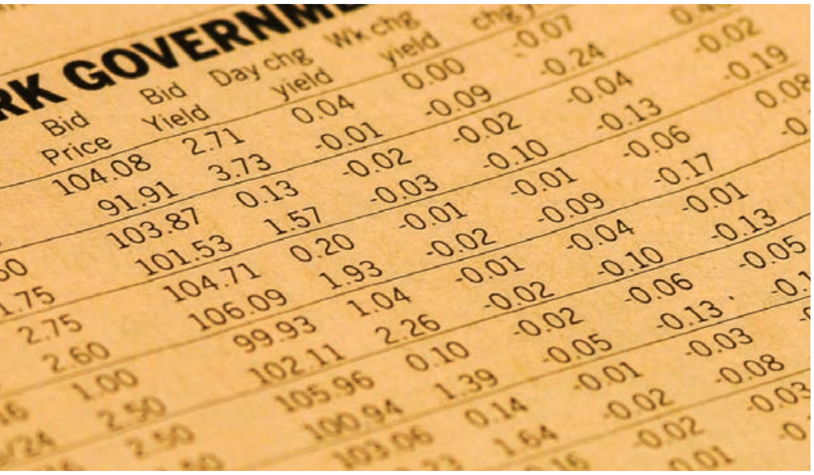

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Highlights

Bond Market Outlook

Emerging East Asia's bond markets remained relatively unaffected as global financial market turmoil impacted other emerging markets in 3Q14.[1] A weaker global economic outlook combined with the end of quantitative easing in the United States (US) has generated increased volatility in financial markets, particularly currency markets. Amid elevated market uncertainty, the US dollar has appreciated on the back of a relatively stronger economic performance in the US and an expected rise in interest rates as quantitative easing ends.

Emerging East Asian 10-year bond yields generally exhibited a downward trend between July and October. Viet Nam's 10-year bond yields dipped the most, dropping 235 basis points (bps) on lower inflation. Other economies with large declines in 10-year bond yields were the Republic of Korea, Thailand, and the People's Republic of China (PRC), where yields fell 51 bps, 48 bps, and 26 bps, respectively. On the other hand, 10-year bond yields in the Philippines rose 10 bps amid elevated inflation.

Most of the region's currencies weakened against the US dollar between July and October. The Korean won experienced the largest decline, depreciating 5.7% against the US dollar. Currencies in Singapore and the Philippines depreciated 3.2% and 2.9%, respectively. In contrast, the PRC and Viet Nam saw the value of their currencies strengthen 1.4% and 0.2%, respectively.

The risks to the region's local currency (LCY) bond markets are rising, including (i) tightening liquidity in the region's corporate bond market; (ii) a weaker property market in the PRC that might limit the ability of some property companies to service debt obligations; and (iii) an earlier-than-expected rate hike in the US that could raise borrowing costs and lead to the further appreciation of the US dollar.

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

LCY Bond Market Growth in Emerging East Asia

The LCY bond market in emerging East Asia continued to expand in 3Q14, reaching US$8.2 trillion at end-September. Government bond markets accounted for about 60% of the total at US$4.9 trillion, representing an increase of 3.2% quarter-on-quarter (q-o-q) and 11.3% year-on-year (y-o-y). LCY corporate bonds outstanding reached US$3.3 trillion at end-September on growth of 2.9% q-o-q and 11.3% y-o-y.

The PRC's bond market remained the largest in the region in 3Q14, accounting for 63% of the total market at end-September, followed by the Republic of Korea and Malaysia.

As a share of gross domestic product (GDP), the size of emerging East Asia's LCY bond market was broadly unchanged at 59.4% in 3Q14, compared with 59.2% in 2Q14. In 3Q14, the Republic of Korea and Malaysia had the highest ratios of bonds to GDP at 119.9% and 102.1%, respectively. In contrast, Indonesia (15.3%), Viet Nam (20.9%), and the Philippines (37.0%) had the smallest shares of bonds to GDP in emerging East Asia.

Structural Developments in LCY Bond Markets

The shares of foreign holdings in LCY government bond markets have been generally stable across emerging East Asia, except in Indonesia and Malaysia. In Indonesia, the share of foreign holdings in the LCY government bond market climbed to 37.3% at end-September from 35.7% at end-June. In Malaysia, foreign holdings as a share of the total LCY government bond market rose to 32.0% at end-June from 30.8% at end-March.

The shares of foreign holdings in LCY corporate bond markets pale in comparison with those in government bond markets in Indonesia and the Republic of Korea. The share of foreign holdings in the LCY corporate bond market in Indonesia rose 1 percentage point in 3Q14 to 8.8%, while the share remained negligible in the Republic of Korea at less than 1% in 2Q14.

In September, net foreign capital flows in bond markets in select emerging East Asian economies remained positive, but at smaller amounts compared with previous months.[2] Indonesia is the only market where foreign capital flows have been consistently positive in 2014, reflecting the rising share of foreign holdings in the LCY government bond market.

LCY Bond Yields

LCY government bond yields fell in most markets in the region between end-June and end-October. In some of the region's more developed markets (Singapore and Hong Kong, China), the fall in yields tracked US interest rate movements, while in other markets such as the PRC, the Republic of Korea, and Thailand, yields fell mostly due to slowing inflation. In the case of the Philippines, the yield curve's performance was mixed, falling at the longer-end as inflation expectations moderated. In Indonesia, the fall in yields was driven by expectations of a reduced supply of bonds in 4Q14.

The 2-year versus 10-year spread narrowed in most markets due to (i) much larger declines in longer-dated yields that tracked falling US yields, and (ii) the influence of easing inflation.

Special Section: *AsianBondsOnline* Bond Market Liquidity Survey

AsianBondsOnline conducts an annual bond market liquidity survey to provide market participants and policy makers with a comprehensive view of liquidity conditions in individual markets in emerging East Asia. The 2014 survey was undertaken through interviews and email questionnaires conducted in July–September.

LCY bond markets in emerging East Asia remained resilient, with most market participants noting improving liquidity conditions in 2014 compared with 2013. This finding was validated by our quantitative survey results as average bid–ask spreads for both government and corporate bond markets were lower this year compared with the previous year's survey. At the same time, liquidity in corporate bond markets continued to lag government markets.

Market participants identified greater investor diversity as the most important structural issue as it relates to deepening liquidity in both government and corporate bond markets. The relative importance of greater diversity of the investor profile vis-à-vis other structural issues appears driven by the presence of a few investor groups that continue to dominate emerging East Asia's LCY government bond markets.

[2] Foreign capital inflows were assessed in Indonesia, the Republic of Korea, Malaysia, and Thailand.

Global and Regional Market Developments

Emerging East Asia's bond markets remained relatively unaffected as global financial market turmoil impacted other emerging markets in 3Q14.[3] A weaker global economic outlook combined with the end of quantitative easing in the United States (US) has generated increased volatility in financial markets, particularly currency markets. Amid elevated market uncertainty, the US dollar has appreciated on the back of a relatively stronger economic performance in the US and an expected rise in interest rates as quantitative easing ends.

In contrast, the latest economic indicators from the eurozone indicate slower growth and dangerously low inflation. With the eurozone flirting with deflation, there is increasing pressure on the European Central Bank to take more aggressive monetary actions. Momentum is also slowing in the Japanese economy following an increase in the sales tax in April. In response, the Bank of Japan announced at the end of October that it would increase its annual asset purchases to JPY80 trillion yen. More expansionary monetary actions from the eurozone and Japan could help offset the tighter liquidity conditions caused by the end of the US Federal Reserve's quantitative easing. Meanwhile, Japanese investment trusts have maintained their level of bond investment in emerging East Asia. Indonesia and Malaysia have been the favored destinations of Japanese investment funds who are looking for higher yields.

Asian 10-year bond yields generally exhibited a downward trend between July and October **(Table A)**. Viet Nam's 10-year bond yields dipped the most, dropping 235 basis points (bps), due to moderating inflation which led the central bank to lower a key policy rate; in October, the State Bank of Viet Nam reduced the deposit rate cap to 5.5% from 6.0%. Other economies with large declines in 10-year bond yields were the Republic of Korea, Thailand, and the People's Republic of China (PRC), where yields fell 51 bps, 48 bps, and 26 bps, respectively. On the other hand, 10-year bond yields in the Philippines rose 10 bps amid elevated inflation.

[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.

Most of the region's currencies weakened against the US dollar between July and October. The Korean won had the largest decline, depreciating 5.7% against the US dollar. Currencies in Singapore and the Philippines also depreciated 3.2% and 2.9%, respectively. In contrast, the People's Republic of China (PRC) and Viet Nam saw the value of their currencies strengthen 1.4% and 0.2%, respectively.

The region's credit default swaps (CDSs) declined in October, after rising in September, as investor risk perceptions normalized **(Figure A)**. In contrast, CDSs in the eurozone increased on concerns over the region's economic growth **(Figure B)**. Emerging market spreads and the volatility index fell as uncertainty in US markets abated amid a strong growth outlook **(Figure C)**.

Bond yields in the advanced economies also continued to trend downward between July and October. US bond yields dropped despite the Federal Reserve's tapering actions in the first half of October, likely reflecting increased flows into the government bond market with investors seeking safe haven assets amid global market uncertainty **(Figure D)**. However, by the end of the month, the Federal Reserve's announcement that its quantitative easing program would end sent yields rising again in the US and the United Kingdom. Yields fell in Japan due to additional stimulus measures taken in October, while inflation in the eurozone remained dangerously low at 0.3% year-on-year (y-o-y) in September. The European Central Bank has taken steps to buy asset-backed securities and covered securities, but more action may be needed. With the German economy close to a recession and unemployment in the eurozone stubbornly high, there are rising expectations that the European Central Bank will launch a larger-scale quantitative easing program. Reflecting increased global risk perceptions, Greek bond yields saw a big jump at end-October. Meanwhile, interest rates in emerging East Asia have also fallen, following US yields **(Figure E)**.

Foreign holdings of Indonesia local currency (LCY) government bonds continued to rise in 3Q14 as relatively high interest rates attracted yield-hungry investors. At end-September, the share of foreign ownership in the Indonesian LCY government bond market was 37.3%, up

Table A: Changes in Global Financial Conditions

	2-Year Government Bond (bps)	10-Year Government Bond (bps)	5-Year Credit Default Swap Spread (bps)	Equity Index (%)	FX Rate (%)
Major Advanced Economies					
United States	3	(23)	–	2.3	–
United Kingdom	(25)	(46)	1	(3.8)	6.7
Japan	(4)	(10)	11	4.4	(10.6)
Germany	(8)	(41)	(0.2)	(5.8)	8.4
Emerging East Asia					
China, People's Rep. of	(16)	(26)	4	18.0	1.4
Hong Kong, China	(9)	(19)	–	3.5	(0.1)
Indonesia	2	(11)	(14)	4.2	(1.9)
Korea, Rep. of	(53)	(51)	(1)	(1.7)	(5.7)
Malaysia	6	(20)	(3)	(1.3)	(2.6)
Philippines	(1)	10	2	5.7	(2.9)
Singapore	9	1	–	1.0	(3.2)
Thailand	(16)	(48)	(27)	6.6	(0.6)
Viet Nam	(140)	(235)	–	3.9	0.2
Select European Markets					
Greece	206	232	–	(25.5)	8.4
Ireland	(3)	(52)	18	0.2	8.4
Italy	5	(37)	35	(8.3)	8.4
Portugal	(10)	(38)	47	(24.3)	8.4
Spain	0.4	(55)	30	(4.8)	8.4

( ) = negative, – = not available, bps = basis points, FX = foreign exchange.
Notes:
1. Data reflect changes between 1 July 2014 and 31 October 2014.
2. For emerging East Asian markets, a positive (negative) value for the FX rate indicates the appreciation (depreciation) of the local currency against the US dollar.
3. For European markets, a positive (negative) value for the FX rate indicates the depreciation (appreciation) of the local currency against the US dollar.
Sources: Bloomberg LP and Institute of International Finance.

from 35.7% in June. In Thailand, foreign holdings of LCY government bonds dipped slightly to 15.8% at end-June from 16.1% at end-March. The share of foreign holdings of government bonds was highest in Indonesia at the end of 3Q14, followed by Malaysia at 32.0% at end-June (the latest period for which data are available) **(Figure F)**. Meanwhile, foreign holdings in Japan and the Republic of Korea remained relatively stable in the first half of 2014.

Increased global financial market volatility points to rising risks in the region's LCY bond markets:

There is a risk that liquidity might dry up in the region's LCY corporate bond market. Having ample liquidity is important for the smooth functioning of a bond market as it enables participants to enter and exit the market easily with minimal cost. There are concerns that liquidity conditions are tightening because the higher capital requirements under Basel III regulations have pushed banks to reduce their holdings of bonds. The rules are meant to reduce risk-taking by banks. To do this, the capital that banks are required to hold against risky assets, such as low-rated LCY corporate bonds, has risen significantly. This has had the effect of making the region's LCY corporate bond market much less liquid.

A weaker property market in the PRC may make it difficult for some property companies to service their debt obligations. The latest indicators show that the property market is continuing to slow in the PRC. September data indicates that housing prices fell for the fifth consecutive month. The weakness in the property market is occurring across the country as housing price in all but one of the 70 largest cities in the PRC showed a decline in September. While Chinese households have relatively little leverage, the greater risk lies with property developers who tend to have high degrees of leverage. As concerns grow over the property market, small and less creditworthy companies might find access to funds limited and/or more expensive. They might also find it difficult to service their existing borrowings. Only a relatively small portion of the property sector's borrowings (both bonds and loans) are sourced from abroad, but the amount is still large in nominal terms as offshore property sector bonds

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

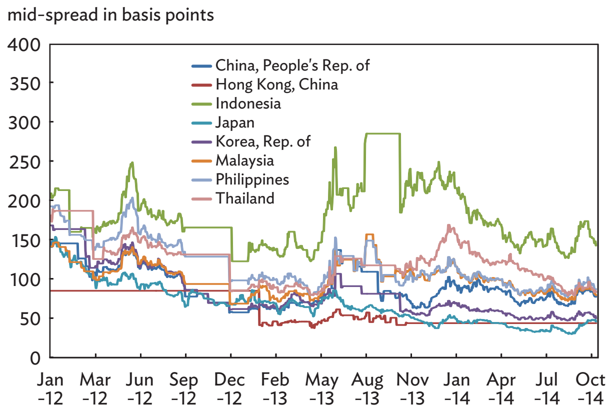


Figure B: Credit Default Swap Spreads for Select European Markets[a, b] (senior 5-year)

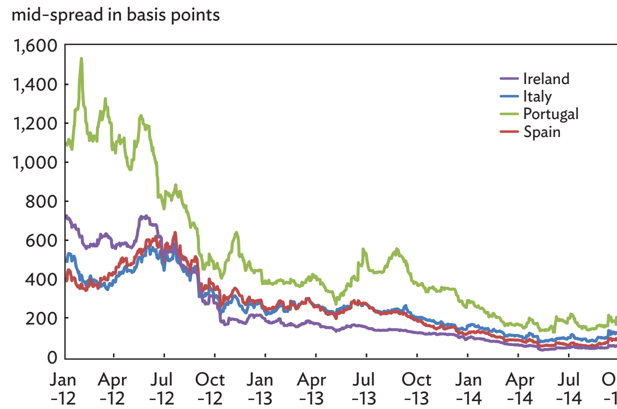


Figure C: US Equity Volatility and Emerging Market Sovereign Bond Spreads[b] (% per annum)

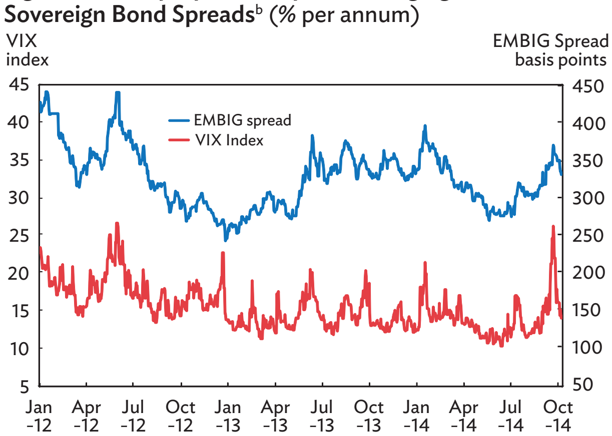


Figure D: 10-Year Government Bond Yields[b] (% per annum)

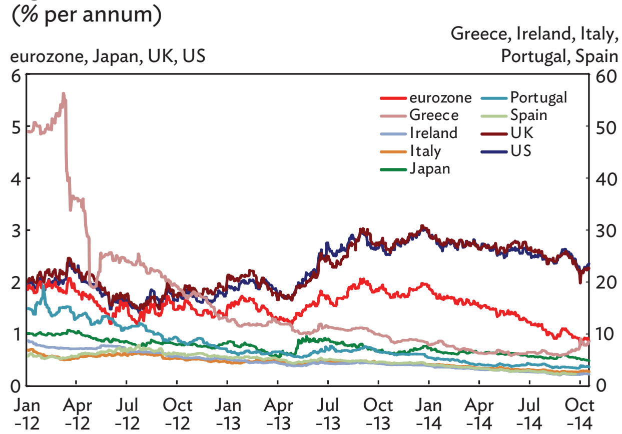


Figure E: JPMorgan EMBI Sovereign Stripped Spreads[a, b]

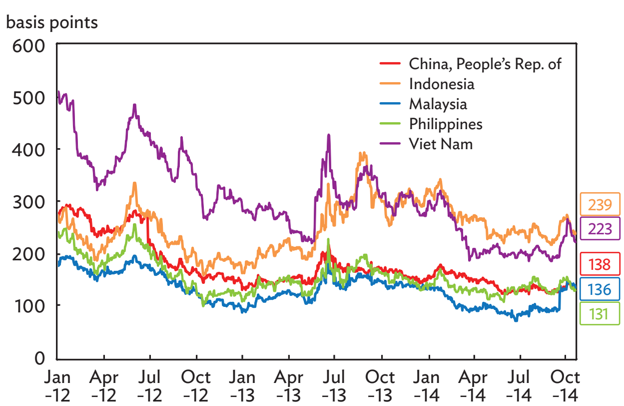
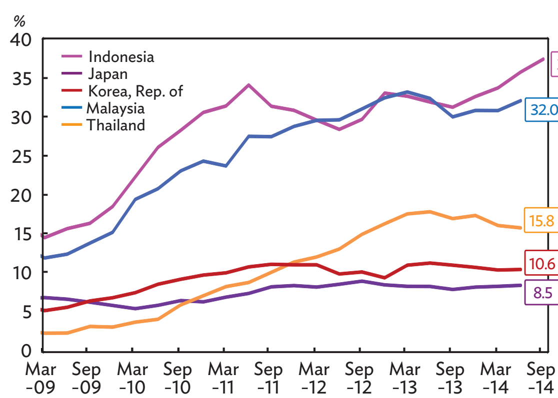


Figure F: Foreign Holdings of LCY Government Bonds in Select Asian Economies[c] (% of total)



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

Notes:

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

[b] Data as of end-October 2014.

[c] Data as of end-June 2014, except for Indonesia as of end-September 2014.

Sources: *AsianBondsOnline* and Bloomberg LP.

issued by PRC-based companies totaled US$67 billion in November. Hence, regional investors who have purchased these bonds could be affected.

Improved economic conditions in the US may cause the Federal Reserve to raise interest rates sooner than expected. The US announced the end of its quantitative easing program in October, citing an improving labor market. While an interest rate increase is expected next year, a favorable shock to the US economy could result if the Federal Reserve raises interest rates sooner than expected. An earlier-than-anticipated monetary tightening could roil emerging East Asia's financial markets. Low interest rates in the US over the past few years have spurred inflows of funds into the region's bond markets as investors chased yield. Since foreign holdings of financial assets in the region have increased, the region may be more susceptible to changes in US interest rates. The appreciating US dollar could also pose a problem for companies that have been issuing foreign currency bonds at a record pace. Between January and September, a total of US$143.0 billion in foreign-currency-denominated bonds were issued in emerging East Asia, exceeding the US$141.5 billion issued for the whole of last year.

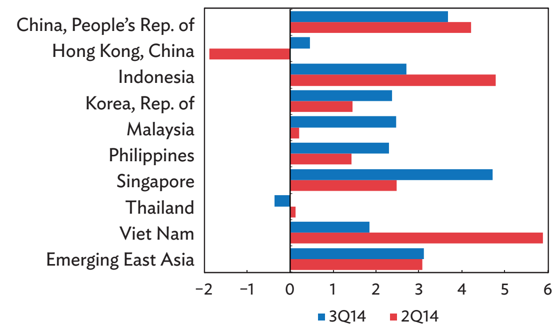
Bond Market Developments in the Third Quarter of 2014

Size and Composition

The outstanding size of emerging East Asia's local currency bond market hit US$8.2 trillion at end-September.[4]

Emerging East Asia's local currency (LCY) bond market continued to expand in 3Q14, reaching a size of US$8.2 trillion at end-September. Growth was relatively modest, with the market expanding 3.1% quarter-on-quarter (q-o-q) in 3Q14, the same pace of growth as in the previous quarter **(Figure 1a)**.

Figure 1a: Growth of LCY Bond Markets in 2Q14 and 3Q14 (q-o-q, %)



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

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

The fastest growing bond market in the region on a q-o-q basis was Singapore, with growth of 4.7% and outstanding bonds amounting to US$252 billion at end-September. Growth in Singapore's bond market was led by increases in its stocks of Monetary Authority of Singapore (MAS) bills and corporate bonds. Singapore Government Securities (SGS) bonds also contributed to q-o-q growth. The stock of SGS bills, however, saw a decline as MAS ceased issuance of 6-month SGS bills earlier this year, shifting its issuance of short-term instruments to MAS bills. MAS has conducted only two auctions of 1-year SGS bills so far this year.

The People's Republic of China's (PRC) bond market followed next in terms of q-o-q growth, with an expansion of 3.7% in 3Q14. The PRC's LCY bond market was the largest in the region at US$5.1 trillion in 3Q14, accounting for 63% of the total bond stock in emerging East Asia. Growth in the PRC's bond market was broadly balanced between its government and corporate bond segments. There was a rise in local government bonds as local government funding demands increased due to a weak property market and the planned urbanization of shantytowns. In addition, the government enacted a program allowing local governments to issue bonds directly. At the same time, the government banned local governments from issuing bonds through local government financing vehicles and other corporate vehicles. As a result, local government bonds rose 25.0% q-o-q to US$193 billion at end-September. Local government bonds comprised 5.8% of the total government bond market at end-September, up from 4.8% at end-June.

On a q-o-q basis, the third most rapidly growing bond market in 3Q14 was Indonesia, posting 2.7% growth and an outstanding bond stock amounting to US$124 billion at end-September. Growth in 3Q14 was largely driven by the government having to increase its bond issuance volume to fund an expanding budget deficit equivalent to 2.4% of gross domestic product (GDP). The deficit in the 2014 revised budget was up from only 1.7% of GDP in the original budget. The corporate bond sector also contributed to growth, although at a much slower pace as some corporate firms chose to delay their planned borrowings ahead of the results of the presidential elections.

[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.

Malaysia's LCY bond market expanded 2.5% q-o-q to reach an outstanding size of US$329 billion at end-September. Growth in Malaysia's bond market was largely driven by an increase in the stock of central bank bills, possibly due to Bank Negara Malaysia adopting a tighter monetary stance to address inflation, which has remained elevated since December 2013. Further pressure on inflation is expected as the government raised fuel prices again in early October, following a previous increase in 2013.

The Republic of Korea, which has the second-largest LCY bond market in emerging East Asia, grew 2.4% q-o-q to reach a size of US$1.7 trillion at end-September. Growth was led mainly by an expanding government bond sector, particularly increases in the stocks of Treasury bonds, central bank bonds, and industrial finance debentures. The increase in central bank bonds was due to efforts by The Bank of Korea to sterilize excess liquidity resulting from the country's trade surpluses. The corporate bond segment of the Republic of Korea also contributed to growth in 3Q14, albeit to a lesser degree than government bonds.

In the Philippines, the LCY bond market saw 2.3% q-o-q growth in 3Q14, with the outstanding stock of bonds reaching US$102 billion at end-September. Growth in the Philippine LCY bond market was buoyed by the large increase in the stock of corporate bonds. The government bond sector also recorded positive growth, although at a much slower pace. Aside from the government's regular auction of Treasury bonds, the Bureau of the Treasury conducted a bond exchange in August as part of its debt liability management program.

On a q-o-q basis, Viet Nam's LCY bond market grew 1.8% in 3Q14, with outstanding bonds climbing to US$38 billion at end-September. The growth in Viet Nam's bond market was driven mainly by increases in the stock of central bank bills. Viet Nam's bond market is the smallest in emerging East Asia.

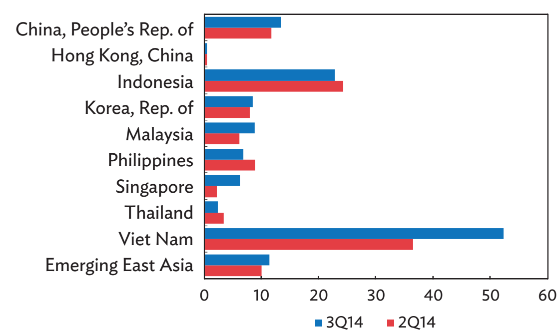
Hong Kong, China's LCY bond market rose a marginal 0.5% q-o-q in 3Q14 to US$193 billion at end-September. On the other hand, Thailand's LCY bond market contracted 0.4% q-o-q, as declines in central bank and state-owned enterprise bonds more than offset the modest increase in the stock of corporate bonds.

On a year-on-year (y-o-y) basis, LCY bond markets in emerging East Asia grew at a pace of 11.3% in 3Q14 compared with 9.9% growth recorded in the previous quarter **(Figure 1b)**. Viet Nam was the fastest growing bond market on a y-o-y basis, with 52.2% growth in 3Q14, although this rapid growth was generated from a low base. Viet Nam was followed by Indonesia (22.7%) and the PRC (13.4%). All other markets recorded y-o-y growth rates ranging from 6.1% to 8.7%. The only exceptions were Thailand and Hong Kong, China, with y-o-y growth rates of 2.3% and 0.3%, respectively.

Emerging East Asia's LCY bond market remains dominated by government bonds, which accounted for about 60% of total bonds outstanding at the end of 3Q14 **(Table 1)**. Growth in the region's government bonds and corporate bonds was broadly similar on both a q-o-q and y-o-y basis.

At end-September, government bonds climbed to US$4.9 trillion on growth of 3.2% q-o-q and 11.3% y-o-y.

Figure 1b: Growth of LCY Bond Markets in 2Q14 and 3Q14 (y-o-y, %)



LCY = local currency, y-o-y = year-on-year.
Notes:
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2. Growth rates are calculated from LCY base and do not include currency effects.
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Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Indonesia Debt Management Office, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

Table 1: Size and Composition of LCY Bond Markets

	3Q13		2Q14		3Q14		Growth Rate (LCY-base %)				Growth Rate (US$-base %)			
							3Q13		3Q14		3Q13		3Q14	
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of														
Total	4,550	100.0	4,911	100.0	5,143	100.0	2.1	13.6	3.7	13.4	2.4	16.7	4.7	13.0
Government	2,960	65.0	3,164	64.4	3,315	64.5	1.6	5.8	3.7	12.3	1.9	8.6	4.8	12.0
Corporate	1,591	35.0	1,747	35.6	1,828	35.5	3.0	31.7	3.6	15.3	3.3	35.2	4.7	14.9
Hong Kong, China														
Total	193	100.0	193	100.0	193	100.0	0.5	9.7	0.5	0.3	0.5	9.7	0.3	0.2
Government	108	56.0	110	56.8	110	57.0	0.5	16.2	0.8	2.2	0.5	16.2	0.6	2.0
Corporate	85	44.0	83	43.2	83	43.0	0.5	2.4	0.0	(2.0)	0.5	2.3	(0.2)	(2.2)
Indonesia														
Total	108	100.0	123	100.0	124	100.0	3.9	16.3	2.7	22.7	(8.9)	(2.2)	0.1	14.9
Government	89	82.5	105	85.2	105	85.4	3.7	14.5	2.9	27.1	(9.0)	(3.7)	0.3	18.9
Corporate	19	17.5	18	14.8	18	14.6	4.6	25.4	1.3	2.5	(8.2)	5.5	(1.3)	(4.1)
Korea, Rep. of														
Total	1,564	100.0	1,759	100.0	1,726	100.0	1.8	10.4	2.4	8.4	8.2	14.1	(1.8)	10.4
Government	601	38.4	692	39.4	685	39.7	1.3	6.9	3.2	12.0	7.6	10.6	(1.0)	14.1
Corporate	963	61.6	1,066	60.6	1,041	60.3	2.2	12.6	1.8	6.1	8.6	16.5	(2.4)	8.0
Malaysia														
Total	305	100.0	328	100.0	329	100.0	(0.04)	2.2	2.5	8.7	(3.1)	(4.1)	0.3	8.0
Government	179	58.8	191	58.1	193	58.6	(0.7)	(0.4)	3.4	8.4	(3.7)	(6.5)	1.2	7.7
Corporate	126	41.2	138	41.9	136	41.4	0.9	6.1	1.1	9.0	(2.2)	(0.4)	(1.0)	8.3
Philippines														
Total	99	100.0	103	100.0	102	100.0	4.3	13.3	2.3	6.7	3.5	8.8	(0.7)	3.2
Government	87	87.4	87	85.0	86	83.7	4.9	14.5	0.7	2.2	4.1	9.9	(2.2)	(1.2)
Corporate	13	12.6	15	15.0	17	16.3	0.6	5.8	11.3	37.6	(0.2)	1.6	8.1	33.1
Singapore														
Total	241	100.0	247	100.0	252	100.0	0.6	9.9	4.7	6.1	1.6	7.4	2.3	4.5
Government	149	61.6	152	61.6	153	60.5	(0.3)	9.4	2.8	4.2	0.7	7.0	0.4	2.5
Corporate	93	38.4	95	38.4	100	39.5	2.2	10.7	7.8	9.3	3.1	8.2	5.3	7.6
Thailand														
Total	286	100.0	283	100.0	282	100.0	0.6	9.1	(0.4)	2.3	(0.05)	7.7	(0.4)	(1.5)
Government	224	78.4	216	76.4	213	75.5	(0.02)	7.3	(1.5)	(1.5)	(0.6)	5.9	(1.5)	(5.1)
Corporate	62	21.6	67	23.6	69	24.5	2.7	16.3	3.4	16.0	2.1	14.8	3.4	11.8
Viet Nam														
Total	25	100.0	37	100.0	38	100.0	(8.8)	18.8	1.8	52.2	(8.4)	17.6	2.3	51.4
Government	24	97.1	36	98.4	37	98.5	(8.7)	24.8	1.9	54.5	(8.3)	23.4	2.4	53.7
Corporate	1	2.9	0.6	1.6	0.6	1.5	(10.0)	(54.1)	(4.4)	(23.0)	(9.6)	(54.6)	(4.0)	(23.5)
Emerging East Asia														
Total	7,371	100.0	7,983	100.0	8,189	100.0	1.8	12.0	3.1	11.3	2.9	13.8	2.6	11.1
Government	4,420	60.0	4,753	59.5	4,897	59.8	1.3	6.5	3.2	11.3	1.9	8.0	3.0	10.8
Corporate	2,951	40.0	3,230	40.5	3,292	40.2	2.5	21.4	2.9	11.3	4.5	23.8	1.9	11.6
Japan														
Total	10,593	100.0	10,496	100.0	9,839	100.0	0.9	3.9	1.4	3.6	1.8	(17.5)	(6.3)	(7.1)
Government	9,751	92.0	9,689	92.3	9,097	92.5	1.0	4.7	1.6	4.1	1.9	(17.0)	(6.1)	(6.7)
Corporate	843	8.0	807	7.7	742	7.5	(0.6)	(4.0)	(0.5)	(1.8)	0.3	(23.8)	(8.1)	(12.0)

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

Notes:

1. For Hong Kong, China, 3Q14 corporate bonds outstanding data carried over from 2Q14. For Japan, 3Q14 government and corporate bonds oustanding data carried over from August 2014. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Thailand, 3Q14 government bonds outstanding based on *AsianBondsOnline* estimates using Bank of Thailand data while corporate bonds outstanding based on Bank of Thailand data as of end-August 2014.
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 based on end-September 2014 currency exchange rates and do not include currency effects.
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.

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

All markets recorded positive growth in government bonds on both a q-o-q and y-o-y basis, except for Thailand. The largest government bond market at the end of 3Q14 was that of the PRC, followed by the Republic of Korea and Thailand.

Emerging East Asia's LCY corporate bond market totaled US$3.3 trillion at end-September on growth of 2.9% q-o-q and 11.3% y-o-y. The Philippines posted the largest growth in corporate bonds on both a q-o-q and y-o-y basis, partially due to a low base. Meanwhile, the corporate bond markets of the PRC, the Republic of Korea, and Malaysia were the largest in the region at the end of 3Q14.

As a percentage of GDP, the size of emerging East Asia's LCY bond market was broadly unchanged at 59.4% in 3Q14 compared with 59.2% in 2Q14 **(Table 2)**. Among all markets in the region, the Republic of Korea and Malaysia had the highest shares of bonds to GDP at 119.9% and 102.1%, respectively. In contrast, the smaller markets of Indonesia (15.3%), Viet Nam (20.9%), and the Philippines (37.0%) had the smallest shares of bonds to GDP in emerging East Asia.

Foreign investor holdings in LCY government bond markets in emerging East Asia were generally stable in 3Q14.

Foreign investor holdings were stable in most LCY government bond markets in emerging East Asia in 3Q14, with increases in Indonesia and Malaysia **(Figure 2)**. In Indonesia, the share of foreign holdings in the LCY government bond market continued its upward trend, reaching record highs in recent months as demand from foreign investors remained strong. Indonesian LCY government bonds continued to attract interest from offshore funds due to attractive yields, which are the highest among emerging East Asian markets. At end-September, the share of foreign investors in Indonesia's LCY government bond market climbed to 37.3%, up from 35.7% at end-June.

The share of foreign holdings in the LCY government bond market in Malaysia rose to 32.0% at end-June from 30.8% at end-March. On the other hand, foreign holdings' share in the Thailand's government bond market slightly declined to 15.8% at end-June from 16.1% at end-March.

