Ltd.	0.80	0.10	No	No	Real Estate
23. R-Reit International Finance Ltd., BVI	0.78	0.10	No	No	Real Estate
24. Wing Tai Properties (Finance) Ltd., BVI	0.58	0.07	No	No	Real Estate
25. HLP Finance Ltd.	0.56	0.07	No	Yes	Real Estate
26. CITIC Pacific Ltd.	0.50	0.06	No	Yes	Diversified
27. The Hongkong Land Notes Company Ltd.	0.20	0.03	No	No	Finance
Total Top 27 Non-Bank LCY Corporate Issuers	**107.45**	**13.85**			
Total LCY Corporate Bonds	**663.44**	**85.54**			
Top 27 as % of Total LCY Corporate Bonds	**16.20%**	**16.20%**			

LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Hong Kong Monetary Authority data.

Table 3: Notable LCY Corporate Bond Issuance in 3Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
NWD (MTN) Ltd.		
10-year bond	6.00	2.00
10-year bond	5.90	1.15
10-year bond	5.90	0.35
Swire Pacific MTN Financing Ltd.		
10-year bond	4.00	0.52
10-year bond	4.00	0.23
The Hong Kong Mortgage Corporation		
2-year bond	0.39	0.50

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

Indonesia

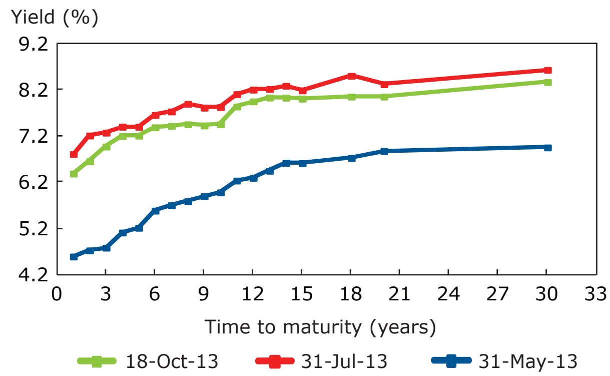
Yield Movements

Local currency government (LCY) bond yields in Indonesia rose dramatically and shifted the entire curve upward between end-May and end-July **(Figure 1)**. Yields gained more at the shorter-end of the curve than at the longer-end, resulting in the flattening of the yield curve. The steep rise in yields reflected negative sentiments stemming from both domestic and external factors. Bond yields have been on the rise since May on concerns that the United States (US) Federal Reserve will begin to taper its asset purchase program in the latter part of the year. On the domestic front, several issues weighed on market sentiment, including rising inflation expectations, a widening current account deficit, a weakening rupiah exchange rate, higher financing requirements for the state budget, and warnings of a possible rating downgrade.

Between end-July and 18 October, government bond yields fell across the curve, shifting the yield curve downward. Yields dropped the most for the 2-year maturity, shedding 56 basis points (bps). Yields fell 42 bps at the shortest-end of the curve and 26 bps at the longest-end. The spread between the 2-year and 10-year maturities narrowed to 62 bps at end-July before it widened again to 80 bps by mid-October.

Since mid-September, LCY bond yields have recovered following the decision of the US Federal Reserve to maintain its quantitative easing program. Immediately after the US Federal Reserve announcement on 18 September, 10-year bonds rebounded with yields falling below the 8.0% level. Bond yields further corrected through mid-October after US lawmakers agreed to end the federal government shutdown and raise the debt ceiling to avoid a possible default. The 10-year bond yield rose to nearly 9.0% in early September, and bottomed at 7.5% on 18 October. However, Bank Indonesia (BI) continues to take a cautious stand and is not overly optimistic in its outlook for the global economy, due in part to the US Congress having to vote again on raising the US debt ceiling in early 2014.

Figure 1: Indonesia's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

The correction in bond yields was also boosted by improving domestic economic fundamentals as coordinated stabilizing efforts by the government and the central bank began to show positive signs. For example, consumer price inflation slowed to 8.3% year-on-year (y-o-y) in October and 8.4% in September, after rising to 8.6% and 8.8% in July and August, respectively. (Indonesia's inflation rate, however, remains the highest in emerging East Asia.) In addition, a trade surplus was recorded in August. More recent data, however, show a trade deficit amounting to US$657 million in September.

BI's policy bias has changed from neutral to tightening with the cumulative 150 bps hike in the benchmark rate between June and September. The rate hikes provided a confidence boost to investors who were worried about the widening current account deficit and external funding risks. On 8 October, the meeting of BI's Board of Governors concluded with the benchmark rate being maintained at 7.25%. BI also kept the lending facility and deposit facility rates steady at 7.25% and 5.50%, respectively. BI said that it will continue to monitor global and domestic economic developments, and further synergize its monetary and macroprudential policy mix, to ensure that inflationary pressures are contained, rupiah exchange rate stability is maintained, and the current account deficit is reduced to a sustainable level.

Meanwhile, economic growth in Indonesia fell below 6.0% y-o-y in 2Q13 for the first time since September 2010. Real gross domestic product (GDP) growth eased to 5.8% in 2Q13 compared with annual growth of 6.0% in 1Q13. Domestic consumption and investments moderated to 5.1% and 4.7%, respectively, in 2Q13. Growth in government spending, on the other hand, rose to 2.1% in 2Q13 from 0.4% in the previous quarter. On a quarter-on-quarter (q-o-q) basis, however, the economy grew 2.6% in 2Q13 following a 1.4% expansion in 1Q13. BI forecasts economic growth to slow to 5.6% in 3Q13, with growth of between 5.5% and 5.9% for the year as a whole.

Size and Composition

LCY bonds outstanding in Indonesia rose to IDR1,226.3 trillion (US$108 billion) at end-September, climbing 3.9% q-o-q **(Table 1)**. On a y-o-y basis, the bond market rose at a faster pace of 16.3%.

Outstanding LCY government bonds posted 3.7% q-o-q and 14.5% y-o-y growth rates to reach IDR1,011.4 trillion at end-September. Growth in the government bond sector was mainly driven by central government bonds, comprising treasury bills and treasury bonds issued by the Ministry of Finance. Central bank bills, which are also known as *Sertifikat* Bank Indonesia (SBI), continued to post negative growth on both a q-o-q and y-o-y basis.

Central Government Bonds. The stock of central government bonds climbed 6.1% q-o-q to IDR942.9 trillion at end-September. On a y-o-y basis, central government bonds grew at a robust rate of 16.0%. Conventional fixed-rate bonds, which account for the bulk of the central government bond stock, continued to drive growth, rising 6.8% q-o-q and 18.0% y-o-y in 3Q13 **(Table 2)**. Short-term instruments—treasury bills and Islamic treasury bills—also contributed to growth (albeit from a low base).

In 3Q13, new issuance of treasury bills and treasury bonds totaled IDR98 trillion, rising a notable 64.0% q-o-q and 91.7% y-o-y. There were six auctions of conventional bonds and five auctions of *sukuk* (Islamic bonds) during the quarter. At these auctions, the government awarded a higher amount than what was targeted, with the exception of three of the *sukuk* auctions. Demand for treasuries was strong as reflected by

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

	Outstanding Amount (billion)						**Growth Rate** (%)			
	3Q12		**2Q13**		**3Q13**		**3Q12**		**3Q13**	
	IDR	**US$**	**IDR**	**US$**	**IDR**	**US$**	**q-o-q**	**y-o-y**	**q-o-q**	**y-o-y**
Total	**1,054,800**	**110**	**1,180,422**	**118**	**1,226,334**	**108**	**0.4**	**7.4**	**3.9**	**16.3**
Government	883,479	92	975,057	97	1,011,443	89	(0.1)	4.2	3.7	14.5
Central Govt. Bonds	812,796	85	888,514	89	942,859	83	2.7	16.7	6.1	16.0
Central Bank Bills	70,683	7	86,543	9	68,584	6	(23.9)	(53.3)	(20.8)	(3.0)
Corporate	171,321	18	205,365	21	214,891	19	3.1	27.2	4.6	25.4

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. The total stock of non-tradable bonds as of end-September stood at IDR267.8 trillion.
Sources: Bank Indonesia, Indonesia Debt Management Office, Indonesia Stock Exchange, and Bloomberg LP.

Table 2: Central Government Bonds Outstanding by Type of Bond

Government Bonds	Outstanding Amount (IDR billion)	% Share	Growth Rate (%)	
			q-o-q	y-o-y
Treasury Bills	34,600	3.7	66.4	22.6
Fixed-Rate Bonds	674,138	71.5	6.8	18.0
Variable-Rate Bonds	122,755	13.0	0.0	(3.4)
Zero-Coupon Bonds	0	0.0	–	–
Retail Bonds	23,677	2.5	(30.7)	10.2
Islamic Treasury Bills	9,578	1.0	217.2	958.3
Sukuk	17,137	1.8	0.0	0.0
Retail *Sukuk*	35,924	3.8	0.0	23.9
Project-Based *Sukuk*	25,051	2.7	5.8	67.0
Total	**942,860**	**100.0**	**6.1**	**16.0**

( ) = negative, – = not applicable, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Note: Data as of end-September 2013.
Source: Indonesia Stock Exchange.

Table 3: Corporate Bonds Outstanding by Type of Bond

Corporate Bonds	Outstanding Amount (IDR billion)	% Share	Growth Rate (%)	
			q-o-q	y-o-y
Bonds	182,681	85.0	4.9	28.8
Subordinated Bonds	24,886	11.6	6.0	10.1
Convertible Bonds	150	0.1	0.0	0.0
Zero Coupon Bonds	500	0.2	0.0	0.0
Sukuk Ijarah	4,095	1.9	(3.1)	(6.7)
Sukuk Mudharabah	1,079	0.5	0.0	39.2
Sukuk Mudharabah Subordinate	1,500	0.7	(17.3)	34.6
Total	**214,891**	**100.0**	**4.6**	**25.4**

( ) = negative, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Data as of end-September 2013.
2. *Sukuk Ijarah* refers to Islamic bonds backed by a lease agreement.
3. *Sukuk Mudharabah* refers to Islamic bonds backed by a profit-sharing scheme from a business venture or partnership.

Source: Indonesia Stock Exchange.

bids reaching IDR173.5 trillion against a 3Q13 issuance target of IDR54 trillion.

On 8 October, the government raised IDR20.2 trillion from the sale of retail bonds. The amount awarded was slightly higher than the government's target of IDR20 trillion. The bonds carry a coupon of 8.5% and a maturity of 3 years. This latest offering was Indonesia's 10th series of retail bonds (ORI010) and attracted a total of 26,824 investors, including employees of private firms, entrepreneurs, and housewives.

Central Bank Bills. At end-September, the stock of central bank bills (SBI) stood at IDR68.6 trillion, contracting 20.8% q-o-q and 3.0% y-o-y. In 3Q13, new issuance of SBI and *shari'a*-compliant SBI rose 5.9% q-o-q, but declined 31.2% y-o-y. SBI are issued by the central bank as one of its monetary tools to help contain inflation. In August, BI reduced the minimum holding period for SBI from 6 months to 1 month.

Corporate Bonds. Indonesia's LCY corporate bond market continued to post strong growth in 3Q13 to reach a size of IDR214.9 trillion, expanding 4.6% q-o-q and 25.4% y-o-y. Growth came mainly from an increase in outstanding conventional corporate bonds and subordinated bonds. A breakdown of corporate bonds outstanding by type of bonds at end-September is presented in **Table 3**. Conventional corporate bonds, which accounted for 85% of total corporate bonds, grew 4.9% q-o-q and 28.8% y-o-y. Subordinated bonds, which accounted for about 12% of total corporate bonds, rose 6.0% q-o-q and 10.1% y-o-y.

The top 30 LCY corporate bond issuers in Indonesia in 3Q13 accounted for 76.7% of total corporate bonds with an outstanding amount of IDR164.9 trillion **(Table 4)**. The top 30 issuers were once again largely dominated by financial and banking institutions, which accounted for two-thirds of the firms in the list. The composition of the top three corporate issuers remained the same from the previous quarter. State-power firm PLN topped the list with outstanding LCY corporate bonds of IDR15.2 trillion, followed by Indonesia Eximbank with an outstanding bond stock valued at IDR12.6 trillion. The third largest corporate bond issuer was Astra Sedaya Finance with a total bond stock valued at IDR10.6 trillion.

In 3Q13, new issuance of corporate bonds totaled IDR11.9 trillion, representing a 39.4% decline on a q-o-q basis. On a y-o-y basis, however, corporate bond issuance rose 19.5% at end-September. Corporate bond issuance was still

Table 4: Top 30 Issuers of LCY Corporate Bonds in Indonesia

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (IDR billion)	LCY Bonds (US$ billion)			
1. PLN	15,208	1.33	Yes	No	Energy
2. Indonesia Eximbank	12,569	1.10	Yes	No	Banking
3. Astra Sedaya Finance	10,641	0.93	No	No	Finance
4. Adira Dinamika Multifinance	10,277	0.90	No	Yes	Finance
5. Bank Tabungan Negara	8,850	0.78	Yes	Yes	Banking
6. Federal International Finance	7,901	0.69	No	No	Finance
7. Indosat	7,820	0.69	No	Yes	Telecommunications
8. Jasa Marga	7,100	0.62	Yes	Yes	Toll Roads, Airports, and Harbors
9. Bank Internasional Indonesia	7,000	0.61	No	Yes	Banking
10. Bank Pan Indonesia	7,000	0.61	No	Yes	Banking
11. Bank CIMB Niaga	6,480	0.57	No	Yes	Banking
12. Perum Pegadaian	5,739	0.50	Yes	No	Finance
13. Bank Tabungan Pensiunan Nasional	5,385	0.47	No	Yes	Banking
14. Medco-Energi International	4,487	0.39	No	Yes	Petroleum and Natural Gas
15. Bank Permata	4,250	0.37	No	Yes	Banking
16. Bank OCBC NISP	3,880	0.34	No	Yes	Banking
17. Sarana Multigriya Finansial	3,709	0.33	Yes	No	Finance
18. Indofood Sukses Makmur	3,610	0.32	No	Yes	Food and Beverages
19. Agung Podomoro Land	3,600	0.32	No	Yes	Property, Real Estate, and Building Construction
20. Bank Mandiri	3,500	0.31	Yes	Yes	Banking
21. Antam	3,000	0.26	Yes	Yes	Petroleum and Natural Gas
22. Telekomunikasi Indonesia	3,000	0.26	Yes	Yes	Telecommunications
23. BCA Finance	2,850	0.25	No	No	Finance
24. Bank Danamon Indonesia	2,800	0.25	No	No	Banking
25. Bumi Serpong Damai	2,750	0.24	No	Yes	Property, Real Estate, and Building Construction
26. Toyota Astra Financial Services	2,595	0.23	No	No	Finance
27. Indomobil Finance Indonesia	2,518	0.22	No	No	Finance
28. Bank Jabar Banten	2,400	0.21	No	Yes	Banking
29. Bank Rakyat Indonesia	2,000	0.18	Yes	Yes	Banking
30. Garuda Indonesia	2,000	0.18	Yes	Yes	Infrastructure, Utilities, and Transportation
Total Top 30 LCY Corporate Issuers	**164,917**	**14.46**			
Total LCY Corporate Bonds	**214,891**	**18.84**			
Top 30 as % of Total LCY Corporate Bonds	**76.7%**	**76.7%**			

LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Indonesia Stock Exchange data.

robust through July, with 12 firms raising a total of IDR9.3 trillion. However, issuance stalled in August amid increasing inflation expectations and rising borrowing costs. Issuance by corporates resumed in late September as bond issues by two firms amounted to a combined IDR2.6 trillion.

A total of 14 corporate firms issued 28 bond series during the quarter. Of these bonds, all were conventional except for one *sukuk ijarah* and one subordinated bond. In terms of maturity, 17 bond series carried maturities of 3–5 years, 5 series had maturities of 7 years, and 1 series had maturities of 10 years. Corporate bonds issued in July carried coupons ranging from 7.25% to 11.5%, while those issued in late September carried coupons ranging from 8.4% to 9.75%. Some notable corporate bonds issued in 3Q13 are shown in **Table 5**.

Foreign Currency Bonds. At end-September, foreign currency (FCY) government bonds outstanding reached US$32.7 billion, or the equivalent of about 40% of the government's LCY bonds outstanding, which stood at US$82.7 billion. The government raised a total of US$5.5 billion from the sale of US$-denominated bonds this year. Of which, two issues were sold in 3Q13 for a combined amount of US$2.5 billion.

In July, the government sold US$1 billion of 10-year bonds. The bonds were priced to yield 5.45% and carry a coupon of 5.375%. The bonds were oversubscribed with the order book reaching US$1.9 billion. Nearly half of the bonds were sold to investors from the US, while 26% were taken by European investors and the remainder by Asian investors. The bonds were rated Baa3 by Moody's, BB+ by Standard & Poor's, and BBB– by Fitch Ratings.