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

	3Q13	2Q14	3Q14
China, People's Rep. of			
Total	50.4	51.6	52.5
Government	32.8	33.3	33.8
Corporate	17.6	18.4	18.7
Hong Kong, China			
Total	71.3	68.6	68.8
Government	39.9	39.0	39.2
Corporate	31.4	29.6	29.6
Indonesia			
Total	13.9	15.2	15.3
Government	11.5	13.0	13.0
Corporate	2.4	2.3	2.2
Korea, Rep. of			
Total	118.9	122.1	119.9
Government	45.6	48.1	47.6
Corporate	73.2	74.0	72.3
Malaysia			
Total	102.9	101.8	102.1
Government	60.5	59.1	59.8
Corporate	42.4	42.7	42.2
Philippines			
Total	38.2	37.3	37.0
Government	33.4	31.7	31.0
Corporate	4.8	5.6	6.0
Singapore			
Total	82.2	81.1	83.0
Government	50.7	50.0	50.2
Corporate	31.5	31.1	32.8
Thailand			
Total	75.4	76.3	76.1
Government	59.1	58.3	57.4
Corporate	16.3	18.0	18.6
Viet Nam			
Total	14.3	21.1	20.9
Government	13.9	20.8	20.6
Corporate	0.4	0.3	0.3
Emerging East Asia			
Total	57.6	59.2	59.4
Government	34.6	35.2	35.5
Corporate	23.1	23.9	23.9
Japan			
Total	218.9	219.7	205.9
Government	201.5	202.8	190.4
Corporate	17.4	16.9	15.5

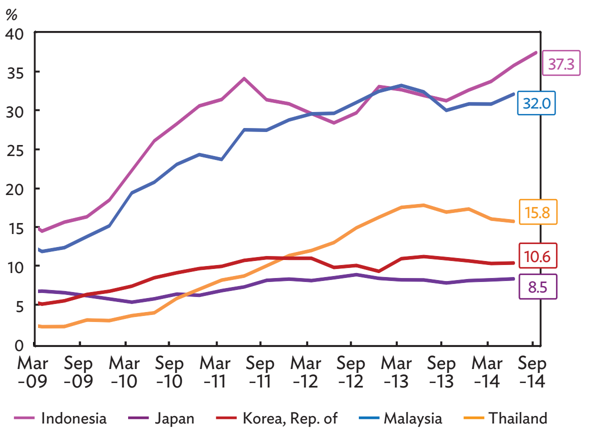
GDP = gross domestic product, LCY = local currency.

Notes:

1. Data for GDP is from CEIC. 3Q14 GDP figures carried over from 2Q14 except for the People's Republic of China and Viet Nam.
2. For Hong Kong, China, 3Q14 corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Japan, 3Q14 government and corporate bonds oustanding data carried over from August 2014. For Singapore, corporate bonds outstanding data based on AsianBondsOnline estimates. For Thailand, 3Q14 government bonds outstanding based on *AsianBondsOnline* estimates using Bank of Thailand data while corporate bonds outstanding based on Bank of Thailand data as of end-August 2014.

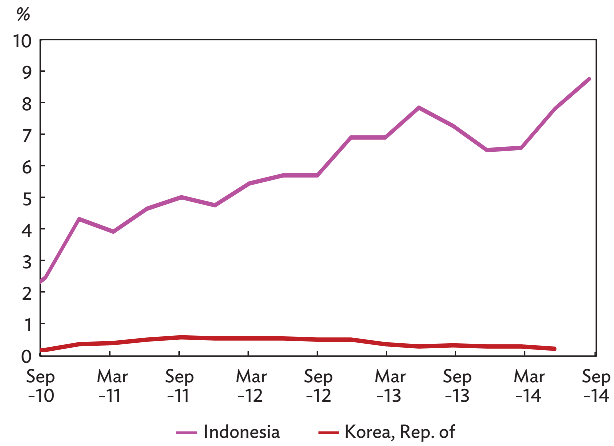
Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Indonesia Debt Management Office, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines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

Figure 2: Foreign Holdings of LCY Government Bonds in Select Asian Economies (% of total)



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

Figure 3: Foreign Holdings of LCY Corporate Bonds in Indonesia and the Republic of Korea (% of total)



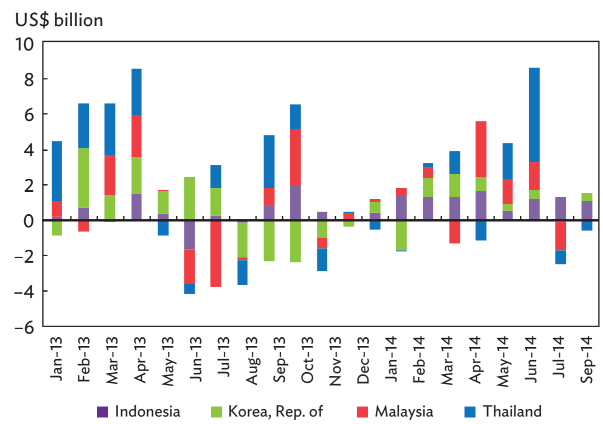
LCY = local currency.
Note: For Indonesia, data as of 27 June 2014. For the Republic of Korea, data as of end-June 2014.
Sources: Based on data from Otoritas Jasa Keuangan and The Bank of Korea.

The shares of foreign holdings in LCY corporate bond markets pale in comparison with those in government bond markets in Indonesia and the Republic of Korea **(Figure 3)**. The share of foreign holdings in the LCY corporate bond market in Indonesia rose 1 percentage point in 3Q14 to 8.8%, while this share remained negligible in the Republic of Korea at less than 1% in 2Q14.

Foreign capital flows into a number of the region's bond markets were positive but smaller in September compared with recent months.[5]

Indonesia is the only market where foreign capital flows have been consistently positive in 2014, reflecting the rising share of foreign holdings in the LCY government bond market **(Figure 4)**. Meanwhile, the Republic of Korea reported net foreign fund inflows into its bond market in September. In contrast, Malaysia (August) and Thailand (September) recorded foreign capital outflows from their respective bond markets in the latest month for which data are available.

Figure 4: Foreign Bond Flows in Select Emerging East Asian Markets



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

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

Emerging East Asia's LCY bond issuance climbed in 3Q14.

Emerging East Asia's LCY bond issuance climbed on a q-o-q basis to US$1.12 trillion in 3Q14 from US$1.10 trillion in 2Q14. On a y-o-y basis, LCY bond issuance rose 21.2% in 3Q14 from US$930 billion in 3Q13 **(Table 3)**. In 3Q14, LCY government bond issuance was up 3.1% q-o-q and 16.0% y-o-y to reach US$778 billion, constituting 69.3% of the region's total. LCY bond sales by central banks and monetary authorities totaled

[5] Foreign capital flows were assessed in Indonesia, the Republic of Korea, Malaysia, and Thailand.

Table 3: LCY-Denominated Bond Issuance (gross)

	3Q13		2Q14		3Q14		Growth Rate (LCY-base %)		Growth Rate (US$-base %)	
							3Q14		3Q14	
	Amount (US$ 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										
Total	413	100.0	456	100.0	432	100.0	(6.3)	4.7	(5.3)	4.4
Government	264	63.8	209	46.0	212	49.2	0.3	(19.3)	1.3	(19.6)
Central Bank	65	15.8	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	198	48.0	209	46.0	212	49.2	0.3	7.3	1.3	7.0
Corporate	150	36.2	246	54.0	219	50.8	(11.8)	47.1	(10.9)	46.6
Hong Kong, China										
Total	171	100.0	292	100.0	307	100.0	5.5	79.8	5.3	79.6
Government	163	95.4	285	97.6	300	97.7	5.6	84.2	5.4	84.0
Central Bank	162	94.9	284	97.4	298	97.0	5.1	84.0	4.9	83.7
Treasury and Other Govt.	1	0.5	0.5	0.2	2	0.7	334.2	135.7	333.4	135.4
Corporate	8	4.6	7	2.4	7	2.3	0.0	(11.4)	(0.2)	(11.5)
Indonesia										
Total	10	100.0	10	100.0	10	100.0	11.3	15.9	8.5	8.5
Government	9	89.2	8	85.3	10	94.7	23.5	23.1	20.3	15.2
Central Bank	2	18.5	2	24.6	2	19.6	(11.2)	23.2	(13.5)	15.3
Treasury and Other Govt.	7	70.7	6	60.7	8	75.0	37.5	23.0	34.0	15.1
Corporate	1	10.8	1	14.7	0.6	5.3	(59.5)	(42.8)	(60.5)	(46.5)
Korea, Rep. of										
Total	145	100.0	144	100.0	167	100.0	21.3	12.9	16.3	15.0
Government	69	47.7	82	57.1	78	46.8	(0.6)	10.8	(4.7)	12.8
Central Bank	39	26.6	47	32.6	46	27.6	2.7	17.0	(1.5)	19.2
Treasury and Other Govt.	31	21.0	35	24.5	32	19.2	(5.0)	2.9	(8.9)	4.8
Corporate	76	52.3	62	42.9	89	53.2	50.4	14.9	44.2	17.0
Malaysia										
Total	32	100.0	37	100.0	42	100.0	17.0	31.5	14.5	30.7
Government	26	80.1	29	77.7	32	76.0	14.5	24.9	12.1	24.1
Central Bank	17	51.2	19	52.2	25	58.9	32.0	51.3	29.2	50.3
Treasury and Other Govt.	9	28.9	9	25.5	7	17.1	(21.5)	(22.1)	(23.1)	(22.6)
Corporate	6	19.9	8	22.3	10	24.0	25.8	58.3	23.1	57.3
Philippines										
Total	9	100.0	5	100.0	7	100.0	37.6	(13.1)	33.6	(16.0)
Government	8	91.4	4	75.3	6	79.5	45.3	(24.4)	41.1	(26.9)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	8	91.4	4	75.3	6	79.5	45.3	(24.4)	41.1	(26.9)
Corporate	0.7	8.6	1	24.7	1	20.5	14.2	106.9	10.8	100.0
Singapore										
Total	80	100.0	86	100.0	85	100.0	1.4	8.5	(1.0)	6.8
Government	77	95.8	83	96.0	81	94.8	0.1	7.4	(2.2)	5.7
Central Bank	61	75.6	75	87.4	76	88.6	2.8	27.1	0.4	25.1
Treasury and Other Govt.	16	20.2	7	8.6	5	6.2	(26.9)	(66.5)	(28.6)	(67.0)
Corporate	3	4.2	3	4.0	4	5.2	32.0	35.4	29.0	33.2
Thailand										
Total	66	100.0	65	100.0	60	100.0	(6.5)	(5.4)	(6.5)	(8.8)
Government	56	84.8	50	77.5	47	78.6	(5.3)	(12.3)	(5.2)	(15.5)
Central Bank	46	70.1	39	60.5	35	58.4	(9.7)	(21.2)	(9.7)	(24.1)
Treasury and Other Govt.	10	14.6	11	17.1	12	20.2	10.6	30.4	10.6	25.6
Corporate	10	15.2	15	22.5	13	21.4	(10.8)	33.0	(10.8)	28.1

continued on next page

Table 3 *continued*

	3Q13		2Q14		3Q14		Growth Rate (LCY-base %)		Growth Rate (US$-base %)	
							3Q14		3Q14	
	Amount (US$ 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	3	100.0	9	100.0	11	100.0	18.2	283.8	18.8	281.7
Government	3	100.0	9	100.0	11	100.0	18.2	283.8	18.8	281.7
Central Bank	2	77.8	7	79.4	10	88.2	31.3	335.2	31.9	332.9
Treasury and Other Govt.	0.6	22.2	2	20.6	1	11.8	(32.3)	103.5	(32.0)	102.4
Corporate	0	0.0	0	0.0	0	0.0	–	–	–	–
Emerging East Asia										
Total	930	100.0	1,103	100.0	1,123	100.0	2.2	21.2	1.8	20.8
Government	675	72.6	760	68.8	778	69.3	3.1	16.0	2.4	15.3
Central Bank	394	42.4	475	43.0	492	43.8	4.7	25.6	3.6	24.8
Treasury and Other Govt.	280	30.2	285	25.8	286	25.5	0.4	2.5	0.4	2.0
Corporate	255	27.4	344	31.2	345	30.7	0.4	34.9	0.3	35.1
Japan										
Total	541	100.0	522	100.0	471	100.0	(2.3)	(2.9)	(9.7)	(12.9)
Government	511	94.5	480	91.9	439	93.2	(1.0)	(4.3)	(8.5)	(14.2)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	511	94.5	480	91.9	439	93.2	(1.0)	(4.3)	(8.5)	(14.2)
Corporate	29	5.5	42	8.1	32	6.8	(17.4)	21.3	(23.6)	8.8

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

US$492 billion, and Treasury bond and other government bond sales were US$286 billion. LCY corporate bond issues amounted to US$345 billion in 3Q14, recording growth of 0.4% q-o-q and 34.9% y-o-y.

Hong Kong, China continued to dominate LCY government bond issuance in emerging East Asia, as its government sector registered issuance of US$300 billion in 3Q14, up on both a q-o-q and y-o-y basis, led by increased bond sales from the Hong Kong Monetary Authority (HKMA). The second-largest LCY government bond issuance total in the region belonged to the PRC, which sold Treasury and other government bonds totaling US$212 billion in 3Q14, up on a q-o-q basis but down on a y-o-y basis. The People's Bank of China (PBOC) did not issue LCY bonds in 3Q14.

Singapore was next with LCY government bond issuance in 3Q14 at US$81 billion, up on both a quarterly and an annual basis, with 93% of the total comprising MAS bills. This was followed by the Republic of Korea's US$78 billion worth of LCY government bond sales—the majority of which comprised Monetary Stabilization Bonds (MSBs) from The Bank of Korea. Government bond issuance in the Republic of Korea was down on a q-o-q basis but up on a y-o-y basis.

In other LCY government bond markets in emerging East Asia, issuance was US$32 billion in Malaysia and US$10 billion in Indonesia, with both markets registering positive q-o-q and y-o-y growth rates in 3Q14; Philippine government bond sales were US$6 billion, up on a q-o-q basis but down on a y-o-y basis; and Viet Nam's government bond issuance totaled US$11 billion, up on both a quarterly and an annual basis.

LCY corporate bond issuance in emerging East Asia in 3Q14 was led by the PRC, which contributed 64% of the regional total, followed by the Republic of Korea, which accounted for 26%. In the PRC, LCY corporate bond issuance was down in 3Q14 compared with the previous quarter, due to declines in issuance in local corporate bonds and medium-term notes. Meanwhile, issuance was up on a y-o-y basis due to increases in issuance of commercial bank bonds, local corporate bonds, and state-owned corporate bonds.

In the Republic of Korea's LCY corporate bond market, issuance was up in 3Q14 on both a q-o-q and y-o-y basis—the former buoyed by larger quarterly issuance in special public bonds, financial debentures, and private corporate bonds; and the latter induced by annual growth in issuance of private corporate bonds.

As for the other LCY corporate bond markets in the region, issuance growth in 3Q14 was (i) positive on both a q-o-q and y-o-y basis in Malaysia, the Philippines, and Singapore; (ii) unchanged on a q-o-q basis but negative on a y-o-y basis in Hong Kong, China; (iii) negative on a q-o-q basis but positive on a y-o-y basis in Thailand; and (iv) negative on both a q-o-q and y-o-y basis in Indonesia. Viet Nam had no LCY corporate bond issues in 3Q14.

Meanwhile, cross-border bond issuance in emerging East Asia remained active in 3Q14. PRC-based corporate issuers were among those that sold a relatively large number of securities denominated in other emerging East Asian currencies—specifically Hong Kong dollars and Singapore dollars. Among the relatively large cross-border issues from the PRC were (i) Industrial and Commercial Bank of China's HKD2.5 billion 6-month zero-coupon paper, and (ii) China Coal Solution's SGD180 million 2-year bond carrying a 7.5% coupon.

Corporates from Hong Kong, China also issued several debt instruments denominated in other emerging East Asian currencies—particularly Chinese renminbi and Singapore dollars. The largest bond transactions included (i) Charter Style International's CNY2.0 billion 10-year bond carrying a 5.8% coupon, and (ii) Pacific Andes Resources Development's SGD200 million 3-year bond with an 8.5% coupon.

Bond issuers from the Republic of Korea that sold debt securities in other emerging East Asian currencies in 3Q14 included (i) Korea Eximbank, which sold, among others, an IDR500 billion 3.75-year bond at an 8.0% coupon, and an HKD300 million 3-year bond at 1.5% coupon; (ii) Korea Development Bank (KDB), which issued CNY250 million of 6-month, zero-coupon paper from its Singapore office; and (iii) Kolao Holdings, which raised SGD60 million from the sale of a 3-year bond at a 2.0% coupon.

Several other entities in emerging East Asia issued bonds in 3Q14 that were denominated in currencies other than the domestic currency. An Indonesian oil plantation company, Bumitama Agri, raised MYR500 million from the sale of a 5-year bond with a 5.0% coupon. Malaysian entities sold CNY-, HKD-, and SGD-denominated bonds: (i) Cagamas issued a CNY1.5 billion 3-year bond with a 3.7% coupon; (ii) CIMB Bank raised HKD150 million from a 5-year bond sale at 2.47% coupon; (iii) Maybank sold a HKD707 million 10-year bond at a 3.35% coupon; and (iv) Nam Cheong issued a SGD200 million 5-year bond at a 5.05% coupon. Singaporean bond issuers included (i) Golden Assets International Finance with a MYR375 million 5-year bond carrying a 5.35% coupon; (ii) Oversea-Chinese Banking Corporation via an HKD1.35 billion 3-year bond with a 1.67% coupon; and (iii) Swiber Holdings with a CNY450 million 3-year note offering a 7.75% coupon. Also, a corporate entity from Thailand—CIMB Thai Bank—raised MYR400 million from the sale of 10-year bonds that offered a coupon rate of 5.6%.

In October, the Government of the Lao People's Democratic Republic tapped the LCY bond market of Thailand, selling three THB-denominated bonds, including a THB1.8 billion 3-year bond at a 4.76% coupon, a THB1.8 billion 5-year bond offering a 5.2% coupon, and a THB1.5 billion 7-year bond carrying a 5.5% coupon.

G3 currency bond issuance in emerging East Asia in the first 9 months of 2014 surpassed the full-year total in 2013.

Emerging East Asia's G3 currency bond issuance in the first 9 months of 2014 reached a record high of US$143.5 billion, surpassing the previous year's 12-month total **(Table 4)**. Issuers in the region continued taking advantage of low G3 borrowing costs amid expectations that the planned policy rate hike by the US Federal Reserve might be delayed further because of a sluggish global economic recovery.

The PRC remained the largest source of G3 currency bonds in emerging East Asia in January–September as its issuance reached US$65.9 billion, which exceeded its full-year 2013 level and accounted for 46% of the region's total. Financial institutions were the largest issuer group from the PRC, accounting for 55% of total issuance, followed by energy companies with a 17% share. Sinopec stood as the largest PRC-based issuer of G3 bonds, selling

Table 4: G3 Currency Bond Issuance

2013			1 January–30 September 2014		
Issuer	**US$ (million)**	**Issue Date**	**Issuer**	**US$ (million)**	**Issue Date**
China, People's Rep. of	**56,709**		**China, People's Rep. of**	**65,874**	
CNOOC Finance 3.0% 2023	2,000	9-May-13	CNOOC Finance 4.25% 2024	2,250	30-Apr-14
Evergrande Real Estate 8.75% 2018	1,500	30-Oct-13	Tencent 3.375% 2019	2,000	29-Apr-14
Sinopec Group 4.375% 2023	1,500	17-Oct-13	Sinopec 1.0136% 2017	1,800	10-Apr-14
CNOOC Curtis Funding 4.5% 2023	1,300	3-Oct-13	State Grid Overseas Investment 4.125% 2024	1,600	7-May-14
Sinopec Capital 3.125% 2023	1,250	24-Apr-13	Sinopec 1.75% 2017	1,550	10-Apr-14
Others	49,159		Others	56,674	
Hong Kong, China	**24,011**		**Hong Kong, China**	**21,484**	
Hutchison Whampoa 3.75% Perpetual	2,367	10-May-13	Hong Kong, China (Sovereign) 2.005% 2019	1,000	18-Sep-14
Shimao Property 6.625% 2020	800	14-Jan-13	New World Development 5.25% 2021	750	26-Feb-14
Others	20,844		Others	19,734	
Indonesia	**12,270**		**Indonesia**	**10,976**	
Pertamina 4.3% 2023	1,625	20-May-13	Indonesia (Sovereign) 5.875% 2024	2,000	15-Jan-14
Pertamina 5.625% 2043	1,625	20-May-13	Indonesia (Sovereign) 6.75% 2044	2,000	15-Jan-14
Indonesia (Sovereign) 3.375% 2023	1,500	15-Apr-13	Pertamina 6.45% 2044	1,500	30-May-14
Indonesia (Sovereign) 4.625% 2043	1,500	15-Apr-13	Indonesia (Sovereign) 4.35% 2024	1,350	10-Sep-14
Perusahaan Penerbit SBSN 6.125% 2019	1,500	17-Sep-13	Perusahaan Gas Negara (PGN) 5.125% 2024	1,350	16-May-14
Others	4,520		Others	2,776	
Korea, Rep. of	**30,400**		**Korea, Rep. of**	**26,272**	
Korea Eximbank 2.0% 2020	1,369	30-Apr-13	Republic of Korea (Sovereign) 4.125% 2044	1,000	10-Jun-14
The Republic of Korea (Sovereign) 3.875% 2023	1,000	11-Sep-13	Woori Bank 4.75% 2024	1,000	30-Apr-14
Korea Development Bank 3.0% 2019	750	17-Sep-13	Republic of Korea (Sovereign) 2.125% 2024	947	10-Jun-14
Others	27,281		Others	23,325	
Malaysia	**4,065**		**Malaysia**	**2,332**	
1MDB Global Investments 4.40% 2023	3,000	19-Mar-13	Cahaya Capital 0.162% 2021	500	18-Sep-14
Sime Darby 2.053% 2018	400	29-Jan-13	AmBank 3.125% 2019	400	3-Jul-14
Sime Darby 3.29% 2023	400	29-Jan-13	EXIM Sukuk Malaysia 2.874% 2019	300	19-Feb-14
Others	265		Others	1,132	
Philippines	**3,858**		**Philippines**	**2,675**	
San Miguel Corporation 4.875% 2023	800	26-Apr-13	Philippines (Sovereign) 4.2% 2024	1,500	21-Jan-14
JG Summit 4.375% 2023	750	23-Jan-13	SM Investments 4.875% 2024	350	10-Jun-14
Petron Corporation 7.50% Perpetual	750	6-Feb-13	SMC Global Power 7.5% Perpetual	350	7-May-14
Others	1,558		Others	475	
Singapore	**5,925**		**Singapore**	**10,406**	
Olam International 6.75% 2018	750	29-Jan-13	OCBC Bank 4% 2024	1,000	15-Apr-14
Global A&T Electronics 10.00% 2019	625	7-Feb-13	OCBC Bank 4.25% 2024	1,000	19-Jun-14
Stats Chippac 4.5% 2018	611	20-Mar-13	Avago Technologies 2% 2021	1,000	6-May-14
Flextronics International 5.0% 2023	500	20-Feb-13	United Overseas Bank 3.75% 2024	800	19-Mar-14
Others	3,439		Others	6,606	
Thailand	**3,445**		**Thailand**	**3,465**	
PTT Exploration & Production 3.707% 2018	500	16-Sep-13	PTT Exploration & Production 4.875% Perpetual	1,000	18-Jun-14
Others	2,945		Others	2,465	
Viet Nam	**827**		**Viet Nam**	**0**	
Emerging East Asia Total	**141,510**		**Emerging East Asia Total**	**143,485**	
Memo Items:			**Memo Items:**		
India	**14,053**		**India**	**14,697**	
Bharti Airtel International 5.125% 2023	1,500	11-Mar-13	Bharti Airtel 3.375% 2021	1,004	20-May-14
Vedanta Resources 6.0% 2019	1,200	3-Jun-13	Abja Investment 5.95% 2024	1,000	31-Jul-14
Others	11,353		Others	12,693	
Sri Lanka	**2,441**		**Sri Lanka**	**2,165**	

Sources: Bloomberg LP, newspaper and wire reports.

five US$-denominated bonds with a combined value of US$7.0 billion.

G3 currency bond issuance in the Republic of Korea in January–September was the second largest in the region and totaled US$26.3 billion, of which 56% was sold by financial institutions. The two largest Korean issuers of G3 currency bonds were Korea Eximbank and Korea Development Bank, with issuances of US$4.7 billion and US$4.4 billion, respectively. Meanwhile, Hong Kong, China was the third-largest source of G3 currency bond issuance in the region in the first 9 months of the year at US$21.5 billion, of which 70% came from financial institutions. Notably, the Government of the Special Administrative Region of Hong Kong, China sold its first Islamic bond in September, a 5-year US$-denominated *sukuk* worth US$1.0 billion and priced at 2.005%.

G3 currency bond issuance from members of the Association of Southeast Asian Nations (ASEAN) was US$29.9 billion in the first 9 months of the year. Of this amount, Indonesia accounted for the largest share (37%), followed by Singapore (35%), Thailand (12%), the Philippines (9%), and Malaysia (8%). The largest Indonesian issuer of G3 currency bonds was the government, raising US$6.8 billion from the sale of three US$-denominated bonds—a US$2.0 billion 10-year bond with a 5.875% coupon, a US$2.0 billion 30-year bond with a 6.75% coupon, and a US$1.5 billion 10-year *sukuk* priced at 4.35%—and one EUR-denominated 7-year bond worth EUR1.0 billion (US$1.3 billion) offering a 2.875% coupon.

Five Malaysian companies—all financial institutions—sold a combined US$2.3 billion worth of G3 currency bonds in January–September. Five Philippine entities tapped the US dollar bond market, with the government posting the largest bond sale—a US$1.5 billion 10-year bond issued in January.

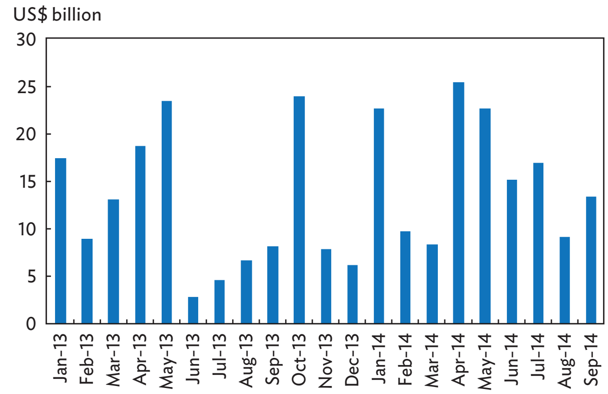
Of Singapore's US$10.4 billion worth of G3 currency bonds sold in January–September, about 75% came from financial institutions—led by DBS, OCBC Bank, and United Overseas Bank. In the same 9-month period, seven Thai institutions tapped the G3 currency bond market, raising a total of US$3.5 billion, which exceeded 2013's full-year total.

The first 9 months of the year saw fluctuations in emerging East Asia's aggregate G3 currency bond issuance amid uncertainty earlier in the year over the US Federal Reserve's stance on its asset purchase program **(Figure 5)**. Issuance in 3Q14 was valued at US$39.4 billion, down from the previous quarter's US$63.0 billion, but higher than 3Q13's US$19.4 billion.

Government bond yields fell for most tenors in emerging East Asian markets.

In its 29 October policy meeting, as widely expected, the US Federal Reserve ended its quantitative easing program. The continued tapering and eventual end of

Figure 5: G3 Currency Bond Issuance



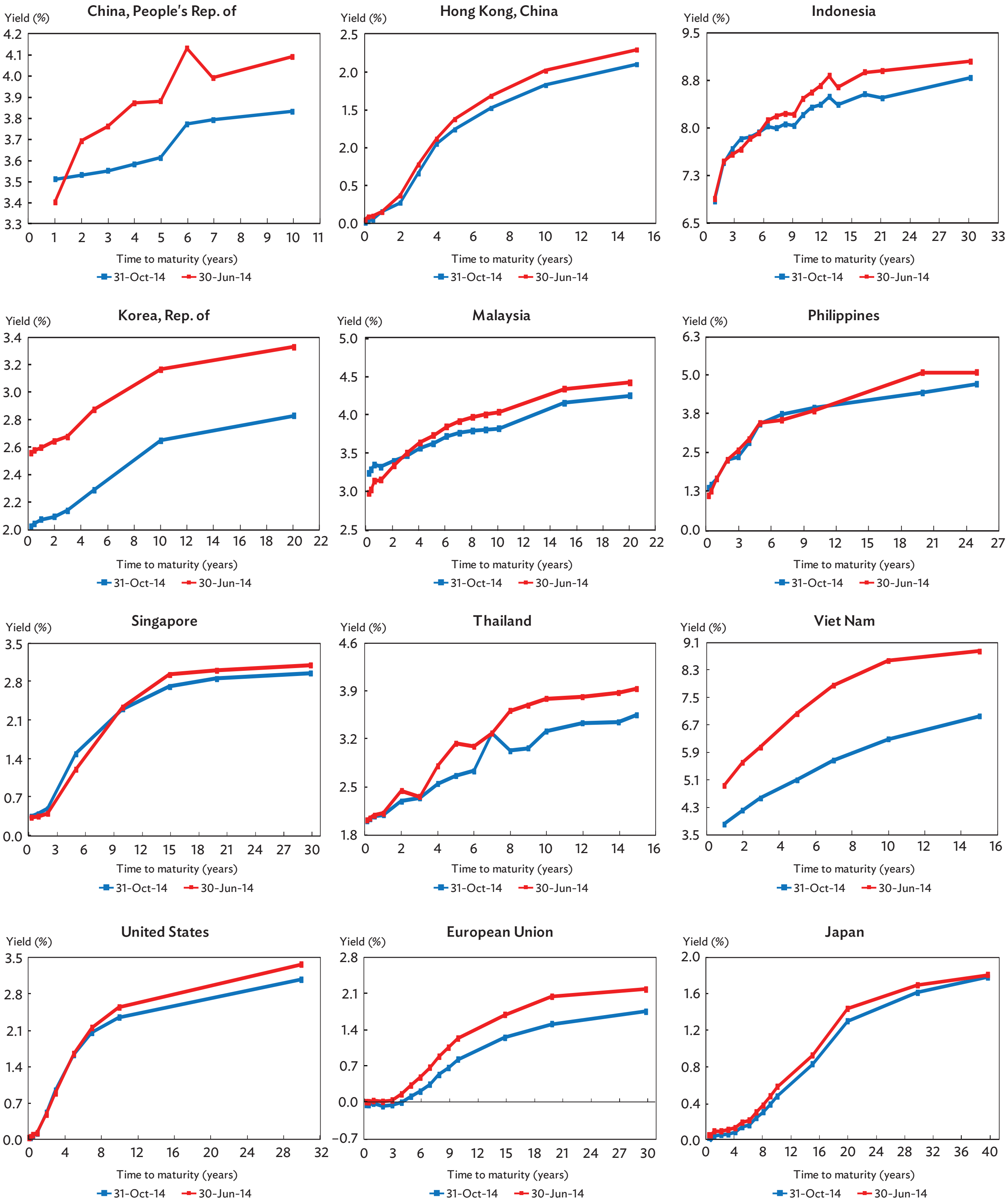
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

the program this year has already been largely priced in by investors in most markets. However, even after the 16 September Federal Reserve meeting indicated that the US was on track to end quantitative easing, US yields fell due to demand for safe haven assets caused by global financial market volatility. Only at end-October, when the program ended, did US yields begin rising again, owing to improved labor market conditions in the US.

From end-June to end-October, US Treasury yields showed a decline, with the exception of the 2-year and 3-year tenors. This affected emerging East Asian markets whose yields closely track those of the US **(Figure 6)**. For example, Hong Kong, China's yield curve fell for all tenors during the period under review, with the exception of the 1-year tenor. Hong Kong, China's 10-year yield fell 19 basis points (bps) from end-June to end-October. In contrast, Singapore's yield curve fell at the longer-end, with the 10-year yield declining 3 bps and the 15-year yield dipping 22 bps. Malaysia's 10-year yields fell 21 bps in the same period.

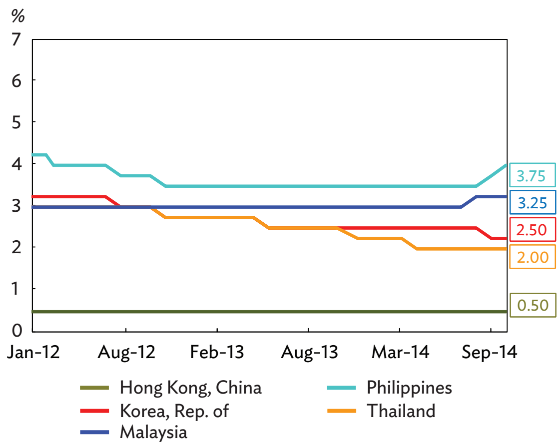
In other markets, yield movements were mostly driven by domestic factors. In the Republic of Korea, the country's economic slowdown led to a fall in the yield curve for all tenors. The 10-year yield fell 52 bps in the same period. Economic growth in the Republic of Korea remained subdued in 3Q14, growing 0.9% q-o-q versus 0.6% in 2Q14. The Bank of Korea cut its base rate by 25 bps to 2.25% in August **(Figures 7a, 7b)**, followed by another 25 bps cut to 2.0% in October. Inflation also fell to 1.1% y-o-y in September.

Figure 6: Benchmark Yield Curves—LCY Government Bonds



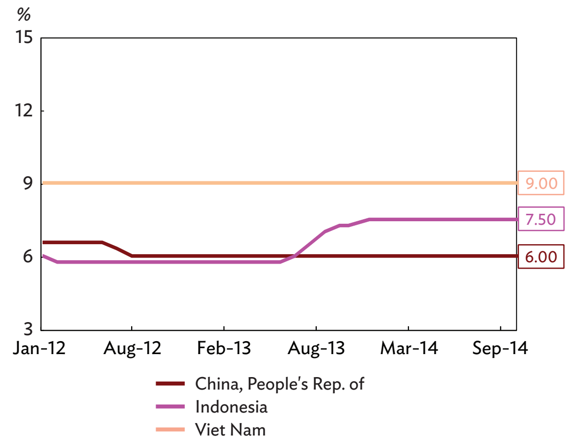
LCY = local currency.
Source: Based on data from Bloomberg LP.

Figure 7a: Policy Rates



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

Figure 7b: Policy Rates



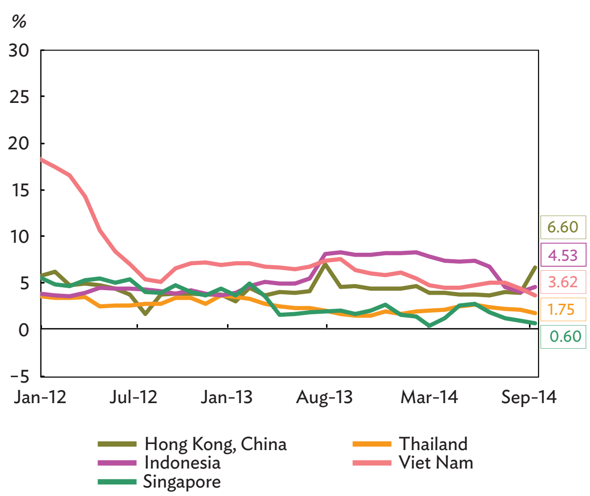
Note: Data as of end-September 2014.
Source: Bloomberg LP.