Also, the government raised US$1.5 billion from the sale of Islamic bonds in September, its fourth issuance of global *sukuk* and the biggest in terms of size since 2009. The bonds carry a maturity of 5.5 years and were sold at par to yield 6.125%. The bonds were oversubscribed with demand reaching US$5.7 billion. Investors from Asia took 25% of the bonds, while investors from the US, Middle East, and Europe bought 24%, 20%, and 16%, respectively. The remaining 15% was taken by domestic investors.

Table 5: Notable LCY Corporate Bond Issuance in 3Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Jasa Marga		
370-day bond	8.40	700
3-year bond	8.70	400
5-year bond	8.90	1,000
Garuda Indonesia		
5-year bond	9.25	2,000
Perum Pegadaian		
370-day bond	7.25	430
3-year bond	7.40	17
5-year bond	7.75	177
7-year bond	8.00	601
PLN		
7-year bond	8.00	182
7-year *Sukuk Ijarah*	8.00	121
10-year bond	8.25	697
Permodalan Nasional Madani		
5-year bond	9.20	1,000
Bank Tabungan Pensiunan Nasional		
3-year bond	7.75	450
5-year bond	8.25	350

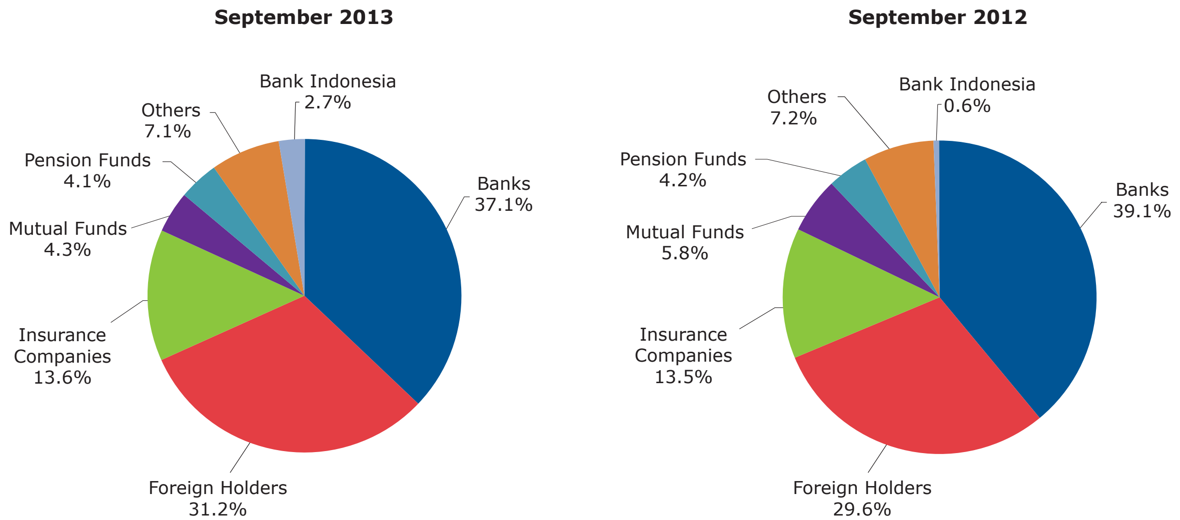
LCY = local currency.
Source: Indonesia Stock Exchange.

Investor Profile

Central Government Bonds. At end-September, the share of government bonds held by banking institutions dropped to 37.1% of the total with bond holdings valued at IDR350 trillion **(Figure 2)**. This was down from a share of 39.1% a year earlier, but higher in terms of nominal value. Banks remained the largest holder of central government bonds. Banking institutions comprise state recap banks, private recap banks, non-recap banks, regional banks, and *shari'a* banks. Among these institutions, state recap banks are the largest holder of central government bonds.

The share of LCY central government bonds held by foreign investors increased to 31.2% in 3Q13 from 29.6% a year earlier. Their share, however, was almost unchanged from an end-June 2013

Figure 2: LCY Central Government Bonds Investor Profile

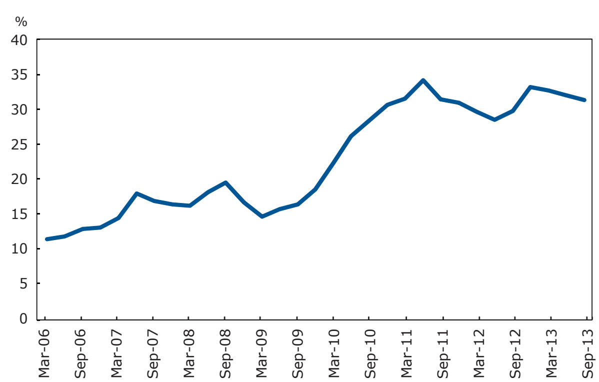


LCY = local currency.
Source: Indonesia Debt Management Office.

level of 31.8% **(Figure 3)**. Foreign investors play an active role in Indonesia's bond market as they are among the largest players in the market. In absolute terms, outstanding bonds held by foreign investors reached IDR294.1 trillion at end-September 2013.

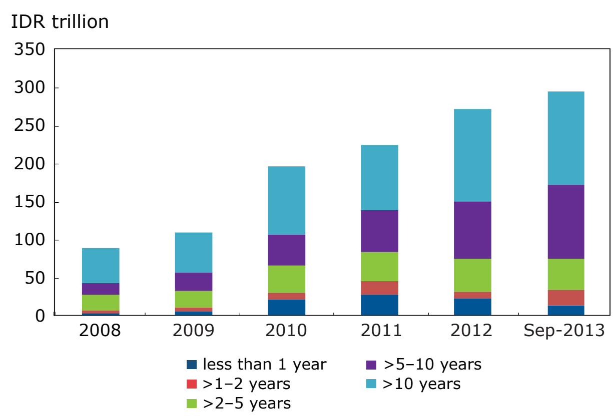
Despite volatile market conditions in 3Q13, foreign investors continued to shore-up their holdings of longer-dated bonds. At end-September, 42% of government bonds held by offshore investors carried maturities of more than 10 years **(Figure 4)**. These investors also increased the share of medium-term bonds (maturities of more than 5 years to 10 years) among their total holdings to 33% in 3Q13 from 30% in the previous quarter. Meanwhile, the share of shorter-dated maturities (bonds with maturities of 1 year or less) among foreign investors' total holdings accounted for a 4% share in 3Q13.

Figure 3: Foreign Investor Share of LCY Central Government Bonds



LCY = local currency.
Source: Indonesia Debt Management Office.

Figure 4: Foreign Holdings of LCY Central Government Bonds by Maturity

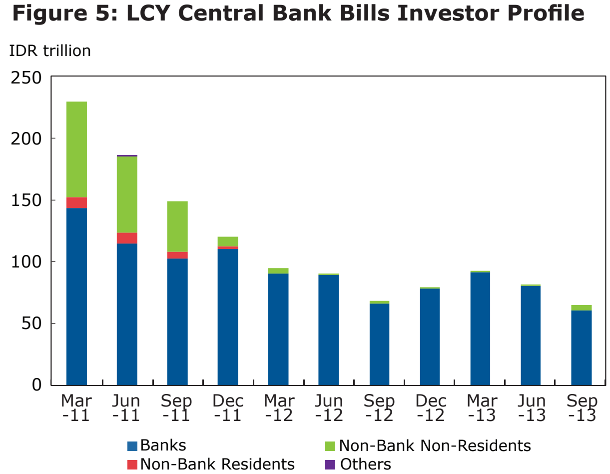


LCY = local currency.
Source: Indonesia Debt Management Office.

Central government bond holdings of other domestic investors either hardly changed or declined slightly in 3Q13 on a y-o-y basis. Mutual funds' holdings of government bonds fell to a share of 4.3% from 5.8% a year earlier. While most other investor classes, including insurance companies and pension funds, registered negligible changes in their respective holdings of government bonds. The only other significant change in investor holdings were those of BI, whose share of government bonds climbed to 2.7% of the total at end-September from 0.6% in the previous year.

Central Bank Bills. At end-September, central bank bills (SBI), were primarily held by banking institutions with holdings equivalent to a share of 94% of the total. In absolute terms, outstanding SBI held by banks reached IDR60.9 trillion at end-September, compared with IDR80.8 trillion in the previous quarter **(Figure 5)**. Foreign non-bank investors accounted for the remaining 6% of SBI holdings. The marked increase in foreign holdings of SBI during 3Q13 was due to BI's decision in late August to reduce the minimum holding period of SBI from 6 months to 1 month. The reduced holding period is expected to attract renewed interest in SBI from offshore funds. Foreign investors' share had dropped significantly after the central bank implemented the 6-month holding period for SBI in 2011. The all-time high for foreign holdings' share of SBI was in March 2011 at 34% based on nominal holdings of IDR77.4 trillion.

Figure 5: LCY Central Bank Bills Investor Profile



LCY = local currency.
Source: Bank Indonesia.

Rating Changes

On 11 October, Ratings and Investment Information (R&I) affirmed its BBB– sovereign credit rating for Indonesia. The outlook on the rating was stable. In making its decision, R&I took note of Indonesia's ability to achieve sustainable economic growth in the long-term, conservative fiscal management, sound banking sector, and low level of government debt. R&I also stated that Indonesia would able to maintain adequate foreign exchange reserves to service its external debt even amid pressures on the exchange rate.

Policy, Institutional, and Regulatory Developments

BI and PBOC Extend Bilateral Swap Arrangement

On 2 October, BI signed an extension of its bilateral swap arrangement with the People's Bank of China (PBOC) amounting to CNY100 billion (IDR175 trillion). The new agreement will run for 3 years and is subject to an extension depending on an agreement between the two parties. The new bilateral swap arrangement is expected to boost trade and direct investment between Indonesia and the People's Republic of China, and bolster the availability of short-term liquidity.

BI Introduces Regulation on Hedging

On 9 October, BI announced that it will regulate the hedging activities of local residents and corporates based in Indonesia in order to deepen the country's foreign exchange market. Specifically, it seeks to regulate the use of hedging instruments, such as foreign exchange forwards and swaps, by individuals and corporates, including state-owned firms. The central bank stated that individuals need to present documents showing the economic rationale underlying the hedging transaction such as international trade, investments, or payment of foreign debt.

Indonesia and the Republic of Korea Establish Bilateral KRW–IDR Swap Arrangement

On 12 October, the ministries of finance and central banks of Indonesia and the Republic of Korea agreed to establish a bilateral KRW–IDR swap arrangement. The size of the swap arrangement is up to KRW10.7 trillion–IDR115 trillion (equivalent to US$10 billion). The agreement will run for 3 years and is subject to an extension depending on an agreement between the two parties. The bilateral swap arrangement aims to promote bilateral trade and further strengthen financial cooperation between the two countries.

House of Representatives Approves the 2014 National Budget

On 25 October, the House of Representatives approved the 2014 national budget. The underlying macroeconomic assumptions included in the budget are (i) economic growth of 6.0%; (ii) an inflation rate target of 5.5%; (iii) an IDR–US$ exchange rate of IDR10,500–US$1; (iv) a 3-month treasury bill yield of 5.5%; (v) an Indonesian crude oil price of US$105 per barrel; and (vi) oil and gas lifting volumes set at 0.87 million barrels per day and 1.24 million barrels per day, respectively. The 2014 budget estimates central government revenues of IDR1,667.1 trillion and expenditures of IDR1,842.5 trillion, resulting in a budget deficit of IDR175.4 trillion, or the equivalent of 1.7% of GDP.

Republic of Korea

Yield Movements

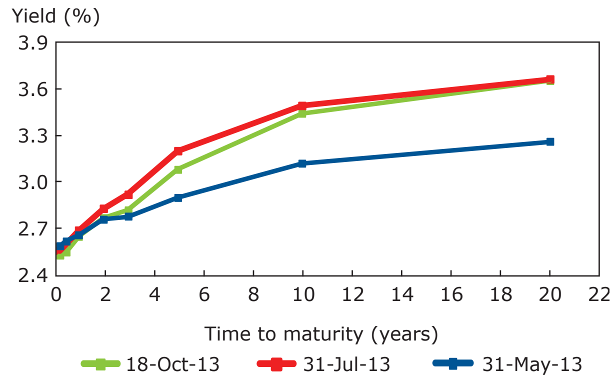
Yields of local currency (LCY) government bonds in the Republic of Korea rose for most tenors between end-May and 18 October **(Figure 1)**. During this period, yields climbed for tenors of more than 1 year, with the increases ranging from 1 basis point (bp) for the 2-year tenor to 39 bps for the 20- and 30-year tenors, while yields fell for tenors of 1 year or less. The yield hike in most tenors was relatively strong between end-May and end-July amid expectations of a tapering in the asset purchase program of the United States (US) Federal Reserve. But yields later fell at a less rapid pace for all tenors between end-July and 18 October amid the US Federal Open Market Committee's decision in September to maintain its asset purchase program at its current pace. Meanwhile, the yield spread between 2- and 10-year tenors widened 31 bps between end-May and 18 October.

The Bank of Korea's Monetary Policy Committee decided on 10 October to keep the base rate steady at 2.50%, forecasting that the global economy would sustain its recovery and that a negative output gap and low inflationary pressures would persist in the domestic economy for the time being.

Consumer price inflation decelerated in the Republic of Korea to 0.7% year-on-year (y-o-y) in October from 0.8% in September, induced by an annual fall in the prices of food and non-alcoholic beverages and transport costs. The price indices for food and non-alcoholic beverages and transport dropped 1.8% and 1.4% y-o-y, respectively.

The Bank of Korea released its latest economic outlook for 2013 and 2014 in October. The central bank maintained its 2013 gross domestic product (GDP) growth rate projection for the Republic of Korea at 2.8%. On the other hand, it revised downward its 2014 GDP growth rate forecast to 3.8% from a forecast of 4.0% made in July.

Figure 1: The Republic of Korea's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Meanwhile, advance GDP growth estimates of The Bank of Korea revealed that the country's real GDP growth rate in 3Q13 stood at 1.1% quarter-on-quarter (q-o-q), the same as in 2Q13, and 3.3% y-o-y, an improvement from the previous quarter's 2.3%. The acceleration in y-o-y GDP growth was led by faster annual growth in private consumption expenditure and gross fixed capital formation on the demand side, and increased production in the agriculture, forestry, and fishing; manufacturing; construction; and services sectors on the supply side.

Size and Composition

The size of the LCY bond market in the Republic of Korea amounted to KRW1,681 trillion (US$1.6 trillion) at the end of 3Q13, up 1.8% q-o-q and 10.4% y-o-y **(Table 1)**. In 3Q13, LCY government bonds outstanding rose 1.3% q-o-q and 6.9% y-o-y to reach KRW645.3 trillion at end-September, led by an expansion in central government bonds, which accounted for 69% of the outstanding stock of LCY government bonds. Specifically, LCY central government bonds outstanding grew 1.3% q-o-q and 7.4% y-o-y

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

	Outstanding Amount (billion)						**Growth Rate** (%)			
	3Q12		**2Q13**		**3Q13**		**3Q12**		**3Q13**	
	KRW	**US$**	**KRW**	**US$**	**KRW**	**US$**	**q-o-q**	**y-o-y**	**q-o-q**	**y-o-y**
Total	**1,528,239**	**1,370**	**1,650,267**	**1,445**	**1,680,687**	**1,564**	**2.1**	**9.6**	**1.8**	**10.4**
Government	603,590	543	637,277	558	645,333	601	0.4	2.2	1.3	6.9
Central Bank Bonds	162,460	146	165,420	145	164,880	153	(1.3)	(4.1)	(0.3)	1.5
Central Government Bonds	413,848	372	439,059	384	444,599	414	1.3	5.8	1.3	7.4
Industrial Finance Debentures	27,283	25	32,798	29	35,854	33	(3.3)	(8.4)	9.3	31.4
Corporate	919,279	827	1,012,990	887	1,035,354	963	3.3	15.1	2.2	12.6

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Sources: EDAILY *BondWeb* and The Bank of Korea.

in 3Q13 to level off at KRW444.6 trillion, buoyed by Korea Treasury Bonds (KTBs), which stood at KRW390.6 trillion at the end of the quarter. Similarly, outstanding LCY industrial finance debentures issued by Korea Development Bank (KDB) surged 9.3% q-o-q and 31.4% y-o-y to reach KRW35.9 trillion at end-September. In contrast, LCY central bank bonds outstanding slipped 0.3% q-o-q, but rose 1.5% y-o-y in 3Q13, leveling off at KRW164.9 trillion.

Issuance of LCY government bonds during 3Q13 surged 17.7% y-o-y, but contracted 2.3% q-o-q. The y-o-y increase in LCY government bond issuance came from annual increases in the issuance of central government bonds, central bank bonds, and industrial finance debentures. On the other hand, the q-o-q fall in LCY government bond issuance was largely a result of quarterly declines in LCY bond issuance by the central bank and KDB that more than offset the quarterly increase in LCY central government bond issuance.

The outstanding amount of LCY corporate bonds stood at KRW1,035 trillion at end-September, having expanded 2.2% q-o-q and 12.6% y-o-y. Private sector corporate bonds, which occupied 46% of the corporate bond market, grew 1.6% q-o-q and 16.0% y-o-y; special public bonds, which accounted for 33% of total corporate bonds outstanding, increased 2.8% q-o-q and 13.0% y-o-y; and financial debentures (excluding KDB bonds), which comprised 21% of the corporate bond market, were up 2.6% q-o-q and 5.3% y-o-y.

Issuance of LCY corporate bonds fell 10.1% q-o-q and 15.5% y-o-y during 3Q13 as private corporate bond issues, which accounted for 47% of total LCY corporate issuance in the quarter, dropped 21.3% q-o-q and 21.9% y-o-y. Meanwhile, LCY bond issues by special public companies plunged 19.1% y-o-y, but were up 5.4% q-o-q in 3Q13. In contrast, issuance of financial debentures (excluding KDB bonds) climbed 0.5% q-o-q and 5.3% y-o-y.

At end-September, the top 30 LCY corporate bond issuers had outstanding bonds of KRW640.3 trillion, accounting for 61.8% of total LCY corporate bonds **(Table 2)**. Korea Housing Finance Corporation became the largest issuer of LCY corporate bonds in 3Q13, surpassing Korea Land and Housing Corporation, with bonds outstanding of KRW60.7 trillion.

The five largest LCY corporate bonds issued in 3Q13 included NongHyup Bank's KRW500 billion 10-year bond offering a 4.03% coupon, KRW350 billion 30-year bond with a 4.88% coupon, and KRW320 billion 3-year bond with a 3.13% coupon; Kookmin Bank's KRW400 billion

Table 2: Top 30 Issuers of LCY Corporate Bonds in the Republic of Korea

Issuers	Outstanding Amount		State-Owned	Listed on		Type of Industry
	LCY Bonds (KRW billion)	LCY Bonds (US$ billion)		KOSPI	KOSDAQ	
1. Korea Housing Finance	60,659	56.4	Yes	No	No	Financial
2. Korea Land & Housing	59,219	55.1	Yes	No	No	Real Estate
3. Korea Finance	44,730	41.6	Yes	No	No	Financial
4. Korea Deposit Insurance	43,770	40.7	Yes	No	No	Insurance
5. Industrial Bank of Korea	33,296	31.0	Yes	Yes	No	Bank
6. KDB Daewoo Securities	31,160	29.0	Yes	Yes	No	Securities
7. Korea Electric Power	30,640	28.5	Yes	Yes	No	Utility
8. Woori Investment and Securities	29,384	27.3	Yes	Yes	No	Securities
9. Korea Investment and Securities	28,077	26.1	No	No	No	Securities
10. Mirae Asset Securities	23,652	22.0	No	Yes	No	Securities
11. Korea Expressway	20,450	19.0	Yes	No	No	Infrastructure
12. Kookmin Bank	18,895	17.6	No	No	No	Bank
13. Tong Yang Securities	18,160	16.9	No	Yes	No	Securities
14. Shinhan Bank	17,938	16.7	No	No	No	Bank
15. Korea Rail Network Authority	15,810	14.7	Yes	No	No	Infrastructure
16. Small & Medium Business	15,105	14.1	Yes	No	No	Financial
17. Hana Daetoo Securities	13,780	12.8	No	No	No	Securities
18. Woori Bank	13,602	12.7	Yes	No	No	Bank
19. Korea Gas	13,315	12.4	Yes	Yes	No	Utility
20. Hyundai Securities	12,111	11.3	No	Yes	No	Securities
21. Hana Bank	11,835	11.0	No	No	No	Bank
22. Shinhan Investment	11,282	10.5	No	No	No	Securities
23. Standard Chartered First Bank Korea	10,350	9.6	No	No	No	Bank
24. Samsung Securities	10,020	9.3	No	Yes	No	Securities
25. Korea Water Resources	9,849	9.2	Yes	Yes	No	Utility
26. NongHyup Bank	9,050	8.4	Yes	No	No	Bank
27. Shinhan Card	8,643	8.0	No	No	No	Financial
28. Korea Eximbank	8,640	8.0	Yes	No	No	Bank
29. Korea Railroad	8,600	8.0	Yes	No	No	Infrastructure
30. Korea Student Aid Foundation	8,310	7.7	Yes	No	No	Financial
Total Top 30 LCY Corporate Issuers	**640,332.0**	**595.9**				
Total LCY Corporate Bonds	**1,035,354.0**	**963.4**				
Top 30 as % of Total LCY Corporate Bonds	**61.8%**	**61.8%**				

KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg and EDAILY *BondWeb* data.

Table 3: Notable LCY Corporate Bond Issuance in 3Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
NongHyup Bank		
3-year bond	3.13	320
10-year bond	4.03	500
30-year bond	4.88	350
Kookmin Bank		
7-year bond	3.82	400
Samsung Everland		
5-year bond	3.52	350

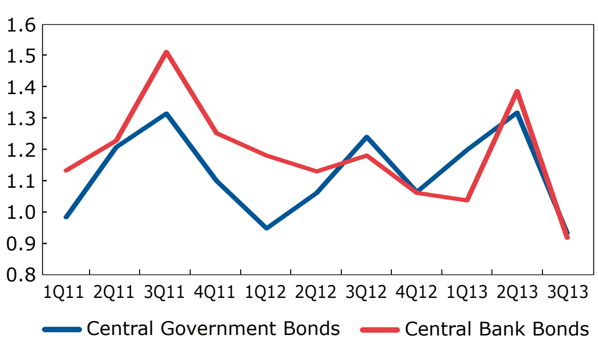
LCY = local currency.
Source: Bloomberg LP.

7-year bond carrying a 3.82% coupon; and Samsung Everland's KRW350 billion 5-year bond offering a 3.52% coupon **(Table 3)**.

Liquidity

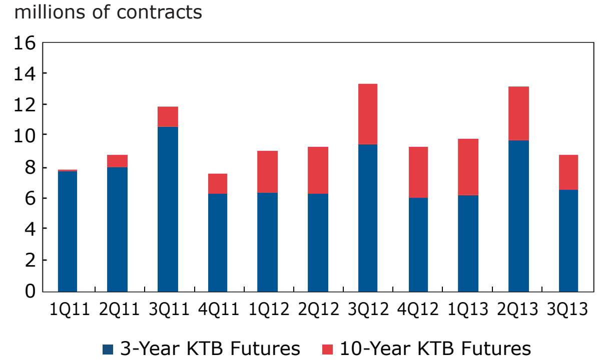
Liquidity in the LCY government bond market appears to have tightened in 3Q13, on both a quarterly and annual basis, as the turnover ratio for government bonds fell to 0.87 in 3Q13 from 1.27 in 2Q13 and 1.16 in 3Q12. By government bond type, the turnover ratio for central government bonds—mostly KTBs—dropped to 0.93 in 3Q13 from 1.32 in 2Q13 and 1.24 in 3Q12, while the ratio for central bank bonds decreased to 0.92 in 3Q13 from 1.39 in 2Q13 and 1.18 in 3Q12 **(Figure 2)**.

Figure 2: Turnover Ratios for Central Government and Central Bank Bonds



Note: Central government bonds include Korea Treasury Bonds and National Housing Bonds.
Sources: The Bank of Korea and EDAILY *BondWeb*.

Figure 3: Trading Volume of KTB Futures Contracts

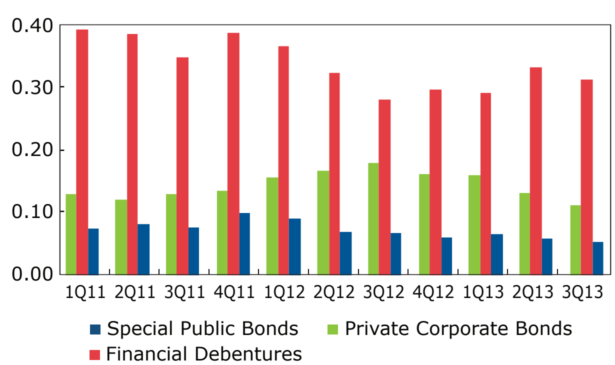


KTB = Korea Treasury Bond.
Source: Korea Exchange.

Meanwhile, liquidity in the KTB futures market appears to have tightened as well in 3Q13, as the total number of 3- and 10-year KTB futures contracts traded fell to 8.8 million from 13.2 million in the previous quarter **(Figure 3)**. Between 2Q13 and 3Q13, the share of 3-year KTB futures contracts traded climbed from 73% to 75% of all KTB futures contracts traded, while the share of 10-year KTB futures contracts traded fell from 27% to 25%.

In the LCY corporate bond market, liquidity conditions appear to have tightened in 3Q13, albeit marginally, as the turnover ratio for corporate bonds fell slightly to 0.13 from 0.14 in the previous quarter. The turnover ratio for all

Figure 4: Turnover Ratios for Special Public Bonds, Financial Debentures, and Private Corporate Bonds



Source: EDAILY *BondWeb*.

three types of corporate bonds fell between 2Q13 and 3Q13—from 0.13 to 0.11 for special public bonds, from 0.33 to 0.31 for financial debentures, and from 0.06 to 0.05 for private corporate bonds **(Figure 4)**.

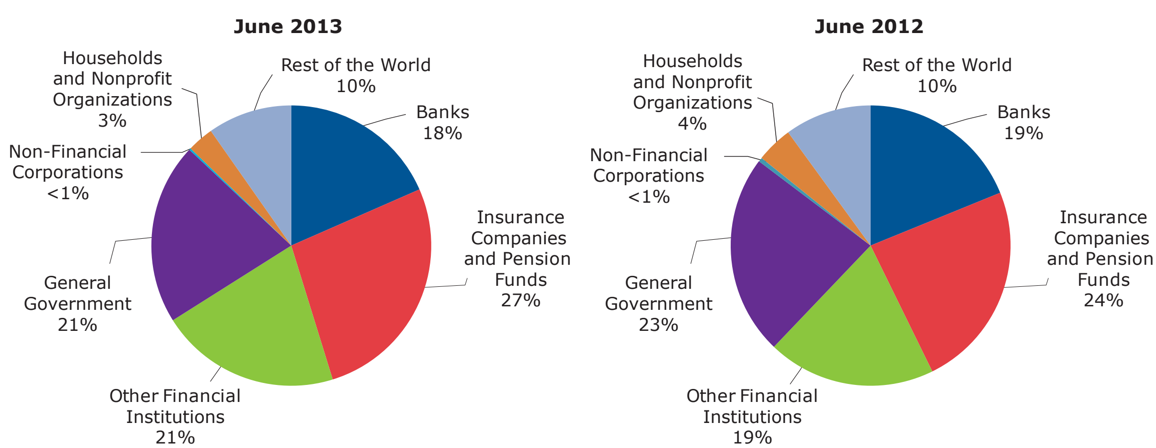
Investor Profile

At end-June, the largest investor group in the LCY government bond market comprised insurance companies and pension funds with a combined 27% share of the total market **(Figure 5)**, a 3 percentage point gain in market share from a year earlier. Meanwhile, general government entities—the central government, local government, and social security funds—and financial institutions (other than banks, insurance companies, and pension funds) had investor shares of 21% each. Compared with a year earlier, the share of general government entities dropped 2 percentage points at end-June, while that of financial institutions (other than banks, insurance companies, and pension funds) climbed 2 percentage points. Between June 2012 and June 2013, the shares of banks and households and non-profit organizations slipped 1 percentage point each to 18% and 3%, respectively. In addition, the share of non-financial corporations stood at 0.2% at end-June, down 0.3 percentage points from a year earlier. Lastly, the share of foreign investors in LCY government and public bonds at end-June remained the same at 10%.

Insurance companies and pension funds continued to hold the largest amount of LCY corporate bonds among all investor groups with a combined 34% share of the total market at end-June, an increase of 1 percentage point from a year earlier **(Figure 6)**. The second-largest investor group in LCY corporate bonds at end-June with a 28% share was financial institutions (other than banks, insurance companies, and pension funds). However, this represented a 2 percentage point decline from a year earlier. Meanwhile, the share of LCY corporate bonds held by banks dropped to 14% from 18% over the same period. Similarly, the share of foreign investors' holdings in the LCY corporate bond market slipped 0.5 percentage points to 0.5% at end-June.

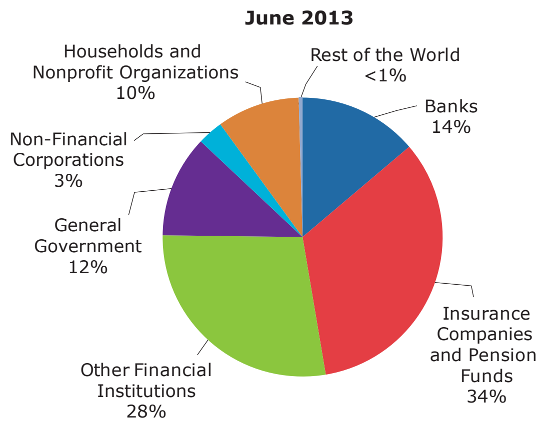
In contrast, the share of non-financial corporations' holdings of LCY corporate bonds rose 1 percentage point to 3%, and the share of households and non-profit organizations climbed 5 percentage points to 10%. Meanwhile, the share of general government entities' holdings of LCY corporate bonds remained unchanged between end-June 2012 and end-June 2013 at 12%.

Figure 5: LCY Government Bonds Investor Profile



LCY = local currency.
Source: *AsianBondsOnline* and The Bank of Korea.

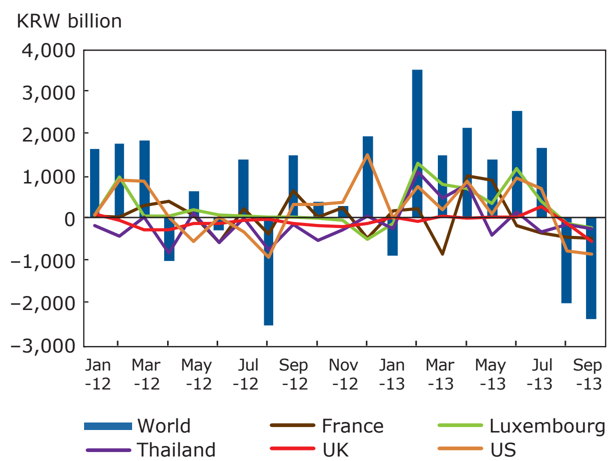
Figure 6: LCY Corporate Bonds Investor Profile



LCY = local currency.
Source: *AsianBondsOnline* and The Bank of Korea.

Net foreign investments in the Republic of Korea's LCY bond market were negative for the second consecutive month in September, according to Financial Supervisory Service (FSS) data **(Figure 7)**. Net bond purchases by foreign investors amounted to only KRW100 billion in September, down significantly from August's KRW1.6 trillion. On the other hand, bond redemptions by foreign investors were valued at KRW2.5 trillion in September, down from KRW3.7 trillion in the previous month. As a result, net bond sales by foreign investors rose to KRW2.4 trillion in September from KRW2.1 trillion in August. In January–September, net foreign bond investments in the Republic of Korea stood at KRW7.3 trillion, an increase over the KRW4.8 trillion posted in the first 9 months of 2012.

Figure 7: Net Foreign Investment by Country in LCY Bonds in the Republic of Korea



LCY = local currency, UK = United Kingdom, US = United States.
Source: Financial Supervisory Service (FSS).

Rating Changes

Standard and Poor's (S&P) announced in September that it was affirming its foreign currency (FCY) and LCY credit ratings for the Republic of Korea at A+/A-1 and AA-/A-1+, respectively, with its outlook for both long-term ratings being stable.

S&P stated that its credit ratings for the Republic of Korea reflected the country's "favorable policy environment, sound fiscal position, and broadly balanced external liability position."

Policy, Institutional, and Regulatory Developments

Republic of Korea and UAE Establish Bilateral Currency Swap Arrangement

The Bank of Korea and the Central Bank of the United Arab Emirates (UAE) announced in October the establishment of a 3-year KRW–AED swap arrangement. The size of the bilateral currency swap arrangement is up to KRW5.8 trillion–AED20 billion (US$5.4 billion). The arrangement can be extended upon agreement by both parties and is aimed at promoting bilateral trade and financial cooperation between the Republic of Korea and the UAE.

Republic of Korea and Malaysia Establish Bilateral Currency Swap Arrangement

The Bank of Korea and Bank Negara Malaysia announced in October the establishment of a 3-year KRW–MYR swap arrangement. The size of the bilateral currency swap arrangement is up to KRW5 trillion–MYR15 billion. The arrangement can be extended upon agreement by both parties and is aimed at promoting bilateral trade and financial cooperation between the Republic of Korea and Malaysia.

Republic of Korea and Indonesia to Establish Bilateral Currency Swap Arrangement

The central banks and ministries of finance of the Republic of Korea and Indonesia agreed in October to establish a bilateral KRW–IDR swap arrangement. The size of the swap arrangement is up to KRW10.7 trillion–IDR115 trillion (US$10 billion). Its effective period is 3 years with a possible extension upon a joint agreement by the two parties. The swap arrangement is expected to foster bilateral trade and financial cooperation between the Republic of Korea and Indonesia.