In the PRC, the yield curve fell for tenors longer than 1 year as economic data showed that the domestic economy is slowing. The PRC reported 3Q14 GDP growth of 7.3% y-o-y, down from 7.5% in 2Q14. Consumer price inflation in the PRC fell to 1.6% y-o-y in September. Markets are concerned that the slowing PRC economy might affect other economies in the region. Inflation in emerging East Asia has been manageable and most economies have shown a downward trend in inflation in 3Q14 **(Figures 8a, 8b)**.

In Indonesia, the yield curve mostly shifted downward between end-June and end-October, with the exception of 3- to 6-year tenors, due to a smooth political transition and expectations of a reduced supply of government bond issuances in 4Q14 since the government has mostly met its funding requirements for the year.

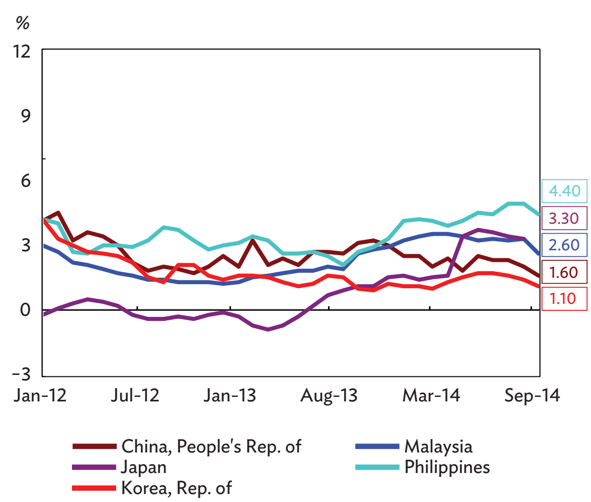
The Philippines is distinct in emerging East Asia as the only economy with significantly rising inflation since 1Q14, owing to supply-side pressures. However, inflation

Figure 8a: Headline Inflation Rates



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

Figure 8b: Headline Inflation Rates



Note: Data as of end-September 2014, except for Japan as of end-August 2014.
Source: Bloomberg LP.

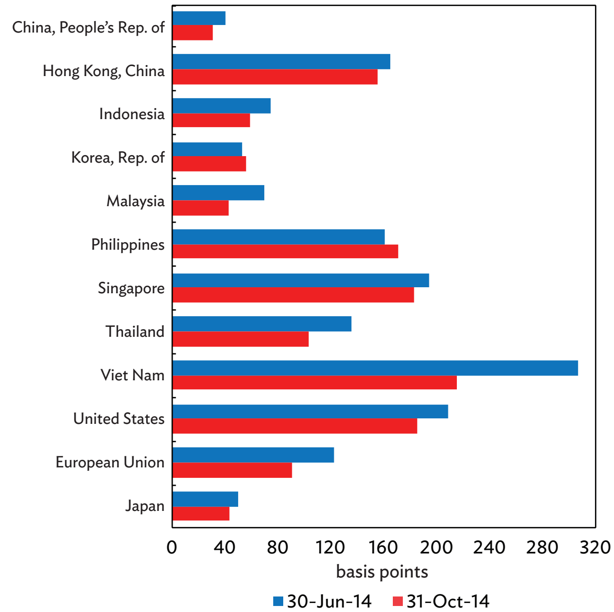
in the Philippines moderated in September, prompting the central bank to pause its tightening in the last monetary meeting in October after raising policy rates in September. Bangko Sentral ng Pilipinas' assessment is that inflation has now become more manageable. These developments have resulted in largely mixed yield curve movements, with the 10-year yield rising 10 bps and the 3-year yield falling 20 bps.

In Thailand, the central bank kept its policy rate unchanged at 2.0% in its September policy meeting, maintaining its accommodative policy stance as inflation continues to moderate. Markets expect the central bank to continue with this accommodative stance as its monetary policy begins to take effect. Thailand's GDP recovered in 2Q14, rising 0.4% y-o-y after a decline of 0.5% in the prior quarter. As a result, Thailand's yield curve shifted downward for nearly all tenors, with the 10-year yield falling 48 bps between end-June and end-October.

In Viet Nam, the entire yield curve shifted sharply downward, with the 10-year yield falling 235 bps. The downward shift in yields in Viet Nam was driven by falling inflation, with September inflation at 3.2% y-o-y. The low inflation rate allowed the State Bank of Viet Nam to cut its deposit rate cap to 5.5% from 6.0% in October. In addition, Fitch upgraded Viet Nam's credit rating to BB– from B+ on 3 November.

As a result of the drop in longer-term yields, the 2-year versus 10-year spread fell in most markets between end-June and end-October **(Figure 9)**, largely on the back of benign inflation and expectations of further easing, with the exception of the Philippines and the Republic of Korea. In the Philippines, the rise in the 2-year versus 10-year spread was due to the yield curve's mixed performance, while in the Republic of Korea, the shorter-end of the curve fell more sharply due to a policy rate cut.

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



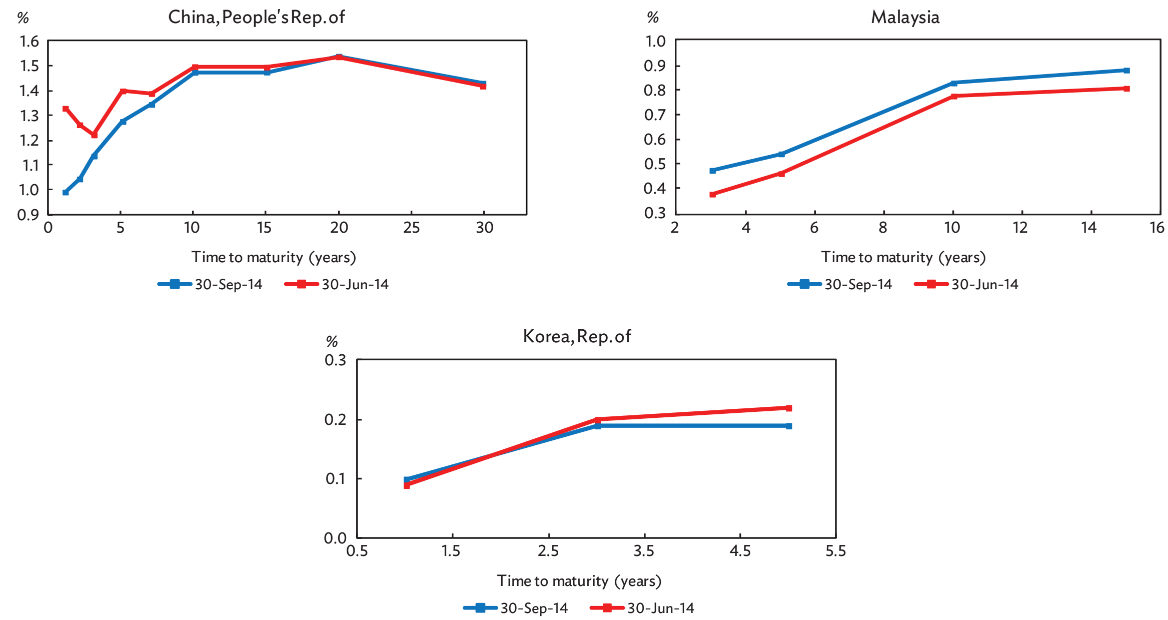
Source: Based on data from Bloomberg LP.

Corporate spreads were mixed at end-September.

Credit spreads between AAA-rated corporate bonds and government bonds tightened in the PRC between end-June and end-September, particularly at the shorter-end of the curve, mostly due to declining demand for short-tenored government bonds, which raised yields. In contrast, the spread widened in Malaysia, particularly for longer tenors, owing to higher demand for government bonds. Meanwhile, the spread in the Republic of Korea was mostly unchanged **(Figure 10a)**.

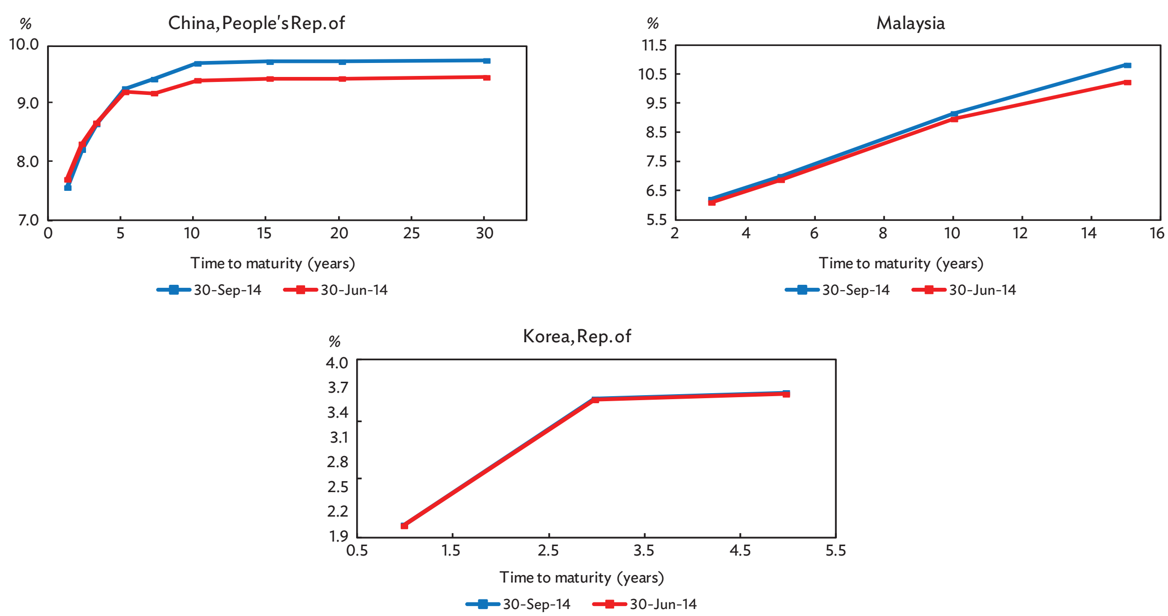
Credit spreads between AAA-rated and lower-rated corporate bonds were roughly unchanged in all markets over the same period, with the exception of the PRC, due to increased risk aversion related to slowing economic growth and the weak property market **(Figure 10b)**.

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



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

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



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

Policy and Regulatory Developments

People's Republic of China

Property Companies Allowed to Issue Medium-Term Notes

On 3 September, the People's Republic of China (PRC) allowed qualified, listed property companies to issue medium-term notes on the interbank bond market. Funding from the notes can be used for new residential projects, operating cash flows, or bank loan repayment. The funds cannot be used for land purchases.

New Regulations to Manage Local Government Debt Risks

On 2 October, the State Council of the PRC passed new regulations governing local government debt. Under the new rules, local governments can now issue bonds directly subject to a quota. There are other restrictions such as the requirement that funding raised from bond issuances by local governments cannot be used to pay for existing government operations. It can only be used to repay debt servicing and to fund public services. In addition, local governments are no longer allowed to issue bonds through special funding vehicles or local-government-owned corporations.

Hong Kong, China

Hong Kong, China Issues Debut *Sukuk*

On 10 September, Hong Kong, China, issued its debut *sukuk* (Islamic bond). The *sukuk* was priced at a profit rate of 2.005%. The *sukuk* has an issue size of US$1.0 billion and demand was strong with orders exceeding US$4.7 billion. In terms of geography, buyers of the *sukuk* were diverse, with 36% going to the Middle East, 47% to Asia, 6% to Europe, and 11% to the US.

Indonesia

Bank Indonesia Issues Guidelines for State-Owned Companies on FX Hedging Transactions

On 17 September, Bank Indonesia issued guidelines for state-owned firms to engage in foreign exchange (FX) hedging transactions. Bank Indonesia noted that hedging transactions serve as an important measure to strengthen exchange rate stability and ease pressure in the domestic FX market. Through the issuance of the guidelines, Bank Indonesia expects the volume of FX hedging transactions by state-owned companies to increase, and for the perception to diminish that losses incurred from such activities are considered state losses. Bank Indonesia has been encouraging state-owned companies to undertake hedging transactions for foreign currency borrowings to cover FX risks.

Government Approves 2015 State Budget

On 29 September, the House of Representatives approved the 2015 state budget, which projects a deficit equivalent to 2.2% of gross domestic product (GDP). The 2015 budget deficit was up from the deficit projection of 1.7% made in the original 2014 state budget, but down from the projection of 2.4% in the revised 2014 state budget. The underlying macroeconomic assumptions for the 2015 state budget include (i) GDP growth of 5.8% year-on-year (y-o-y), (ii) annual inflation of 4.4% y-o-y, (iii) an exchange rate of IDR11,900 per US$1, (iv) a 3-month Treasury bill rate of 6.0%, and (v) an Indonesian crude oil price of US$105 per barrel.

Republic of Korea

Basel III LCR Introduced in the Banking Sector

In August, the Financial Services Commission (FSC) introduced Basel III's liquidity coverage ratio (LCR) to banks conducting business in the Republic of Korea. The FSC stated that domestic banks are obliged to meet the minimum LCR of 100% starting January 2015; domestic branches of foreign banks are required to meet the minimum ratio of 20% starting in 2015, and the ratio will be raised 10 percentage points each year to reach 60% by 2019; and the minimum ratio for specialized banks and policy banks will start at 60% in 2015 and climb by 10 percentage points per year to reach 100% by 2019.

Prudential Regulation Reform for the Asset Management Industry

The Republic of Korea's FSC announced in September plans for the reform of prudential regulations governing the country's asset management industry. The plans involve replacing the net capital ratio—which has been utilized since April 1997 as a standard for "prompt corrective action" covering asset management and securities companies—with a minimum capital requirement for the equity holdings of asset management companies. The plan is expected to take effect in April 2015.

Malaysia

Prime Minister Announces 2015 Federal Budget

On 10 October, Malaysia announced the release of its 2015 federal budget. The 2015 budget allocates MYR273.9 billion, an increase of MYR9.8 billion from the 2014 initial allocation. The government stated that the economy is expected to grow between 5% and 6% in 2015, and the government's fiscal deficit will be reduced to 3% of GDP. The government also announced planned amendments to tax rates in 2015, including a reduction in income taxes by 1%–3%, implementation of the goods and services tax of 6%, and abolition of the sales and services tax. Furthermore, the corporate income tax and small and medium-sized income tax will be reduced 1% each in 2016. To strengthen the Islamic financial market, the government plans to introduce the Investment Account Platform, a *shari'a*-compliant investment product that will allow investors to finance businesses, small and medium-sized enterprises, and other entities via the Islamic financial market. The Investment Account Platform will have an initial start-up fund of MYR150 million. The government also announced plans of further rationalization of its current subsidies. A report by the Ministry of Finance indicated a reduction in subsidies to MYR37.7 billion in 2015 from MYR40.6 billion in 2014.

Philippines

BTr Issues Circular for LCY Government Securities Secondary Market

On 22 September, the Bureau of Treasury (BTr) issued a circular on the Revised Rules and Regulations for the Issuance, Placement, Sale, Service, and Redemption of Treasury Bills and Bonds under Republic Act No. 245 (as amended). The circular provides guidance on the implementation of non-restricted trading across tax categories in the secondary market for Philippine LCY coupon-bearing government securities, with the intention of deepening liquidity in the bond market and providing additional investment avenues for tax-exempt institutions and individuals. The circular also covered the tax-tracking mechanisms and operating guidelines to be used in the trading and settlement of the bonds. These include the establishment and opening of a Securities Account for Tax Tracking (SATT), the monitoring of the balances in the SATT, the assignment of an Investor Code associated with the SATT, and the reimbursement of any final withholding tax—to be calculated by a tax-tracking facility—that may have been deducted from the proceeds of the tax exempt holder or seller. The circular is targeted to take effect on 27 October.

Bank of Japan and BSP Sign Third Bilateral Swap Arrangement

On 17 October, the Bank of Japan and the Bangko Sentral ng Pilipinas (BSP) signed their third Bilateral Swap Arrangement, which is an expansion of a prior agreement. The new arrangement allows a swap between US dollars and Philippine pesos of up to US$12 billion from Japan, and allows the swap between US dollars and Japanese yen of up to US$500 million from the Philippines. The arrangement also includes a crisis prevention scheme to address possible liquidity needs.

BSP Increases Minimum Capital Requirement for Banks

On 20 October, the Monetary Board of the BSP decided to increase the minimum capital requirement for all bank categories to further strengthen the banking system. The BSP noted that this is different from the Basel III requirements as implemented by previous BSP circulars. The new minimum capital requirement for universal and commercial banks will be tiered based on a bank's network size, as measured by the number of branches. For thrift, rural, and cooperative banks, the head office location and size of the physical network are to be considered in the tiering. Banks that will not immediately comply with the new capital requirement may avail of a 5-year transition period. These banks will be required to submit an acceptable capital build-up program. The banks that fail to submit an acceptable program and those that fail to comply with the new capital requirements shall be subject to restrictions on future expansion plans.

Singapore

ASEAN CIS Framework Launched

On 25 August, the Monetary Authority of Singapore (MAS), Securities Commission for Malaysia, and Securities and Exchange Commission (Thailand) jointly launched the Association of Southeast Asian Nations (ASEAN) Collective Investment Scheme (CIS) Framework to facilitate cross-border offers of CIS to retail investors. The ASEAN CIS Framework allows fund managers based in Singapore, Malaysia, and Thailand to offer CIS products to retail investors in all three markets under a streamlined authorization process.

Thailand

SEC Allows Commercial Banks to Offer Basel III-Compliant Tier 2 Instruments to Retail Investors

The Securities and Exchange Commission (SEC) announced in September that the Capital Market Supervisory Board has approved regulations to allow the offering of commercial banks' Basel III-compliant Tier 2 instruments to retail investors, with the regulations to take effect starting in 4Q14.

Revised Rules on Adequacy of Net Capital of Securities Companies

The SEC announced in September that the Capital Market Supervisory Board had approved the revision of rules governing securities firms that are unable to maintain adequate net capital as required. The revised rules took effect in October 2014.

Viet Nam

Viet Nam Releases New FCY Rules for Vietnamese Nationals

On 17 July, the Government of Viet Nam issued Decree No. 70/2014/ND-CP allowing Vietnamese nationals to deposit foreign currency (FCY) in local banks and withdraw principal and interest in the currency deposited. The decree also allows resident and nonresident to buy, transfer, or carry FCY abroad without the need to show certification of fulfilment of tax obligations in Viet Nam. Residents with FCY-denominated incomes from exports or other income sources abroad may transfer them into their FCY-denominated accounts in licensed credit institutions in Viet Nam. On the other hand, if residents intend to retain such income abroad, they must first acquire permission from the State Bank of Viet Nam (SBV).

VSD Issues Rules on Securities Lending

On 6 September, the Viet Nam Securities Depository (VSD) released the list of securities to be used as collateral under its Decision No. 111/QD-VSD on securities lending regulations. This comprises 223 codes listed on Viet Nam's two national stock exchanges, including government bonds and government-guaranteed bonds listed on the Ha Noi Stock Exchange. The rate to be deducted from the prices of securities used as collateral was set at 5% for government and government-guaranteed bonds, 30% for securities in the VN30 and HNX30 packages, and 40% for all other bonds. Lending rates shall be based on the agreement between the borrower and lender, but should not exceed 120% of the rate regulated by the SBV.

AsianBondsOnline Annual Bond Market Liquidity Survey

Introduction

AsianBondsOnline conducts an annual bond market liquidity survey to provide an overview of the state of liquidity in emerging East Asian local currency (LCY) bond markets.[6] The survey aims to provide market participants and policy makers with an updated and comprehensive view of liquidity conditions in individual markets in emerging East Asia. Participants in the survey included fixed-income dealers and brokers, portfolio managers, bond market analysts and strategists, and bond pricing agencies. The 2014 survey was undertaken through interviews and email questionnaires conducted in July–September.

The survey consisted of two sections. One section covered quantitative issues wherein market participants were asked to provide information on bid–ask spreads and transaction sizes. The second part focused on qualitative issues wherein participants were asked to rank a number of market structural issues and how development of these factors can help contribute to deepening liquidity in LCY bond markets.

Most LCY bond market participants in emerging East Asia noted an improvement in liquidity conditions this year compared with 2013. Most markets have already priced in the end of the United States (US) Federal Reserve's quantitative easing measures as economic indicators in the US point to a more stable recovery. The only question left relates to the timing of when interest rates will begin to rise; markets anticipate a rate hike in June 2015. Bond markets in emerging East Asia have also been resilient despite the slowdown in the eurozone and political concerns regarding sanctions against the Russian Federation.

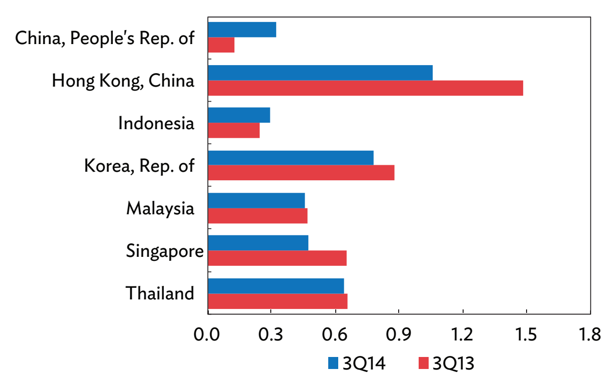
However, despite overall improvements, liquidity in corporate bond markets has lagged that of government bond markets. One reason for this relates to fungibility. The liquidity advantage of a government bond market is that it essentially comprises a single issuer. Thus, there is no issue of credit risk. In contrast, for corporate bonds, due diligence must be undertaken for each issuer. Bond liquidity, however, can also be limited if there are different bonds with different maturities. In government bond markets such as Indonesia and the Philippines, steps have been taken to improve government bond market liquidity, including debt swaps permitting larger issuance sizes of a single bond. In Singapore, the liquidity of government bonds is improved through re-openings of existing securities during government bond auctions.

Government Bond Survey Results

There are various indicators used in gauging liquidity in bond markets, including trading volume, turnover ratio, bid–ask spread, and transaction size.

Trading volume refers to the amount of bonds traded in the secondary market. However, in cases where the size of outstanding bonds is expanding rapidly, the turnover ratio provides a better measure of trading activity and market liquidity. *AsianBondsOnline* computes the turnover ratio by dividing the trading volume for a particular quarter by the average outstanding bond size for the previous and current quarters. In 3Q14, turnover ratios for government bonds improved in the People's Republic of China (PRC) and Indonesia, and fell in all other emerging East Asian markets **(Figure 11)**.

Figure 11: LCY Government Bond Turnover Ratios



LCY = local currency.
Notes:
1. Turnover ratios are calculated as LCY trading volume (sales amount only) divided by average LCY value of outstanding bonds during each 3-month period.
2. 3Q14 turnover ratios for the Republic of Korea and Thailand, based on *AsianBondsOnline* estimates.

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); Singapore (Monetary Authority of Singapore and Singapore Government Securities); and Thailand (Bank of Thailand and Thai Bond Market Association).

[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.

On the other hand, the bid–ask spread measures the cost of executing a trade. However, it is only valid for market-accepted transaction sizes and for a limited time only. In this year's survey, the average bid–ask spread for on-the-run government securities stood at 3.9 basis points (bps) **(Table 5)**. This was lower compared with the average of 5.8 bps in the previous year's survey. Bid–ask spreads narrowed in all markets in this year's survey compared with last year, as most market participants noted a much improved outlook. The initial uncertainties relating to the US Federal Reserve's tapering measures eventually dissipated. The only exception to the narrowing trend was in the Republic of Korea where bid–ask spreads remained stable at a very narrow spread.

In this year's survey, the lowest bid–ask spreads for on-the-run government bonds were recorded in the Republic of Korea (0.7 bps), followed by Malaysia (1.7 bps), Thailand (1.9 bps), and Singapore (2.3 bps). The widest bid–ask spreads were noted in Viet Nam (11.7 bps) and Indonesia (6.0 bps). The bid–ask spreads for off-the-run issues also narrowed for all emerging East Asian markets this year except the PRC.

In this year's survey, the average accepted transaction size for on-the-run government bonds reached US$5.0 million for the region as a whole. Average transaction sizes were the lowest in Indonesia and the Philippines at US$1.6 million each, followed by Thailand at US$1.9 million. The PRC had the largest on-the-run government bond transaction size at US$10.0 million. The developed financial markets of the Republic of Korea (US$9.5 million); Hong Kong, China (US$7.2 million); and Singapore (US$5.3 million) were among those with the average highest transaction sizes.

Characteristics of Individual Government Bond Markets

People's Republic of China

Overall, bid–ask spreads for the PRC in 2014 were lower than in 2013, showing that liquidity had improved **(Table 6)**. Liquidity in the PRC's bond market improved mostly on bullish sentiments as evidenced in the significant rise in bond prices in the first half of the year amid declining yields due largely to lower gross domestic product (GDP) growth and inflation.

While the PRC has not recently conducted any broad-based stimulus measures, the targeted easing measures taken by the People's Bank of China (PBOC), such as lowering reserve ratios for rural banks, as well as banks

Table 5: LCY Government Bond Markets Quantitative Indicators

		PRC	HKG	INO	KOR	MAL	PHI	SIN	THA	VIE	Regional
Typical Bid–Ask Spread "On-the-Run"	Average (bps)	3.4	4.6	6.0	0.7	1.7	3.3	2.3	1.9	11.7	3.9
	SD	1.5	3.2	2.6	0.2	0.8	2.0	0.5	0.2	3.0	3.3
	CV	0.4	0.7	0.4	0.3	0.5	0.6	0.2	0.1	0.3	0.8
Typical Bid–Ask Spread "Off-the-Run"	Average (bps)	7.6	5.6	9.6	1.1	4.3	15.5	3.5	4.0	12.7	7.1
	SD	2.2	3.1	3.2	0.6	0.8	10.4	0.7	0.7	5.0	4.7
	CV	0.3	0.5	0.3	0.5	0.2	0.7	0.2	0.2	0.4	0.7
Accepted LCY Bond Transaction Size "On-the-Run"	Average (US$ million)	10.0	7.2	1.6	9.5	4.6	1.6	5.3	1.9	3.3	5.0
	SD	5.5	1.6	0.7	0.0	2.6	0.5	3.4	1.2	1.0	3.3
	CV	0.6	0.2	0.4	0.0	0.6	0.3	0.6	0.6	0.3	0.7
Accepted LCY Bond Transaction Size "Off-the-Run"	Average (US$ million)	7.3	7.2	1.5	9.5	3.6	1.4	5.9	1.4	2.5	4.5
	SD	1.2	1.6	1.5	0.0	0.9	0.5	0.0	1.1	1.8	3.1
	CV	0.2	0.2	1.0	0.0	0.2	0.4	0.0	0.8	0.7	0.7

bps = basis points; CV = coefficient of variation; HKG = Hong Kong, China; 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 2014 survey, the average treasury bond bid–ask spread was 46 cents.
Source: *AsianBondsOnline* 2014 LCY Bond Market Liquidity Survey.

Table 6: LCY Government Bond Survey Results—People's Republic of China

	Treasury Bills	Treasury Bonds	Policy Bank Bonds
On-the-Run			
Bid–Ask Spread (bps)	4.0	3.4	3.1
Average Trading Size (CNY million)	67.5	61.7	61.7
Off-the-Run			
Bid–Ask Spread (bps)	9.5	7.6	8.3
Average Trading Size (CNY million)	40.0	45.0	45.0

bps = basis points, LCY = local currency.
Source: *AsianBondsOnline* 2014 LCY Bond Market Liquidity Survey.

increased lending to the agricultural sector and small businesses, helped boost sentiment in the bond market.

Survey participants said that policy bank bonds were the most liquid in the government bond market. The survey results also showed that policy bank bonds carried the lowest bid–ask spreads. Bid–ask spreads were unchanged from the prior year for Treasury bills, but fell for Treasury bonds and policy bank bonds. Bid–ask spreads for Treasury bonds fell 0.7 bps on average, while bid–ask spreads for policy bank bonds dropped 1.8 bps.

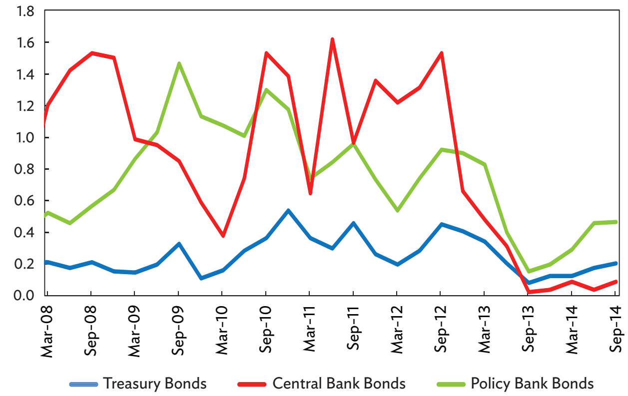
Market participants noted that Treasury bills and Treasury bonds are not as liquid as policy bank bonds due to a lack of consistent issuance owing the PRC's strong fiscal balances. Central bank bills and bonds also have become very illiquid and market participants declined to quote bid–ask spreads for these securities.

The limited trading for PBOC bills and bonds is mostly due to a lack of issuance as the PBOC has ceased issuance of central bank bills and bonds, preferring to use repurchase (repo) and reverse repo agreements to manage the money supply. As a result, the outstanding size of PBOC bills and bonds has steadily declined over the past few quarters.

Average trading sizes declined in 2014 versus 2013. The Treasury bond average trading size fell to CNY61.7 million from CNY72.0 million, and the policy bank bond average trading size fell to CNY61.7 million from CNY74.3 million.

Consistent with the fall in bond yields, trading volumes have been rising **(Figure 12)**. However, trading turnover ratios have not reached prior year levels due to a crackdown on illegal bond trades last year.

Figure 12: Turnover Ratios for Spot Market in the People's Republic of China



Source: *ChinaBond*.

Participants also said that the recent re-launch of government bond futures provides a means of hedging risk in the government bond market. However, banks are not allowed to trade these instruments, thereby limiting their usefulness.

Hong Kong, China

The Hong Kong, China liquidity survey shows that Exchange Fund Bills (EFBs) are the most liquid government bond **(Table 7)**. Bid–ask spreads for Hong Kong, China's EFBs were 2–6 bps lower than spreads for Exchange Fund Notes (EFNs) and Hong Kong Special Administrative Region (HKSAR) bonds. The outstanding amount of EFBs was significantly larger than EFNs or HKSAR bonds outstanding, and secondary trading volumes and average trading sizes of EFBs were also significantly larger than for either EFNs or HKSAR bonds.

Market participants said that overall liquidity levels in Hong Kong, China's government bond market had not significantly changed this year versus last year.

Of the three government bond types, HKSAR bonds had the lowest level of liquidity. One reason 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. In addition, market makers find it easier to generate liquidity for EFBs and EFNs versus HKSAR bonds as they are allowed to short the former two instruments but not the latter.

Table 7: LCY Government Bond Survey Results—Hong Kong, China

	Exchange Fund Bills	Exchange Fund Notes	HKSAR Bonds
On-the-Run			
Bid–Ask Spread (bps)	2.4	4.6	7.9
Average Trading Size (HKD million)	305.0	56.3	26.5
Off-the-Run			
Bid–Ask Spread (bps)	2.6	5.6	8.8
Average Trading Size (HKD million)	362.5	56.3	13.6

bps = basis points, HKSAR = Hong Kong Special Administrative Region, LCY = local currency.
Source: *AsianBondsOnline* 2014 LCY Bond Market Liquidity Survey.

Indonesia

The liquidity survey results for Indonesia indicated lower bid–ask spreads this year for Treasury bonds, while spreads were broadly unchanged for Treasury bills and *Sertifikat* Bank Indonesia (SBI). The bid–ask spreads for Treasury bills marginally rose in this year's survey, inching up to 20.0 bps from 19.1 bps in 2013, while bid–ask spreads for SBI were unchanged at 23.8 bps **(Table 8)**.

Liquidity for SBI has been weak since a holding period requirement was put in place in 2010. In August 2013, Bank Indonesia decided to reduce the holding period for SBI to 1 month from 6 months, to strengthen liquidity management and enhance efficiency of its monetary operations. Many market participants, however, remained wary of SBI and preferred to trade instruments without any holding period requirement. Banking institutions have become the dominant holder of SBI, accounting for a 98.6% share of the total market as of end-September. Meanwhile, foreign holdings of SBI declined from a high of 33.6% in March 2011 to only about 1.5% as of end-September.

The bid–ask spread for Treasury bonds narrowed to 6.0 bps in this year's survey compared with 8.6 bps a year ago. The improved liquidity conditions reflect in large part better macroeconomic fundamentals in Indonesia. However, political issues somewhat affected liquidity conditions during the run-up to the presidential election and the announcement of its results. Nonetheless, foreign investor participation remained strong and helped buttress the bond market, with the share of foreign holdings hitting record highs in recent months.

Trading volumes in Indonesia's LCY government bond market increased this year compared with last year, buoyed by positive sentiments. In 3Q14, the quarterly turnover ratio improved over the same period last year **(Figure 13)**. However, the turnover ratio slightly declined compared with the previous quarter due to the rapid rise in government bonds outstanding resulting from the need to fund a much wider budget deficit.

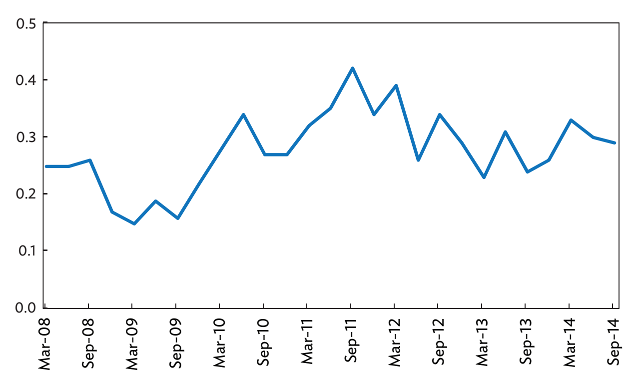
The most liquid government bond instruments were the fixed-rate benchmark bonds. These comprised FR0069, FR0070, FR0071, and FR0068, which were the assigned benchmark series for 5-year, 10-year, 15-year, and 20-year Treasury bonds in 2014. These bonds will be kept as the benchmark series for 2015. (In the past, the Debt Management Office assigned benchmark series on a yearly basis.) Among Treasury bonds, the 10-year

Table 8: LCY Government Bond Survey Results—Indonesia

	Treasury Bills	Treasury Bonds	SBI
On-the-Run			
Bid–Ask Spread (bps)	20.0	6.0	23.8
Average Trading Size (IDR billion)	33.0	19.6	10.0
Off-the-Run			
Bid–Ask Spread (bps)	35.0	9.6	35.0
Average Trading Size (IDR billion)	42.5	18.0	10.0

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 2014 survey, the average Treasury bond bid–ask spread was 46 cents. The Indonesian market quotes bid–ask spread for Treasury bills and SBI in terms of yield or basis points.
Source: *AsianBondsOnline* 2014 LCY Bond Market Liquidity Survey.