2013 Tax Revision Bill Finalized

The 2013 Tax Revision Bill was finalized in September, according to the Ministry of Strategy and Finance (MOSF). The revisions included increases in income tax deductions for long-term mortgage payments and rental payments, increases in the earned income tax credit and charitable donation tax credit, and reductions in sales taxes for rental houses and income taxes for small rental homes.

Malaysia

Yield Movements

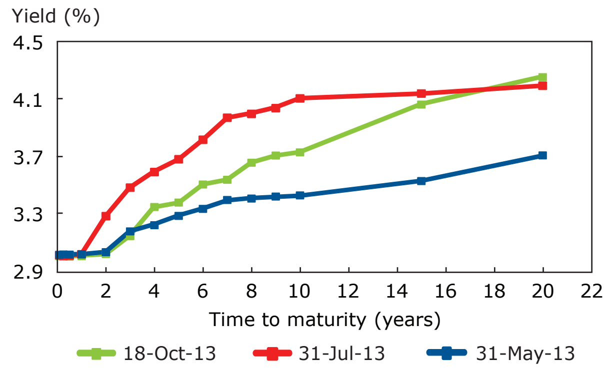
Between end-May and end-July, Malaysia's local currency (LCY) government bond yields soared dramatically for tenors of 2 years and longer **(Figure 1)**. Yields for 10-year maturities surged the most, rising 68 basis points (bps), followed by 62 bps for 9-year maturities and 61 bps for 15-year maturities. The yield on government notes due March 2023 jumped to 4.1%, the highest for a benchmark 10-year bond since April 2011.

The yield curve had shifted downward by mid-October, as yields slumped for all maturities except the 20-year tenor. Yields for 7- to 10-year maturities dropped the most, falling between 33 bps and 43 bps. Yields for 20-year maturities, however, rose an additional 6 bps on the back of a 49 bps increase in July.

Bond yields have risen sharply since May on concerns stemming from the United States (US) Federal Reserve's announcement about tapering its monthly bond purchases. Domestic factors in Malaysia—including (i) a narrowing current account surplus and weakening ringgit, (ii) rising inflation expectations after the government cut fuel subsidies, and (iii) Fitch Ratings' credit outlook downgrade to negative—have dampened investor interest and clouded the demand outlook. However, speculation that the US government shutdown may delay tapering of the Federal Reserve's asset purchase program helped ease some concerns, with the yield on 10-year government bonds sliding to 3.7% in mid-October. Meanwhile, the yield spread between 2- and 10-year tenors narrowed to 71 bps in mid-October from 82 bps at end-July.

The ringgit weakened to a 3-year low of MYR3.3346–US$1 in August amid mounting concerns over the deterioration in the current account balance and the risk of capital outflows. In 2Q13, the current account surplus fell to MYR2.6 billion, shrinking from MYR8.7 billion in 1Q13 and MYR7.9 billion in 2Q12, mainly due to a smaller goods surplus. The current account

Figure 1: Malaysia's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

surplus stood at 1% of gross domestic product (GDP) in 2Q13, down from 8% of GDP at the end of 2012. Meanwhile, the large redemption of sovereign debt also caused the depreciation in the ringgit on concerns that global investors will repatriate funds. At end-July, MYR9.2 billion (US$2.9 billion) of Malaysian Government Securities (MGSs) matured.

Consumer price inflation accelerated to 2.6% year-on-year (y-o-y) in September—the highest in 20 months—from 1.9% in August, led by higher food and transportation costs. The price index for food and non-alcoholic beverages inched up 3.9% y-o-y and transport prices rose 4.6%. On a month-on-month (m-o-m) basis, inflation increased 0.8%.

In its Monetary Policy Committee meeting on 5 September, Bank Negara Malaysia (BNM) decided to maintain the overnight policy rate at 3.0%, the same level where it has been since May 2011. BNM expects inflation to increase in the remainder of the year and into 2014 due to domestic cost factors, including subsidy adjustments. The increase in inflation, however, is from a low level and should be dampened by a stable external price environment, expansion in domestic capacity, and moderate domestic demand pressures.

Size and Composition

Total LCY bonds outstanding in Malaysia grew 1.8% quarter-on-quarter (q-o-q) and 4.1% y-o-y to reach MYR1.01 trillion (US$310.4 billion) at the end of 3Q13. Growth in the corporate bond market outpaced growth in the government bond sector, rising 3.8% q-o-q and 9.1% y-o-y **(Table 1)**.

Government Bonds. LCY government bonds outstanding stood at MYR590.2 billion at end-September, growing at modest rates of 0.5% q-o-q and 0.7% y-o-y. Central government bonds increased 1.9% q-o-q and 10.1% y-o-y, driven by growth in Government Investment Issues (GIIs) and MGSs. *Sukuk Perumahan Kerajaan* (Islamic bonds) also expanded rapidly from a low base, posting growth of 149.7% q-o-q and 495.4% y-o-y. However, BNM monetary notes continued to act as a drag on government bond growth, contracting 12.5% q-o-q and 32.6% y-o-y.

The share between conventional bonds and *sukuk* was comparable to that of the previous quarter, with conventional bonds accounting for 63% and *sukuk* comprising 37% of total bonds outstanding.

Government bond issuance fell 15.7% q-o-q to MYR85.2 billion in 3Q13, continuing a downward trend in place since 4Q12. Issuance volumes for central bank bills dropped almost 30% q-o-q and 52% y-o-y. Of the total issuance, *sukuk* comprised 57% and conventional bonds accounted for 43%.

In August, the government bond market saw the debut of the inaugural 20-year GII with an issuance size of MYR2.5 billion. Demand for the *shari'a*-compliant debt exceeded the offered amount by 1.6 times with an average yield of 4.582%. In September, Malaysia raised MYR2.5 billion from issuing a 30-year MGS, the longest-ever maturity on offer in Malaysia. The bond maturing in September 2043 attracted a bid-to-cover ratio of 2.4 times and was priced to yield 4.935%.

Corporate Bonds. Malaysia's LCY corporate bonds outstanding reached MYR421.4 billion at end-September, rising 3.8% on a q-o-q basis and 9.1% y-o-y. The share between *sukuk* and conventional bonds remained constant, with *sukuk* accounting for 67% of the total and conventional bonds comprising 33%.

Corporate issuance climbed 2.2% q-o-q to MYR21.1 billion in 3Q13, reversing the decline posted in the previous quarter. A total of 84 bond series were issued by 53 corporate entities, with conventional bonds accounting for 55% of new corporate bond issues and *sukuk* registering 45%. **Table 2** lists some notable corporate bonds issued during 3Q13.

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

	Outstanding Amount (billion)						**Growth Rate** (%)			
	3Q12		**2Q13**		**3Q13**		**3Q12**		**3Q13**	
	MYR	**US$**	**MYR**	**US$**	**MYR**	**US$**	**q-o-q**	**y-o-y**	**q-o-q**	**y-o-y**
Total	**972**	**318**	**994**	**314**	**1,012**	**310**	**4.1**	**15.7**	**1.8**	**4.1**
Government	586	192	588	186	590	181	4.8	16.1	0.5	0.7
Central Government Bonds and Bills	424	139	459	145	468	143	1.8	12.6	1.9	10.1
Central Bank Bills	159	52	123	39	107	33	12.0	24.5	(12.5)	(32.6)
Sukuk Perumahan Kerajaan	3	1	6	2	15	5	–	465.2	149.7	495.4
Corporate	386	126	406	128	421	129	2.9	15.3	3.8	9.1

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

Table 2: Notable LCY Corporate Bond Issuance in 3Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Kapar Energy Ventures		
1-year Islamic MTN	3.82	150
2-year Islamic MTN	3.97	180
3-year Islamic MTN	4.12	180
4-year Islamic MTN	4.22	200
5-year Islamic MTN	4.30	200
6-year Islamic MTN	4.39	200
7-year Islamic MTN	4.47	100
8-year Islamic MTN	4.55	100
9-year Islamic MTN	4.63	110
10-year Islamic MTN	4.71	110
11-year Islamic MTN	4.79	150
12-year Islamic MTN	4.87	160
13-year Islamic MTN	4.95	160
Cagamas		
3-month Islamic commercial paper	3.20	500
3-year Islamic MTN	KLIBOR+0.14	50
3-year Islamic MTN	KLIBOR+0.15	180
3-year MTN	KLIBOR+0.15	180
1-year MTN	3.40	160
2-year MTN	3.60	60
3-year MTN	3.75	15
Syarikat Prasarana Negara		
10-year Islamic MTN	4.26	500
15-year Islamic MTN	4.58	500
Public Bank		
10-year Subordinated MTN	4.80	1,000

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

The largest corporate LCY issuer in 3Q13 was Kapar Energy Ventures (KEV), with issuance of Islamic medium-term notes (IMTNs) totaling MYR2 billion. KEV is a subsidiary of Tenaga Nasional, which was established to acquire and operate the Kapar Power Station, the largest thermal power station in Malaysia with a capacity of 2,420 megawatts. The proceeds from the issuance in July will be utilized to refinance the company's existing Bai' Bithaman Ajil Islamic Debt Securities facility, which is due to fully mature by 2019. The bond was rated AA+IS by Malaysian Rating Corp. Berhad (MARC) and given a stable outlook.

State-owned companies such as Cagamas and Prasarana were the next largest issuers in 3Q13, with issuances of MYR1.2 billion and MYR1 billion, respectively. In August, national mortgage corporation Cagamas issued three tranches of floating-rate bonds with 3-year tenors worth a total of MYR410 million. The bonds were rated AAA by both RAM Ratings and MARC and are based on a 15-bps spread on the 1-year Kuala Lumpur Interbank Offered Rate (KLIBOR). Meanwhile, public transport provider Prasarana issued a total of MYR1 billion of 10- and 15-year *sukuk* with profit rates of 4.26% and 4.58%, respectively.

Public Bank issued the single-largest note in 3Q13 amounting to MYR1 billion. The subordinated MTN is the first tranche of Public Bank's MYR10 billion bond issue under its Basel III-compliant Tier 2 program. The bond has a tenor of 10-years (5-year non-callable) and carries a coupon of 4.8%. It was rated AA1 with a stable outlook by RAM Ratings.

At end-September, the amount of LCY bonds outstanding of the top 30 corporate bond issuers in Malaysia stood at MYR225.2 billion and accounted for 53.4% of the LCY corporate bond market **(Table 3)**. Project Lebuhraya remained the largest issuer of LCY corporate bonds with MYR30.6 billion outstanding, followed by Cagamas and Khazanah Nasional, with outstanding amounts of MYR19.2 billion and MYR18.7 billion, respectively.

Investor Profile

Social security institutions were the largest holders of MGSs and GIIs in 3Q13, with 31.7% of total government bonds outstanding at end-June **(Figure 2)**, which was up slightly from 31.6% a year earlier but lower from 31.9% at end-March. In absolute terms, the holdings of social security institutions amounted to MYR144.1 billion at end-June, up from MYR130.3 billion a year earlier.

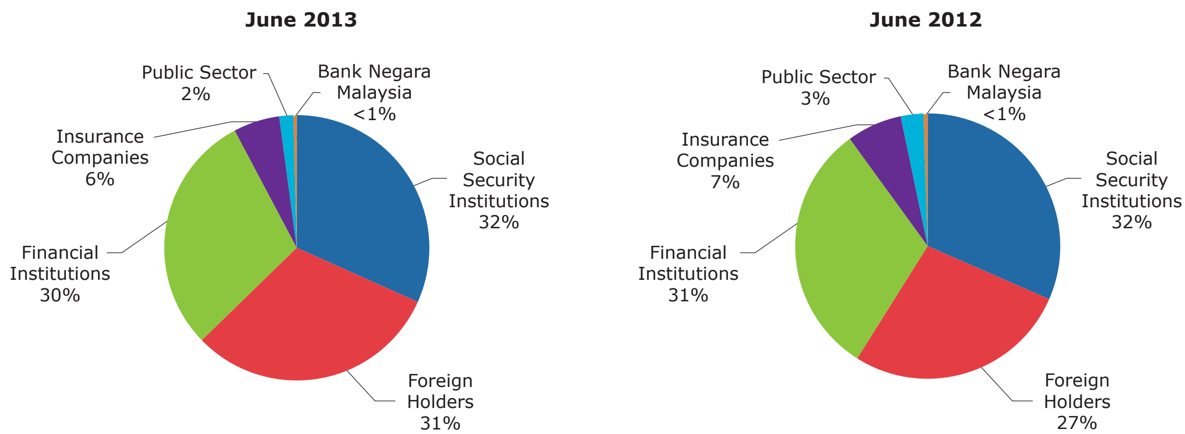
The share of foreign holdings climbed to 31% at end-June from 27.3% a year earlier and dropped slightly from 31.6% at the end of the previous

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

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (MYR billion)	LCY Bonds (US$ billion)			
1. Project Lebuhraya Usahasama Bhd.	30.60	9.39	No	Yes	Toll Roads and Expressway
2. Cagamas	19.19	5.89	Yes	No	Finance
3. Khazanah	18.70	5.74	Yes	No	Quasi-Govt.
4. Pengurusan Air Bhd.	11.63	3.57	Yes	No	Energy, Gas, and Water
5. Prasarana	10.91	3.35	Yes	No	Transport, Storage, and Communications
6. Binariang GSM	9.89	3.03	No	No	Transport, Storage, and Communications
7. Maybank	9.70	2.98	No	Yes	Finance
8. CIMB Bank	7.75	2.38	No	No	Finance
9. Public Bank	6.07	1.86	Yes	No	Finance
10. Cagamas MBS	6.03	1.85	Yes	No	Finance
11. Perbadanan Tabung Pendidikan Tinggi Nasional	6.00	1.84	Yes	No	Quasi-Govt.
12. Senai Desaru Expressway	5.57	1.71	No	No	Construction
13. Sarawak Energy	5.50	1.69	Yes	No	Energy, Gas, and Water
14. Turus Pesawat Sdn. Bhd.	5.31	1.63	Yes	No	Quasi-Govt.
15. Putrajaya Holdings	5.26	1.61	No	No	Property and Real Estate
16. Malakoff Power	5.10	1.56	No	No	Energy, Gas, and Water
17. Aman Sukuk	5.03	1.54	Yes	No	Construction
18. Celcom Transmission	5.00	1.53	No	No	Transport, Storage, and Communications
19. 1Malaysia Development	5.00	1.53	Yes	No	Quasi-Govt.
20. KL International Airport	4.86	1.49	Yes	No	Transport, Storage, and Communications
21. Hong Leong Bank	4.86	1.49	No	Yes	Finance
22. Manjung Island Energy	4.85	1.49	No	No	Energy, Gas, and Water
23. AM Bank	4.61	1.41	No	No	Finance
24. RHB Bank	4.60	1.41	No	No	Finance
25. YTL Power International	4.12	1.26	No	Yes	Energy, Gas, and Water
26. Tanjung Bin Power	4.05	1.24	No	No	Energy, Gas, and Water
27. Jimah Energy Ventures	4.03	1.24	No	No	Energy, Gas, and Water
28. Danainfra Nasional	3.90	1.20	Yes	No	Finance
29. Danga Capital	3.60	1.10	No	No	Finance
30. Cekap Mentari	3.50	1.07	Yes	No	Finance
Total Top 30 LCY Corporate Issuers	**225.21**	**69.09**			
Total LCY Corporate Bonds	**421.39**	**129.28**			
Top 30 as % of Total LCY Corporate Bonds	**53.4%**	**53.4%**			

LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) data.

Figure 2: LCY Government Bonds Investor Profile

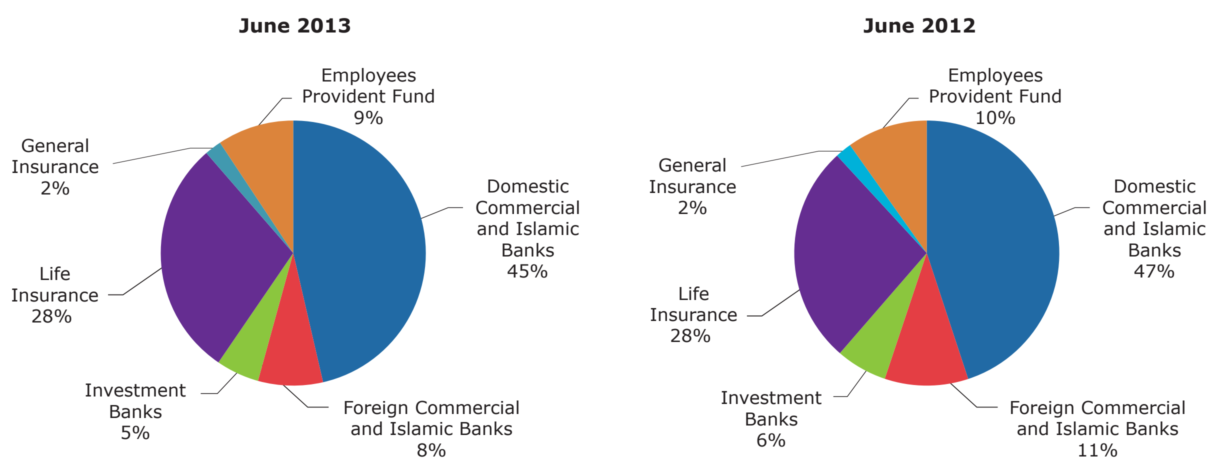


LCY = local currency.
Source: Bank Negara Malaysia.

quarter. Meanwhile, the holdings of financial institutions and insurance companies fell to 29.6% and 5.6%, respectively, at end-June from 31.1% and 6.7% a year earlier.

Domestic and foreign banks (commercial and Islamic) scaled back their shares of holdings in Malaysia's corporate bond market to 45.1% and 7.7%, respectively, at end-June from 46.6% and 10.6% a year earlier **(Figure 3)**. Meanwhile, investment banks also trimmed their position to 5.1% of total corporate bonds from 6.5%. Insurance companies slightly increased their share of corporate bond holdings to 30.5% at end-June from 29.8% a year earlier, continuing a trend in place since 2006.

Figure 3: LCY Corporate Bonds Investor Profile



LCY = local currency.
Note: Employees Provident Fund as of end-2012.
Source: Bank Negara Malaysia.

Policy, Institutional, and Regulatory Developments

Malaysia, Singapore, and Thailand Sign MOU to Establish ASEAN CIS Framework

On 1 October, the Securities Commission Malaysia, Monetary Authority of Singapore (MAS), and Securities and Exchange Commission of Thailand signed a memorandum of understanding to establish the framework for an ASEAN Collective Investment Scheme (CIS) that will facilitate cross-border offerings to retail investors in Malaysia, Singapore, and Thailand. The signatories expect the framework to be implemented in the first half of 2014.

BNM and the Central Bank of the United Arab Emirates Enhance Cooperation

On 10 October, BNM signed a memorandum of understanding with the Central Bank of the United Arab Emirates to further strengthen Islamic financial services linkages between the two countries.

2014 Federal Budget Released

On 25 October, Malaysia announced the release of its 2014 federal budget covering economic activity; fiscal management; and human capital, urban, and rural development. The government's fiscal deficit will be reduced from 4.0% of GDP in 2013 to 3.5% in 2014 as Malaysia moves toward a balanced budget by 2020. The government assured the public that the federal debt level will not exceed the government's limit of 55% of GDP. Malaysia will implement a series of fiscal consolidation measures including a 6% goods and sales tax (GST) by 1 April 2015, the abolition of the sugar subsidy of MYR0.34 per kilogram effective 26 October, and an increase in the real property gains tax (RPGT) rates. The government forecasts the domestic economy will grow 5.0%–5.5% in 2014, from an estimated 4.5%–5.0% growth rate in 2013, driven by annual growth in private investment of 12.7% and private consumption of 6.2%. Finally, to strengthen financial markets, the Securities Commission will introduce a Framework of Socially Responsible *Sukuk* Instruments that will support the financing of sustainable and responsible investments.

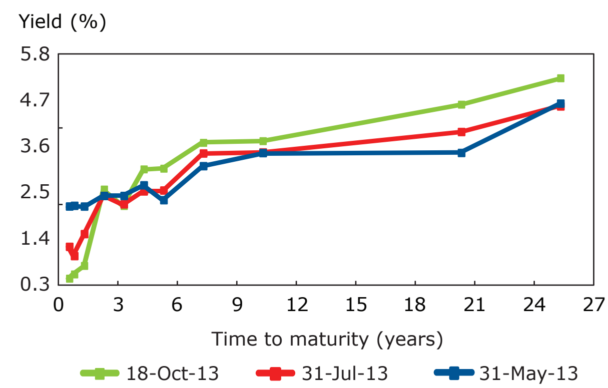
Philippines

Yield Movements

Between end-May and end-July, yields fell for most Philippine local currency (LCY) bonds **(Figure 1)**. Yields for tenors of 1 year and below plunged between 65 basis points (bps) and 119 bps, while yields for 3- and 4-year bonds fell 20 bps and 14 bps, respectively. The fall in yields was due to a correction in the market after the sell-off in late May caused by speculation over how and when the United States (US) Federal Reserve will start to taper its quantitative easing program. Yields also fell in the Philippines in July due to continued high levels of liquidity in the market, and as a result of the Bangko Sentral ng Pilipinas (BSP) lowering the Special Deposit Account rate to 2.0% during its 25 April meeting of the Monetary Board and limiting the access of banks to the facility.

Between end-July and 18 October, yield rose for most tenors. Yields for all tenors above 2 years, except the 3-year tenor, rose between 15 bps and 66 bps. Meanwhile, the yield for the 3-year tenor fell slightly by 4 bps. The rise in yields was evident prior to the US Federal Open Market Committee meeting on 18 September as market players continue to monitor the decision of the Federal Reserve on its quantitative easing program. Yields fell briefly after the Federal Reserve's decision to continue the program. However, yields started to rise again toward the end of September as BSP released amended rules on the valuation of government securities held by banks and non-bank financial institutions. Under BSP Circular 813, the weighted average of executed deals will now be used as the basis for the valuation. Anticipated negative mark-to-market valuations induced a sell-off at the longer-end of the yield curve in the latter part of September. Moody's upgrade of the Philippines to investment grade on 3 October provided good news for the market and resulted in a brief fall in yields, though market participants continue to monitor the fiscal issues of the US government. Meanwhile, yields for tenors of 1 year and below fell between 43 bps and 75 bps.

Figure 1: Philippines' Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Economic data in the Philippines continued to be positive in 3Q13. Inflation remained benign, enabling the pursuit of expansionary fiscal and monetary policy goals. Consumer price inflation increased slightly to 2.7% year-on-year (y-o-y) in September, bringing year-to-date inflation to 2.8%, which was still below BSP's 2013 target range of 3%–5%. This led BSP to hold its policy rates steady during its Monetary Board meeting on 12 September.

During the first half of 2013, the Philippine economy grew 7.6%, compared with 6.4% in the same period in 2012. The growth continues to be supported by strong business and consumer sentiment, as well as sustained government capital expenditure. The services sector continues to post strong performances, outweighing the negative contribution of exports.

Size and Composition

The Philippine LCY bond market grew at a robust rate of 12.5% y-o-y as of end-September, led by both treasury bills and bonds. Total LCY bonds reached PHP4.3 trillion (US$98 billion) at end-September, up 3.6% from end-June's level of PHP4.1 trillion. Government securities accounted

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

	Outstanding Amount (billion)						**Growth Rate** (%)			
	3Q12		**2Q13**		**3Q13**		**3Q12**		**3Q13**	
	PHP	**US$**	**PHP**	**US$**	**PHP**	**US$**	**q-o-q**	**y-o-y**	**q-o-q**	**y-o-y**
Total	**3,801**	**91**	**4,128**	**96**	**4,276**	**98**	**4.2**	**16.1**	**3.6**	**12.5**
Government	3,286	79	3,587	83	3,732	86	4.3	14.7	4.0	13.6
Treasury Bills	262	6	308	7	309	7	2.7	(20.6)	0.3	18.1
Treasury Bonds	2,900	69	3,165	73	3,309	76	4.6	19.8	4.6	14.1
Others	124	3	113	3	113	3	0.3	8.6	0.0	(8.8)
Corporate	514	12	541	13	544	13	3.9	26.1	0.6	5.8

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. Data for government bonds as of end-August 2013.
5. "Others" comprises bonds issued by government agencies, instrumentalities, and corporations with which repayment was guaranteed by the central government. These include issues of Power Sector Assets and Liabilities Management (PSALM), National Food Authority, and others.
6. Peso Global Bonds (PHP-denominated bonds payable in US$) and multi-currency Retail Treasury Bonds (RTBs) are not included. As of end-August 2013, the Government of the Philippines and Petron Corporation had PHP129.7 billion and PHP20 billion of outstanding Peso Global Bonds, respectively. There was a total of PHP6 billion of outstanding multi-currency treasury bonds as of end-August 2013.
Sources: Bureau of the Treasury and Bloomberg LP.

for the majority of bonds outstanding, totaling PHP3.7 trillion, while corporate bonds summed to PHP544.2 billion.

Government Bonds. Outstanding fixed-income instruments issued by the Philippine government and government-controlled companies rose 4.0% quarter-on-quarter (q-o-q) and 13.6% y-o-y to close at PHP3.7 trillion at end-August. Treasury bills advanced at 0.3% q-o-q and 18.1% y-o-y to stand at PHP309.3 billion at end-August. Treasury bonds expanded 4.6% q-o-q and 14.1% y-o-y to PHP3.3 trillion. Meanwhile, fixed-income instruments issued by government-controlled companies registered a decline of 8.8% y-o-y to PHP113.5 billion at the end of 3Q13.

In terms of issuance in 3Q13, PHP210 billion worth of treasury bonds were sold compared with PHP130 billion of treasury bills. The Bureau of the Treasury sold PHP100 billion worth of 10-year Retail Treasury Bonds in August. The government has programmed LCY borrowing of PHP120 billion through its regular auction schedule in 4Q13: PHP40 billion of treasury bills with 91-, 182-, and 364-day tenors; and PHP80 billion of treasury bonds with 5-, 7-, and 20-year tenors.

Corporate Bonds. As of end-September, total outstanding LCY corporate bonds grew 0.6% q-o-q and 5.8% y-o-y to reach PHP544.2 billion. Ayala Land, Inc. and Globe Telecom issued corporate bonds in amounts of PHP15 billion and PHP7 billion, respectively. Banco de Oro Unibank and Philippine National Bank were the next largest issuers in 3Q13, raising PHP5 billion worth of Tier 2 notes each **(Table 2)**.

Only 50 companies are actively tapping the capital market in the Philippines. The top 30 issuers accounted for 80.9% of the total amount of LCY corporate bonds outstanding (PHP544.2 billion) at end-September **(Table 3)**. Out of the top 30 bond issuers, only six companies

Table 2: Notable LCY Corporate Bond Issuance in 2Q13

Corporate Issuers	**Coupon Rate** (%)	**Issued Amount** (PHP billion)
Ayala Land, Inc.		
10.5-year bond	5.00	15
BDO Unibank, Inc.		
7-year LTNCD	3.50	5
Globe Telecom		
7-year bond	4.89	4
10-year bond	5.28	3
Philippine National Bank		
5.5-year LTNCD	3.00	5
Philippine National Bank	3.00	5

LCY = local currency, LTNCD = long-term negotiable certificate of deposit.
Source: Bloomberg LP.

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

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (PHP billion)	LCY Bonds (US$ billion)			
1. San Miguel Brewery Inc.	45.2	1.0	No	Yes	Brewery
2. Ayala Land Inc.	43.9	1.0	No	Yes	Real Estate
3. Ayala Corporation	40.0	0.9	No	Yes	Diversified Operations
4. BDO Unibank Inc.	21.5	0.5	No	Yes	Banking
5. SM Investments Corporation	21.1	0.5	No	Yes	Diversified Operations
6. Philippine Long Distance Telephone Co.	17.3	0.4	No	Yes	Telecommunications
7. Philippine National Bank	17.3	0.4	No	Yes	Banking
8. Globe Telecom Inc.	17.0	0.4	No	Yes	Telecommunications
9. Maynilad Water Services	16.6	0.4	No	Yes	Water
10. Energy Development Corporation	16.0	0.4	No	Yes	Electricity Generation
11. Manila Electric Company	14.4	0.3	No	Yes	Electricity Distribution
12. SM Development Corporation	14.3	0.3	No	Yes	Real Estate
13. Rizal Commercial Banking Corporation	14.0	0.3	No	Yes	Banking
14. Petron Corporation	13.6	0.3	No	Yes	Oil Refining and Marketing
15. First Metro Investment Corporation	12.0	0.3	No	No	Investment Banking
16. Filinvest Land Inc.	11.5	0.3	No	Yes	Real Estate
17. MTD Manila Expressway Corporation	11.5	0.3	No	No	Transport Services
18. South Luzon Tollway Corporation	11.0	0.3	No	No	Transport Services
19. GT Capital Holdings Inc.	10.0	0.2	No	Yes	Investment Companies
20. Metropolitan Bank & Trust Co.	10.0	0.2	No	Yes	Banking
21. Robinsons Land Corporation	10.0	0.2	No	Yes	Real Estate
22. JG Summit Holdings Inc.	9.0	0.2	No	Yes	Diversified Operations
23. Security Bank Corporation	8.0	0.2	No	Yes	Banking
24. Manila North Tollways Corporation	6.1	0.1	No	No	Public Thoroughfares
25. Bank of the Philippine Islands	5.0	0.1	No	Yes	Banking
26. Megaworld Corporation	5.0	0.1	No	Yes	Real Estate
27. SM Prime Holdings, Inc.	5.0	0.1	No	Yes	Real Estate
28. United Coconut Planters Bank	5.0	0.1	No	No	Banking
29. Eagle Cement Corporation	4.5	0.1	No	Yes	Industrial
30. Philippine Phosphate Fertilizer Corp.	4.5	0.1	No	No	Industrial
Total Top 30 LCY Corporate Issuers	**440.2**	**10.1**			
Total LCY Corporate Bonds	**544.2**	**12.5**			
Top 30 as % of Total LCY Corporate Bonds	**80.9%**	**80.9%**			

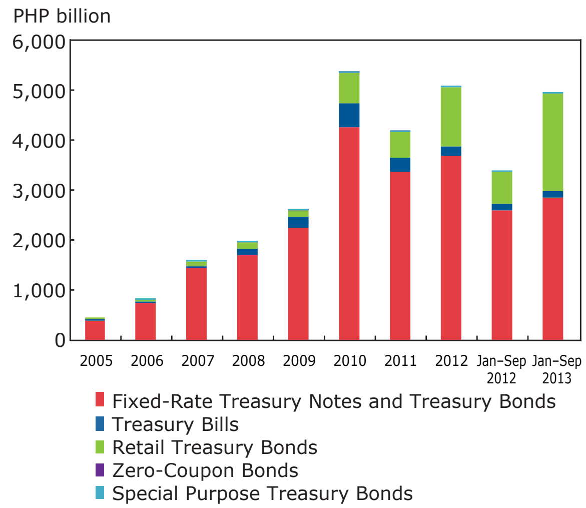
LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. Petron Corporation has PHP20 billion of Global Peso Bonds outstanding that are not included in this table.
3. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

are privately-held corporations and the rest are publicly listed with the Philippine Stock Exchange (PSE). San Miguel Brewery (SMB) remained the largest corporate issuer in the country with PHP45.2 billion of outstanding debt. Ayala Land, Inc. followed SMB as the next largest borrower with PHP43.9 billion outstanding. Ayala Corporation was in the third spot with PHP40 billion of outstanding bonds.

The diversity of LCY corporate bond issuers in 3Q13 was comparable with that in 2Q13 **(Figure 2)**. Banks and financial services, including investment houses, remained the leading issuers of debt in 3Q13 with 27.2% of the total as BSP moved toward more stringent liquidity and capital requirements. The market share of most industries remained unchanged, except for real estate, which increased to 17.9% from 15.7%. Firms from industries as diverse as (i) electricity generation and distribution, (ii) telecommunications, and (iii) thoroughfares and tollways continued to have shares of total corporate bonds outstanding in the single-digit levels.

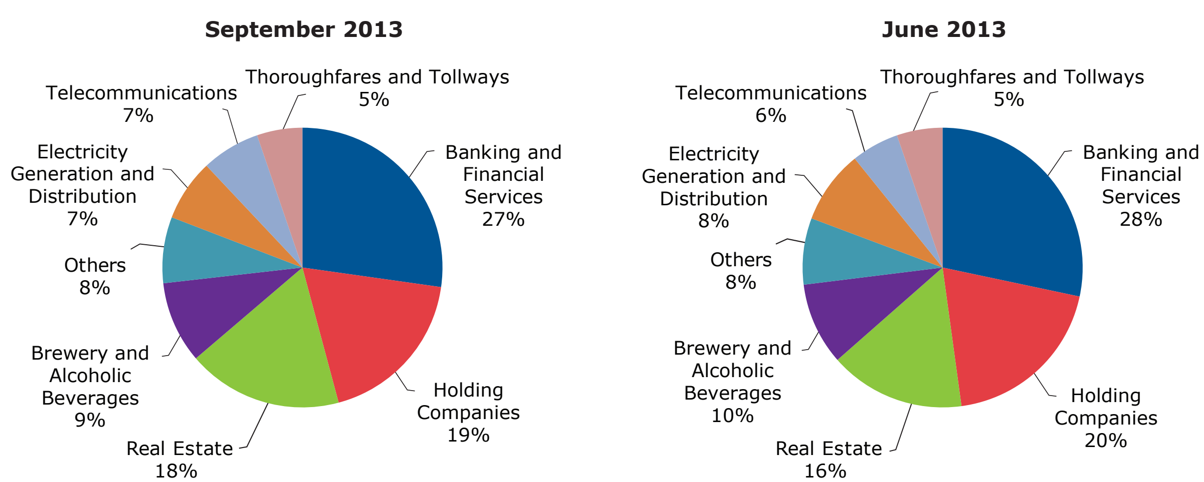
As the sole fixed-income exchange in the country, the Philippine Dealing and Exchange Corporation (PDEx) captures the secondary trading of listed fixed-income issues. The volume of secondary trading of government securities surged between 2005 and 2012 **(Figure 3)**. From an annual trading volume of PHP437.7 billion in 2005, trading volume increased to PHP5 trillion in 2012. The largest annual volume was recorded in 2010, when secondary trading reached PHP5.4 trillion.