Figure 13: Quarterly Government Bond Turnover Ratios in Indonesia



Source: Indonesia Stock Exchange and *AsianBondsOnline*.

bond (FR0070) was cited as the most liquid as well as retail bond.

Sukuk (Islamic bonds) are highly illiquid, with the exception being retail *sukuk*, which are the most liquid among Islamic instruments. While there remains strong demand for *sukuk*, holders of *sukuk* are forced to buy and hold due to the limited supply in the market. However, the government is putting in place plans to help improve the supply of *sukuk* and enhance their liquidity.

Beginning this year, the government announced regular schedules for debt switches. The structure for debt switches has been changed to "many-to-many," which resulted in higher bids compared with previous debt switch offerings when only one destination bond series was offered. This has allowed the holders of bonds to switch more illiquid bonds into any of the four series of benchmark bonds.

Market participants also noted that the mini-master repo agreement between local banks and Bank Indonesia had helped to boost liquidity in the bond market. However, other market participants, such as foreign banks, have not entered into agreements with Bank Indonesia due to some restrictions. Meanwhile, other nonbank market participants, such as brokers and fund managers, are not yet allowed to participate in repo transactions. Most market participants are still looking forward to the finalization of the Global Master Repurchase Agreement.

Some market participants remained bullish with their outlook for Indonesia's bond market, while others noted that liquidity conditions will be tight due to uncertainty over the timing of rising interest rates in the US. In addition, Indonesian financial markets are faced with a challenging environment, partly due to domestic factors as the new government faces pressures to revise the fuel subsidy policy to help manage the current account deficit. However, such a policy change would result in higher inflation and possibly an increase in interest rates. This could trigger an outflow of foreign funds as seen in 2013.

At present, concerns over the need for increased bond issuance have eased as the government has met most of its funding requirements for the year. The benchmark rate is also widely expected to remain steady for the rest of the year as Bank Indonesia maintains a tight rein on its monetary policy. On the other hand, some market participants believed there is still room for a rate hike should the current account deficit widen more than expected.

Republic of Korea

The 2014 survey results for the Republic of Korea reveal that central bank bonds, known as Monetary Stabilization Bonds (MSBs), and Korea Treasury Bonds (KTBs) remained the most liquid government securities as their on-the-run average bid–ask spreads were both relatively low at 0.6 bps and 0.7 bps, respectively **(Table 9)**. On-the-run KTBs and MSBs continued to have lower average bid–ask spreads than their off-the-run counterparts, while the average trading size for KTBs and MSBs were steady at KRW10 billion each.

Table 9: 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	1.0	0.6	1.5
Average Trading Size (KRW billion)	10.0	–	10.0	–
Off-the-Run				
Bid–Ask Spread (bps)	1.1	1.0	0.7	1.5
Average Trading Size (KRW billion)	10.0	–	10.0	–

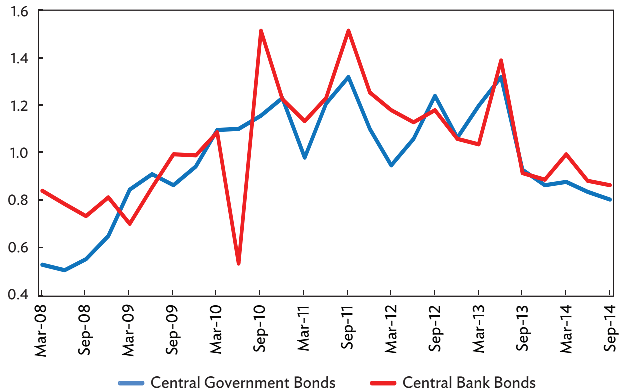
– = data not available, bps = basis points, LCY = local currency.
Source: *AsianBondsOnline* 2014 LCY Bond Market Liquidity Survey.

Some survey respondents felt the Korean LCY bond market would be relatively liquid in the second half of the year amid efforts by the government to boost the country's economic growth, while others were neutral or bearish on the bond market outlook for the remaining months of the year, partly due to low yields.

Meanwhile, 3Q14 turnover ratios in the Republic of Korea for LCY central government bonds—which include KTBs—and LCY central bank bonds stood at 0.81 and 0.86, respectively, both down from 2Q14 levels of 0.84 and 0.88, as the quarterly increases in trading volumes were eclipsed by growth in outstanding stocks on both types of bonds **(Figure 14)**.

The start of 2014 saw regulatory changes and policy developments in the KTB market. The Ministry of

Figure 14: Quarterly Government Bond Turnover Ratios in the Republic of Korea



Note: For the Republic of Korea, central government bonds include Treasury bonds and National Housing bonds.
Source: The Bank of Korea.

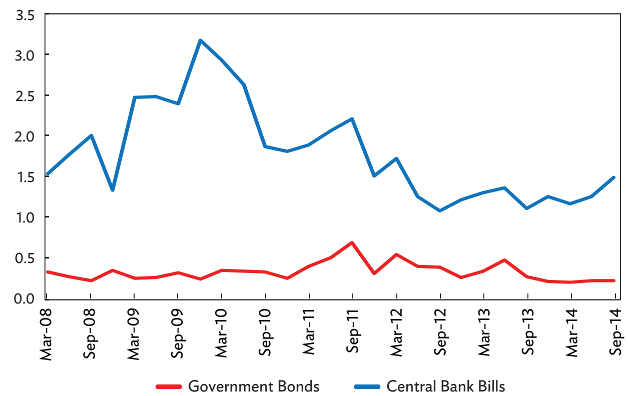
Strategy and Finance revised its regulations for the primary dealer (PD) management system in January by strengthening the role of PDs in holding KTBs and adding PD trading activity in the off-the-run KTB market as an evaluation criterion. In December 2013, the ministry announced policy measures to promote KTB market development, including maintaining the monthly issuance volume for KTBs at KRW10 trillion and optimizing the proportion of KTB issuance by tenor.

Table 10: LCY Government Bond Survey Results—Malaysia

	MGSs	GIIs	BNM Bills	Treasury Bills
On-the-Run				
Bid–Ask Spread (bps)	1.7	2.5	3.0	3.0
Average Trading Size (MYR million)	10.0	10.0	10.0	10.0
Off-the-Run				
Bid–Ask Spread (bps)	4.3	6.5	3.0	3.0
Average Trading Size (MYR million)	10.0	10.0	10.0	10.0

BNM = Bank Negara Malaysia, bps = basis points, GIIs = Government Investment Issues, LCY = local currency, MGSs = Malaysian Government Securities.
Source: *AsianBondsOnline* 2014 LCY Bond Market Liquidity Survey.

Figure 15: Quarterly Government Bond Turnover Ratios in Malaysia



Source: Bank Negara Malaysia.

Malaysia

Liquidity indicators offered a mixed picture of liquidity in Malaysia's LCY government bond market. Malaysia's LCY government debt instruments had tighter average bid–ask spreads compared with 2013. The average bid–ask spreads of short-term debt instruments such as Bank Negara Malaysia bills and Treasury bills narrowed to 3.0 bps each from 3.4 bps and 3.6 bps, respectively **(Table 10)**. Moreover, the bid–ask spreads of Malaysian Government Securities were down as much as 2.0 bps in the case of Government Investment Issues.

Turnover ratios on the other hand pointed to a slight decline in activity in the secondary market as the growth of government bonds outstanding outpaced growth in trading volumes. Specifically, the government bond turnover ratio declined to 0.26 in 2014 from 0.30 in the previous year **(Figure 15)**.

Benchmark 10-year Malaysian Government Securities are deemed the most liquid government debt instrument based on either daily trading volumes or volume per transaction. Market participants noted that liquidity in 2014 was comparable with 2013, if not less. One participant added that 3Q14 saw a lull in activity, with trading only starting to pick up again in October. In terms of outlook over the next 6 months, survey respondents expect some volatility as the US enters a rate hike cycle in mid- to late 2015 and inflationary concerns persist.

To facilitate liquidity, participants in the government bond market deemed it necessary to promote an active futures and repo market, which is consistent with the general perception in previous surveys. Other recommendations included the timely availability of relevant data such as the amount of foreign holdings.

Philippines

The average bid–ask spread for Philippine Treasury bonds remained at par in 2014, though down slightly from the previous year. The liquidity survey in 2013 coincided with speculation over the US Federal Reserve's tapering of its quantitative easing program. This year, market participants continued to be risk averse based on expectations of monetary tightening by the Bangko Sentral ng Pilipinas (BSP) as a result of accelerating inflation. The average bid–ask spread for on-the-run Treasury bonds narrowed slightly to 3.3 bps in 2014 from 5.4 bps in 2013 **(Table 11)**. Similarly, the average bid–ask spread for on-the-run Treasury bills fell to 7.4 bps from 20.9 bps.

Table 11: LCY Government Bond Survey Results—Philippines

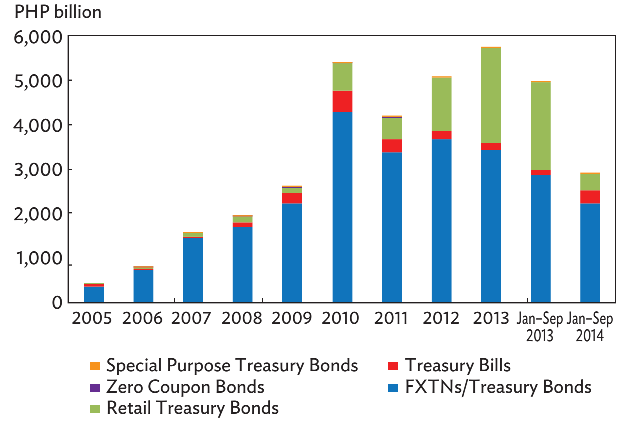
	Treasury Bonds	Treasury Bills
On-the-Run		
Bid–Ask Spread (bps)	3.3	7.4
Average Trading Size (PHP million)	70.8	50.0
Off-the-Run		
Bid–Ask Spread (bps)	15.5	13.8
Average Trading Size (PHP million)	64.3	50.0

bps = basis points, LCY = local currency.
Source: *AsianBondsOnline* 2014 LCY Bond Market Liquidity Survey.

At each of its two most recent Monetary Board meetings on 31 July and 11 September, the BSP raised key policy rates by 25 bps. Interest rates on term reverse repo, term repo, and the special deposit account facility were also increased by 25 bps each at the 11 September meeting. Inflation has remained elevated in 2014, with a year-to-date average of 4.4% through October, which is at the upper-end of the BSP's 2014 target range of 3.0%–5.0%.

Macroeconomic developments have led to sporadic trading and cautious positioning among market players. Participants in the liquidity survey noted lower trading volumes this year compared to the previous year. This is also evident in the Philippine Dealing and Exchange Corporation (PDEx) data on total trading volume for government securities, which fell 41.0% year-on-year (y-o-y) to PHP2.9 trillion in the first 9 months of the year from PHP4.9 trillion in the same period in 2013 **(Figure 16)**.

Figure 16: PDEx Trading Volume Trends—Government Securities in the Philippines



FXTNs = Fixed-Rate Treasury Notes.
Note: PDEx reports one side of the trade only.
Source: Philippine Dealing and Exchange Corporation (PDEx).

The majority of the participants in the survey cited the further development of the repo market as an important tool in improving liquidity in the market. The recently issued circular by the Bureau of the Treasury on non-restricted trading across tax categories is also viewed as a measure that will improve liquidity in the secondary trading of government securities by allowing tax-exempt institutions, such as the two biggest pension funds in the Philippines, to trade in the secondary market. Survey participants estimated additional trading volume of up to PHP800 billion coming from tax-exempt institutions.

Singapore

This year's bond market liquidity survey for Singapore showed that on-the run bid–ask spreads for Singapore Government Securities (SGS) bonds fell, while bid–ask spreads for Monetary Authority of Singapore (MAS) bills rose **(Table 12)**. The bid–ask spread for SGS bills marginally rose to 3.0 bps this year from 2.9 bps a year ago.

Among government securities in Singapore, SGS bonds are the most liquid. Trading is mostly concentrated in SGS bonds as there is no longer much activity in the SGS bills market. In 3Q14, the turnover ratio for SGS bills declined to 0.11 from 0.36 a year earlier **(Figure 17)**.

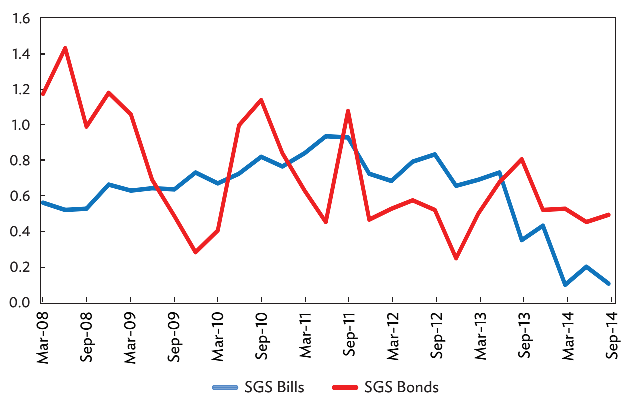
MAS limited issuance of SGS bills and shifted most of its issuance of short-term instruments to MAS bills

Table 12: LCY Government Bond Survey Results—Singapore

	SGS Bonds	SGS Bills	MAS Bills
On-the-Run			
Bid–Ask Spread (bps)	2.3	3.0	3.5
Average Trading Size (SGD million)	6.8	20.0	20.0
Off-the-Run			
Bid–Ask Spread (bps)	3.5	3.0	3.0
Average Trading Size (SGD million)	7.5	20.0	20.0

bps = basis points, LCY = local currency, MAS = Monetary Authority of Singapore, SGS = Singapore Government Securities.
Source: *AsianBondsOnline* 2014 LCY Bond Market Liquidity Survey.

Figure 17: Quarterly Government Bond Turnover Ratios in Singapore



Source: Monetary Authority of Singapore (MAS) and Singapore Government Securities (SAS).

beginning this year. Only two auctions of SGS bills had been held so far this year through September. MAS bills, on the other hand, are being issued on a weekly basis. MAS bills do not constitute part of Singapore's government debt, and thus are not covered by the debt ceiling limit for issuing SGS instruments.

Most market participants observed that liquidity conditions in Singapore were fairly stable. They expect its bond market to be relatively less affected than other markets in the region by the end of quantitative easing measures in the US. This is due mainly to the fact that yields movements of Singaporean securities widely track developments in US Treasuries. Market participants also noted that bid–ask spreads in Singapore were relatively narrow compared with other markets in emerging East Asia.

Liquidity is not a concern for investors in Singapore's government bond market. The mandatory quoting of prices from all 13 PDs increases transparency and supports liquidity in the bond market. Market participants also noted growing interest for offshore renminbi-denominated bonds in Singapore. However, it will be a gradual process for Singapore to develop as another hub for offshore renminbi bonds. Hong Kong, China is still seen as the dominant hub for offshore renminbi bonds.

Thailand

The 2014 survey results for Thailand revealed that short-term government debt securities—those with tenors of less than 1 year—are more liquid than securities with tenors of more than 1 year. This was evident in the lower average bid–ask spreads and higher average trading sizes for Treasury bills and central bank bills than for government bonds and central bank bonds **(Table 13)**. In addition, on-the-run government debt securities continued to have lower bid–ask spreads and larger trading sizes than off-the-run instruments.

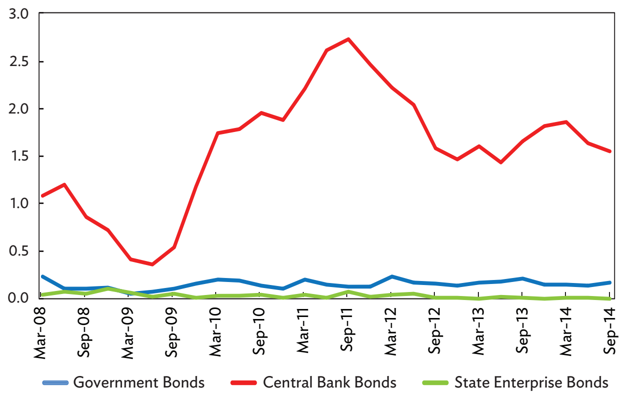
Table 13: LCY Government Bond Survey Results—Thailand

	Government Bonds	Treasury Bills	BOT Bonds	BOT Bills
On-the-Run				
Bid–Ask Spread (bps)	1.9	1.1	1.6	1.3
Average Trading Size (THB million)	62.0	152.0	132.0	152.0
Off-the-Run				
Bid–Ask Spread (bps)	4.0	2.0	3.0	2.4
Average Trading Size (THB million)	46.0	146.0	126.0	146.0

BOT = Bank of Thailand, bps = basis points, LCY = local currency.
Source: *AsianBondsOnline* 2014 LCY Bond Market Liquidity Survey.

Bid–ask spreads are lower and trading volumes are higher in 2014 compared with 2013 for government bonds, Treasury bills, central bank bills, and central bank bonds. However, liquidity in the Thai government bond market has exhibited erratic movements in 2014. For example, the turnover ratio for government bonds stood at 0.64 in 3Q14, down from 2Q14's 0.71 but about the same as in 1Q14. In comparison, the trading value of Thai government debt securities rose from THB4.5 trillion in 1Q14 to THB5.0 trillion in 2Q14, before falling to THB4.4 trillion in 3Q14, according to data from the Thai Bond Market Association (ThaiBMA). By type of government debt instrument, central bank bonds retained the most liquid as exhibited by its relatively high turnover ratio **(Figure 18)**.

Figure 18: Quarterly Government Bond Turnover Ratios in Thailand



Source: Bank of Thailand and ThaiBMA.

Viet Nam

Liquidity in Viet Nam's government bond market improved in 2014 compared with 2013, as evidenced by narrowing bid–ask spreads, which market participants view as the best measure of liquidity. The average bid–ask spread for Treasury bonds and state-owned enterprise bonds dropped to 11.7 bps and 20.0 bps, respectively, from 21.7 bps and 25 bps **(Table 14)**. Meanwhile, the average transaction size of Treasury bonds slightly increased to VND70.0 billion from VND66.7 billion.

Survey respondents attribute the rising bond demand to three main factors: (i) weak credit growth, (ii) low inflation, and (iii) a credit rating upgrade. Lending growth stood at 3.7% at end-July, well below the 2014 target range of 12%–14%, as bad debts continue to weigh on banks' willingness to lend, forcing them to invest in safe assets rather than issuing loans. Moreover, market participants saw record-low interest rates that resulted from controlled inflation as another factor shoring up demand. Consumer price inflation eased to 3.2% y-o-y in October from 3.6% in September—the slowest pace in 5 years. Moody's upgrade of Viet Nam's credit rating to B1 in July spurred strong foreign demand which also contributed to market liquidity.

Table 14: LCY Government Bond Survey Results—Viet Nam

	Treasury Bonds	SOEs
On-the-Run		
Bid–Ask Spread (bps)	11.7	20.0
Average Trading Size (VND billion)	70.0	298.0
Off-the-Run		
Bid–Ask Spread (bps)	12.7	25.0
Average Trading Size (VND billion)	53.3	125.0

bps = basis points, LCY = local currency, SOEs = state-owned enterprise bonds.
Source: *AsianBondsOnline* 2014 LCY Bond Market Liquidity Survey.

Market participants expect liquidity to remain unchanged in the next 6 months, with a slight seasonal dip toward the year end, due to robust demand from banks. While it is possible that banks' lending growth may improve, market participants are convinced that recovery will be slower than expected. Moreover, the foreign exchange rate is critical and could impact the overall outlook.

Finally, new measures in the pipeline are expected to shore up LCY bond market liquidity. These include new products being developed by the Ministry of Finance and the Ha Noi Stock Exchange, including zero coupon bonds, when-issued trading, futures, and bond forwards. Survey respondents are optimistic that the government will unveil its final regulations on the issuance of government bonds, government-guaranteed bonds, and municipal bonds. Among other measures being recommended were the establishment of an independent credit rating agency; the development of a bond index, a "VNIBOR," a standard contract for outright transactions and repo transactions, a yield curve for semi-government bonds, hedging instruments for foreign investors, and a system to show real-time bond transactions.

Qualitative Indicators for Government Bond Markets

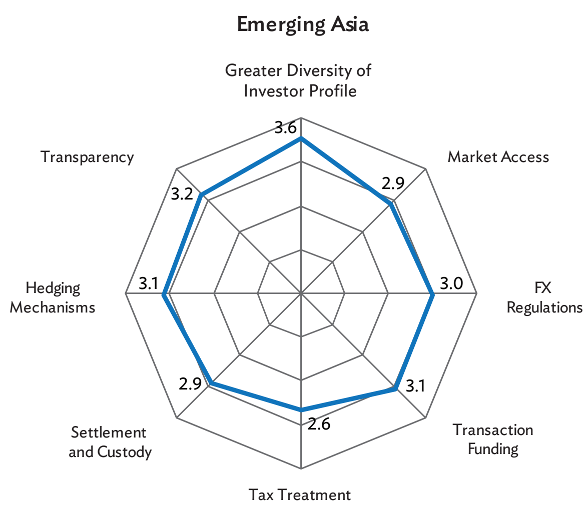
The 2014 *AsianBondsOnline* LCY Bond Market Liquidity Survey provides qualitative indicators to reflect market participants' views on the importance of selected structural issues with respect to enhancing liquidity in emerging East Asian bond markets. A brief description of each of the eight structural issues is given below.

i. **Greater Diversity of Investor Profile:** the need to widen the investor base for LCY bonds.
ii. **Market Access:** the degree of ease or difficulty for investors to enter the LCY bond market, taking into account investor registration and investment quotas.

iii. **Foreign Exchange Regulations:** the extent of liberal or restrictive foreign exchange, capital investment, and repatriation regulations.
iv. **Transaction Funding:** the need to make funding available through active and developed money markets and repo markets.
v. **Tax Treatment:** the need to reduce withholding taxes on LCY bonds.
vi. **Settlement and Custody:** the importance of straight-through-clearing processes, timely bond trade settlements, and a global custodian or accredited custodian(s).
vii. **Hedging Mechanisms:** the need to have a more active and efficient derivatives market.
viii. **Transparency:** the importance of transparency in bond market activity, available bond prices, and ratings on bonds provided by credit rating agencies.

Each of the structural issues was rated by the survey respondents based on its degree of importance, with numerical values being assigned one of four levels of importance: 1–Not Important, 2–Somewhat Important, 3–Important, and 4–Very Important.

Figure 19: Regional Averages—LCY Government Bond Market Structural Issues



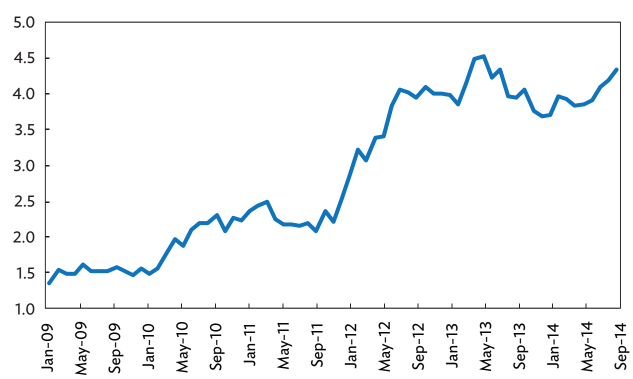
FX = foreign exchange, LCY = local currency.
Note: Emerging Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
Source: *AsianBondsOnline* 2014 LCY Bond Market Liquidity Survey.

The survey results show that greater diversity of investor profile remained the most important structural issue in 2014 in terms of improving liquidity in emerging East Asian LCY government bond markets, with a regional average rating of 3.6. This was followed by transparency (3.2), hedging mechanisms and transaction funding (3.1 each), foreign exchange regulations (3.0), market access and settlement and custody (2.9 each), and tax treatment (2.6) **(Figure 19)**.

Greater investor diversity is considered the most important structural issue among all emerging East Asian economies, with its average rating ranging from 3.3 in the PRC to 3.8 in Malaysia, the Philippines, and Viet Nam. The relative importance of greater diversity of investor profile vis-à-vis other structural issues appears to derive from the existence of a few investor groups that continue to dominate emerging East Asian LCY government bond markets. For example, **Figure 20** below shows that Japanese mutual funds' investment in emerging East Asia's bond markets is only a small percentage of their total foreign bond portfolio.

In the PRC, banks held 76.2% of Treasury bonds and policy bank bonds at end-September. In Indonesia's LCY government bond market, foreign investors and domestic banks were the two largest investor groups with shares of 37.3% and 35.1%, respectively, at end-September. In the Republic of Korea, insurance companies and pension funds were the largest investor group in the LCY government bond market, accounting for 29.4% of the total at end-June,

Figure 20: Japan Mutual Fund Holdings of Emerging East Asian Bonds as % of Total Foreign Bonds



Note: Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; and Thailand.
Source: The Investment Trusts Association, Japan.

while other financial institutions held 22.3%, the general government 18.8%, and banks 18.0%. In Malaysia at end-June, LCY government bond holdings among local financial institutions, foreign investors, and domestic social security institutions accounted for 34.0%, 32.0%, and 27.3% of the total market, respectively. In the Philippines, 36.0% of the outstanding stock of LCY government securities at end-September was held by banks and other financial institutions, while 28.9% was held by contractual savings institutions and tax-exempt institutions. In Thailand, contractual savings funds held 28.6% of LCY government bonds at end-June, followed by insurance companies with a 25.0% share

Meanwhile, the structural issue rated the least important by market participants varies across emerging East Asian markets. In the PRC, the lowest rating went to foreign exchange regulations. In Hong Kong, China, tax treatment was the only structural issue to earn a ranking of "Not Important." In Indonesia, the lowest rated structural issue was settlement and custody. In the Republic of Korea, market access and transaction funding both received the lowest rating. In Malaysia, transaction funding was the lowest ranked issue, while in the Philippines it was hedging mechanisms. In Singapore, market access and tax treatment were both the lowest ranked. In Thailand, the least important issue was settlement and custody. Finally, in Viet Nam, tax treatment received the lowest rating **(Figure 21)**.

Corporate Bond Markets

Corporate bond markets are generally less liquid than government bond markets. Corporate bonds are typically purchased by buy-and-hold investors and liquidity is generally limited to a period of 1–2 months after issuance. **Figure 22** graphs recent trends in corporate bond turnover ratios in emerging East Asia. Data are unavailable for Singapore and the Philippines.

Corporate bond market participants were asked to respond to questions similar to the ones put to government bond market participants. **Table 15** compiles responses from bond market participants with regard to average issue sizes, bid–ask spreads, and average trading sizes.

The largest average issue size for corporate bonds in the region belonged to the PRC (US$231.4 million), followed by Singapore (US$147.5 million). The large bond issues in the PRC reflect the funding demands of PRC corporates and the fact that larger firms, particularly state-owned enterprises, have an easier time issuing bonds than smaller firms. The third largest average issue size in the region was in the Philippines (US$138.1 million), where the bulk of corporate issuers tend to be blue-chip companies. At end-September, the top 31 issuers in the Philippines comprised 87.9% of the total corporate bond market.

Bid–ask spreads for newly issued corporate bonds fell in all markets this year compared with 2013. The smallest average bid–ask spread was in the Republic of Korea at 3.1 bps, followed by Thailand at 5.4 bps. The highest average bid–ask spread was in Viet Nam at 47.5 bps, reflecting the relatively high illiquidity of Viet Nam's corporate bond market. (There had been no new issuance of corporate bonds in Viet Nam in 2014 as of end-October.)

The largest average transaction size for corporate bonds was in the Republic of Korea, which is consistent with its narrow bid–ask spread. The smallest average trading sizes were found in the Philippines, Indonesia, and Singapore.

Inter-Market Comparisons

People's Republic of China

Participants in the PRC corporate bond market said that the most traded corporate bonds are those issued by state-owned enterprises, commercial paper, and medium-term notes. These qualitative findings are reflected in bid–ask spreads, as medium-term notes carry the lowest spreads in the PRC market **(Table 16)**. Corporate bond turnover ratios also show that medium-term notes are the most traded bonds **(Figure 23).**

The liquidity of medium-term notes and commercial paper is due to the fact that these instruments are traded in the interbank market, which is the most liquid market in the PRC.

Survey respondents also said that there are limited options for hedging credit risk in the corporate bond market. While the PRC's version of credit default swaps is available in the form of credit risk mitigation agreements

Figure 21: Structural Issues for Individual LCY Government Bond Markets

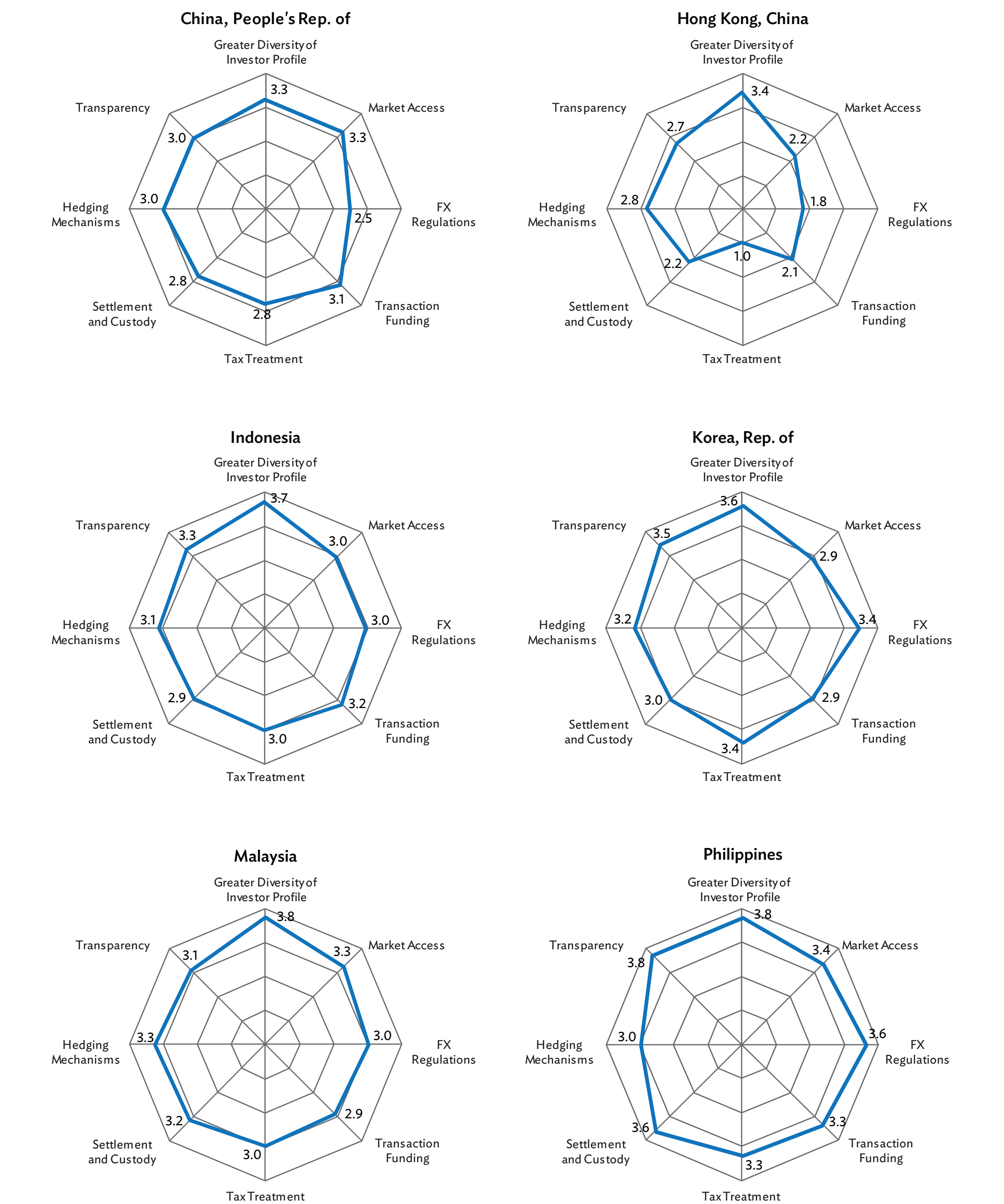


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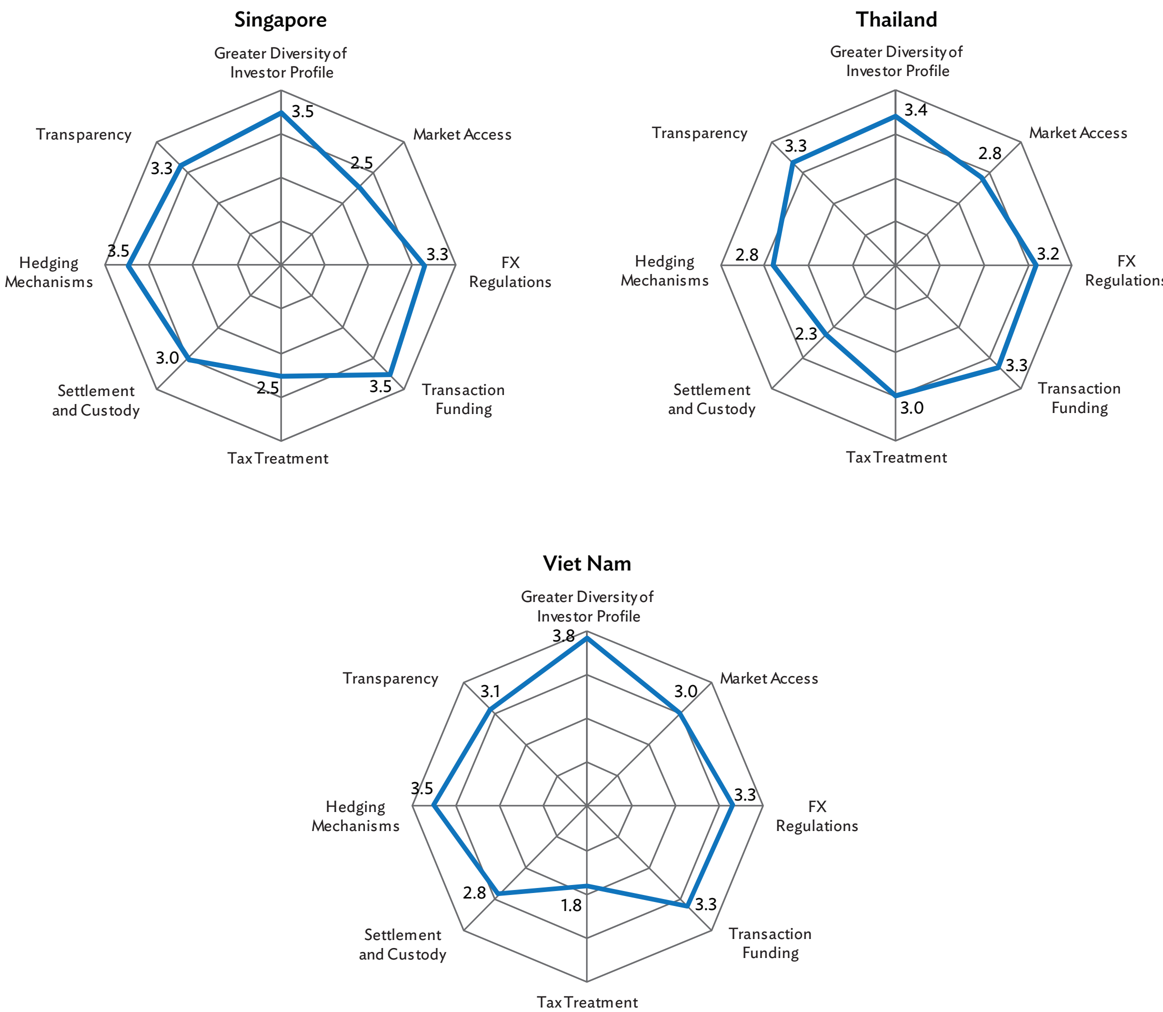
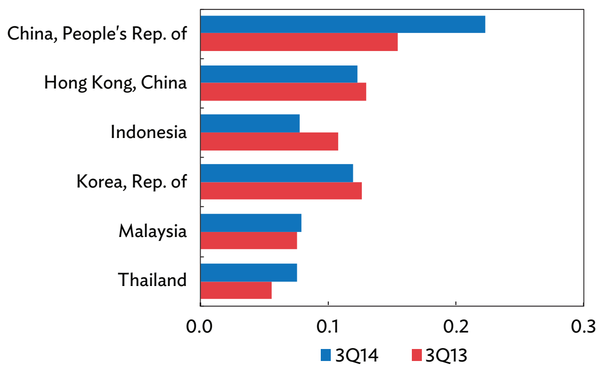
Figure 21 *continued*



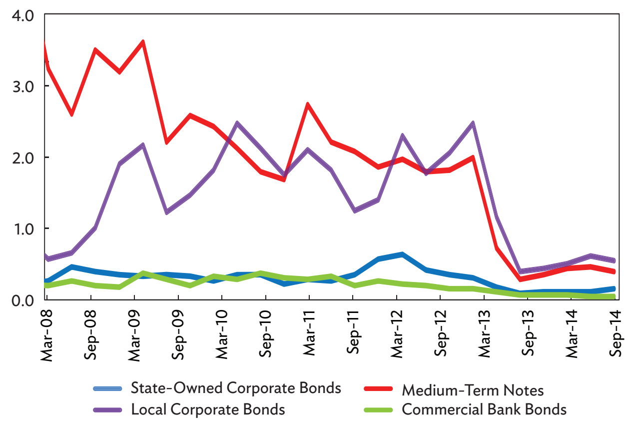
FX = foreign exchange, LCY = local currency.
Source: *AsianBondsOnline* 2014LCY Bond Market Liquidity Survey.