Figure 3: PDEx Trade Volume Trends—Government Securities



Note: PDEx reports one side of the trade only.
Source: Philippine Dealing and Exchange Corporation (PDEx).

Figure 2: LCY Corporate Bond Issuers by Industry



LCY = local currency.
Source: Bloomberg LP.

Total trading volume in January–September increased 47.0% y-o-y to PHP4.9 trillion, which is equivalent to 97.8% of the total trading volume in 2012. Between January 2005 and September 2013, treasury bonds accounted for almost 76.7% of all trades in the secondary market as investors sought greater capital gains and interest income from these securities.

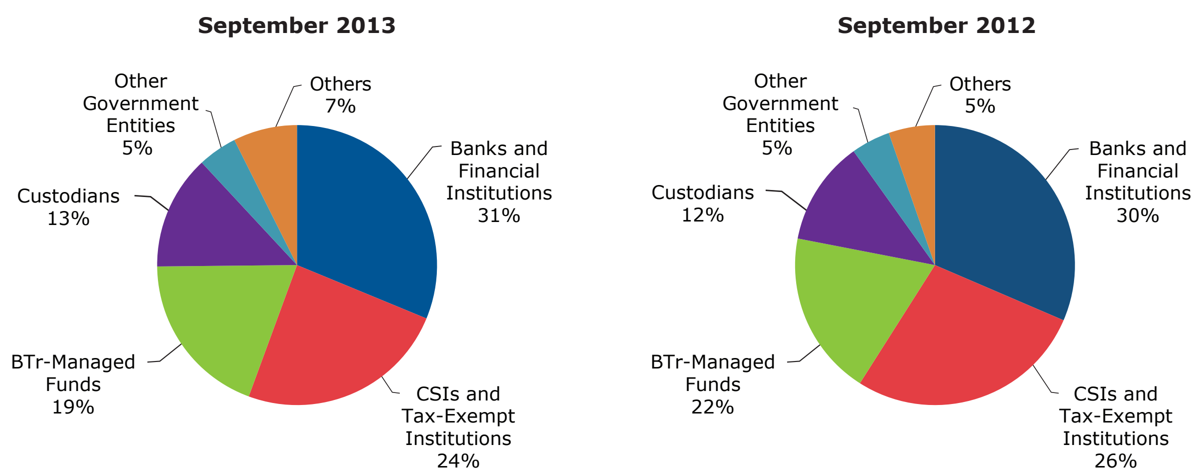
Investor Profile

The largest grouping of investors in government securities in 3Q13 comprised banks and financial institutions with 31.2% of the total **(Figure 4)**. This was slightly higher than its share of 30.0% in 3Q12. Contractual savings institutions—including the Social Security System (SSS), Government Service Insurance System (GSIS), Pag-ibig, and life insurance companies—and tax-exempt institutions—such as trusts and other tax-exempt entities—accounted for 24.4% of the total in 3Q13, down from 26.4% in 3Q12. The share of funds being managed by the Bureau of the Treasury (BTr), which includes the Bond Sinking Fund, fell to 19.2% in 3Q13 from 21.9% in 3Q12. The participation of custodians increased to 13.2% from 12.2%. The share of other government entities and other investors, which include individuals and private corporations, increased to 11.9% in 3Q13 from 9.5% in 3Q12.

Rating Changes

On 3 October, Moody's upgraded its sovereign foreign currency (FCY) and LCY long-term ratings for the Philippines to Baa3 from Ba1, with a positive outlook. Moody's said the factors that prompted the review for an upgrade announced in July 2013 remained intact. These include the country's robust economic performance, ongoing fiscal and debt consolidation, and political stability and improved governance. Moody's also mentioned the stability of the Philippines' funding conditions as an indicator of the country's lack of vulnerability to external financial shocks—the most recent of which resulted from the US Federal Reserve's announced tapering of its quantitative easing policy.

Figure 4: LCY Government Bonds Investor Profile



BTr = Bureau of the Treasury, CSIs = contractual savings institutions, LCY = local currency.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

BSP Releases Amended Rules on Market Valuation of Government Securities

On 27 September, BSP released the amended rules on the market valuation of government securities. As stated in BSP Circular 813, the benchmark or reference prices to be used for the market valuation shall be based on the weighted average of completed or executed deals in a trading market registered with the Securities and Exchange Commission (SEC). Only in the absence of completed or executed deals, shall the following be applied: (i) the simple average of all firm bids per benchmark tenor shall be used for benchmark government securities, and (ii) the interpolated yields derived from the benchmark or reference rates shall be used for non-benchmark government securities. The circular took effect 15 calendar days following its publication.

BSP Maintains Policy Rates

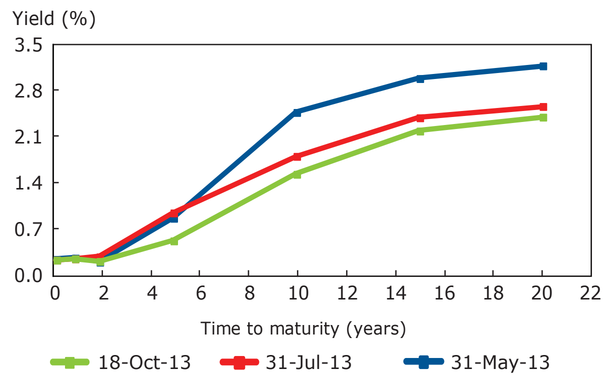
On 24 October, the Monetary Board of the BSP decided to keep its key policy rates—the overnight borrowing and lending rates—steady at 3.50% and 5.50%, respectively. The reserve requirement ratios and the interest rate for BSP's Special Deposit Account facility were also kept steady. The decision to hold the policy rates at their current levels reflected the Monetary Board's assessment that the future inflation path continues to be broadly in line with BSP's target range for 2013–15. The Monetary Board noted that while global economic conditions are challenging, expectations for domestic activity remain robust. Moreover, BSP also noted that most lending in the system has been going to the productive sectors of the economy. This has, in turn, improved the economy's absorptive capacity for liquidity and helped moderate price pressures.

Singapore

Yield Movements

Between end-July and 18 October, the yield curve for Singapore's local currency (LCY) government bonds rose slightly at the shorter-end and fell at the longer-end of the curve, resulting in a flattening of the yield curve **(Figure 1)**. Yields rose between 1 basis point (bp) and 14 bps for 3-month to 2-year tenors, while yields fell between 6 bps and 26 bps for 10- to 20-year tenors. The yield spread between 2- and 10-year tenors narrowed from 225 bps at end-July to 185 bps on 18 October. However, between end-May and end-July, the yield curve steepened as a result of a significant rise at the longer-end of the curve, with yields rising between 59 bps and 66 bps for 10- to 20-year tenors, which was partly attributed to the announced tapering of the United States (US) Federal Reserve's bond-buying program in June.

Figure 1: Singapore's Benchmark Yield Curve–LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

On 14 October, the Monetary Authority of Singapore (MAS) announced that it will maintain its policy of a modest and gradual appreciation of the Singapore dollar nominal effective exchange rate (NEER) policy band, with no change to the slope of the policy band or the level at which it is centered. The present width of the band is deemed sufficient to accommodate temporary fluctuations in the Singapore dollar NEER. This policy stance is assessed to be appropriate, taking into account the balance of risks between external demand uncertainties and rising domestic inflationary pressures. In the same statement, MAS also said that core inflation is expected to range between 1.5% and 2.0% in 2013, and rise to between 2.0% and 3.0% in 2014.

Consumer price inflation in Singapore eased to 1.6% year-on-year (y-o-y) in September from 2.0% in August. The easing came largely on the back of private road transport costs, which fell 2.0% y-o-y in September after posting a mild 0.1% increase in August. Accommodation costs climbed 3.9% y-o-y, compared with a 4.2% rise in August, mainly reflecting a smaller increase in market rentals for both private and Housing and Development Board (HDB) properties. Food prices rose 2.4% y-o-y in September, the same pace as in the previous month. On a month-on-month (m-o-m) basis, consumer price inflation increased 0.1% in September after recording a 0.8% rise in August.

According to advance estimates released by the Ministry of Trade and Industry (MTI), Singapore's economy expanded 5.1% y-o-y in 3Q13, compared with 4.2% in the previous quarter. In 3Q13, growth in the construction sector moderated to 3.6% y-o-y from 6.9% in 2Q13, while the services sector expanded at a similar pace of 5.7% y-o-y from 5.6% in the previous quarter. The manufacturing sector expanded 4.5% y-o-y in 3Q13 after expanding 1.3% in 2Q13. On a quarter-on-quarter (q-o-q) seasonally adjusted and annualized basis, Singapore's economy contracted 1.0%, compared with a 16.9% expansion in the previous quarter. MTI also announced that it has upgraded the gross domestic product (GDP) growth forecast for 2013 from between 1.0% and 3.0% to between 2.5% and 3.5%.

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

	Outstanding Amount (billion)						**Growth Rate** (%)			
	3Q12		**2Q13**		**3Q13**		**3Q12**		**3Q13**	
	SGD	**US$**	**SGD**	**US$**	**SGD**	**US$**	**q-o-q**	**y-o-y**	**q-o-q**	**y-o-y**
Total	**276**	**225**	**303**	**239**	**301**	**240**	**4.4**	**12.0**	**(0.7)**	**9.2**
Government	171	139	187	148	187	149	4.7	12.1	(0.3)	9.4
SGS Bills and Bonds	144	117	138	109	128	102	0.8	6.2	(7.2)	(11.1)
MAS Bills	27	22	50	39	59	47	31.9	60.1	19.0	119.3
Corporate	105	86	116	91	114	91	3.9	11.9	(1.3)	8.7

( ) = negative, LCY = local currency, MAS = Monetary Authority of Singapore, q-o-q = quarter-on-quarter, SGS = Singapore Government Securities, y-o-y = year-on-year.
Notes:
1. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondsOnline* estimates.
2. SGS bills and bonds do not include the special issue of Singapore Government Securities held by the Singapore Central Provident Fund (CPF).
3. Bloomberg LP end-of-period LCY–US$ rates are used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Sources: Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP.

Size and Composition

The size of Singapore's LCY bond market contracted to SGD301 billion (US$240 billion) at end-September **(Table 1)**, representing a 0.7% q-o-q decline due to a drop in treasury bills and bonds outstanding. However, the LCY bond market grew 9.2% y-o-y, driven by MAS bills more than doubling over the past year.

Government Bonds. The stock of LCY government bonds reached SGD187 billion at end-September, declining 0.3% q-o-q, but rising 9.4% y-o-y. The total comprises SGD128 billion of Singapore Government Securities (SGS) bills and bonds, and SGD59 billion of MAS bills. The q-o-q drop in the government bond market was driven by a 7.2% drop in the stock of SGS bills and bonds (mostly due to a drop in SGS bills), while the increase on a y-o-y basis was attributed to a substantial rise of 119.3% in MAS bills outstanding, resulting from increased issuance since April 2011 as part of MAS money market operations.

Corporate Bonds. Singapore's LCY corporate bonds outstanding were estimated at SGD114 billion at end-September, declining 1.3% q-o-q and expanding 8.7% y-o-y.

At end-September, the amount of LCY bonds outstanding of the top 30 corporate bond issuers in Singapore reached SGD63.1 billion, representing 55.3% of the total corporate bond market **(Table 2)**. HDB retained its ranking as the top corporate issuer in Singapore with outstanding bonds valued at SGD16.1 billion, followed by CapitaLand—one of the largest real estate and real estate fund management companies headquartered in Singapore—which moved up to the second spot in 3Q13 with bonds outstanding of SGD5.2 billion at end-September. The third largest corporate issuer was DBS Bank—previously the second-largest corporate issuer at end-June—with a total bond stock amounting to SGD5 billion.

Corporations from the financial sector dominated the list of the top 30 LCY corporate bond issuers in Singapore. Other major issuers were from the utilities, industrial, real estate, telecommunications, transportation, consumer, and energy sectors. Only three companies on the list were state-owned firms.

Corporate bond issuance reached SGD4.2 billion in 3Q13, up from SGD3.8 billion in 2Q13. A total of 18 bond series were issued by 16 companies during the quarter, with maturities ranging from 2 years to 10 years and with coupon rates of between 1.2% and 7.3%. Two perpetual bonds were also issued by Sembcorp Industries and United Overseas Bank. **Table 3** lists notable corporate bond issuance in 3Q13.

Table 2: Top 30 Issuers of LCY Corporate Bonds in Singapore

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (SGD billion)	LCY Bonds (US$ billion)			
1. Housing and Development Board	16.1	12.8	Yes	No	Financial
2. CapitaLand Ltd.	5.2	4.2	No	Yes	Financial
3. DBS Bank Ltd.	5.0	4.0	No	Yes	Financial
4. United Overseas Bank Ltd.	4.1	3.2	No	Yes	Financial
5. Temasek Financial I	3.6	2.9	No	No	Financial
6. SP PowerAssets Ltd.	2.4	1.9	No	No	Utilities
7. Public Utilities Board	2.1	1.7	Yes	No	Utilities
8. Land Transport Authority	1.8	1.4	Yes	No	Industrial
9. GLL IHT Pte Ltd.	1.8	1.4	No	No	Real Estate
10. Oversea-Chinese Banking Corp.	1.7	1.4	No	Yes	Financial
11. Keppel Corp Ltd.	1.5	1.2	No	Yes	Industrial
12 .Olam International Ltd.	1.4	1.1	No	Yes	Consumer
13. Temasek Financial III	1.3	1.0	No	No	Financial
14. Neptune Orient Lines Ltd.	1.3	1.0	No	Yes	Industrial
15. City Developments Ltd.	1.3	1.0	No	Yes	Consumer
16. CapitaMalls Asia Treasury	1.1	0.9	No	No	Financial
17. Keppel Land Ltd.	1.1	0.9	No	Yes	Real Estate
18.PSA Corporation Ltd.	1.0	0.8	No	No	Consumer
19.Overseas Union Enterprise Ltd.	1.0	0.8	No	Yes	Consumer
20.Mapletree Treasury Services	1.0	0.8	No	No	Financial
21.Hyflux Ltd.	1.0	0.8	No	Yes	Industrial
22.Singtel Group Treasury	0.9	0.7	No	No	Telecommunications
23.Singapore Airlines	0.8	0.6	No	No	Transportation
24.Global Logistic Properties	0.8	0.6	No	Yes	Industrial
25.CapitaLand Treasury Ltd.	0.7	0.6	No	No	Financial
26.Joynote Ltd.	0.7	0.6	No	No	Financial
27.F&N Treasury Pte Ltd.	0.7	0.6	No	No	Financial
28.Sembcorp Financial Services	0.7	0.6	No	No	Industrial
29.Hotel Properties Ltd.	0.7	0.5	No	Yes	Consumer
30.CMT MTN Pte Ltd.	0.7	0.5	No	No	Financial
Total Top 30 LCY Corporate Issuers	**63.1**	**50.3**			
Total LCY Corporate Bonds	**114.2**	**90.9**			
Top 30 as % of Total LCY Corporate Bonds	**55.3%**	**55.3%**			

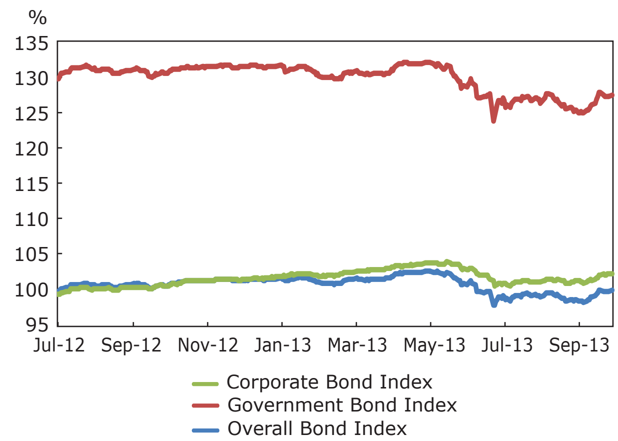
LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Table 3: Notable LCY Corporate Bond Issuance in 3Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Housing and Development Board		
3-year bond	1.17	520
5-year bond	2.37	1,450
United Overseas Bank		
Perpetual bond	4.90	850
Sembcorp Industries		
Perpetual bond	5.00	200
Swiber Capital		
5-year bond	6.50	150
Oxley Holdings		
2-year bond	4.75	135
5-year bond	4.75	125
Hotel Properties		
10-year bond	3.90	100
Tat Hong Holdings		
5-year bond	4.50	100

LCY = local currency.
Source: Bloomberg LP.

Figure 2: Select Markit iBoxx SGD Bond Indices



SGD = Singapore dollar.
Notes:
1. Markit iBoxx SGD Overall Bond Index covers 198 bonds as of 21 October 2013.
2. Markit iBoxx SGD Government Bond Index covers 18 Singapore Government Securities as of 22 October 2013.
3. Markit iBoxx SGD Corporate Bond Index, as known as Market iBoxx SGD Non-Sovereign Index, covers 180 bonds as of 21 October 2013.
Source: Markit.

Figure 2 presents the select indices from the Markit iBoxx SGD Bond Index Family comprising the Overall Bond Index, Government Bond Index, and Corporate Bond Index (or Non-Sovereign Bond Index). The indices use a market capitalization weighting scheme and any unrated bond will be included in the index at 50% of its full notional value.

The Overall Bond Index covers approximately SGD150 billion worth of debt denominated in Singapore dollars (about 50% of the total bond market size), including investment grade and high-yield segments of the market across sovereign, quasi-sovereign, and corporate bonds.

The Government Bond Index consists of SGSs only, and the Corporate Bond Index consists of bonds other than SGSs such as bonds issued by Singapore's Statutory Boards as well as higher-yielding bonds issued by mid-sized companies.

Policy, Institutional, and Regulatory Developments

Singapore and other APEC Economies to Launch Asia Region Funds Passport

On 20 September, the finance ministers of Singapore, Australia, the Republic of Korea, and New Zealand signed a statement of intent to jointly develop the Asia Region Funds Passport (ARFP), which will facilitate the cross-border offering of funds in the region. When implemented, the ARFP will offer fund managers operating in a passport economy a direct and efficient route to distribute their funds in other passport economies. Investors in the region will also benefit from having access to a broader range of quality investment products. As an inclusive regional initiative, the ARFP will strengthen the region's fund management capabilities, deepen its capital markets, and provide financing for sustainable economic growth.

The PRC Extends CNY50 Billion RQFII Quota to Singapore

On 22 October, the PRC and Singapore agreed on initiatives to strengthen their cooperation on financial sector development and regulation. One of these initiatives is for the PRC to extend its Renminbi Qualified Foreign Institutional Investor (RQFII) program to Singapore, with an aggregate quota of CNY50 billion, in order to allow qualified Singapore-based institutional investors to channel offshore renminbi from Singapore into the PRC's onshore securities markets. Under this initiative, RQFII license holders may also issue CNY-denominated investment products to investors based in Singapore, within the RQFII quota. This program will help diversify the investor base in the PRC's capital market and promote the renminbi for investment use. In addition, Singapore will be given consideration as one of the investment destinations under the new Renminbi Qualified Domestic Institutional Investor (RQDII) scheme. This will allow qualified PRC institutional investors to use renminbi to invest in Singapore's capital markets. The measure will help broaden the universe of assets available to PRC investors and expand the investor base in Singapore's capital markets.

Thailand

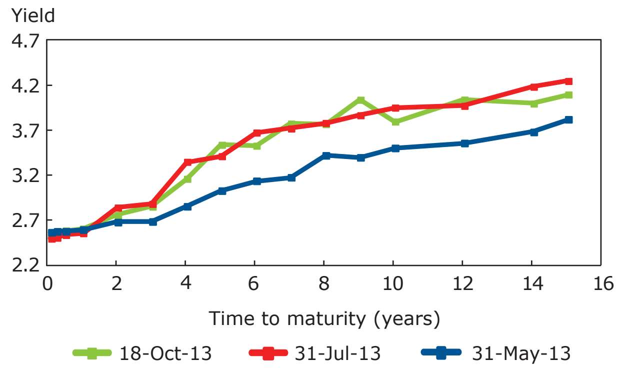
Yield Movements

Yields on Thailand's local currency (LCY) government bonds rose for most tenors between end-May and 18 October **(Figure 1)**. Yield hikes were evident in tenors of more than 3 months, ranging from 1 basis point (bp) for 6-month and 1-year government bonds to 64 bps for the 9-year government bond. The increase in yields for most tenors was more pronounced between end-May and end-July, amid market concerns over a possible tapering in the asset purchase program of the United States (US) Federal Reserve. Between end-July and 18 October, yield movements were mixed, rising for half of the tenors along the yield curve and falling for the other half. Meanwhile, the yield spread between the 2- and 10-year tenors widened 22 bps between end-May and 18 October, resulting in a steepening of the curve.

The Bank of Thailand's (BOT) Monetary Policy Committee decided on 16 October to maintain its policy rate at 2.50%. In its monetary policy decision, the committee reported that the global economy has gradually improved amid substantial downside risks, and while the economy of Thailand has grown more slowly than expected it has started to stabilize and exhibit improvements in some sectors. The committee also stated that the current accommodative monetary policy is still appropriate in supporting the country's economic recovery amid uncertainty in the global financial and economic environment.

The BOT reported in October that it has revised downward its 2013 and 2014 gross domestic product (GDP) growth forecasts to 3.7% (from 4.2% in July) and 4.8% (from 5.0%), respectively. The downward revision was made amid the more-than-expected moderation in domestic demand and slow export recovery. The central bank also revised downward its inflation forecasts for both years. Meanwhile, in September, the Ministry of Finance, through its Fiscal Policy Office (FPO), announced its latest economic projections for 2013 and 2014. It forecast that Thailand's economy would expand by not less than 3.5% in 2013, with growth reaching 4.0% if the budget disbursement for October–December follows Cabinet-approved policy measures to promote sustainable economic growth. For 2014, the FPO projected 5.1% annual GDP growth.

Figure 1: Thailand's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

In 2Q13, Thailand's real GDP growth stood at 2.8% year-on-year (y-o-y), lower than 1Q13's growth rate of 5.4%, amid slower growth in domestic demand and exports. In August, the Government of Thailand's Cabinet approved measures—covering private consumption, private investment, government spending, and exports—aimed at promoting stable economic growth.

Consumer price inflation inched up to 1.5% y-o-y in October from 1.4% in September. The y-o-y increase in the price index for food and non-alcoholic beverages accelerated to 2.9% in October from 2.5% in September. Meanwhile, the y-o-y hike in the price index for non-food and beverages slowed to 0.7% in October from 0.8% in September.

Thailand's current account deficit narrowed to US$888 million in 3Q13 from US$6.7 billion in 2Q13. The quarterly decline was largely induced by the merchandise trade balance shifting into a surplus position of US$5 billion in 3Q13 from a deficit of US$497.4 million in the previous quarter. Exports of goods grew 4.3% quarter-on-quarter (q-o-q) to US$58 billion while merchandise imports contracted 5.6% q-o-q to US$52.9 billion in 3Q13, leading to the reversal in the merchandise trade balance. Meanwhile, the deficit position in the net services, primary income and secondary income account narrowed 4.0% q-o-q to US$5.9 billion.

Size and Composition

The outstanding stock of LCY bonds in Thailand at the end of 3Q13 stood at THB8.9 trillion (US$285 billion), registering growth of 0.2% q-o-q and 8.8% y-o-y **(Table 1)**. The growth rates for 3Q13, however, were lower compared with 3Q12. In the LCY government bond market, the outstanding volume was estimated at THB7 trillion as of end-September, up 7.3% y-o-y, but marginally lower by 0.04% on a q-o-q basis. The combined amount of treasury bills and bonds stood at THB3.4 trillion at the end of quarter, expanding 4.3% q-o-q and 12.8% y-o-y. Similarly, the outstanding value of state-owned enterprise (SOE) and other bonds grew 5.3% q-o-q and 17.4% y-o-y to reach THB712 billion at the end of 3Q13. In contrast, central bank bonds were down 5.8% q-o-q and 0.4% y-o-y in 3Q13, leveling off at THB2.9 trillion.

LCY government bond issuance in 3Q13 was lower compared with the previous quarter and in the same quarter of the previous year. Between 2Q13 and 3Q13, total LCY government bond issuance was down 7.3%, as issuance of central bank bonds fell 8.3%, more than offsetting the 1.3% increase in the combined bond issues of the central government and SOEs. On a y-o-y basis, issuance of LCY government bonds was down 20.6% in 3Q13, led by a 14.1% reduction in BOT's bond issues and a 48.7% fall in the bond issuance of the central government and SOEs. The relatively sharp annual decline in issuance by both the central government and SOEs was largely due to a high base in 3Q12, due in part to bonds issued by the state-owned Bank for Agriculture and Agricultural Cooperatives (BAAC).

In the LCY corporate bond market, the outstanding stock of bonds stood at THB1.9 trillion in 3Q13, up 1.3% q-o-q and 14.7% y-o-y. By the end of September, the top 30 corporate issuers had combined bonds outstanding of THB1.2 trillion, which comprised 63.7% of the

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

	Outstanding Amount (billion)						**Growth Rate** (%)			
	3Q12		**2Q13**		**3Q13**		**3Q12**		**3Q13**	
	THB	**US$**	**THB**	**US$**	**THB**	**US$**	**q-o-q**	**y-o-y**	**q-o-q**	**y-o-y**
Total	**8,183**	**265**	**8,882**	**286**	**8,903**	**285**	**1.9**	**14.5**	**0.2**	**8.8**
Government	6,527	212	7,007	226	7,004	224	1.3	12.1	(0.04)	7.3
Government Bonds and Treasury Bills	2,987	97	3,231	104	3,371	108	(0.4)	6.3	4.3	12.8
Central Bank Bonds	2,933	95	3,099	100	2,920	93	(1.0)	15.7	(5.8)	(0.4)
State-Owned Enterprise and Other Bonds	607	20	676	22	712	23	26.0	26.7	5.3	17.4
Corporate	1,656	54	1,875	60	1,899	61	4.6	24.9	1.3	14.7

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

total outstanding stock of LCY corporate bonds **(Table 2)**. The two-largest corporate issuers as of end-September were PTT and Siam Cement with bonds outstanding of THB190 billion and THB131.5 billion, respectively. Overall, Thailand's LCY corporate bond issuance in 3Q13 was down 50.8% q-o-q and 2.5% y-o-y.

The five largest LCY corporate bond issues in Thailand during 3Q13 were (i) True Corporation's

Table 2: Top 30 Issuers of LCY Corporate Bonds in Thailand

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (THB billion)	LCY Bonds (US$ billion)			
1. PTT	190.0	6.1	Yes	Yes	Energy
2. Siam Cement	131.5	4.2	Yes	Yes	Diversified
3. Charoen Pokphand Foods	71.5	2.3	No	Yes	Consumer
4. Krung Thai Bank	68.2	2.2	Yes	Yes	Financial
5. Bank of Ayudhya	59.7	1.9	No	Yes	Financial
6. Kasikorn Bank	59.1	1.9	No	Yes	Financial
7. Thai Airways International	43.7	1.4	Yes	Yes	Consumer
8. Thanachart Bank	41.9	1.3	No	No	Financial
9. Ayudhya Capital Auto Lease	40.4	1.3	No	No	Financial
10. Siam Commercial Bank	40.0	1.3	No	Yes	Financial
11. PTT Global Chemical	33.3	1.1	Yes	Yes	Basic Materials
12. Banpu	29.6	0.9	No	Yes	Energy
13. Toyota Leasing Thailand	28.1	0.9	No	No	Consumer
14. True Corporation	27.9	0.9	No	Yes	Communications
15. Thai Oil	27.8	0.9	Yes	Yes	Energy
16. TMB Bank	27.7	0.9	No	Yes	Financial
17. Krung Thai Card	25.5	0.8	Yes	Yes	Financial
18. Mitr Phol Sugar	25.2	0.8	No	No	Consumer
19. PTT Exploration and Production Company	24.2	0.8	Yes	Yes	Energy
20. Indorama Ventures	23.9	0.8	No	Yes	Basic Materials
21. DAD SPV	22.5	0.7	Yes	No	Financial
22. Tisco Bank	20.6	0.7	No	No	Financial
23. Bangkok Bank	20.0	0.6	No	Yes	Financial
24. IRPC	19.6	0.6	Yes	Yes	Energy
25. Glow Energy	19.1	0.6	No	Yes	Utilities
26. Bangkok Expressway	18.2	0.6	No	Yes	Consumer
27. Land & Houses	18.0	0.6	No	Yes	Real Estate
28. Quality Houses	18.0	0.6	No	Yes	Real Estate
29. Kiatnakin Bank	17.5	0.6	No	Yes	Financial
30. Pruksa Real Estate	17.0	0.5	No	Yes	Real Estate
Total Top 30 LCY Corporate Issuers	**1,209.4**	**38.7**			
Total LCY Corporate Bonds	**1,899.1**	**60.8**			
Top 30 as % of Total LCY Corporate Bonds	**63.7%**	**63.7%**			

LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

THB11.2 billion 4-year bond carrying a coupon rate of 5.55%, (ii) PTT's THB10 billion 10-year bond at a 5.12% coupon, (iii) Charoen Pokphand Foods' 10-year bond worth THB5.5 billion with a 4.90% coupon, (iv) Toyota Access Communication's 3-year bond worth THB5 billion with a 3.72% coupon, and (v) Toyota Leasing's (Thailand) THB4.75 billion 2-year bond at a 3.34% coupon **(Table 3)**.

Table 3: Notable LCY Corporate Bond Issuance in 3Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
True Corporation		
4-year bond	5.55	11.21
PTT		
10-year bond	5.12	10.00
Charoen Pokphand Foods		
10-year bond	4.90	5.50
Toyota Access Communication		
3-year bond	3.72	5.00
Toyota Leasing (Thailand)		
2-year bond	3.34	4.75

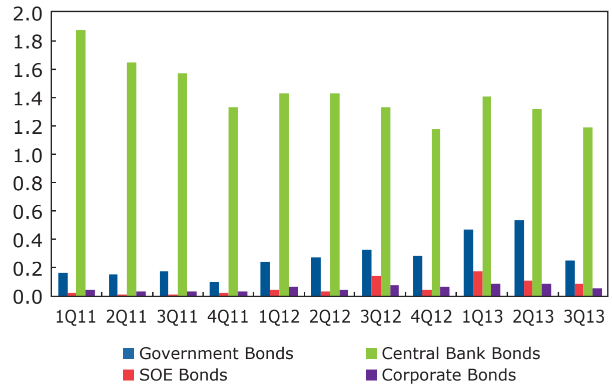
LCY = local currency.
Source: Bloomberg LP.

Liquidity

Liquidity conditions in Thailand's LCY bond market appear to have tightened in 3Q13 from the previous quarter and a year earlier **(Figure 2).** The turnover ratio for LCY government bonds fell to 0.65 in 3Q13 from 0.84 in 2Q13 and 0.80 in 3Q12. The turnover ratios for LCY bonds issued by the central government, central bank, and SOEs fell in 3Q13 from 2Q13 and 3Q12 levels as trading volumes for all of these types of bonds declined on both q-o-q and y-o-y bases. In particular, 3Q13 trading volume was down (i) 51.4% q-o-q and 14.0% y-o-y for central government bonds, (ii) 10.9% q-o-q and 8.5% y-o-y for central bank bonds, and (iii) 9.0% q-o-q and 17.2% y-o-y for SOE bonds.

Similarly, the turnover ratio for LCY corporate bonds also fell on both a quarterly and annual

Figure 2: Turnover Ratios of Government and Corporate Bonds in Thailand



SOE = state-owned enterprise.
Source: Bank of Thailand and ThaiBMA.

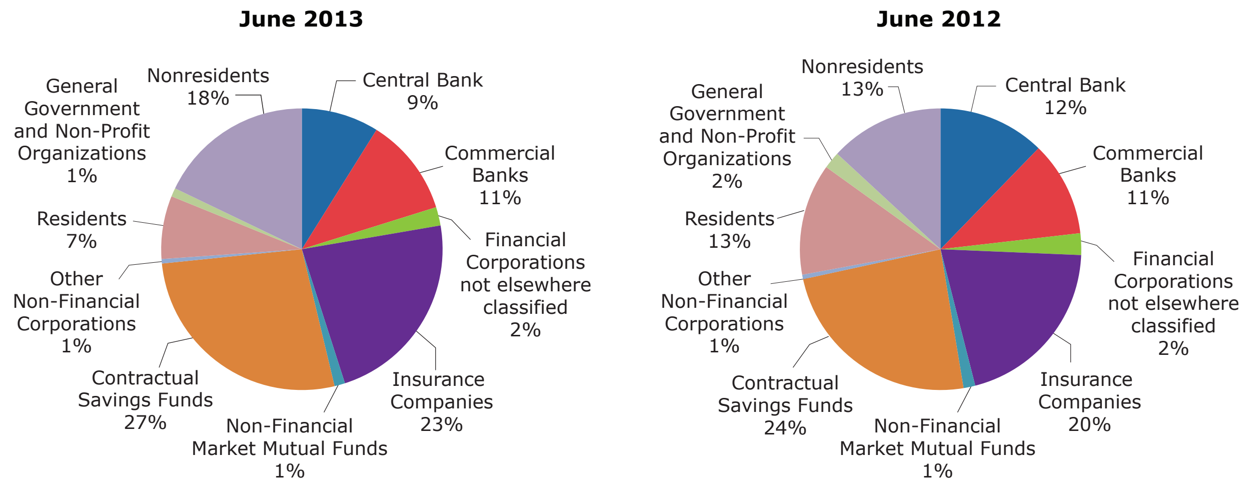
basis to 0.06 in 3Q13 from 0.08 in 2Q13 and 0.07 in 3Q12. These declines were partly induced by a fall in the trading volume of LCY corporate bonds of 32.8% q-o-q and 11.4% y-o-y.