Figure 22: 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).

Figure 23: LCY Corporate Bond Turnover Ratios in the People's Republic of China



LCY = local currency
Source: *ChinaBond*.

Table 15: LCY Corporate Bond Markets–Quantitative Indicators

		PRC	HKG	INO	KOR	MAL	PHI	SIN	THA	VIE	Regional
Typical Issue Size of Corporate Bonds	Average (US$ million)	231.4	39.4	40.1	57.9	112.2	138.1	147.5	67.2	54.3	98.7
Typical Bid–Ask Spread for New Corporate Issues	Average (bps)	6.9	5.8	23.1	3.1	7.5	16.9	6.3	5.4	47.5	9.4
	SD	2.4	2.5	8.0	3.0	3.5	54.3	–	2.4	3.5	14.3
	CV	0.3	0.4	0.3	1.0	0.5	3.2	–	0.4	0.1	1.5
Typical Transaction Size of LCY Corporate Bonds	Average (US$ million)	5.5	2.6	0.5	9.5	2.3	0.5	0.2	1.0	10.0	3.6
	SD	2.3	1.4	0.3	0.0	1.1	0.7	–	0.5	10.1	3.9
	CV	0.4	0.5	0.6	0.0	0.5	1.4	–	0.5	1.0	1.1

– = not applicable, bps = basis points; CV = coefficient of variation; HKG = Hong Kong, China; 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* 2014 LCY Bond Market Liquidity Survey.

Table 16: 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)	3,416.7	1,196.2	1,420.6	2,544.1	1,444.2
Bid–Ask Spread (bps)	12.5	13.3	8.1	10.0	11.9
Average Trading Size (CNY million)	31.7	36.3	36.3	36.3	36.3

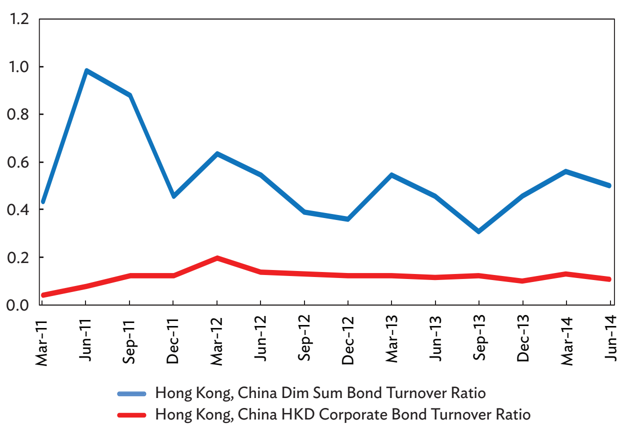
bps = basis points, LCY = local currency, MTNs = medium-term notes, SOE = state-owned enterprise.
Source: *AsianBondsOnline* 2014 LCY Bond Market Liquidity Survey.

and warrants, market participants say these are not widely used since banks must still recognize the balance sheet risk based on existing regulations

Hong Kong, China

Survey respondents viewed Hong Kong, China's corporate bond market as very illiquid, with most investors participating on a buy-and-hold basis. There is growing interest in the dim sum bond market, with turnover ratios exceeding those found in the LCY corporate bond market **(Figure 24)**.

Figure 24: Dim Sum Bond versus HKD Corporate Bond Turnover Ratios



Source: Hong Kong Monetary Authority.

Republic of Korea

The 2014 survey results show that across the three types of LCY corporate bonds in the Republic of Korea, financial debentures appear to be the most liquid instrument as shown by a relatively low average bid–ask spread when compared with special public bonds and private corporate bonds **(Table 17)**. The survey results also illustrate the average issue size for the three types of corporate bonds—with the amount being relatively smaller for financial debentures, while larger and about the same for special public bonds and private corporate bonds. The average trading size is roughly equal across all three corporate bond types.

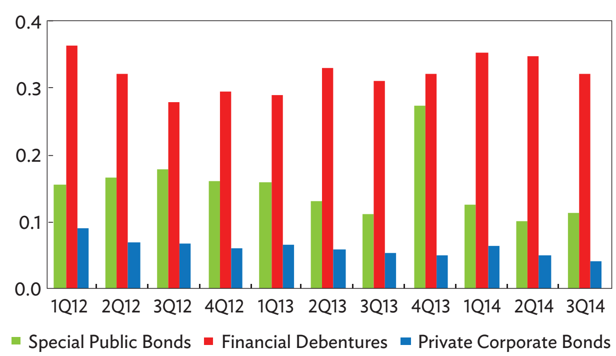
Table 17: LCY Corporate Bond Survey Results—Republic of Korea

	Special Public Bonds	Financial Debentures	Private Corporate Bonds
Average Issue Size (KRW billion)	62.2	42.5	60.1
Bid–Ask Spread (bps)	1.7	1.0	6.5
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 by securities companies and by private nonfinancial corporates.
Source: *AsianBondsOnline* 2014 LCY Bond Market Liquidity Survey.

Financial debentures have the highest turnover ratio, reinforcing the view that these are the most liquid corporate debt instrument. In 3Q14, the turnover ratio for financial debentures was 0.32, compared with 0.11 for special public bonds and 0.04 for private corporate bonds, per *AsianBondsOnline* estimates. However, the first 9 months of 2014 saw the turnover ratios for financial debentures and private corporate bonds steadily decline, while the turnover ratio for special public bonds exhibited erratic movements over the same period. Such trends suggest that liquidity has tightened in the Korean LCY corporate bond market in 2014 **(Figure 25)**.

Figure 25: Turnover Ratios for Special Public Bonds, Financial Debentures, and Private Corporate Bonds in the Republic of Korea



Source: EDAILY *BondWeb*.

Malaysia

Malaysia's corporate LCY bond market is not small by comparison with other markets in the region yet it remains relatively illiquid according to survey respondents. New bonds are generally only traded for 1–2 weeks after issuance.

Recent data from the survey results, however, showed some signs of improvement. Average bid–ask spreads for LCY bonds decreased to 7.5 bps in 2014 from 9.2 bps in 2013, and the turnover ratio slightly improved to 0.079 from 0.075 **(Table 18)**. The higher bond turnover ratio in 2014 reflects increased trading in the secondary market relative to the average amount of bonds outstanding at the end of the previous and current quarters. Specifically, trading volume rose 13.9% y-o-y in 3Q14, while bonds outstanding expanded 8.9%.

Table 18: LCY Corporate Bond Survey Results—Malaysia

	Corporate Bonds
Average Issue Size (MYR million)	112.2
Bid–Ask Spread (bps)	7.5
Average Trading Size (MYR million)	7.5

bps = basis points, LCY = local currency.
Source: *AsianBondsOnline* 2014 LCY Bond Market Liquidity Survey.

In an effort to further develop the liquidity of the domestic bond market, the government has initiated several measures aimed at liberalizing Malaysia's financial sector. In June, Prime Minister Najib Razak announced the removal of mandatory credit rating requirements for new corporate issues, effective 1 January 2017. This supports the view of market participants of the need to liberalize the use of bond pricing agencies to promote price discovery and allow unrated bonds to be traded.

The new policy will help reduce issuance costs for new companies and frequent issuers, which could boost issuance volume and even diversify the profile of bond issuers. It could also bring about greater diversity among investors and traders, which survey respondents consider the most important market structure issue. Its impact on liquidity, however, will be determined by the openness of institutional investors to revise their investment mandates on minimum rating requirements. Overall, these developments should strengthen the country's capital market in support of sustainable, long-term economic growth.

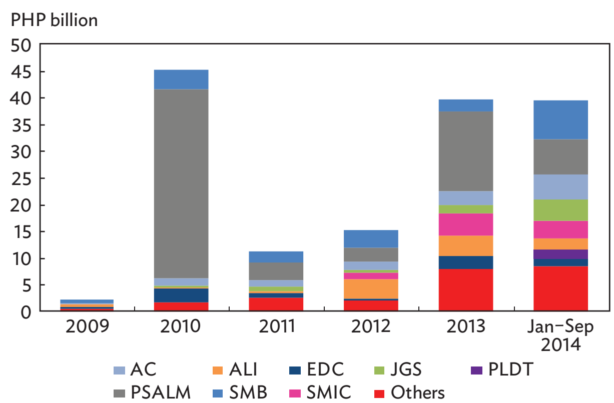
Philippines

The average bid–ask spread for Philippine corporate bonds fell to 17 bps in 2014 from 37 bps in 2013, while the average trading size improved to PHP21.6 million from PHP9.7 million. However, liquidity in the Philippine corporate bond market is still limited since it is primarily a buy-and-hold market in which most investors hold a bond until maturity.

Trading volume data are not available for the Philippine corporate bond market as a whole. However, the Philippine Dealing and Exchange Corporation maintains a database on secondary trading of corporate bonds listed on its platform **(Figure 26)**. At the end of 3Q14, there were 31 Philippine companies that had their bonds listed with the exchange. These include bonds issued by the National Home Mortgage Finance Corporation (also known as Bahay Bonds 2) and the Power Sector Assets and Liabilities Management Corporation (PSALM). *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 with that of government securities, accounting for less than 1% of total bonds (government

Figure 26: PDEx Trading Volume Trends—Corporate Bonds in the Philippines



AC = Ayala Corporation; ALI = Ayala Land, Inc.; EDC = Energy Development Corporation; JGS = JG Summit Holdings; PLDT = Philippine Long Distance Telephone Company; 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).

and corporate) traded in 2014. Nevertheless, the volume of secondary trading of corporate bonds grew to PHP39 billion in the first 9 months of 2014, almost at par with trading volume for full-year 2013.

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 other companies with the highest trading volumes in the first 9 months of 2014 were (i) San Miguel Brewery (PHP7.2 billion), (ii) Ayala Corporation (PHP4.5 billion), and (iii) JG Summit Holdings (PHP4.0 billion).

Singapore

The average bid–ask spread for Singaporean corporates narrowed to 6.3 bps in this year's survey compared with 21.9 bps a year ago **(Table 19)**. The average trading size also slipped to SGD1.0 million this year compared with SGD1.5 million in the previous year. Most market participants view Singapore's corporate bond market as being very illiquid, with trading dominated by buy-and hold investors, because of a lack of supply. Banks provide competitive rates for loans, and thus most corporate borrowers tend to tap loans instead of issuing bonds.

Table 19: LCY Corporate Bond Survey Results—Singapore

	Corporate Bonds
Average Issue Size (SGD million)	188.2
Bid–Ask Spread (bps)	6.3
Average Trading Size (SGD million)	1.0

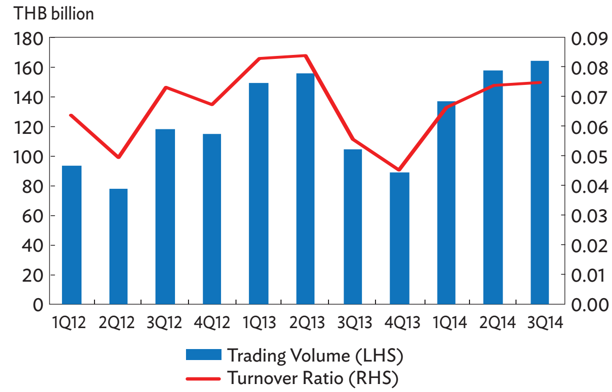
bps = basis points, LCY = local currency.
Source: *AsianBondsOnline* 2014 LCY Bond Market Liquidity Survey.

The average issue size for corporate bonds reached SGD188.2 million this year, slightly higher compared with SGD179.2 million a year ago. New corporate bonds normally have a short trading life, though this period can last up to 1 year, depending on the issuer.

Thailand

The 2014 survey results showed that the average bid–ask spread and average trading size for Thai LCY corporate bonds were 5.4 bps and THB34.0 million, respectively.

Figure 27: Trading Volume and Turnover Ratio for LCY Corporate Bonds



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

In addition, the turnover ratio for Thai LCY corporate bonds, after settling at a relatively low level of 0.05 in 4Q13, rose at the beginning of the year and reached 0.07 in 3Q14 **(Figure 27)**. The trading volume of corporate bonds increased in each of the first 3 quarters of the year, climbing from THB137.1 billion in 1Q14 to THB157.9 billion in 2Q14 and to THB164.3 billion in 3Q14. These quarterly trends in turnover ratios and trading volumes for LCY corporate bonds suggest that the Thai corporate bond market's liquidity improved throughout the year.

Viet Nam

Viet Nam's LCY corporate bond market lacks liquidity, particularly since the domestic bond market remains largely confined to government borrowers. Moreover, investors in the corporate bond market are overwhelmingly banks that tend to buy and hold securities until maturity. Survey respondents noted that some new placements of corporate bonds have been issued privately.

The average bid-ask spread of a new corporate issue in 2014 was 47.5 bps—the highest in the region—and the typical transaction size was VND212.5 billion. Survey respondents emphasized that the lack of meaningful liquidity for newly issued LCY corporate bonds resulted from the absence of clear and accurate information on the market in general.

To improve the liquidity of the LCY bond market, market participants recommended two primary measures: (i) the creation of credit rating agencies, and (ii) the improvement of transparency and disclosure requirements. More needs to be done to address investor diversity and build a framework to enable companies to seek funding from a broader range of sources.

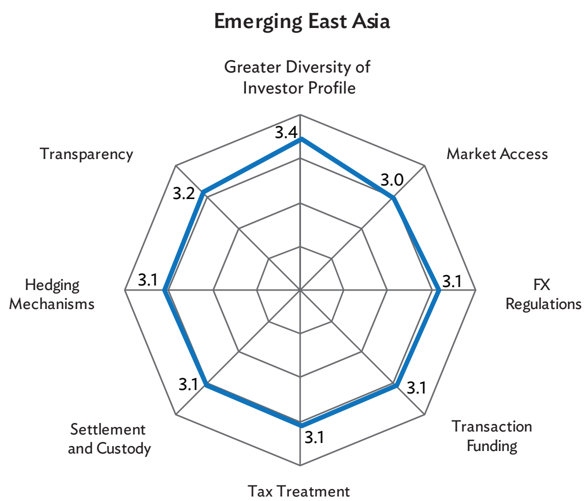
Qualitative Indicators for Corporate Bond Markets

Figure 28 summarizes the feedback of market participants on the structural and regulatory issues of corporate bond markets in the region. The results are similar to those from the government bond market survey, with a few notable exceptions that will be discussed below.

Similar to government bonds, participants ranked greater diversity of investors as the most important factor in increasing liquidity in the corporate bond market, albeit it received a lower average ranking of 3.4 versus 3.6 for government bonds.

One possible reason for this is that tapering by the US Federal Reserve and concerns over capital flows in the region highlighted the importance of diversity in the investor base. In emerging East Asian bond markets with substantial foreign holdings of government bonds, the foreign holdings of corporate bonds tends to be much smaller.

Figure 28: Regional Averages—LCY Corporate Bond Market Structural Issues



FX = foreign exchange, LCY = local currency.
Note: 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* 2014 LCY Bond Market Liquidity Survey.

In terms of tax treatment, participants rated it as a more important issue in corporate bond markets at 3.1 versus 2.6 for government bond markets. Liquidity is much lower in corporate bond markets as buyers tend to be buy-and-hold investors, making yield (and tax treatment) a more important factor for corporate bonds than government bonds. Also, in places with withholding taxes, such as the Philippines, the tax status of the buyer has an effect on liquidity due to how the bonds are traded. **Table 20** presents a summary of tax treatments in emerging East Asian bond markets.

Participants also rated settlement and custody higher for corporate bonds at 3.1 versus 2.9 for government bonds. In some markets, such as the Philippines, the trading and settlement system tends to be much more developed for government bonds than corporate bonds.

In terms of greater diversity of investor profile, the market that rated it the highest was Malaysia at 4.0, reflecting the fact that Malaysia has a market that is relatively open to foreign investors **(Figure 29)**. The lowest rating was given by participants in the PRC bond market, reflecting the fact that the PRC's bond market is relatively closed to foreign investors and dominated by participants in the interbank bond market. A summary of regulations on cross-border portfolio investments in emerging East Asian markets is provided in **Table 21.**

Participants in Singapore's corporate bond market rated foreign exchange regulations the most important at 4.0, reflecting its position as an international financial center. Not surprisingly, the PRC market does not consider foreign exchange regulations to be as significant an issue, giving it a rating of 2.5.

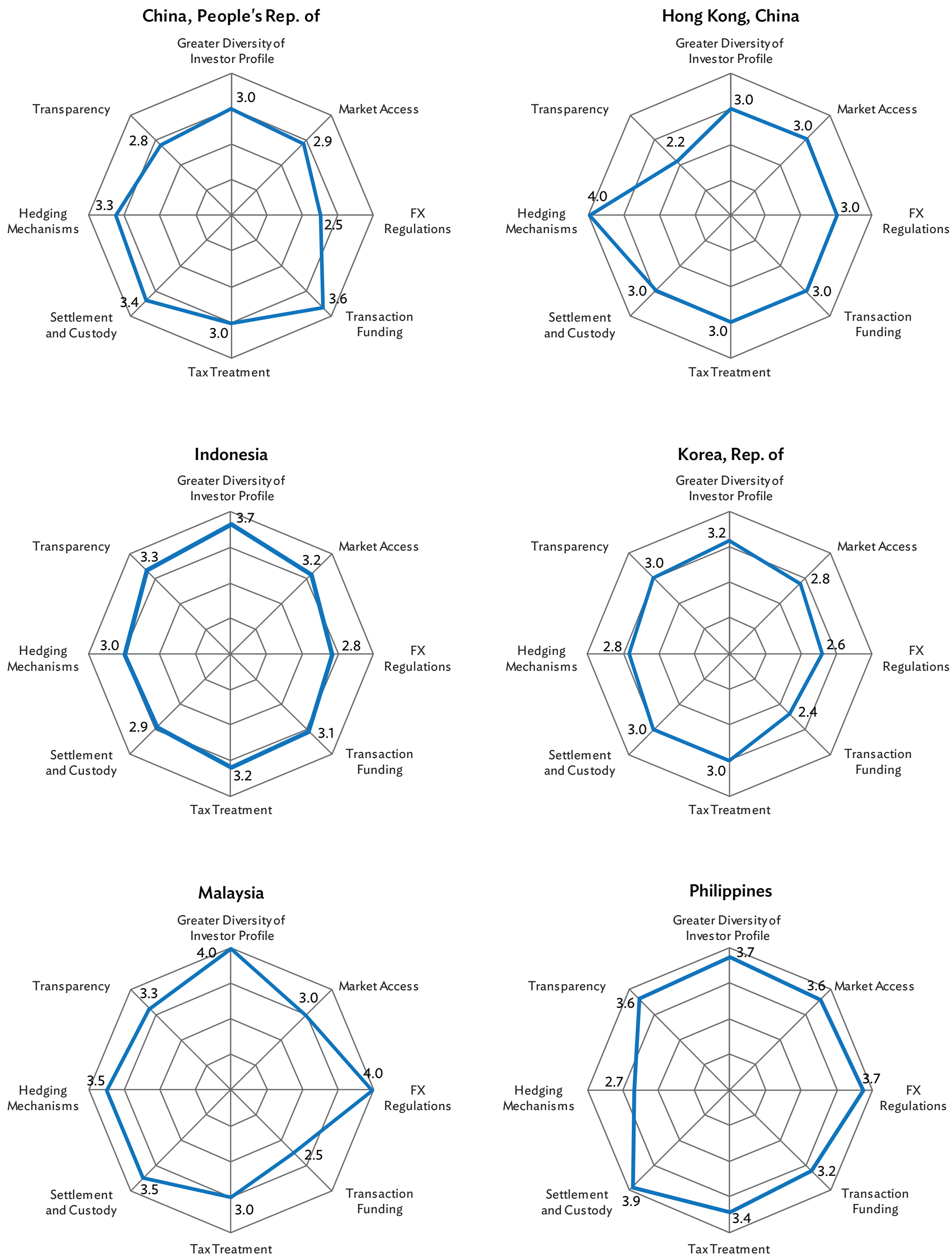
In terms of tax treatment, participants in the Philippines rated this issue at 3.4. The Philippines has the highest withholding tax rate in the region. Previous regulations prevented the trading of tax-paid bonds between institutions with different tax statuses. However, new regulations are set to take effect this year. The Philippines also rated settlement and custody very highly at 3.9 since the Philippine corporate bond market does not have a delivery-versus-payment arrangement as is the case with government bonds.

Table 20: Tax Treatments in Emerging East Asian Markets

Market	Withholding Tax on Interest Income	
	Government	Corporate
China, People's Rep. of	Exempt from tax	Nonresident 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 16.5% profits tax.
Indonesia	Residents and permanent establishments are subject to 15.0% tax on bonds and 20.0% tax on *Sertifikat* Bank Indonesia. Nonresidents are subject to 20.0% tax, which is subject to reductions based on treaty. For mutual funds, the tax rate is 5%.	Residents and permanent establishments are subject to 15.0% tax. Nonresidents are subject to 20.0% tax, which is subject to reductions based on treaty. For mutual funds, the tax rate is 5%.
Korea, Republic of	Resident and nonresident investors are subject to 14% withholding tax.	Resident and nonresident investors are subject to 14% withholding tax.
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. Nonresident 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 nonresident institutional investors are exempt from withholding tax, subject to qualifying conditions.
Thailand	Individual resident investors are subject to 15% withholding tax. Institutional resident investors are subject to 1% withholding tax. Nonresident investors are exempt from tax.	Individual resident investors are subject to 15% withholding tax. Nonresident investors are subject to 15% withholding tax.
Viet Nam	Subject to 5% withholding tax.	Subject to 5% withholding tax.

Source: *AsianBondsOnline*.

Figure 29: Structural Issues for Individual LCY Corporate Bond Markets



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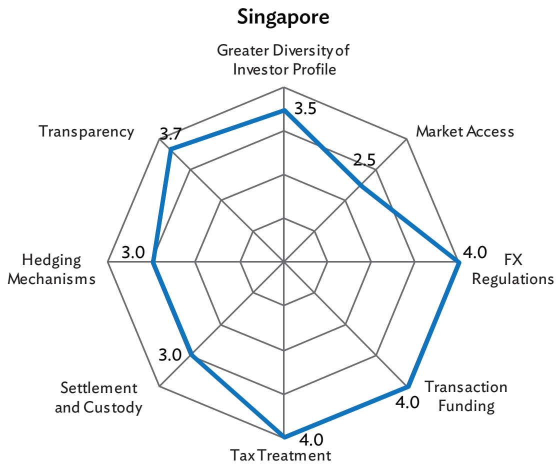

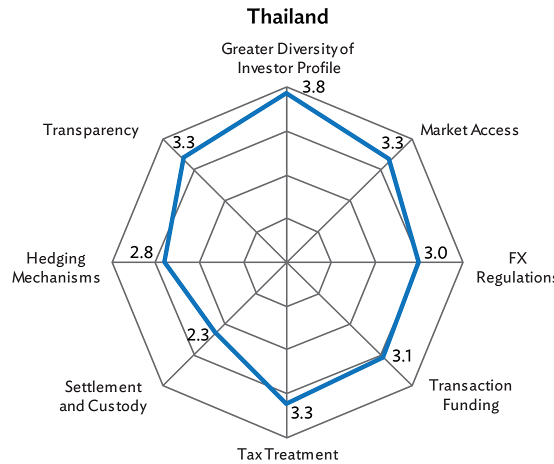

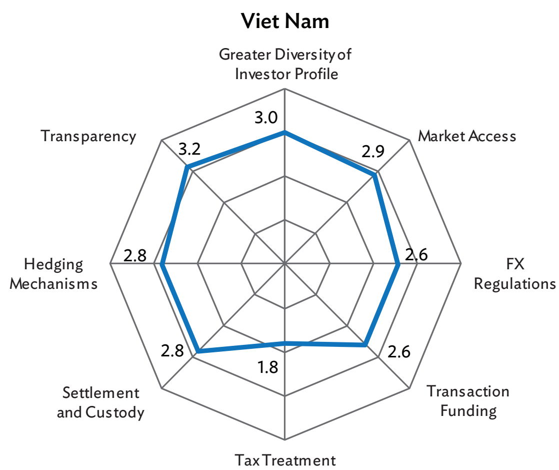

FX = foreign exchange, LCY = local currency.
Source: *AsianBondsOnline* 2014LCY Bond Market Liquidity Survey.

Table 21: Cross-Border Portfolio Investment Regulation in Select Emerging East Asian Markets

Market	Capital Inflow			Capital Outflow	
	Money Market Instruments	Bond Market Instruments	Equity Instruments	Resident Investors	Nonresident Investors
China, People's Republic of	Qualified Foreign Instituional Investors (QFII) may purchase money market funds, subject to a lockup period.	Qualified Foreign Institutional Investors (QFII) are allowed to invest in exchange-traded and interbank-traded bonds subject to quotas. Renminbi Qualified Foreign Institutional Investors (RQFII) are allowed to invest in exchange-traded and interbank-traded bonds subject to quotas. RQFIIs are currently approved in the following areas: Taipei,China; Hong Kong, China; Macau, China; United Kingdom; Singapore. 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. Foreign investors may not own more than 30% of a single company. Foreign investors may also make strategic investments in A-shares of listed companies subject to certain criteria and restrictions. Renminbi Qualified Foreign Institutional Investors (RQFII) are allowed to invest in listed equities subject to quotas. RQFIIs are allowed to fund investments using renminbi sourced abroad. Foreign investors are not subject to restrictions in investing in B-shares of listed companies. B-shares are listed in either Hong Kong dollar or US dollar.	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 RQFIIs, 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.
Indonesia	Foreign investors are allowed to purchase money market instruments in the secondary market.	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.	Foreign investors are allowed to purchase shares without limit with the exception of shares in finance company joint ventures.	Pension funds are not allowed to invest in securities abroad. Certain restrictions apply to investments by mutual funds, protected mutual funds, guaranteed mutual funds, insurance and reinsurance companies with regard to investments abroad.	No restrictions apply to repatriation of capital, remittance of dividends, and profits.

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Table 21 *continued*

Market	Capital Inflow			Capital Outflow	
	Money Market Instruments	Bond Market Instruments	Equity Instruments	Resident Investors	Nonresident Investors
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 to FCY-denominated assets exceeding 30% of its total assets.	No restrictions on repatriation of capital, profits, dividends, and interest.
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.	Foreign investors are allowed to purchase equity securities. However, there are certain limits on foreign ownership of certain industries.	A resident's investments abroad in excess of US$60 million a year requires prior regulatory approval.	There are no restrictions as long as 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 for nonresidents to purchase money market instruments.	No restrictions for nonresidents to purchase bond market instruments.	No restrictions for nonresidents to purchase 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 foreign currency before using such funds to finance activities outside Singapore.

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Table 22 *continued*

Market	Capital Inflow			Capital Outflow	
	Money Market Instruments	Bond Market Instruments	Equity Instruments	Resident Investors	Nonresident Investors
Thailand	Nonresidents can invest in THB-denominated money market instruments. Investment of a nonresident group in THB-denominated money market instruments issued by a domestic financial institution is subject to the overall outstanding THB-denominated borrowing limit of THB10 million.	Nonresidents can invest in THB-denominated debt securities. Investment of a nonresident group in THB-denominated debt securities issued by a domestic financial institution is subject to a overall outstanding THB-denominated borrowing limit of THB10 million.	Nonresidents can invest in equities, but foreign equity participation may be limited if a company is subject to the provisions of the Foreign Business Act or other related laws. Financial institutions' foreign equity participation is limited to 25% of total shares in locally-incorporated banks, credit finance companies, and finance companies. Nonresidents can invest up to 100% of the shares of an asset management company or a securities company. For most other Thai corporations, foreign equity participation is up to 49%.	Institutional investors—the Government Pension Fund, Social Security Fund, companies listed on the Stock Exchange of Thailand (SET), insurance companies, mutual funds, provident funds, securities companies, specialized financial institutions, and Thai companies with asset size of at least THB5 billion—may invest freely in foreign securities issued abroad, up to a certain limit imposed by the directors, management, or supervisory authority of the institutional investors.	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 2014, and local market sources.

Market Summaries

People's Republic of China

Yield Movements

Yields rose for most tenors on the People's Republic of China (PRC) government bond yield curve between end-June and end-September **(Figure 1)**. The biggest increase was for the 1-year tenor, with the yield rising 37 basis points (bps). Yields rose between 3 bps and 15 bps for all remaining tenors, with the exception of the 6-year and 10-year tenors, which declined.

The PRC's yield curve actually rose between end-June and end-August, mostly reflecting demand for funds in the PRC's money markets. In July and August, rates were higher because of seasonal demand for cash due to tax payments and a number of large initial public offerings that temporarily locked up liquidity.

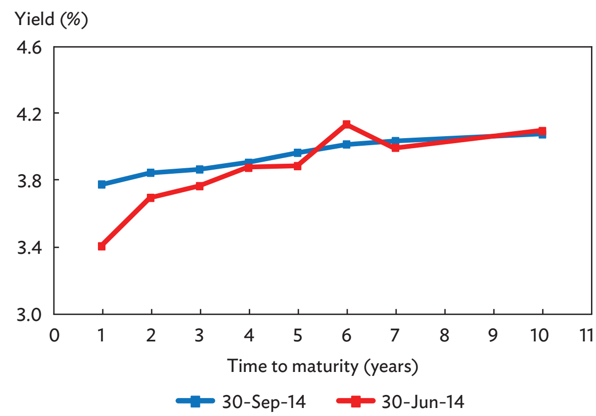
As a measure of funding demand, the 7-day repo rate was 3.40% on 3 July and rose to 3.98% by end-July. The month of August showed some volatility, with the 7-day rate dipping to 3.65% on 5 August before rising again to 3.70% by end-August.

The PRC's bond yield curve shifted downward from end-August to end-September, falling between 3 bps and 28 bps along the length of the curve. The 1-year rate remained somewhat elevated in advance of the holidays in the first week of October.

The downward shifting of the yield curve from end-August to end-September mostly reflected sentiments that the PRC's economy is weakening. The PRC's gross domestic product (GDP) growth in 3Q14 fell to 7.3% year-on-year (y-o-y) from 7.5% in the prior quarter. Inflation in the PRC has been showing a gradual decline as well, with September's inflation rate falling to 1.6% y-o-y from 2.0% in August.

In addition, there are concerns over the PRC's property market. September property data showed that new home prices fell for the fifth consecutive month, with only one out of 70 cities not showing a decline in average prices. The PRC has tried to ease some property market conditions by reducing the down payment required for second-home buyers with no existing mortgages to 30% from 60%.

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



LCY = local currency.
Source: Bloomberg LP.

While the PRC has not engaged in any broad-based stimulus—preferring fine-tuning measures such as providing stimulus to small and medium-sized enterprises, and the agricultural sector—some market participants speculate that the PRC will eventually be forced to adjust interest rates.

More recently, during a State Council executive meeting, Premier Li Keqiang said that the council would focus on boosting the economy's consumption growth. Six areas were identified as particularly important: the Internet, sustainable energy, housing, tourism, education, and social security.

Size and Composition

The amount of outstanding local currency (LCY) bonds in the PRC reached CNY31.6 trillion (US$4.8 trillion) at end-June, an increase of 3.7% quarter-on-quarter (q-o-q) and 13.4% y-o-y, largely driven by growth in policy bank and local corporate bonds **(Table 1)**.

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

	Outstanding Amount (billion)						Growth Rates (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	CNY	US$	CNY	US$	CNY	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**27,853**	**4,550**	**30,462**	**4,911**	**31,578**	**5,143**	**2.1**	**13.6**	**3.7**	**13.4**
Government	18,117	2,960	19,625	3,164	20,354	3,315	1.6	5.8	3.7	12.3
Treasury Bonds	8,895	1,453	9,461	1,525	10,015	1,631	5.4	12.4	5.86	12.6
Central Bank Bonds	564	92	489	79	468	76	(43.3)	(64.8)	(4.3)	(17.0)
Policy Bank Bonds	8,658	1,415	9,675	1,560	9,870	1,608	3.1	13.8	2.0	14.0
Corporate	9,736	1,591	10,837	1,747	11,224	1,828	3.0	31.7	3.6	15.3
Policy Bank Bonds										
China Development Bank	5,678	928	6,217	1,002	6,240	1,016	2.8	10.4	0.4	9.9
Export–Import Bank of China	1,277	209	1,480	239	1,542	251	0.7	26.7	4.2	20.8
Agricultural Devt. Bank of China	1,703	278	1,978	319	2,088	340	6.2	16.9	5.6	22.6

( ) = 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. Treasury bonds include savings bonds and local government bonds.
3. Bloomberg LP end-of-period LCY–US$ rate is used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Sources: *ChinaBond* and *Wind*.

Government Bonds. LCY government bonds outstanding grew 3.7% q-o-q and 12.3% y-o-y in 3Q14, driven by growth in policy bank bonds and Treasury bonds. Central bank bonds continued to decline as the People's Bank of China (PBOC) opted to use other tools to manage liquidity (e.g., reverse repos). Treasury bond growth in 3Q14 received a significant boost due to an increase in local government bonds outstanding, which rose 25.0% q-o-q to CNY1.2 trillion. The increase in local government bonds outstanding was due to a number of factors including a slowdown in local government revenues due to a weakening property market, and the renovation of shantytowns as part of the PRC's urbanization process. In addition, new changes implemented by the PRC allow local governments to issue bonds directly, while limiting the use of local government financing and corporate vehicles.

Corporate Bonds. Corporate bonds outstanding grew 3.6% q-o-q and 15.3% y-o-y in 3Q14 to reach CNY11.2 trillion **(Table 2)**. Bonds with strong positive growth rates were those issued by banks and insurance companies, and local corporates, rising 18.2% and 37.3% y-o-y, respectively. The strong growth in financial bonds was mostly due to issuance of subordinated bonds by banks in 3Q14 to boost capital ratios.

Overall corporate bond issuance was strong in 3Q14. While corporate issuance was lower in 3Q14 versus 2Q14, issuance was still high compared with prior quarters **(Figure 2)**. Driving the growth was arise in bonds issued by banks and insurance companies. The primary driver was subordinated debt issued by banks as part of their capital raising efforts in line with Basel III requirements. LCY corporate bond issuance was the highest among the major corporate bond types in 3Q14.

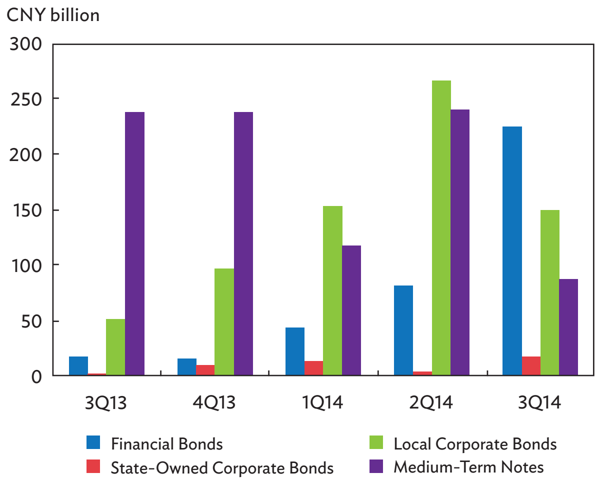
A relatively small number of issuers dominate the PRC's corporate bond market **(Table 3)**. At the end of

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)				Growth Rate (%)				
					q-o-q				y-o-y
	4Q13	1Q14	2Q14	3Q14	4Q13	1Q14	2Q14	3Q14	3Q14
Financial Bonds	1,295	1,324	1,369	1,536	(0.3)	2.2	3.4	12.2	18.2
SOE Bonds	630	635	618	630	(2.6)	0.8	(2.7)	1.8	(2.7)
Local Corporate Bonds	1,702	1,833	2,085	2,231	4.7	7.7	13.7	7.0	37.3
Medium Term Notes	3,848	3,841	3,985	4,054	3.4	(0.2)	3.7	1.7	9.0

( ) = negative, q-o-q = quarter-on-quarter, SOE = state-owned enterprise, y-o-y = year-on-year.
Sources: *ChinaBond* and *Wind*.

Figure 2: Corporate Bond Issuance in Key Sectors



LCY = local currency.
Sources: *ChinaBond*.

3Q14, the top 30 corporate bond issuers accounted for CNY4.2 trillion worth of corporate bonds outstanding, or about 38% of the market. Among the top 30 corporate issuers, the 10 largest accounted for CNY2.8 trillion worth of bonds outstanding.

State-owned companies—defined as majority-owned by the government—continued to dominate the corporate bond market in 3Q14. Among the top 30 corporate issuers at end-September, 23 were state-owned.

Table 4 presents the most significant issuances of 3Q14. The largest issuances came from banks issuing subordinated debt.

Investor Profile

Treasury Bonds and Policy Bank Bonds. Banks remained the largest category of investors in the PRC's Treasury bond market, which includes policy bank bonds, holding a slightly smaller share of Treasury bonds at end-September (76.2%) than in the same period a year earlier (77.3%) **(Figure 3)**.

Corporate Bonds. Banks were also the largest holders of corporate bonds at the end of 3Q14, albeit with a comparatively smaller share than their holdings of Treasury bonds and policy bank bonds. Banks' share of corporate bonds fell to 28.9% at the end of 3Q14 from 30.7% a year earlier **(Figure 4)**. The second-largest holders of corporate bonds were funds institutions, with a 22.9% share at the end of 3Q14, down from a 25.4% share a year earlier.

Figure 5 presents investor profiles across corporate bond categories at end-September. Banks were the largest holders of medium-term notes at end-September with more than 50% of the total. Meanwhile, insurance companies were the largest holders of commercial bank bonds.

Liquidity

Figure 6 presents the turnover ratios for different categories of government bonds, which have seen a significant decline since 2013 owing to the tight liquidity conditions driven by the June 2013 SHIBOR shock and a crackdown on illegal bond trades. However, 3Q14 showed a slowdown in the increase in the turnover ratios from the prior quarter, mostly due to the volatile interest rates as some traders adopted a wait-and-see attitude regarding the direction of the PRC economy and PBOC actions.

Policy, Institutional, and Regulatory Developments

Property Companies Allowed to Issue Medium-Term Notes

On 3 September, the PRC allowed qualified, listed property companies to issue medium-term notes on the interbank bond market. Funding from the notes can be used for new residential projects, operating cash flows, or bank loan repayment. The funds cannot be used for land purchases.

New Regulations to Manage Local Government Debt Risks

On 2 October, the State Council of the PRC passed new regulations governing local government debt. Under the new rules, local governments can now issue bonds directly subject to a quota. There are other restrictions such as the requirement that funding raised from bond issuances by local governments cannot be used to pay for existing government operations. It can only be used to repay debt servicing and to fund public services. In addition, local governments are no longer allowed to issue bonds through special funding vehicles or local-government-owned corporations.

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	1,017.5	165.73	Yes	No	Transportation
2.	State Grid Corporation of China	415.5	67.68	Yes	No	Public Utilities
3.	China National Petroleum	380.0	61.90	Yes	No	Energy
4.	Industrial and Commercial Bank of China	203.4	33.13	Yes	Yes	Banking
5.	Bank of China	182.3	29.70	Yes	Yes	Banking
6.	China Construction Bank	158.0	25.74	Yes	Yes	Banking
7.	Agricultural Bank of China	155.0	25.25	Yes	Yes	Banking
8.	China Minsheng Bank	115.1	18.75	No	Yes	Banking
9.	Central Huijin Investment	109.0	17.75	Yes	No	Diversified Financial
10.	China Power Investment	107.7	17.54	Yes	No	Public Utilities
11.	Senhua Group	101.5	16.53	Yes	No	Energy
12.	Bank of Communications	93.5	15.23	No	Yes	Banking
13.	Petrochina	91.0	14.82	Yes	Yes	Energy
14.	China Citic Bank	90.5	14.74	No	Yes	Banking
15.	China Petroleum & Chemical	87.5	14.25	Yes	Yes	Energy
16.	China Guodian	84.4	13.74	Yes	No	Public Utilities
17.	Industrial Bank	83.0	13.52	No	Yes	Banking
18.	Tianjin Infrastructure Investment Group	69.1	11.26	Yes	No	Capital Goods
19.	China Life	68.0	11.08	Yes	Yes	Insurance
20.	China Southern Power Grid	66.9	10.90	Yes	No	Public Utilities
21.	China Three Gorges Project	62.5	10.18	Yes	No	Public Utilities
22.	Beijing State-owned Assets Operation & Management Center	60.5	9.85	Yes	No	Diversified Financial
23.	Shanghai Pudong Development Bank	60.4	9.84	No	Yes	Banking
24.	China Huaneng Group	56.6	9.22	Yes	No	Public Utilities
25.	China Datang	55.7	9.07	Yes	No	Energy
26.	Shananxi Coal and Chemical Industry Group	54.5	8.88	No	Yes	Energy
27.	China Everbright Bank	52.9	8.62	Yes	Yes	Banking
28.	China Merchants Bank	50.0	8.14	No	Yes	Banking
29.	Tianjin Binhai New Area Construction & Investment Group	49.9	8.13	Yes	No	Engineering and Construction
30.	Beijing Infrastructure Investment	46.6	7.59	Yes	No	Institutional Financial Services
Total Top 30 LCY Corporate Issuers		**4,228.39**	**688.73**			
Total LCY Corporate Bonds		**11,224.25**	**1,828.23**			
Top 30 as % of Total LCY Corporate Bonds		**37.7%**	**37.7%**			

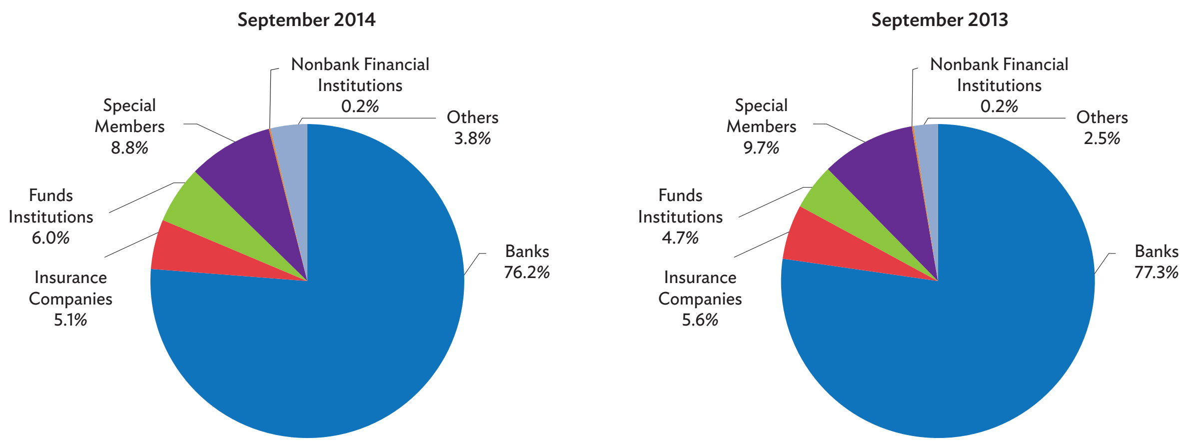
LCY = local currency.
Notes:
1. Data as of end-September 2014.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on *Wind* data.

Table 4: Notable LCY Corporate Bond Issuance in 3Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China CITIC Bank		
10-year bond	6.13	37
Bank of China		
10-year bond	5.8	30
Agricultural Bank of China		
10-year bond	5.8	30
Bank of Communications		
10-year bond	5.8	28
Industrial and Commercial Bank of China		
10-year bond	5.8	20

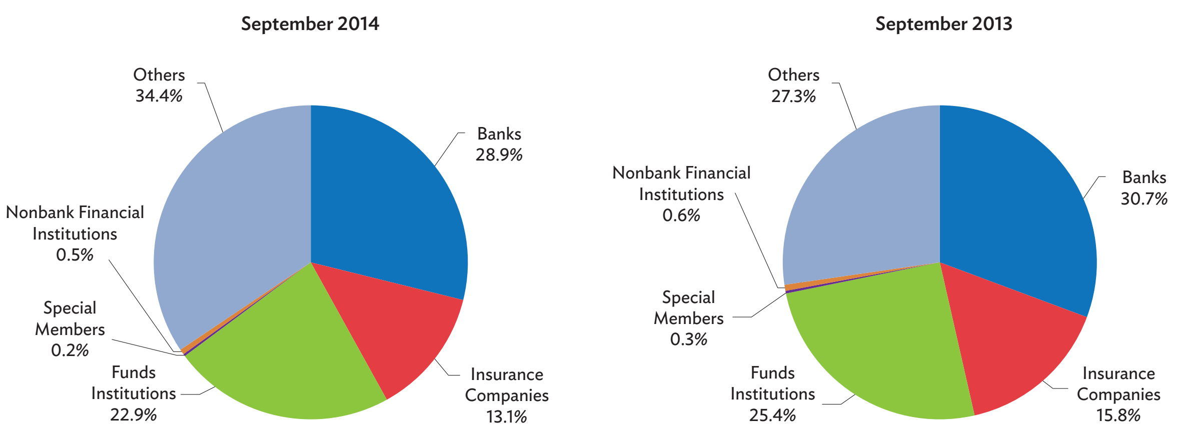
LCY = local currency.
Source: Bloomberg LP.

Figure 3: LCY Treasury Bonds and Policy Bank Bonds Investor Profile



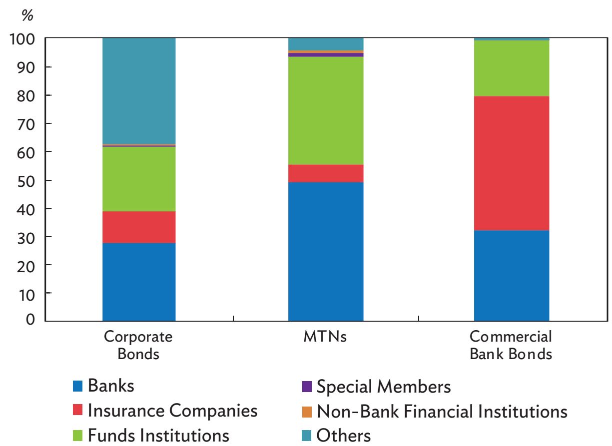
LCY = local currency.
Source: *ChinaBond*.

Figure 4: LCY Corporate Bonds Investor Profile



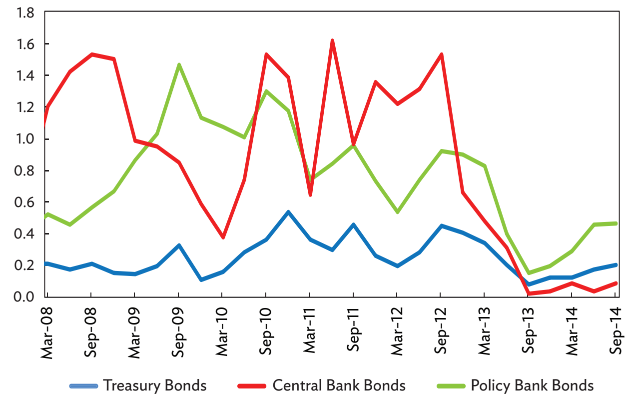
LCY = local currency.
Source: *ChinaBond*.

Figure 5: Investor Profile across Bond Categories



MTNs = medium-term notes.
Note: Data as of end-September 2014.
Source: *ChinaBond*.

Figure 6: Turnover Ratios for Spot Market



Source: *ChinaBond*.

Hong Kong, China

Yield Movements

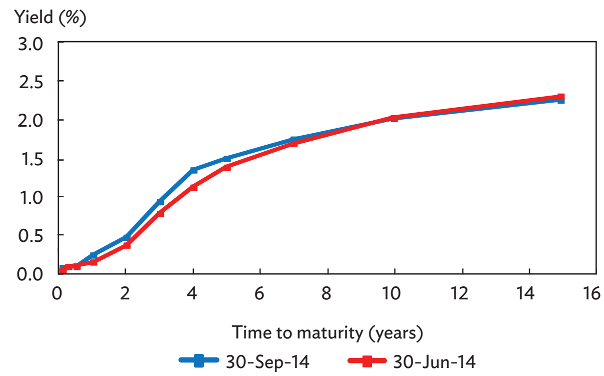
Between end-June and end-September, yields for Hong Kong, China's Exchange Fund Bills and Notes rose for most maturities, but fell slightly at the very long-end of the curve **(Figure 1)**. Yields rose the most for the 3-year and 4-year tenors, rising 15 basis points (bps) and 22 bps, respectively. Hong Kong, China's 10-year and 15-year yields fell 1 bp and 5 bps, respectively. As a result, the 2-year versus 10-year spread narrowed to 153 bps at end-September from 164 bps at end-June.

Yield movements in Hong Kong, China tracked United States (US) interest rate movements in 3Q14, reflecting the Hong Kong dollar's peg to the US dollar. Yields on 3-year and 5-year bonds in the US rose 17 bps and 12 bps, respectively, while 10-year bond yields fell 4 bps.

Hong Kong, China's economy showed some improvements but risks remain. In August, retail sales recovered, rising 3.4% year-on-year (y-o-y) following a decline of 3.2% in July. However, the government noted that growth was partially boosted by the timing of the Mid-Autumn Festival. Looking forward, there are uncertainties related to changing tourist demand and external demand. Exports from Hong Kong, China rose 6.4% y-o-y in August after gaining 6.8% in July. However, the government is cautious, citing geopolitical risks and uncertainties regarding developed markets.

Inflation risk in Hong Kong, China remained moderate, although consumer price inflation rose to 6.6% y-o-y in September from 3.9% in August. According to the government, the increase was driven by a low-base effect last year due to public housing rental subsidies. As a result, the housing sub-sector of the Consumer Price Index rose 13.5% in September. Also, utilities prices rose 25.7% y-o-y due to the exhaustion of the government's one-time subsidy for some households. The government said that inflation should be stable in the near-term due to a lack of supply-side pressures.

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 rose 0.5% quarter-on-quarter (q-o-q) and 0.3% y-o-y to reach HKD1,500 billion (US$193 billion) at end-September **(Table 1)**.

At end-September, the stock of government bonds comprising Exchange Fund Bills, Exchange Fund Notes, and Hong Kong Special Administrative Region (HKSAR) bonds rose 0.8% q-o-q to reach HKD856 billion. This was largely driven by an increase in outstanding HKSAR bonds as a result of a HKD10 billion issuance of 3-year HKSAR bonds under the Retail Bond Issuance Programme.

LCY corporate bonds outstanding remained unchanged on a q-o-q basis and fell 2.0% y-o-y to reach HKD645 billion at end-September, as companies preferred to raise funds via bank loans. In 3Q14, the five largest nonbank issuances came from Emperor International Holdings (HKD1.7 billion), Hong Kong Mortgage Corporation (HKD1.3. billion), Eastern Creation (HKD0.6 billion), CITIC Limited (HKD0.42 billion), and CLP Power Hong Kong Financing (HKD0.3 billion) **(Table 2)**.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	HKD	US$	HKD	US$	HKD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,496**	**193**	**1,494**	**193**	**1,500**	**193**	**0.5**	**9.7**	**0.5**	**0.3**
Government	838	108	849	110	856	110	0.5	16.2	0.8	2.2
Exchange Fund Bills	682	88	684	88	684	88	0.1	16.0	(0.1)	0.2
Exchange Fund Notes	68	9	68	9	68	9	0.0	(0.9)	0.9	0.0
HKSAR Bonds	87	11	97	13	104	13	4.2	35.9	6.7	19.0
Corporate	658	85	645	83	645	83	0.5	2.4	0.0	(2.0)

( ) = negative, HKSAR = Hong Kong Special Administrative Region, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources. 3Q14 corporate bonds outstanding data carried over from 2Q14.
2. Bloomberg LP end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Sources: Hong Kong Monetary Authority and Bloomberg LP.

Table 2: Notable LCY Corporate Bond Issuance in 3Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
Emperor International Holdings		
3-year bond	5.00	1.65
Hong Kong Mortage Corporation		
2-year bond	0.38	0.70
3-year bond	1.33	0.55
Eastern Creation		
3-year bond	2.35	0.60
Citic Limited		
10-year bond	4.35	0.42
CLP Power Hong Kong Financing		
15-year bond	3.78	0.30

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

Corporate bonds outstanding from the top 30 nonbank issuers in Hong Kong, China amounted to HKD114.8 billion at end-September, representing about 17.8% of total outstanding corporate bonds. The top 30 list of issuers was dominated by real estate firms **(Table 3)**. HKMC remained the top issuer in Hong Kong, China with outstanding bonds of HKD14.6 billion. Next was CLP Power Hong Kong Financing with HKD10.6 billion of bonds outstanding, followed closely by Sun Hung Kai Properties with HKD9.9 billion. Among the top 30, five are state-owned companies and 11 are Hong Kong Exchange-listed firms. Only one state-owned company, the MTR Corporation, is listed on the exchange.

Policy, Institutional, and Regulatory Developments

Hong Kong, China Issues Debut *Sukuk*

On 10 September, Hong Kong, China issued its debut *sukuk* (Islamic bond). The *sukuk* was priced at a profit rate of 2.005%. The *sukuk* has an issue size of US$1.0 billion and demand was strong with orders exceeding US$4.7 billion. In terms of geography, buyers of the *sukuk* were diverse, with 36% going to the Middle East, 47% to Asia, 6% to Europe, and 11% to the US.

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

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (HKD billion)	LCY Bonds (US$ billion)			
1.	The Hong Kong Mortgage Corporate	14.57	1.88	Yes	No	Finance
2.	CLP Power Hong Kong Financing	10.65	1.37	No	No	Electric
3.	Sun Hung Kai Properties (Capital Market)	9.91	1.28	No	No	Real Estate
4.	Wharf Finance	7.03	0.91	No	No	Diversified
5.	The Link Finance (Cayman) 2009	6.14	0.79	No	No	Finance
6.	MTR Corporation (C.I.)	5.75	0.74	Yes	Yes	Transportation
7.	HKCG (Finance)	5.60	0.72	No	No	Gas
8.	Swire Pacific	5.53	0.71	No	Yes	Diversified
9.	Hongkong Electric Finance	5.51	0.71	No	No	Electric
10.	NWD (MTN)	5.05	0.65	No	Yes	Real Estate
11.	Cheung Kong Bond Finance	4.62	0.60	No	Yes	Real Estate
12.	Urban Renewal Authority	4.60	0.59	Yes	No	Real Estate
13.	Kowloon-Canton Railway	4.40	0.57	Yes	No	Transportation
14.	Wheelock Finance	4.04	0.52	No	No	Diversified
15.	Yue Xiu Enterprises (Holdings)	3.00	0.39	No	No	Diversified
16.	Airport Authority Hong Kong	2.80	0.36	Yes	No	Transportation
17.	Hysan (MTN)	2.43	0.31	No	No	Finance
18.	Cathay Pacific MTN Financing	1.70	0.22	No	Yes	Airlines
19.	Emperor International Holdings	1.65	0.21	No	Yes	Real Estate
20.	Nan Fung Treasury	1.31	0.17	No	No	Real Estate
21.	Henderson Land MTN	1.19	0.15	No	Yes	Finance
22.	AIA Group	1.16	0.15	No	Yes	Insurance
23.	Swire Properties MTN Financing	1.10	0.14	No	No	Real Estate
24.	Dragon Drays	1.00	0.13	No	No	Diversified
25.	K. Wah International	1.00	0.13	No	Yes	Real Estate
26.	Citic Limited	0.92	0.12	No	Yes	Diversified
27.	R-Reit International Finance	0.78	0.10	No	No	Real Estate
28.	Wing Tai Properties (Finance)	0.68	0.09	No	No	Real Estate
29.	HLP Finance	0.56	0.07	No	Yes	Real Estate
30.	The Hongkong Land Notes Company	0.20	0.03	No	No	Finance
Total Top 30 Nonbank LCY Corporate Issuers		**114.84**	**14.82**			
Total LCY Corporate Bonds		**644.73**	**83.19**			
Top 30 as % of Total LCY Corporate Bonds		**17.8%**	**17.8%**			

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

Indonesia

Yield Movements

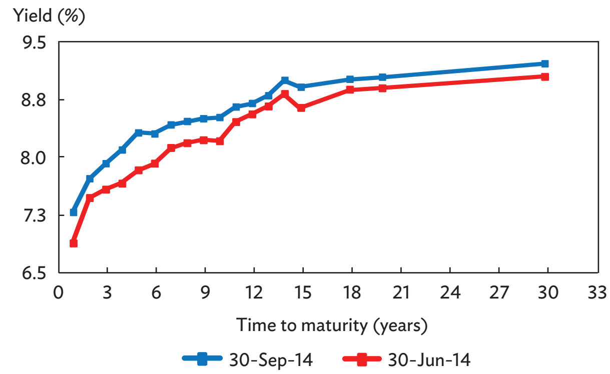
Between end-June and end-September, local currency (LCY) government bond yields in Indonesia rose across all tenors, resulting in the shifting of the entire curve upward **(Figure 1)**. Yields climbed the most for medium-dated tenors (4–9 years), gaining between 28 basis points (bps) and 49 bps. The yield at the very short-end of the curve also rose 40 bps at end-September. Yields at the long-end (10- to 30-year maturities) climbed between 14 bps and 31 bps. The yield spread between the 2- and 10-year maturities widened to 80 bps at end-September from 74 bps at end-June.

Domestic factors continued to weigh on Indonesia's bond market with negative sentiments arising from political issues as legislation scrapping direct regional elections was passed. Also, the annual inflation rate picked up in September on higher liquefied petroleum gas (LPG) prices and adjustments in electricity costs. Inflation had eased to 4.5% year-on-year (y-o-y) in July and 4.0% in August before accelerating again to 4.5% in September. Between January and September, the average annual inflation rate stood at 3.7%, well within Bank Indonesia's 2014 target range of 3.5%–5.5%.

Bank Indonesia maintained a tightening bias in its monetary policy, keeping the benchmark interest rate steady at 7.50% in a meeting held on 7 October. (The benchmark rate has been 7.50% since November 2013.) Bank Indonesia also held the lending facility rate at 7.50% and the deposit facility rate at 5.75%. Bank Indonesia deemed that, current levels, these rates are consistent with efforts to keep inflation within its target range and lower the current account deficit to a more sustainable level.

Meanwhile, Bank Indonesia estimates economic growth in 2014 will come in at the lower-end of its projection of 5.1%–5.5%. In 2Q14, gross domestic product (GDP) growth in Indonesia slowed to 5.1% y-o-y compared with revised 5.2% growth in 1Q14. The slower growth was due mainly to weak exports, a decline in imports, and a slowdown in government spending. Domestic consumption and investments continued to drive economic growth in 2Q14, albeit at a much slower pace than in 1Q14, expanding 5.6% and 4.5% y-o-y, respectively. On a quarter-on-quarter (q-o-q) basis, the economy grew 2.5% in 2Q14.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The LCY bond market in Indonesia continued to expand at end-September to reach IDR1,505.3 trillion (US$124 billion) for growth of 2.7% q-o-q and 22.7% y-o-y **(Table 1)**. The LCY bond market in Indonesia is still dominated by conventional issues, with *sukuk* (Islamic bonds) accounting for only a small share. At end-September, outstanding *sukuk* totaled IDR122.9 trillion, or 8.2% of the total bond stock.

The outstanding stock of LCY government bonds climbed to IDR1,285.1 trillion at end-September, rising 2.9% q-o-q and 27.1% y-o-y. Growth was driven by an increase in the stock of central government bonds, which comprised treasury instruments issued by the Ministry of Finance. On the other hand, central bank bills, which are known as *Sertifikat* Bank Indonesia (SBI), registered a 26.6% q-o-q decline and a 24.9% y-o-y increase.

Central Government Bonds. At end-September, the outstanding size of central government bonds climbed 6.0% q-o-q and 27.2% y-o-y to reach IDR1,199.4 trillion. Growth was largely driven by increases in the stock of conventional fixed-rate bonds and Islamic Treasury

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	IDR	US$	IDR	US$	IDR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,226,334**	**108**	**1,465,790**	**123**	**1,505,260**	**124**	**3.9**	**16.3**	**2.7**	**22.7**
Government	1,011,443	89	1,248,379	105	1,285,059	105	3.7	14.5	2.9	27.1
Central Govt. Bonds	942,859	83	1,131,630	95	1,199,395	98	6.1	16.0	6.0	27.2
of which: *Sukuk*	87,690	8	101,329	9	109,444	9	10.0	41.4	8.0	24.8
Central Bank Bills	68,584	6	116,749	10	85,664	7	(20.8)	(3.0)	(26.6)	24.9
of which: *Sukuk*	3,610	0.3	6,792	0.6	6,490	0.5	(21.9)	44.7	(4.4)	79.8
Corporate	214,891	19	217,412	18	220,202	18	4.6	25.4	1.3	2.5
of which: *Sukuk*	6,974	0.6	6,958	0.6	6,958	0.6	(7.5)	6.0	0.0	(0.2)

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. The total stock of nontradable bonds as of end-September stood at IDR268.2 trillion.
Sources: Bank Indonesia, Indonesia Debt Management Office, Indonesia Stock Exchange, Otoritas Jasa Keuangan, and Bloomberg LP.

instruments, including Islamic Treasury bills and project-based *sukuk*.

In 3Q14, the government raised a total of IDR95.7 trillion worth of Treasury bills and bonds, in line with its quarterly target. A total of 13 auctions were conducted in 3Q14, of which seven were auctions of conventional bonds and the remaining six were auctions of Islamic instruments.

The government had to issue more bonds in 3Q14 to help fund a projected budget deficit in 2014 that was recently increased to 2.4% of GDP from 1.7%. New issuance by the central government was higher on both a q-o-q and y-o-y basis. As of 26 September, the government had raised nearly 97% of its net government securities issuance target for the year, which includes foreign-currency-denominated bonds.

Central Bank Bills. At end-September, the stock of central bank bills (SBI) reached IDR85.7 trillion, down 26.6% q-o-q, but up 24.9% y-o-y. Bank Indonesia issues SBI as one of its monetary tools for liquidity management. In 3Q14, new issuance of SBI and *shari'a*-compliant SBI with 9-month tenors totaled IDR25.0 trillion. Auctions of SBI are held on a monthly basis.

Corporate Bonds. The outstanding stock of LCY corporate bonds in Indonesia totaled IDR220.2 trillion at end-September on growth of 1.3% q-o-q and 2.5% y-o-y. Only 3.2% of total LCY corporate bonds outstanding in 3Q14 were *sukuk*.

At end-September, the aggregate of outstanding bonds of the top 30 LCY corporate issuers in Indonesia totaled IDR163.6 trillion, or 74.3% of total LCY corporate bonds outstanding **(Table 2)**. By industry type, 20 out of the 30 firms on the list were banks or financial institutions.

The composition of the top three issuers remained the same as in the previous quarter. Leading the list was state power firm PLN with outstanding LCY bonds valued at IDR15.6 trillion. PLN was followed by another state-owned entity, Indonesia Eximbank, with outstanding bonds of IDR13.1 trillion. In the third spot was Astra Sedaya Finance with an outstanding bond stock of IDR11.7 trillion.

In 3Q14, new corporate bond issuance reached only IDR6.8 trillion, compared with IDR16.8 trillion in 2Q14 and IDR11.9 trillion in 3Q13. A total of seven corporate firms raised funds from the bond market during 3Q14. Some firms delayed their planned issues due to uncertainties relating to the results of the presidential election.

A total of 12 new corporate bond series were issued in 3Q14, all of which were conventional except for one issue of *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or a partnership). In terms of maturity, two bond series had 370-day maturities, nine bond series had maturities of 3–5 years, and one bond series had a 7-year tenor. Some of the largest corporate bonds issued in 3Q14 are presented in **Table 3**.

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

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (IDR billion)	LCY Bonds (US$ billion)			
1.	PLN	15,573	1.28	Yes	No	Energy
2.	Indonesia Eximbank	13,108	1.08	Yes	No	Banking
3.	Astra Sedaya Finance	11,691	0.96	No	No	Finance
4.	Adira Dinamika Multi Finance	11,612	0.95	No	Yes	Finance
5.	Bank Internasional Indonesia	8,800	0.72	No	Yes	Banking
6.	Bank Tabungan Negara	7,950	0.65	Yes	Yes	Banking
7.	Bank CIMB Niaga	7,930	0.65	No	Yes	Banking
8.	Bank Pan Indonesia	6,800	0.56	No	Yes	Banking
9.	Jasa Marga	6,600	0.54	Yes	Yes	Toll Roads, Airports, and Harbors
10.	Bank Permata	6,478	0.53	No	Yes	Banking
11.	Indosat	6,190	0.51	No	Yes	Telecommunications
12.	Perum Pegadaian	5,819	0.48	Yes	No	Finance
13.	Federal International Finance	4,875	0.40	No	No	Finance
14.	Bank Tabungan Pensiunan Nasional	4,820	0.40	No	Yes	Banking
15.	Agung Podomoro Land	4,025	0.33	No	Yes	Property, Real Estate, and Building Construction
16.	Sarana Multigriya Finansial	4,011	0.33	Yes	No	Finance
17.	Indofood Sukses Makmur	4,000	0.33	No	Yes	Food and Beverages
18.	Bank Mandiri	3,500	0.29	Yes	Yes	Banking
19.	Medco-Energi International	3,500	0.29	No	Yes	Petroleum and Natural Gas
20.	Antam	3,000	0.25	Yes	Yes	Petroleum and Natural Gas
21.	Telekomunikasi Indonesia	3,000	0.25	Yes	Yes	Telecommunications
22.	Bank OCBC NISP	2,907	0.24	No	Yes	Banking
23.	Bumi Serpong Damai	2,750	0.23	No	Yes	Property, Real Estate, and Building Construction
24.	Indomobil Finance Indonesia	2,659	0.22	No	No	Finance
25.	Toyota Astra Financial Services	2,311	0.19	No	No	Finance
26.	BCA Finance	2,100	0.17	No	No	Finance
27.	Bank Rakyat Indonesia	2,000	0.16	Yes	Yes	Banking
28.	Garuda Indonesia	2,000	0.16	Yes	Yes	Infrastructure, Utilities, and Transportation
29.	BII Finance	1,824	0.15	No	No	Finance
30.	Bank Jabar Banten	1,724	0.14	No	Yes	Banking
Total Top 30 LCY Corporate Issuers		**163,556**	**13.42**			
Total LCY Corporate Bonds		**220,202**	**18.07**			
Top 30 as % of Total LCY Corporate Bonds		**74.3%**	**74.3%**			

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

Table 3: Notable LCY Corporate Bond Issuance in 3Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Bank Internasional Indonesia		
3-year *Sukuk Mudharabah*	9.49	300
7-year bond	11.35	1,500
Pupuk Indonesia		
3-year bond	9.63	568
5-year bond	9.95	1,131
Jasa Marga		
5-year bond	9.85	1,000
Perum Pegadaian		
370-day bond	8.65	360
3-year bond	9.35	202
5-year bond	9.75	398
Indonesia Eximbank		
3-year bond	9.25	500
Sarana Multigriya Finansial		
370-day bond	9.13	500

LCY = local currency.
Note: *Sukuk Mudharabah* are Islamic bonds backed by a profit-sharing scheme from a business venture or a partnership.
Source: Indonesia Stock Exchange.