Investor Profile

At end-June, the largest investor group in Thailand's LCY government bond market was contractual savings funds with 27% of total government bonds **(Figure 3)**. They were followed by insurance companies with a 23% share. Compared with the same month in the previous year, the shares of contractual savings funds, insurance companies, and nonresidents all climbed, with the share of foreign investors posting the biggest increase. In contrast, the shares of the central bank, general government and non-profit organizations, and domestic residents all decreased during this period.

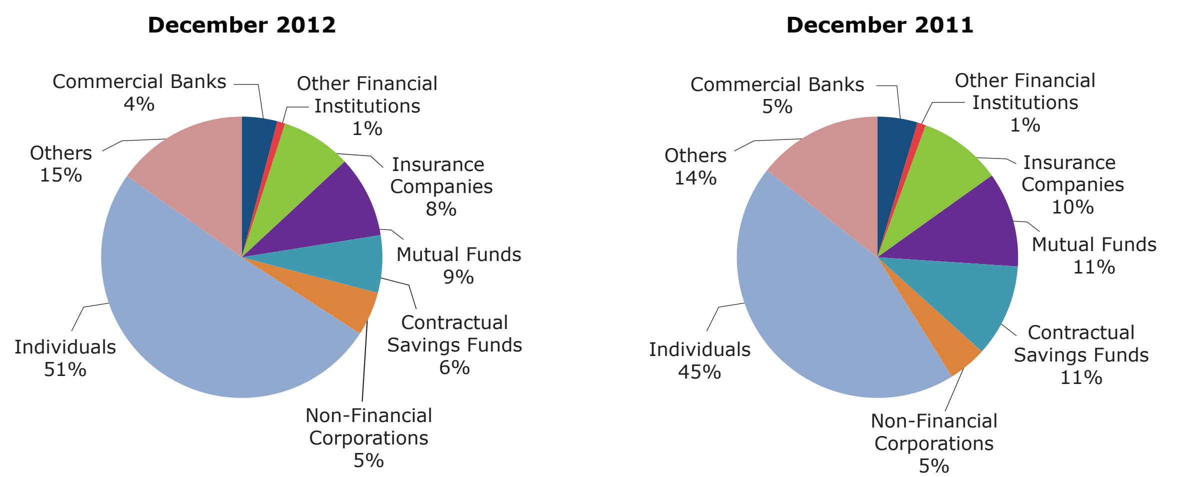
In the LCY corporate bond market, the most recent data on investor holdings indicate that individual retail investors remain the largest investor group, holding 52% of the total at end-December 2012 **(Figure 4)**. On an annual basis, the share of individual retail investors rose 6 percentage points, while the share of the combined group of government, cooperatives, foundations, and temples rose 1 percentage point. In contrast, the

Figure 3: LCY Government Bonds Investor Profile



LCY = local currency.
Note: Government bonds exclude central bank bonds and state-owned enterprise bonds.
Sources: *AsianBondsOnline* and Bank of Thailand.

Figure 4: LCY Corporate Bonds Investor Profile



LCY = local currency.
Source: ThaiBMA.

shares of commercial banks, contractual savings funds, insurance companies, and mutual funds all fell on an annual basis.

Rating Changes

On 8 March, Fitch Ratings (Fitch) announced that it had upgraded Thailand's long-term foreign currency (FCY) issuer default rating (IDR) to BBB+ from BBB with a stable outlook, affirmed the long-term LCY IDR at A– with a stable outlook, upgraded the short-term FCY IDR to F2 from F3, and upgraded the country ceiling to A– from BBB+. In making its rating decisions, Fitch cited key rating drivers such as the economy's resilience to shocks, sound external finances, and low gross general government indebtedness, among other factors.

Policy, Institutional, and Regulatory Developments

Thailand's Cabinet Approves Measures to Promote Stable Economic Growth

On 6 August, the Government of Thailand's Cabinet agreed on the implementation by the relevant government offices of measures focusing on stimulating private consumption, private investment, government spending, and exports. These measures, aimed at promoting stable economic growth, include (i) offering tax incentives to boost the tourism industry and promote the organization of seminars, (ii) promoting investments in the agro-processing industry, (iii) accelerating budget disbursements for fiscal years 2013 and 2014, (iv) expanding exports into potential new markets, and (v) increasing the access of small and medium-sized enterprises (SMEs) to financing.

Thailand Signs MOU with Malaysia and Singapore to Establish ASEAN CIS Framework

On 1 October, Securities and Exchange Commission, Thailand; the Securities Commission Malaysia; and the Monetary Authority of Singapore (MAS) signed a memorandum of understanding to establish an Association of Southeast Asian Nations (ASEAN) collective investment schemes (CIS) Framework that will facilitate the cross-border offering of CIS to retail investors in Malaysia, Singapore, and Thailand. The signatories expect the framework to be implemented in the first half of 2014.

Thailand Plans US$-Denominated Bond Issuance for Infrastructure Financing

The Government of Thailand plans to issue US$-denominated bonds worth between US$1 billion and US$1.5 billion in 2014 to help finance its infrastructure projects—such as transport infrastructure—as well as water management projects. The country's infrastructure needs for fiscal year 2014 was estimated at THB137 billion, and is part of the government's total funding needs worth THB756 billion for the fiscal year.

CGIF Guarantees Noble Group's THB2.85 Billion 3-Year Bond

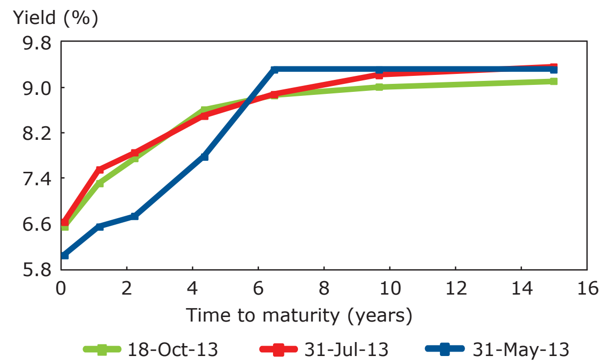
The Credit Guarantee and Investment Facility (CGIF) announced in April its first guaranteed bond transaction, which is Noble Group's THB-denominated bond issuance worth THB2.85 billion sold in Thailand's LCY bond market. The bond has a tenor of 3 years, a coupon rate of 3.55%, and a rating of 'AAA(tha)' from Fitch Ratings (Thailand).

Viet Nam

Yield Movements

Between end-May and end-July, Viet Nam's local currency (LCY) government bond yields rose dramatically from the shorter-end to the belly of the curve **(Figure 1)**. Yields for 2- and 3-year maturities rallied the most, rising 100 basis points (bps) and 111 bps, respectively, shifting the curve upward. The rise in yields reflected concerns in global financial markets that the United States (US) Federal Reserve would exit from its accommodative monetary policy, as well as concern about rising inflationary pressures and a devaluation of the reference rate for the Vietnamese dong by 1% in June. Yields advanced to 6-month highs in September amid expectations of more rapid inflation, before retreating slightly in mid-October.

Figure 1: Viet Nam's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Between end-July and 18 October, yields fell for most tenors. Yields fell between 8 bps and 25 bps across the length of the curve, with the exception of the 5-year tenor, dropping more at the longer-end than at the shorter-end and resulting in a slight flattening of the yield curve for maturities of 5-years or longer. The yield spread between the 2- and 10-year maturities was largely unchanged at 169 bps in mid-October compared with 165 bps at end-July, but was significantly more narrow than the 275 bps spread at end-May.

Viet Nam's economy has yet to recover from its growth slump in 2012. Year-to-date gross domestic product (GDP) expanded 5.1% year-on-year (y-o-y) at end-September from 4.9% at end-June as strong foreign direct investment (FDI) inflows countered weak lending from Viet Nam's strained banking industry. However, the trade balance shifted back into a deficit of US$88 million in September, after posting 3 consecutive months of trade surpluses. Exports were up 17.9% y-o-y to US$11.2 billion during the month, while imports grew 21.1% y-o-y to US$11.3 billion. From January through September, the trade deficit stood at US$187 million. The cumulative budget deficit for 2013 reached VND140.8 trillion at end-September, representing 87% of the deficit approved for 2013. The government is targeting a budget deficit of 4.8% of GDP in 2013 and 5.3% in 2014. Moreover, total public sector debt—defined to include LCY and foreign currency (FCY) bond issuance, and borrowing from official sources—is expected to increase to 56% of GDP in 2013 from 55.7% in 2012 and 54.9% in 2011.

Meanwhile, consumer price inflation decelerated in September to 6.3% y-o-y, following a 15-month high of 7.5% in August. Prices for food and foodstuffs rose 3.5% y-o-y, while housing and construction costs increased 4.0%.

Size and Composition

Total LCY bonds outstanding in Viet Nam fell 8.8% quarter-on-quarter (q-o-q) to VND527.3 trillion (US$25 billion) at end-September, as both the government and the corporate bond markets slumped. The contraction in the corporate bond market outpaced the decline in the government sector, sliding 10.0% q-o-q compared with an 8.7% q-o-q decline in the government bond market. On a y-o-y basis, however, total LCY bonds outstanding rose 18.8% in 3Q13 **(Table 1)**.

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

	Outstanding Amount (billion)						**Growth Rate** (%)			
	3Q12		**2Q13**		**3Q13**		**3Q12**		**3Q13**	
	VND	**US$**	**VND**	**US$**	**VND**	**US$**	**q-o-q**	**y-o-y**	**q-o-q**	**y-o-y**
Total	**443,731**	**21**	**577,997**	**27**	**527,304**	**25**	**(2.7)**	**21.4**	**(8.8)**	**18.8**
Government	410,237	20	560,938	26	511,945	24	(1.7)	27.0	(8.7)	24.8
Treasury Bonds	218,743	10	324,054	15	267,800	13	18.0	48.0	(17.4)	22.4
Central Bank Bonds	22,070	1	43,586	2	46,405	2	–	–	6.5	110.3
State-Owned Enterprise Bonds	169,424	8	193,298	9	197,741	9	(2.7)	(3.3)	2.3	16.7
Corporate	33,494	2	17,059	0.8	15,359	0.7	(12.7)	(21.4)	(10.0)	(54.1)

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

Government Bonds. LCY government bonds outstanding stood at VND511.9 trillion at end-September, which was down 8.7% q-o-q, but up 24.8% y-o-y. Government bonds outstanding dropped for the second consecutive quarter in 3Q13 due to a decline in demand for treasury bonds. Since July, the State Treasury has mobilized only a portion of its offered amount at its bond auctions **(Table 2)**.

Table 2: Selected Government Debt Security Issuances in 3Q13

Auction Date	Type of Security	Average Yield (%)	Amount Offered (LCY billions)	Amount Issued (LCY billion)
5-Jul	2-year Treasury Bond	6.85	5,000	1,050
	3-year Treasury Bond		2,000	0
	5-year Treasury Bond		1,000	0
19-Jul	2-year Treasury Bond	7.15	1,000	450
	3-year Treasury Bond		1,000	0
	5-year Treasury Bond		1,000	0
7-Aug	3-year Treasury Bond	7.45	1,000	125
	5-year Treasury Bond		1,000	0
13-Aug	2-year Treasury Bond	7.00	2,000	700
	3-year Treasury Bond	7.50	1,000	850
	5-year Treasury Bond		1,000	0
22-Aug	2-year Treasury Bond	7.30	1,500	1,200
	3-year Treasury Bond	7.70	1,500	750
29-Aug	2-year Treasury Bond	7.30	1,000	50
	3-year Treasury Bond	7.70	1,000	50
	5-year Treasury Bond		1,000	0
5-Sep	3-year Treasury Bond		1,000	0
	5-year Treasury Bond	8.50	1,000	200
19-Sep	2-year Treasury Bond	7.55	1,000	930
	3-year Treasury Bond	7.80	1,000	300
	5-year Treasury Bond		1,000	0

Source: Local market sources.

Government issuance amounted to VND59.7 trillion in 3Q13, up from VND53.9 trillion in 2Q13. Growth in government issuance can be attributed to the resumption of central bank bills issuance, which summed to VND46.4 trillion. SBV bills issued in 3Q13 had 91- and 182-day tenors and issue sizes of between VND19 billion and VND4 trillion. Issuance by the central government and agencies, however, plummeted 75.0% q-o-q to VND13.3 trillion.

Among government-owned corporations, Viet Nam Development Bank (VDB) and Viet Nam Bank for Social Policies (VBSP) were the consistent bond issuers in the first 3 quarters of 2013. VDB has raised a total of VND24.8 trillion year-to-date, while VBSP has raised VND11.7 trillion. In 3Q13, new VDB and VBSP bonds carried maturities of between 1 year and 3 years, and coupons ranging from 7.6% to 8.3%, which were less than the coupons of up to 9.0% offered in 2Q13.

In a statement from the State Treasury, the government announced plans to issue a total of VND25.2 trillion of government bonds in 4Q13, with tenors ranging from less than 1 year to 15 years.

Corporate Bonds. The size of Viet Nam's corporate bond market plunged another 10.0% q-o-q to VND15.4 trillion in 3Q13 following a 22.5% drop in the previous quarter. LCY corporate bonds outstanding tumbled due to (i) zero issuance of corporate debt for the third consecutive quarter, and (ii) VND1.7 trillion worth of corporate bonds maturing in 3Q13.

A total of 17 corporate entities comprised the corporate bond market in Viet Nam at end-September, of which the top 15 issuers accounted for 98.6% of total LCY corporate bonds outstanding **(Table 3)**. The composition of the top three LCY corporate issuers remained unchanged from 2Q13,

Table 3: Top 15 Issuers of LCY Corporate Bonds in Viet Nam

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (VND billion)	LCY Bonds (US$ billion)			
1. HAGL	3,010.00	0.14	No	Yes	Real Estate
2. Asia Commercial Joint Stock	3,000.00	0.14	No	Yes	Finance
3. Techcom Bank	3,000.00	0.14	No	No	Finance
4. Vinpearl	2,000.00	0.09	No	Yes	Resorts and Theme Parks
5. Vincom	1,000.00	0.05	No	Yes	Real Estate
6. Minh Phu Seafood	700.00	0.03	No	Yes	Fisheries
7. Kinh Bac City Development	500.00	0.02	No	Yes	Real Estate
8. Development Investment	350.00	0.02	No	No	Building and Construction
9. Phu Hoang Anh	350.00	0.02	No	No	Real Estate
10. Saigon Telecommunication	300.00	0.01	No	No	Computer Services
11. Binh Chanh Construction	300.00	0.01	No	Yes	Building and Construction
12. Thu Duc Housing Development	208.87	0.01	No	Yes	Real Estate
13. Quoc Cuong Gia	150.00	0.01	No	Yes	Building and Construction
14. Lam Son Sugar	150.00	0.01	No	No	Diversified
15. Tan Tao Investment	130.00	0.01	No	No	Real Estate
Total Top 15 LCY Corporate Issuers	**15,148.87**	**0.72**			
Total LCY Corporate Bonds	**15,358.87**	**0.73**			
Top 15 as % of Total LCY Corporate Bonds	**98.6%**	**98.6%**			

LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

led by real estate company HAGL with bonds outstanding of VND3 trillion.

Policy, Institutional, and Regulatory Developments

SBV Issues New Rules on VAMC's Operations

On 6 September, SBV released Circular No.19/2013/TT-NHNN to regulate the purchase, sale, and resolution of nonperforming loans (NPLs) by the Viet Nam Asset Management Company (VAMC). The circular confirms that banks with a bad-debt ratio higher than 3% must sell their NPLs to VAMC, which will issue special bonds upon purchase of impaired loans. VAMC can restructure such loans and provide financial support to the debtors if the purchased loans satisfy all stipulated conditions such as ability to repay debts. VAMC can then sell the purchased impaired loans via auction, competitive offering, or an equity swap with corporate debtors.

On 9 September, SBV issued Circular No. 20/2013/TT-NHNN to regulate the issuance of refinancing loans with special bonds issued by VAMC. SBV will offer refinancing loans to local credit institutions of up to 70% of the special bonds' face value. To receive refinancing, credit institutions must legally own VAMC's special bonds and have made provisions for special bonds as prescribed in Decree No. 53/2013/ND-CP. The refinancing interest rate will be decided by the Prime Minister and the term will be less than 12 months and not exceeding the remaining term of the special bonds.

Both rules took effect on 15 September.

Asia Bond Monitor
November 2013

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

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 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: 1.7 billion people who live on less than $2 a day, with 828 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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