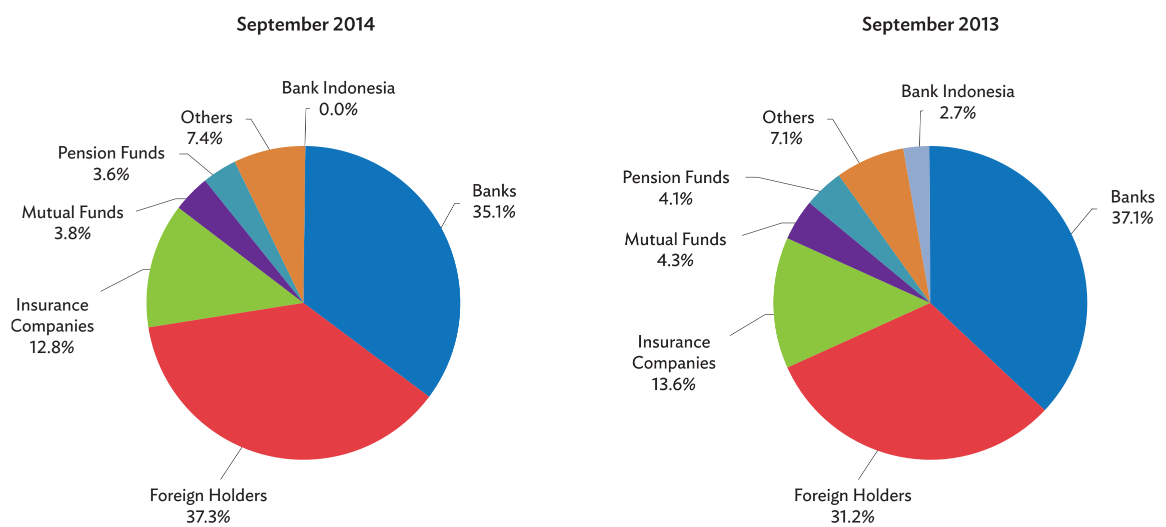
Investor Profiles

Central Government Bonds. Foreign investors continued to increase their holdings of Indonesia's LCY central government bonds at end-September, making them the largest participant in Indonesia's bond market. At end-September, the share of LCY central government bonds held by foreign investors rose to 37.3% from 31.2% a year earlier **(Figure 2)**. In absolute terms, outstanding bonds held by foreign investors reached IDR447 trillion at end-September. Demand from foreign investors continued to be strong as foreign holdings hit all-time highs in recent months. Indonesian LCY government bonds offer the highest yields among emerging East Asian markets.

At end-September, holdings of government bonds by foreign investors were mostly in long-term maturities. About 42% of government bonds held by foreign investors carried maturities of more than 10 years. This, however, was slightly lower compared with a share of 44% at end-December 2013 **(Figure 3)**. On the other hand, foreign holdings of medium-term bonds (maturities of more than 5 years and up to 10 years) rose to a share of 34% in 3Q14 from 32% at end-December 2013. Foreign ownership of bonds with maturities of more than 2 years and up to 5 years also rose to a share of 15% at end-September from 13% at end-December 2013. Meanwhile, foreign holdings of bonds with maturities of less than 1 year were steady at 5%.

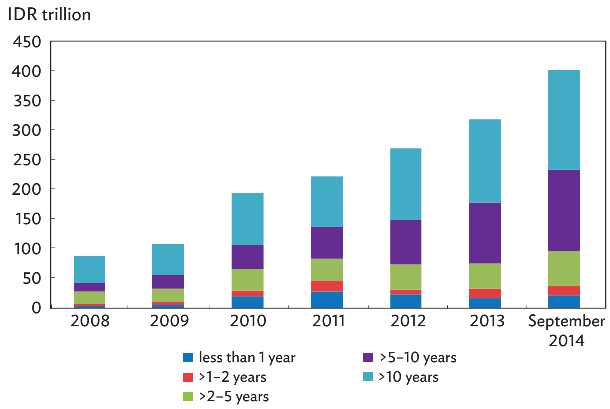
Banking institutions were the second-largest investor group in 3Q14, albeit their share of LCY government bonds has steadily declined from 82.0% of the total at end-2003. At end-September, banks held 35.1% of central government bonds, down from a 37.1% share in the same period a year earlier. Banking institutions comprise state recap banks, private recap banks, non-recap banks, regional banks, and *shari'a* banks.

Figure 2: LCY Central Government Bonds Investor Profile



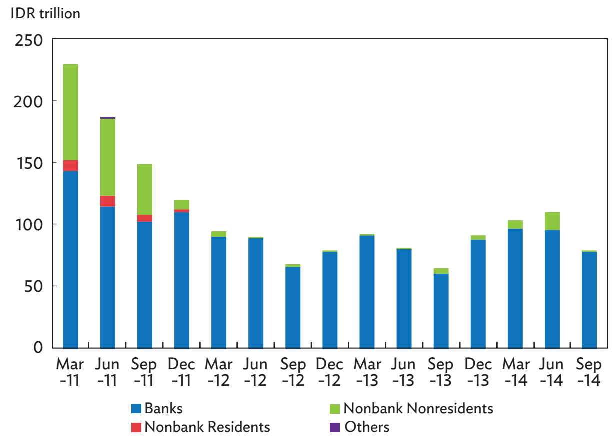
LCY = local currency.
Source: Indonesia Debt Management Office.

Figure 3: Foreign Holdings of LCY Central Government Bonds by Maturity



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

Figure 4: LCY Central Bank Bills Investor Profile



LCY = local currency.
Source: Bank Indonesia.

Central government bond holdings of all domestic investors recorded declines in 3Q14 compared with the same period a year earlier. The only exceptions were other investors, whose share rose to 7.4% at end-September from 7.1% in the previous year.

Central Bank Bills. At end-September, banking institutions were the dominant holders of central bank bills **(Figure 4)**. Bank holdings of SBI accounted for 98.6% of the total at end-September, up from 86.9% in the previous quarter. The remaining 1.4% share of SBI holdings were held by foreign nonbank investors.

Policy, Institutional, and Regulatory Developments

Bank Indonesia Issues Guidelines for State-Owned Companies on FX Hedging Transactions

On 17 September, Bank Indonesia issued guidelines for state-owned firms to engage in foreign exchange (FX) hedging transactions. Bank Indonesia noted that hedging transactions serve as an important measure to strengthen exchange rate stability and ease pressure in the domestic FX market. Through the issuance of the guidelines, Bank Indonesia expects the volume of FX hedging transactions by state-owned companies to increase, and for the perception to diminish that losses incurred from such activities are considered state losses. Bank Indonesia has been encouraging state-owned companies to undertake hedging transactions for foreign currency borrowings to cover FX risks.

Government Approves 2015 State Budget

On 29 September, the House of Representatives approved the 2015 state budget, which projects a deficit equivalent to 2.2% of GDP. The 2015 budget deficit was up from the deficit projection of 1.7% made in the original 2014 state budget, but down from the projection of 2.4% in the revised 2014 state budget. The underlying macroeconomic assumptions for the 2015 state budget include (i) GDP growth of 5.8% y-o-y, (ii) annual inflation of 4.4% y-o-y, (iii) an exchange rate of IDR11,900 per US$1, (iv) a 3-month Treasury bill rate of 6.0%, and (v) an Indonesian crude oil price of US$105 per barrel.

Republic of Korea

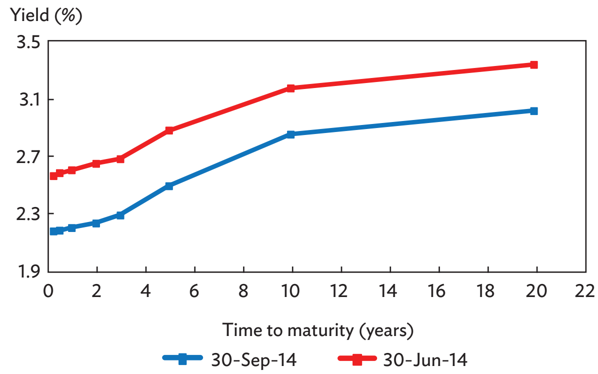
Yield Movements

Local currency (LCY) government bond yields in the Republic of Korea fell for all tenors between end-June and end-September, leading the yield curve to shift downward **(Figure 1)**. The drop in government bond yields in 3Q14 can be attributed to market expectations of a policy rate cut to support the recovery of the domestic economy amid low inflationary pressures. Meanwhile, the yield spread between the 2- and 10-year tenors widened 9 basis points (bps) between end-June and end-September, resulting in a steepening of the yield curve.

The Bank of Korea's Monetary Policy Committee decided on 15 October to lower the base rate 25 bps from 2.25% to 2.00% to support economic growth in the Republic of Korea and ensure price stability in the domestic economy. This was the second time in 2 months that the base rate was reduced 25 bps by the committee, with the previous policy rate cut made on 14 August. (On 12 September, the committee decided to maintain the base rate at 2.25%.)

Real gross domestic product GDP growth in the Republic of Korea stood at 0.9% quarter-on-quarter (q-o-q) and 3.2% year-on-year (y-o-y) in 3Q14, based on advance estimates released by The Bank of Korea in October. Meanwhile, The Bank of Korea also reported that it was revising its GDP growth outlook downward to 3.5% for 2014 and 3.9% for 2015 from previous forecasts made in July of 3.8% and 4.0%, respectively.

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



LCY = local currency.
Source: Bloomberg LP.

Consumer price inflation continued to moderate in 3Q14, as the inflation rate, based on the Consumer Price Index, stood at 1.1% y-o-y in September, down from 1.4% in August and 1.6% in July. In October, the inflation rate was 1.2% y-o-y. Meanwhile, in October, the central bank revised downward its annual inflation outlook to 1.4% (from 1.9%) in 2014 and 2.4% (from 2.7%) in 2015.

Size and Composition

The LCY bond market of the Republic of Korea continued to expand as the existing stock of all LCY bonds in the economy recorded positive growth on both a q-o-q and y-o-y basis in 3Q14 **(Table 1)**. Growth in the LCY

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	KRW	US$	KRW	US$	KRW	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,680,687**	**1,564**	**1,779,533**	**1,759**	**1,821,497**	**1,726**	**1.8**	**10.4**	**2.4**	**8.4**
Government	645,333	601	700,464	692	723,074	685	1.3	6.9	3.2	12.0
Central Bank Bonds	164,880	153	174,000	172	177,650	168	(0.3)	1.5	2.1	7.7
Central Government Bonds	444,599	414	485,792	480	502,457	476	1.3	7.4	3.4	13.0
Industrial Finance Debentures	35,854	33	40,671	40	42,967	41	9.3	31.4	5.6	19.8
Corporate	1,035,354	963	1,079,069	1,066	1,098,423	1,041	2.2	12.6	1.8	6.1

( ) = 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. Central government bonds include Korea Treasury bonds, National Housing bonds, and Seoul Metro bonds.
Sources: EDAILY *BondWeb* and The Bank of Korea.

government bond market was led by increases in the outstanding size of central government bonds, which include Korea Treasury Bonds (KTBs); central bank bonds, which are known as Monetary Stabilization Bonds (MSBs); and industrial finance debentures, which comprise bonds issued by the Korea Development Bank (KDB).

The outstanding size of LCY corporate bonds likewise expanded on both a q-o-q and y-o-y basis. The q-o-q growth was induced by increases in the stocks of special public bonds, financial debentures, and bonds issued by private corporates. Meanwhile, y-o-y growth during the quarter was due to hikes in the stocks of special public bonds and private corporate bonds. The top 30 LCY corporate bond issuers at end-September had a combined stock valued at KRW681.1 trillion, which was 62.0% of total LCY corporate bonds outstanding **(Table 2)**. Korea Land & Housing Corporation, which surpassed Korea Housing Finance Corporation as the largest LCY corporate bond issuer in 2Q14, remained the largest issuer at end-September.

Issuance of LCY corporate bonds gathered pace in 3Q14, expanding 50.4% q-o-q and 14.9% y-o-y. Of the five largest LCY corporate bond issues in 3Q14, three were made by banks, one by a financial group, and one by a public urban developer. Three of these bonds have tenors of 1 year and the other two have maturities of 5 years **(Table 3)**.

Liquidity

The turnover ratios for LCY central government and central bank bonds declined in 3Q14 as q-o-q growth in central government and central bank bonds outpaced the quarterly increase in the trading volume of these bonds; this suggests a tightening in the liquidity of the LCY government bond market for the quarter **(Figure 2)**.

In the KTB futures market, liquidity appears to have improved on a quarterly basis as the combined value of 3-year and 10-year KTB futures contracts traded increased to 7.9 million in 3Q14 from 6.6 million in 2Q14; however, on an annual basis, liquidity in the KTB futures market was down from a year earlier when the total value of traded contracts reached 8.8 million in 3Q13 **(Figure 3)**.

LCY corporate bond market liquidity appears to have tightened further in 3Q14, as the turnover ratio for LCY corporate bonds stood at 0.12, down from 0.13 in both 2Q14 and 3Q13. The quarterly slip was led by q-o-q decreases in the turnover ratios of LCY financial debentures and private corporate bonds, while the y-o-y decline was brought about by an annual drop in the turnover ratio of LCY private corporate bonds **(Figure 4)**.

Investor Profile

Insurance companies and pension funds remained the largest investor group in the LCY government bond market in the Republic of Korea, with a 29.4% share of the market at end-June, up 1.3 percentage points from a year earlier **(Figure 5)**. Other investor groups that showcased a y-o-y increase in their share of the LCY government bond market in 2Q14 were other financial institutions and households and nonprofit institutions. In contrast, the respective shares of the general government and foreign investors dropped 2.8 and 0.8 percentage points, respectively, from end-June 2013.

Insurance companies and pension funds were also the largest investor group in the LCY corporate bond market, with a 33.2% share of the market, at end-June **(Figure 6)**. Insurance companies and pension funds recorded the highest y-o-y increase in LCY corporate bond holdings in 2Q14, with a share that rose 2.4 percentage points from a year earlier. Most other investor groups posted y-o-y decreases in their respective LCY corporate bond holding shares.

Net foreign investment in the Republic of Korea's LCY bond market turned positive in September, amounting to KRW0.5 trillion for the month, after recording net bond outflows of KRW0.1 trillion in August, based on Financial Supervisory Service (FSS) data **(Figure 7)**. The reversal stemmed from a sharper monthly increase in foreign investor net bond purchases when compared to bond redemptions; in September, foreign investor net bond purchases jumped 80.6% month-on-month (m-o-m) to KRW4.2 trillion, while bond redemptions climbed 53.8% m-o-m to KRW3.7 trillion. Net foreign bond investment was valued at KRW0.9 trillion in 3Q14, down from 2Q14's KRW2.6 trillion. On a year-to-date basis, foreign net bond investment stood at KRW3.5 trillion in January–September, down from KRW7.3 trillion recorded in the first 9 months of 2013.

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 Land & Housing	57,309	54.3	Yes	No	No	Real Estate
2.	Korea Housing Finance	54,584	51.7	Yes	No	No	Financial
3.	Korea Finance	46,981	44.5	Yes	No	No	Financial
4.	Korea Deposit Insurance	41,850	39.7	Yes	No	No	Insurance
5.	KDB Daewoo Securities	40,790	38.7	Yes	Yes	No	Securities
6.	Woori Investment and Securities	38,567	36.5	Yes	Yes	No	Securities
7.	Korea Investment and Securities	38,511	36.5	No	No	No	Securities
8.	Korea Electric Power	30,600	29.0	Yes	Yes	No	Utilities
9.	Hana Daetoo Securities	27,645	26.2	No	No	No	Securities
10.	Mirae Asset Securities	27,583	26.1	No	Yes	No	Securities
11.	Industrial Bank of Korea	27,559	26.1	Yes	Yes	No	Bank
12.	Korea Expressway	21,230	20.1	Yes	No	No	Infrastructure
13.	Kookmin Bank	18,251	17.3	No	No	No	Bank
14.	Korea Rail Network Authority	17,100	16.2	Yes	No	No	Infrastructure
15.	Hyundai Securities	16,059	15.2	No	Yes	No	Securities
16.	Korea Gas	15,354	14.6	Yes	Yes	No	Utilities
17.	Small & Medium Business Corp.	15,005	14.2	Yes	No	No	Financial
18.	Shinhan Bank	14,404	13.7	No	No	No	Bank
19.	Shinhan Investment	13,960	13.2	No	No	No	Securities
20.	Woori Bank	13,952	13.2	Yes	No	No	Bank
21.	Standard Chartered First Bank Korea	11,490	10.9	No	No	No	Bank
22.	Korea Railroad	11,210	10.6	Yes	No	No	Infrastructure
23.	Samsung Securities	10,776	10.2	No	Yes	No	Securities
24.	Tong Yang Securities	10,717	10.2	No	Yes	No	Securities
25.	Korea Water Resources	10,463	9.9	Yes	Yes	No	Utilities
26.	Hana Bank	10,302	9.8	No	No	No	Bank
27.	Korea Student Aid Foundation	10,240	9.7	Yes	No	No	Financial
28.	Daishin Securities	10,062	9.5	No	Yes	No	Securities
29.	Korea Eximbank	9,520	9.0	Yes	No	No	Bank
30.	Shinhan Card	9,046	8.6	No	No	No	Financial
Total Top 30 LCY Corporate Issuers		**681,119.7**	**645.5**				
Total LCY Corporate Bonds		**1,098,423.0**	**1,041.0**				
Top 30 as % of Total LCY Corporate Bonds		**62.0%**	**62.0%**				

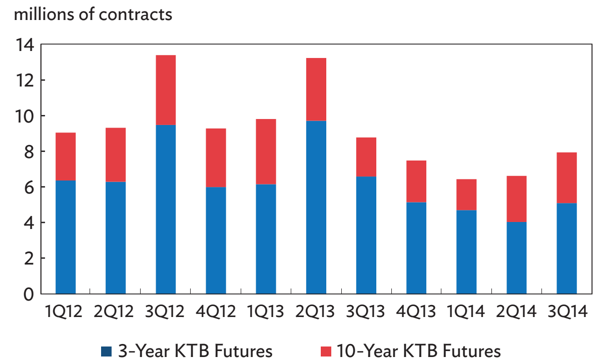
KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, LCY = local currency.
Notes:
1. Data as of end-September 2014.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Sources: *AsianBondsOnline* calculations based on Bloomberg and EDAILY *BondWeb* data.

Table 3: Notable LCY Corporate Bond Issuance in 3Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Industrial Bank of Korea		
1-year bond	2.24	450.0
1-year bond	2.24	400.0
Hana Financial Group		
5-year bond	2.74	500.0
Woori Bank		
1-year bond	2.25	450.0
Gyeonggi Urban Innovation		
5-year bond	3.00	400.0

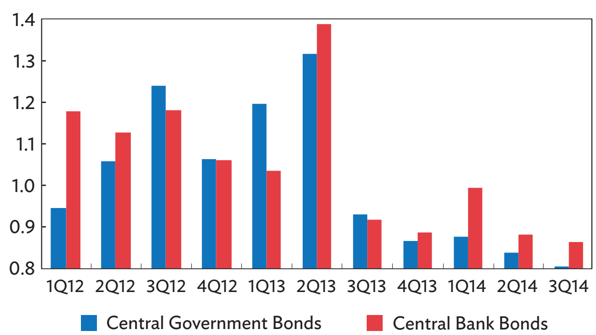
LCY = local currency.
Note: Coupon rates for 1-year bonds of Industrial Bank of Korea and Woori Bank are indicative yields as of end-September 2014.
Source: Bloomberg LP.

Figure 3: Trading Volumes of KTB Futures Contracts



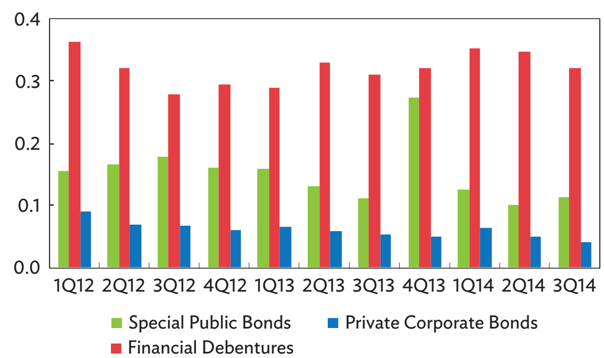
KTB = Korea Treasury Bond.
Source: Korea Exchange.

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



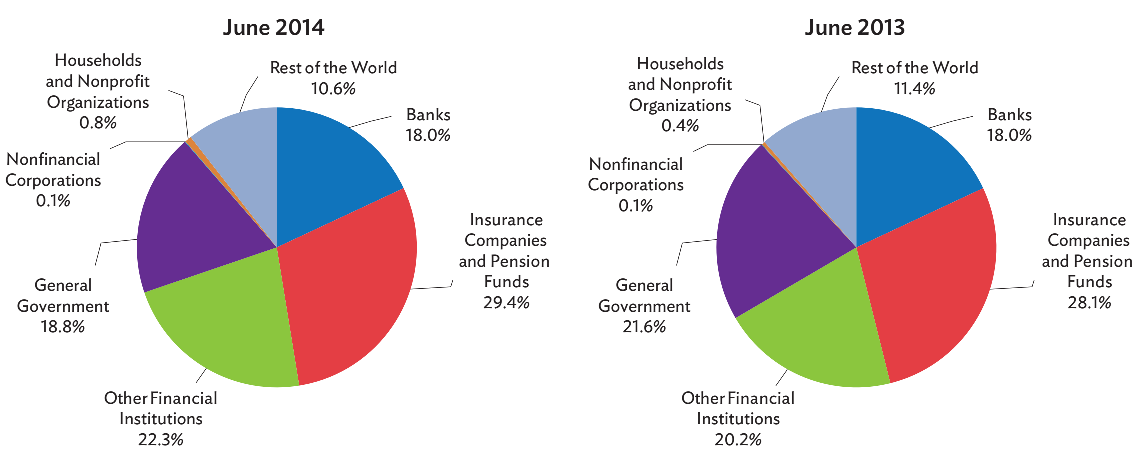
Note: Central government bonds include Korea Treasury Bonds and National Housing Bonds.
Sources: The Bank of Korea and EDAILY *BondWeb*.

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



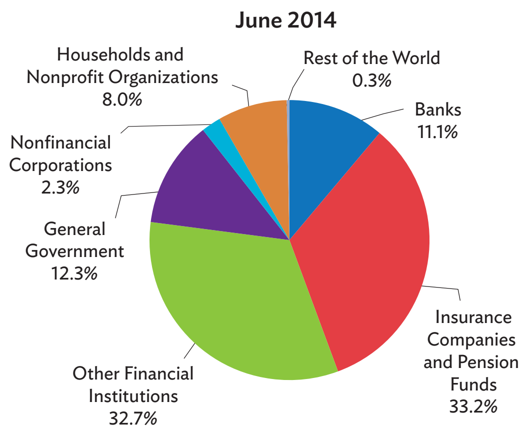
Source: EDAILY *BondWeb*.

Figure 5: LCY Government Bonds Investor Profile



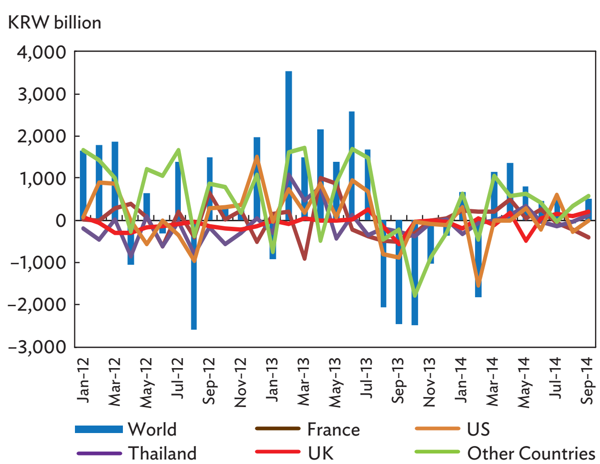
LCY = local currency.
Sources: *AsianBondsOnline* and The Bank of Korea.

Figure 6: LCY Corporate Bonds Investor Profile



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

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



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

Policy, Institutional, and Regulatory Developments

Basel III LCR Introduced in the Banking Sector

In August, the FSC introduced Basel III's liquidity coverage ratio (LCR) to banks conducting business in the Republic of Korea. The FSC stated that domestic banks are obliged to meet the minimum LCR of 100% starting January 2015; domestic branches of foreign banks are required to meet the minimum ratio of 20% starting in 2015, and the ratio will be raised 10 percentage points each year to reach 60% by 2019; and the minimum ratio for specialized banks and policy banks will start at 60% in 2015 and climb by 10 percentage points per year to reach 100% by 2019.

Prudential Regulation Reform for the Asset Management Industry

The Republic of Korea's Financial Services Commission (FSC) announced in September plans for the reform of prudential regulations governing the country's asset management industry. The plans involve replacing the net capital ratio—which has been utilized since April 1997 as a standard for "prompt corrective action" covering asset management and securities companies—with a minimum capital requirement for the equity holdings of asset management companies. The plan is expected to take effect in April 2015.

Malaysia

Yield Movements

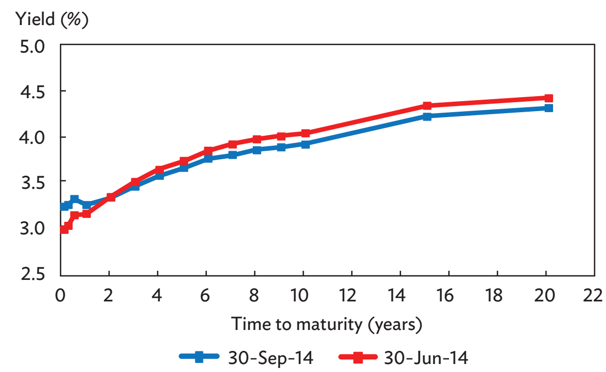
Between end-June and end-September, all Malaysian local currency (LCY) government bond yields fell, except for instruments at the shorter-end of the curve, resulting in a slight flattening of the curve **(Figure 1)**. Yields for the 1-month tenor climbed as much as 25 basis points (bps), while yields for the 3-month to 1-year maturities edged up between 10 bps and 23 bps. The rise in yields on the shorter-end of the curve was due to Bank Negara Malaysia's (BNM) decision on 10 July to raise the overnight policy rate 25 bps to 3.25% to mitigate the risk of continued high inflation and potential economic and financial imbalances. Meanwhile, yields for securities with tenors of 3 years or more declined between 6 bps and 12 bps, which narrowed the gap between 2-year and 10-year tenors to 58 bps at end-September from 69 bps at end-June. Yields on the longer-end of the curve fell as the market reacted positively to BNM's decision to raise the policy rate on expectations of more manageable inflation in the near-term.

In its Monetary Policy Committee meeting on 18 September, BNM decided to keep its overnight policy rate steady at 3.25%. BNM deemed its current monetary policy stance to be supportive of growth. Inflation is expected to be relatively stable as the effects of price adjustments for utilities and energy have diminished.

However, inflation has remained elevated in 3Q14, increasing to 3.3% year-on-year (y-o-y) in August from 3.2% in July, before easing to 2.6% in September. Risks to inflation remain as the government raised fuel prices in early October and is planning to implement the good and services tax (GST) in April 2015.

Malaysia's real gross domestic product (GDP) growth accelerated to 6.4% y-o-y in 2Q14, the fastest pace in 6 quarters, from 6.2% in 1Q14. On the supply side, the growth was fueled by increases in the manufacturing sector, which rose 7.3% y-o-y compared with 6.8% in the previous quarter, led by electrical and electronic products, and transport equipment. On the demand side, exports and domestic demand drove the economy, accelerating 8.8% and 6.5%, respectively. On a seasonally adjusted and q-o-q basis, the economy grew 1.8%.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

Total LCY bonds outstanding in Malaysia rose 2.5% quarter-on-quarter (q-o-q) to MYR1,079 billion (US$329 billion) at end-September, led by the government bond sector, particularly central bank bills **(Table 1)**. Government bonds outstanding totaled MYR633 billion (US$193 billion), while corporate bonds summed to MYR446 billion. *Sukuk* (Islamic bonds) dominated the market, surpassing conventional securities in terms of share of the total market in 3Q14, with 52% of bonds outstanding. On a y-o-y basis, the LCY bond market grew 8.7% as of end-September.

Government Bonds. LCY government bonds increased 3.4% q-o-q to close at MYR633 billion at end-September. Central government bonds—comprising Malaysian Government Securities, Government Investment Issues, and Treasury bills—remained unchanged at MYR508 billion. The size of outstanding BNM monetary notes, on the other hand, climbed 22.0% q-o-q to MYR108 billion. The increase may be a result of the central bank mopping up excess liquidity in the market amid elevated inflation.

The government issued more bonds in 3Q14 than in the previous quarter, with issuance rising 14.5% q-o-q to MYR105.8 billion, led by central bank bills. Meanwhile, issuance of central government securities fell 20.0% q-o-q.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	MYR	US$	MYR	US$	MYR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**993**	**305**	**1,053**	**328**	**1,079**	**329**	**(0.04)**	**2.2**	**2.5**	**8.7**
Government	584	179	612	191	633	193	(0.7)	(0.4)	3.4	8.4
Central Government Bonds	468	143	508	158	508	155	1.9	10.1	0.02	8.7
of which: *sukuk*	166	51	190	59	187	57	2.5	20.4	(1.8)	12.7
Central Bank Bills	107	33	88	28	108	33	(12.5)	(32.6)	22.0	0.6
of which: *sukuk*	41	13	35	11	42	13	(19.3)	(34.7)	19.8	3.8
Sukuk Perumahan Kerajaan	9	3	16	5	17	5	43.5	242.3	9.7	91.0
Corporate	410	126	442	138	446	136	0.9	6.1	1.1	9.0
of which: *sukuk*	274	84	302	94	314	96	1.0	9.0	4.0	14.5

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

Corporate Bonds. LCY corporate bonds slightly increased 1.1% q-o-q, bringing total outstanding bonds to MYR446 billion at end-September. The share of corporate *sukuk* to total corporate bonds outstanding increased to 70% at end-September from 68% at end-June.

Corporate bond issuance expanded 25.8% q-o-q to MYR33 billion in 3Q14 on a total of 80 new issues during the quarter, from MYR27 billion in the previous quarter. **Table 2** lists some notable corporate bonds issued in 3Q14.

The largest corporate issuers in 3Q14 were from the financial sector, led by Maybank and Bank Pembangunan Malaysia. Maybank issued a 10-year bond valued at MYR3.5 billion. The bond was rated AA3 by RAM Ratings and has a coupon rate of 5.30%. Bank Pembangunan Malaysia, rated AAA, raised MYR3.0 billion from the sale of four tranches of *murabahah* (profit-sharing) medium-term notes.

Table 3 provides a breakdown of the top 30 LCY corporate bond issuers in Malaysia, whose total LCY bonds outstanding stood at MYR249.2 billion at end-September, representing 55.8% of the LCY corporate bond market. Financial firms comprised 10 of the 30 largest corporate bond issuers, with bonds outstanding worth MYR88.8 billion. Highway operator Project Lebuhraya Usahasama remained the largest issuer with outstanding bonds valued at MYR30.6 billion.

Table 2: Notable LCY Corporate Bond Issuance in 3Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Maybank		
10-year bond	5.30	3,500
Bank Pembangunan Malaysia		
7-year Islamic MTN	4.19	700
10-year Islamic MTN	4.38	500
15-year Islamic MTN	4.75	900
20-year Islamic MTN	4.85	900
Danainfra Nasional		
7-year Islamic MTN	4.23	400
10-year Islamic MTN	4.41	400
15-year Islamic MTN	4.76	400
20-year Islamic MTN	4.93	500
25-year Islamic MTN	5.14	400
30-year Islamic MTN	5.29	500

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

Investor Profile

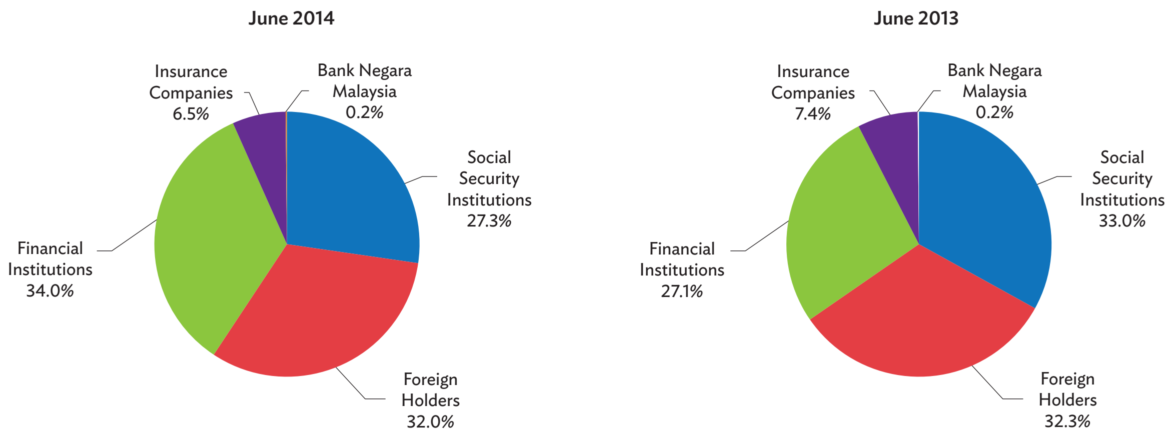
At end-June, the share of government bonds held by financial institutions—including banking institutions, development financial institutions, and nonbank financial institutions—rose both on a q-o-q and y-o-y basis. Financial institutions accounted for 34.0% of the total government bond market at end-June with holdings valued at MYR164.5 billion **(Figure 2)**. Banks remained

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

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (MYR billion)	LCY Bonds (US$ billion)			
1.	Project Lebuhraya Usahasama	30.60	9.33	No	Yes	Transport, Storage, and Communications
2.	Cagamas	23.21	7.07	Yes	No	Finance
3.	Khazanah	20.00	6.10	Yes	No	Quasi-Government
4.	Prasarana	13.91	4.24	Yes	No	Transport, Storage, and Communications
5.	Pengurusan Air	11.73	3.58	Yes	No	Energy, Gas, and Water
6.	Danainfra Nasional	11.70	3.57	Yes	No	Finance
7.	Maybank	11.36	3.46	No	Yes	Finance
8.	Perbadanan Tabung Pendidikan Tinggi Nasional	9.50	2.90	Yes	No	Quasi-Government
9.	CIMB Bank	8.05	2.45	No	No	Finance
10.	Public Bank	8.02	2.45	No	Yes	Finance
11.	BGSM Management	7.20	2.19	No	No	Transport, Storage, and Communications
12.	Sarawak Energy	7.00	2.13	Yes	No	Energy, Gas, and Water
13.	Aman *Sukuk*	6.44	1.96	Yes	No	Construction
14.	Bank Pembangunan	6.00	1.83	No	No	Finance
15.	RHB Bank	5.60	1.71	No	No	Finance
16.	Cagamas MBS	5.38	1.64	Yes	No	Finance
17.	Malakoff Power	5.38	1.64	No	No	Energy, Gas, and Water
18.	Turus Pesawat	5.31	1.62	Yes	No	Quasi-Government
19.	1Malaysia Development	5.00	1.52	Yes	No	Quasi-Government
20.	Celcom Transmission	5.00	1.52	No	No	Transport, Storage, and Communications
21.	Hong Leong Bank	4.95	1.51	No	Yes	Finance
22.	Manjung Island Energy	4.85	1.48	No	No	Energy, Gas, and Water
23.	Rantau Abang	4.80	1.46	Yes	No	Quasi-Government
24.	AM Bank	4.54	1.38	No	No	Finance
25.	KL International Airport	4.36	1.33	Yes	No	Transport, Storage, and Communications
26.	Putrajaya Holdings	4.13	1.26	No	No	Property and Real Estate
27.	Tanjung Bin Power	4.05	1.23	No	Yes	Energy, Gas, and Water
28.	YTL Power International	3.77	1.15	No	Yes	Energy, Gas, and Water
29.	Jimah Energy Ventures	3.71	1.13	No	No	Energy, Gas, and Water
30.	TNB Western Energy	3.66	1.11	No	No	Construction
Total Top 30 LCY Corporate Issuers		**249.20**	**75.96**			
Total LCY Corporate Bonds		**446.37**	**136.07**			
Top 30 as % of Total LCY Corporate Bonds		**55.8%**	**55.8%**			

LCY = local currency.
Notes:
1. Data as of end-September 2014.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) data.

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.
Source: Bank Negara Malaysia.

the largest holder among this group and strengthened their position in Government Investment Issues by MYR6.3 billion from end-March levels.

Holdings of foreign investors were slightly down from a share of 32.3% a year earlier to 32.0% at end-June, but higher compared with 30.8% in the previous quarter. Foreign investors increased their holdings of Malaysian Government Securities by MYR5.4 billion from the previous quarter.

Social security institutions dropped to the third-largest holder of LCY government bonds at end-June from the top spot a year earlier. The holdings of social security institutions fell to a share of 27.3% of the total market, down from 33.0% at end-June 2013 and 29.4% at end-March 2014, as a result of divestments made by the Employees Provident Fund.

Policy, Institutional, and Regulatory Developments

Prime Minister Announces 2015 Federal Budget

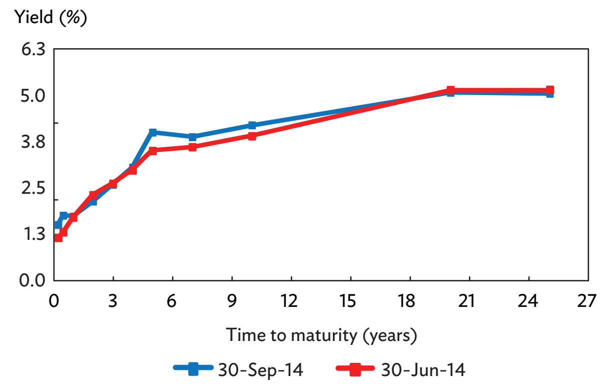
On 10 October, Malaysia announced the release of its 2015 federal budget. The 2015 budget allocates MYR273.9 billion, an increase of MYR9.8 billion from the 2014 initial allocation. The government stated that the economy is expected to grow between 5% and 6% in 2015, and the government's fiscal deficit will be reduced to 3% of GDP. The government also announced planned amendments to tax rates in 2015, including a reduction in income taxes by 1%–3%, implementation of the GST of 6%, and abolition of the sales and services tax. Furthermore, the corporate income tax and small and medium-sized income tax will be reduced 1% each in 2016. To strengthen the Islamic financial market, the government plans to introduce the Investment Account Platform, a *shari'a*-compliant investment product that will allow investors to finance businesses, small and medium-sized enterprises, and other entities via the Islamic financial market. The Investment Account Platform will have an initial start-up fund of MYR150 million. The government also announced plans of further rationalization of its current subsidies. A report by the Ministry of Finance indicated a reduction in subsidies to MYR37.7 billion in 2015 from MYR40.6 billion in 2014.

Philippines

Yield Movements

Between end-June and end-September, yields rose for most tenors of Philippine local currency (LCY) bonds **(Figure 1)**. Yields for the 3-month and 6-month tenors rose 35 basis points (bps) and 45 bps, respectively. Yields for bonds with tenors of between 5 years and 10 years rose 27 bps–50 bps. Meanwhile, yields for the 20-year and 25-year tenors fell 7 bps and 11 bps, respectively. The rise in yields was a result of inflationary concerns amid speculation over continued monetary tightening by the Bangko Sentral ng Pilipinas (BSP).

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



LCY = local currency.
Source: Bloomberg LP.

On 31 July, the BSP raised its key policy rates 25 bps each, bringing the overnight borrowing rate to 3.75% and the overnight lending rate to 5.75%. On 11 September, the BSP decided to raise by an additional 25 bps the (i) overnight borrowing rate to 4.0%; (ii) the overnight lending rate to 6.0%; and (iii) interest rates on term reverse repurchases, repurchases, and the special deposit account facility. Reserve requirement ratios were left unchanged. According to the BSP, it raised rates because its 2015 inflation target of 3.0±1% was at risk due to rising food prices and a potential upward adjustment to utility prices.

Inflation remained elevated in 3Q14, accelerating to 4.9% year-on-year (y-o-y) in July from 4.4% in June. Inflation remained steady at 4.9% in August before slowing to 4.4% again in September. Average inflation for the first 9 months of the year was 4.4%, which is at the upper-end of the BSP's 2014 target range of 4.0±1%.

The Philippines' real gross domestic product (GDP) growth accelerated to 6.4% y-o-y in 2Q14, following 5.6% growth in 1Q14. However, this was down from the 7.9% growth posted in the same period last year. Growth in 2Q14 was mainly driven by the industrial and services sectors, which expanded 7.8% and 6.0% y-o-y, respectively. For the first half of 2014, real GDP grew 6.0% y-o-y.

Size and Composition

The Philippine LCY bond market grew 2.3% quarter-on-quarter (q-o-q) in 3Q14, led by Treasury and corporate bonds, to reach PHP4,595 billion (US$102 billion) at end-September **(Table 1)**. Government securities accounted for the majority of bonds outstanding, totaling PHP3,846 billion, while corporate bonds summed to PHP749 billion. On a y-o-y basis, the LCY bond market had grown 6.7% as of end-September.

Government Bonds. Outstanding fixed-income instruments issued by the Philippine government and government-controlled companies slightly increased 0.7% q-o-q and 2.2% y-o-y to close at PHP3,846 billion at end-September. Treasury bills decreased 1.2% q-o-q and 8.0% y-o-y to stand at PHP285 billion at end-September. The Bureau of the Treasury (BTr) rejected some of its Treasury bill auctions as the market continued to seek higher yields amid rising inflationary concerns and policy rate hikes.

Treasury bonds increased 0.9% q-o-q and 3.2% y-o-y to PHP3,445 billion. In August, BTr conducted another bond exchange program as part of its domestic liability management exercise. The total issue size of PHP140 billion included PHP122 billion worth of exchange offers from existing bondholders. The resulting increase from this program and from bond auctions was capped, given that PHP55 billion worth of retail Treasury bonds also matured in 3Q14. Meanwhile, fixed-income instruments issued by government-controlled companies remained unchanged in 3Q14 at PHP116 billion.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	PHP	US$	PHP	US$	PHP	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**4,307**	**99**	**4,492**	**103**	**4,595**	**102**	**4.3**	**13.3**	**2.3**	**6.7**
Government	3,763	87	3,819	87	3,846	86	4.9	14.5	0.7	2.2
Treasury Bills	310	7	288	7	285	6	0.6	18.4	(1.2)	(8.0)
Treasury Bonds	3,339	77	3,415	78	3,445	77	5.5	15.2	0.9	3.2
Others	113	3	116	3	116	3	0.0	(8.8)	0.0	2.1
Corporate	544	13	673	15	749	17	0.6	5.8	11.3	37.6

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
4. "Others" comprise bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines. This includes bonds issued by Power Sector Assets and Liabilities Management (PSALM) and the National Food Authority, among others.
5. Peso Global Bonds (PHP-denominated bonds payable in US dollars) and multi-currency Retail Treasury Bonds (RTBs) are not included. As of end-September 2014, the Government of the Philippines and Petron Corporation had PHP129.7 billion and PHP20.0 billion of outstanding Peso Global Bonds, respectively. There was a total of PHP6.2 billion of outstanding multi-currency Treasury Bonds as of end-September 2014.

Sources: Bloomberg LP and Bureau of the Treasury.

In terms of issuance, 3Q14 saw higher volume at PHP257 billion compared with PHP177 billion in 2Q14, primarily due to the PHP140.4 billion bond swap held in August. The government has programmed LCY borrowing of PHP135 billion through its regular auction schedule in 4Q14: PHP60 billion of Treasury bills with 91-, 182-, and 364-day tenors; and PHP75 billion of Treasury bonds with 3-, 5-, and 7-year tenors.

Corporate Bonds. Total outstanding LCY corporate bonds increased 11.3% q-o-q and 37.6% y-o-y to reach PHP749 billion. Total corporate bond issuance in 3Q14 stood at PHP66.2 billion. Seven companies issued bonds and Tier 2 notes. SM Prime Holdings was the largest issuer in 3Q14, raising PHP20 billion worth of bonds, GT Capital was second with PHP12 billion, followed by Aboitiz Power and Security Bank with PHP10 billion each **(Table 2)**.

Table 2: Notable LCY Corporate Bond Issuance in 3Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
SM Prime Holdings		
5.5-year bond	5.10	15.04
7-year bond	5.20	2.36
10-year bond	5.74	2.60
GT Capital Holdings		
5-year bond	4.71	3.00
7-year bond	5.20	5.00
10-year bond	5.63	4.00
Aboitiz Power		
7-year bond	5.21	6.60
12-year bond	6.10	3.40
Security Bank		
10-year Tier 2 note	5.38	10.00
Metrobank		
10-year Tier 2 note	5.25	6.50
East West Bank		
10-year Tier 2 note	5.50	5.00
Century Properties		
3-year bond	6.00	1.19
5.5-year bond	6.69	1.39
7-year bond	6.98	0.12

LCY = local currency.
Source: Bloomberg LP.

There were 53 companies that had outstanding stock of bonds as of end-September. The top 31 issuers accounted for 87.9% of the total amount of LCY corporate bonds outstanding at end-September **(Table 3)**. Out of the top 31 bond issuers, only eight companies were privately held corporations and the rest were publicly listed with the Philippine Stock Exchange (PSE). Ayala Land remained the largest corporate issuer in the country with PHP57.9 billion of outstanding debt at end-September. SM Investments was the next largest borrower with PHP41.9 billion outstanding. Ayala Corporation was in the third spot with PHP40.0 billion of outstanding bonds.

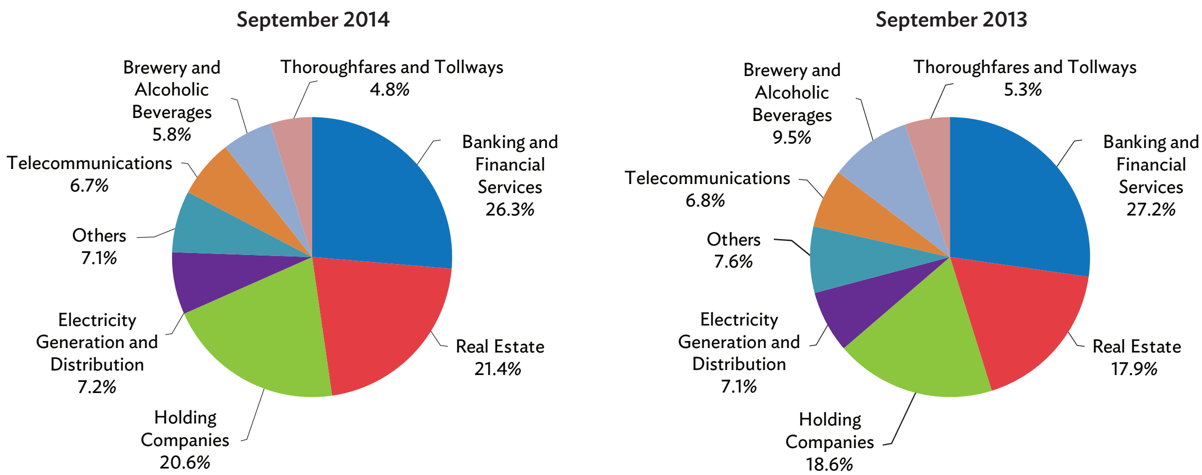
The diversity of LCY corporate bond issuers in 3Q14 was comparable with that in 3Q13 **(Figure 2)**. Banks and financial services, including investment houses, remained the leading issuers of debt in 3Q14 with 26.3% of the total, down from a share of 27.2% in 3Q13. The market share of most industries remained relatively unchanged, except for real estate, which increased to 21.4% from 17.9%; holding companies, which increased to 20.6% from 18.6%; and brewery and alcoholic beverages, which decreased to 5.8% from 9.5%. Firms from industries as diverse as electricity generation and distribution,

Table 3: Top 31 Issuers of LCY Corporate Bonds in the Philippines

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (PHP billion)	LCY Bonds (US$ billion)			
1.	Ayala Land	57.9	1.3	No	Yes	Real Estate
2.	SM Investments	41.9	1.0	No	Yes	Diversified Operations
3.	Ayala Corporation	40.0	0.9	No	Yes	Diversified Operations
4.	JG Summit Holdings	39.0	0.9	No	Yes	Diversified Operations
5.	San Miguel Brewery	37.8	0.9	No	No	Brewery
6.	Metrobank	32.5	0.7	No	Yes	Banking
7.	Philippine Long Distance Telephone	29.8	0.7	No	Yes	Telecommunications
8.	Philippine National Bank	27.6	0.6	No	Yes	Banking
9.	RCBC	25.0	0.6	No	Yes	Banking
10.	SM Prime Holdings	25.0	0.6	No	Yes	Real Estate
11.	Meralco	23.5	0.5	No	Yes	Electricity Distribution
12.	Security Bank	23.0	0.5	No	Yes	Banking
13.	GT Capital Holdings	22.0	0.5	No	Yes	Investment Companies
14.	Filinvest Land	21.5	0.5	No	Yes	Real Estate
15.	BDO Unibank	20.0	0.5	No	Yes	Banking
16.	Energy Development Corporation	19.0	0.4	No	Yes	Electricity Generation
17.	Globe Telecom	17.0	0.4	No	Yes	Telecommunications
18.	Maynilad Water Services	16.5	0.4	No	No	Water
19.	MCE Leisure	15.0	0.3	No	No	Casino Services
20.	SM Development	14.3	0.3	No	Yes	Real Estate
21.	Manila North Tollways	13.0	0.3	No	No	Transport Services
22.	First Metro Investment	12.0	0.3	No	No	Investment Banking
23.	MTD Manila Expressway	11.5	0.3	No	No	Transport Services
24.	South Luzon Tollway	11.0	0.3	No	No	Transport Services
25.	Aboitiz Power	10.5	0.2	No	Yes	Electricity Generation
26.	United Coconut Planters Bank	9.5	0.2	No	No	Banking
27.	East West Bank	9.3	0.2	No	Yes	Banking
28.	Filinvest Development	8.8	0.2	No	Yes	Real Estate
29.	Petron	8.4	0.2	No	Yes	Oil Refining and Marketing
30.	Allied Bank	8.0	0.2	No	Yes	Banking
31	Aboitiz Equity Ventures	8.0	0.2	No	Yes	Diversified Operations
Total Top 31 LCY Corporate Issuers		**658.5**	**15.1**			
Total LCY Corporate Bonds		**749.1**	**17.2**			
Top 31 as % of Total LCY Corporate Bonds		**87.9%**	**87.9%**			

LCY = local currency.
Notes:
1. Data as of end-September 2014.
2. Petron has PHP20 billion of Global Peso Bonds outstanding that were 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.

Figure 2: LCY Corporate Bond Issuers by Industry



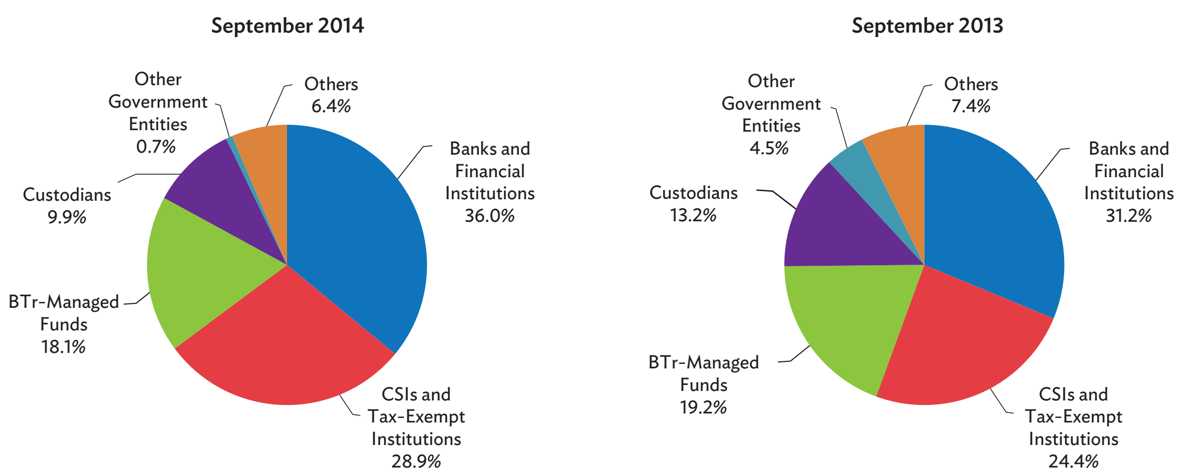
LCY = local currency.
Source: Bloomberg LP.

telecommunications, and thoroughfares and tollways continued to have shares of total corporate bonds outstanding in the single-digit levels.

Investor Profile

The largest grouping of investors in government securities in 3Q14 comprised banks and financial institutions with a 36.0% share of the total **(Figure 3)**, this was up from a 31.2% share in 3Q13. Contractual savings institutions—including the Social Security System, Government Service Insurance System, Pag-IBIG, and life insurance companies—and tax-exempt institutions—such as trusts and other tax-exempt entities—accounted for 28.9% of the total in 3Q14, up from 24.4% in 3Q13. The shares of funds being managed by BTr, including the Bond Sinking Funds, and custodians fell slightly to 18.1% in 3Q14 from 19.2% in 3Q13. The participation of custodians also decreased to 9.9% from 13.2%. The share of other government entities and

Figure 3: LCY Government Bonds Investor Profile



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

other investors, which include individuals and private corporations, also decreased to 7.1% in 3Q14 from 11.9% in 3Q13.

Policy, Institutional, and Regulatory Developments

BTr Issues Circular for LCY Government Securities Secondary Market

On 22 September, BTr issued a circular on the Revised Rules and Regulations for the Issuance, Placement, Sale, Service, and Redemption of Treasury Bills and Bonds under Republic Act No. 245 (as amended). The circular provides guidance on the implementation of non-restricted trading across tax categories in the secondary market for Philippine LCY coupon-bearing government securities, with the intention of deepening liquidity in the bond market and providing additional investment avenues for tax-exempt institutions and individuals. The circular also covered the tax-tracking mechanisms and operating guidelines to be used in the trading and settlement of the bonds. These include the establishment and opening of a Securities Account for Tax Tracking (SATT), the monitoring of the balances in the SATT, the assignment of an Investor Code associated with the SATT, and the reimbursement of any final withholding tax—to be calculated by a tax-tracking facility—that may have been deducted from the proceeds of the tax exempt holder or seller. The circular is targeted to take effect on 27 October.

Bank of Japan and BSP Sign Third Bilateral Swap Arrangement

On 17 October, the Bank of Japan and the Bangko Sentral ng Pilipinas signed their third Bilateral Swap Arrangement, which is an expansion of a prior agreement. The new arrangement allows a swap between US dollars and Philippine pesos of up to US$12 billion from Japan, and allows the swap between US dollars and Japanese yen of up to US$500 million from the Philippines. The arrangement also includes a crisis prevention scheme to address possible liquidity needs.

BSP Increases Minimum Capital Requirement for Banks

On 20 October, the Monetary Board of the BSP decided to increase the minimum capital requirement for all bank categories to further strengthen the banking system. The BSP noted that this is different from the Basel III requirements as implemented by previous BSP circulars. The new minimum capital requirement for universal and commercial banks will be tiered based on a bank's network size, as measured by the number of branches. For thrift, rural, and cooperative banks, the head office location and size of the physical network are to be considered in the tiering. Banks that will not immediately comply with the new capital requirement may avail of a 5-year transition period. These banks will be required to submit an acceptable capital build-up program. The banks that fail to submit an acceptable program and those that fail to comply with the new capital requirements shall be subject to restrictions on future expansion plans.

Singapore

Yield Movements

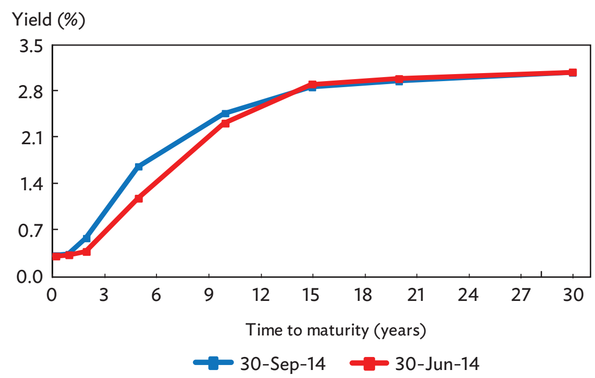
Local currency (LCY) government bond yields in Singapore rose for most tenors from the short-end of the curve through the 10-year tenor between end-June and end-September **(Figure 1)**. Bond yields rose the most for the 5-year maturity, gaining 48 basis points (bps). On the other hand, bond yields with maturities of 15 years or more shed between 1 bp and 5 bps. The yield spread between the 2- and 10-year tenors narrowed to 188 bps at end-September from 193 bps at end-June.

Inflation has remained benign thus far in 2014. Consumer price inflation eased to 1.2% year-on-year (y-o-y) in July and further slowed to 0.9% in August and 0.6% in September. The Monetary Authority of Singapore (MAS) expects inflation to remain subdued and has revised downward its 2014 headline inflation forecast to a range of 1.0%–1.5%.

In its monetary policy decision held on 14 October, MAS decided to maintain its existing policy of a slow and gradual appreciation of the Singapore Dollar Nominal Effective Exchange Rate ($NEER). MAS will make no change to either the slope, width, or level at which the exchange rate is centered. MAS cited its forecast of moderate growth in the economy for the remainder of 2014 and in 2015. MAS expects that growth in Singapore's economy will be driven by a recovery in external markets, though tempered by supply-side pressures. MAS sees overall inflation moderating but core inflation is expected to be under pressure due to higher imported food prices and little slack in labor markets.

Advanced estimates released by the Ministry of Trade and Industry indicated Singapore's economy expanded 2.4% y-o-y in 3Q14, the same pace of growth as in 2Q14. The manufacturing and construction sectors both recorded 1.4% y-o-y growth rates in 3Q14, slower compared with the earlier quarter. On the other hand, the output of services-producing industries rose 2.9% y-o-y. On a quarter-on-quarter (q-o-q) and seasonally adjusted annualized basis, gross domestic product (GDP) stood at 1.2% after contracting 0.1% in 2Q14.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The outstanding size of LCY bonds in Singapore increased to SGD322 billion (US$252 billion) at end-September on growth of 4.7% q-o-q and 6.1% y-o-y **(Table 1)**.

Government Bonds. LCY government bonds recorded modest growth of 2.8% q-o-q and 4.2% y-o-y to reach SGD195 billion at end-September. Growth mostly came from increases in the stock of MAS bills, which are a tool of MAS money market operations. The stock of MAS bills rose 4.8% q-o-q and 58.5% y-o-y to SGD94 billion. In 3Q14, new issuance of MAS bills totaled SGD97 billion, up 2.8% q-o-q and 27.1% y-o-y.

In 3Q14, the outstanding size of Singapore Governments Securities (SGS) bills and bonds, which account for 52% of total government bonds, was up 1.0% q-o-q but declined 20.9% y-o-y to SGD101 billion. New issuance of SGS bonds fell 26.9% q-o-q and 66.5% y-o-y in 3Q14. There was no SGS bill issuance during the quarter under review.

Corporate Bonds. Based on *AsianBondsOnline* estimates, the outstanding size of LCY corporate bonds in Singapore stood at SGD127 billion at end-September. This translates to growth of 7.8% q-o-q and 9.3% y-o-y.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	SGD	US$	SGD	US$	SGD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**303**	**241**	**307**	**247**	**322**	**252**	**0.6**	**9.9**	**4.7**	**6.1**
Government	187	149	189	152	195	153	(0.3)	9.4	2.8	4.2
SGS Bills and Bonds	128	102	100	80	101	79	(7.2)	(11.1)	1.0	(20.9)
MAS Bills	59	47	89	72	94	73	19.0	119.3	4.8	58.5
Corporate	116	93	118	95	127	100	2.2	10.7	7.8	9.3

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

At end-September, the outstanding bonds of the top 31 LCY corporate bond issuers in Singapore reached SGD67 billion, accounting for 52.7% of total outstanding LCY corporate bonds **(Table 2)**.

The largest bond issuer in Singapore is the state-owned Housing and Development Board with outstanding bonds amounting to SGD20.3 billion at end-September. Taking the second spot was real estate firm Capitaland with outstanding bonds valued at SGD5.3 billion. United Overseas Bank was the third-largest issuer with outstanding bonds amounting to SGD4.1 billion.

The top 31 corporate bond issuers consisted of diverse sectors including, financial, real estate, utilities, transportation, telecommunications, industrial, and consumer. There were only three state-owned firms on the list, all of which were ranked in the top 10.

In 3Q14, new corporate bond issuance totaled SGD5.7 billion, rising a notable 32.0% q-o-q and 35.4% y-o-y. A total of 24 new bond series were issued in 3Q14 by 22 corporate firms. Ten bond series carried maturities of 2–4 years, while eight had maturities of 5–7 years. Three new bond series had maturities of 10 years, one of 15 years, and two were perpetual maturity bonds. **Table 3** lists some of the largest corporate bond issues during the quarter.

Policy, Institutional, and Regulatory Developments

ASEAN CIS Framework Launched

On 25 August, MAS, Securities Commission for Malaysia, and Securities and Exchange Commission (Thailand) jointly launched the Association of Southeast Asian Nations (ASEAN) Collective Investment Scheme (CIS) Framework to facilitate cross-border offers of CIS to retail investors. The ASEAN CIS Framework allows fund managers based in Singapore, Malaysia, and Thailand to offer CIS products to retail investors in all three markets under a streamlined authorization process.

Table 2: Top 31 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	20.3	15.9	Yes	No	Financial
2.	Capitaland	5.3	4.1	No	Yes	Real Estate
3.	United Overseas Bank	4.1	3.2	No	Yes	Financial
4.	Temasek Financial I	3.6	2.8	No	No	Financial
5.	DBS Bank	3.3	2.6	No	Yes	Financial
6.	SP PowerAssets	2.4	1.9	No	No	Utilities
7.	Public Utilities Board	2.1	1.6	Yes	No	Utilities
8.	GLL IHT	1.8	1.4	No	No	Real Estate
9.	Land Transport Authority	1.8	1.4	Yes	No	Industrial
10.	City Developments	1.6	1.3	No	Yes	Consumer
11.	Keppel	1.5	1.2	No	Yes	Industrial
12.	Olam International	1.4	1.1	No	Yes	Consumer
13.	Hyflux	1.4	1.1	No	Yes	Industrial
14.	Singapore Airlines	1.3	1.0	No	No	Transportation
15.	Neptune Orient Lines	1.3	1.0	No	Yes	Transportation
16.	CapitaLand Treasury	1.2	1.0	No	No	Real Estate
17.	Keppel Land	1.1	0.9	No	Yes	Real Estate
18.	CapitaMalls Asia Treasury	1.0	0.8	No	No	Real Estate
19.	Oversea-Chinese Banking Corp.	1.0	0.8	No	Yes	Financial
20.	PSA	1.0	0.8	No	No	Consumer
21.	Mapletree Treasury Services	1.0	0.8	No	No	Financial
22.	CMT MTN	0.9	0.7	No	No	Financial
23.	Singtel Group Treasury	0.9	0.7	No	No	Telecommunications
24.	DBS Group Holdings	0.8	0.6	No	Yes	Financial
25.	Temasek Financial III	0.8	0.6	No	No	Financial
26.	Global Logistic Properties	0.8	0.6	No	Yes	Real Estate
27.	FCL Treasury	0.7	0.6	No	No	Real Estate
28.	Joynote	0.7	0.6	No	No	Real Estate
29.	Overseas Union Enterprise	0.7	0.5	No	Yes	Consumer
30.	Sembcorp Financial Services	0.7	0.5	No	No	Industrial
31.	SMRT Capital	0.7	0.5	No	No	Transportation
Total Top 31 LCY Corporate Issuers		**67.0**	**52.6**			
Total LCY Corporate Bonds		**127.1**	**99.6**			
Top 31 as % of Total LCY Corporate Bonds		**52.7%**	**52.7%**			

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

Table 3: Notable LCY Corporate Bond Issuance in 3Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Housing and Development Board		
5-year bond	2.29	500
10-year bond	3.10	900
FCL Treasury		
Perpetual bond	4.88	600
Jurong Shipyard		
7-year bond	2.95	275
15-year bond	3.85	325
Capitaland Treasury		
10-year bond	3.80	500
Olam International		
5-year bond	4.25	400
Lend Lease REIT		
7-year bond	3.28	300
CMT MTN		
10-year bond	3.48	300
Pacific International		
3-year bond	5.90	300

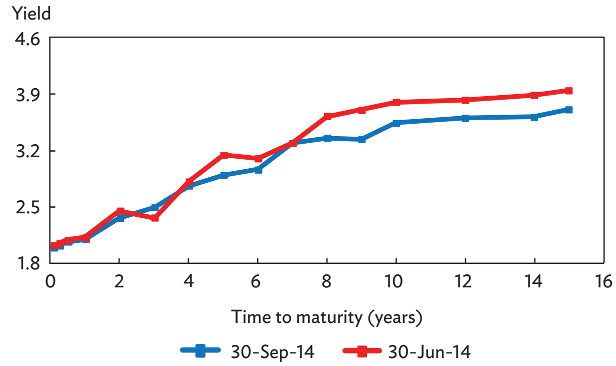
LCY = local currency.
Source: Bloomberg LP.

Thailand

Yield Movements

Local currency (LCY) government bond yields in Thailand fell for all tenors, except the 3-year and 7-year, between end-June and end-September, partly on the back of expectations that the policy rate would be kept low to support the country's economic recovery **(Figure 1)**. Meanwhile, the yield spread between the 2-year and 10-year tenors fell 17 basis points (bps) between end-June and end-September, resulting in a flattening of the yield curve.

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



LCY = local currency.
Source: Bloomberg LP.

On 5 November, the Bank of Thailand's (BOT) Monetary Policy Committee decided to maintain the policy rate at 2.00%, the fifth consecutive time that it was held unchanged by the committee. Consumer price inflation in Thailand continued to moderate, as the inflation rate (based on the Consumer Price Index) dropped to 1.5% year-on-year (y-o-y) in October from 1.8% in September. Real gross domestic product (GDP) in Thailand grew 0.4% y-o-y in 2Q14 after contracting 0.5% in 1Q14. The BOT reported in September that the Monetary Policy Committee's 2014 GDP growth projection remained unchanged from its previous forecast of 1.5%, while its 2014 inflation forecast was lowered to 2.2% from 2.6%.

Size and Composition

The stock of LCY bonds in Thailand stood at THB9.1 trillion at the end of 3Q14, down 0.4% from 2Q14, but up 2.3% from 3Q13 **(Table 1)**. The outstanding amount of LCY government bonds, which accounted for about three-fourths of the value of total LCY bonds, was down 1.5% on both a quarter-on-quarter (q-o-q) and y-o-y basis, amid a lower stock of central bank bonds. On the other hand, the LCY corporate bond market exhibited positive growth as the stock of corporate bonds climbed 3.4% q-o-q and 16.0% y-o-y to level off at THB2.2 trillion at end-September.

The top 30 corporate issuers had a combined stock of LCY corporate bonds amounting to THB1.3 trillion, which accounted for about 60% of the LCY corporate bond market at end-September **(Table 2)**. The five largest LCY corporate bonds issued in Thailand during

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	THB	US$	THB	US$	THB	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**8,931**	**286**	**9,169**	**283**	**9,134**	**282**	**0.6**	**9.1**	**(0.4)**	**2.3**
Government	7,005	224	7,008	216	6,899	213	(0.02)	7.3	(1.5)	(1.5)
Government Bonds and Treasury Bills	3,371	108	3,425	106	3,454	106	4.3	12.8	0.8	2.5
Central Bank Bonds	2,920	93	2,824	87	2,700	83	(5.8)	(0.4)	(4.4)	(7.6)
State-Owned Enterprise and Other Bonds	713	23	759	23	746	23	5.5	17.6	(1.7)	4.6
Corporate	1,926	62	2,161	67	2,235	69	2.7	16.3	3.4	16.0

( ) = 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.
Source: Bank of Thailand.

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	191.9	5.9	Yes	Yes	Energy and Utilities
2.	The Siam Cement	146.5	4.5	Yes	Yes	Construction Materials
3.	CP All	130.0	4.0	No	Yes	Commerce
4.	Charoen Pokphand Foods	69.3	2.1	No	Yes	Food and Beverage
5.	Bank of Ayudhya	60.1	1.9	No	Yes	Banking
6.	Krung Thai Bank	47.2	1.5	Yes	Yes	Banking
7.	Thai Airways International	43.6	1.3	Yes	Yes	Transportation and Logistics
8.	Toyota Leasing Thailand	41.6	1.3	No	No	Finance and Securities
9.	The Siam Commercial Bank	40.0	1.2	No	Yes	Banking
10.	True Corporation	39.0	1.2	No	Yes	Communications
11.	TMB Bank	38.7	1.2	No	Yes	Banking
12.	Thanachart Bank	37.9	1.2	No	No	Banking
13.	Mitr Phol Sugar	35.4	1.1	No	No	Food and Beverage
14.	Banpu	35.4	1.1	No	Yes	Energy and Utilities
15.	PTT Exploration and Production	32.1	1.0	Yes	Yes	Energy and Utilities
16.	Ayudhya Capital Auto Lease	30.2	0.9	No	No	Financial
17.	Kasikorn Bank	29.5	0.9	No	Yes	Banking
18.	Thai Oil	28.0	0.9	Yes	Yes	Energy and Utilities
19.	IRPC	27.6	0.9	Yes	Yes	Energy and Utilities
20.	Indorama Ventures	27.6	0.8	No	Yes	Petrochemicals and Chemicals
21.	Krung Thai Card	25.3	0.8	Yes	Yes	Finance and Securities
22.	Quality Houses	22.5	0.7	No	Yes	Property Development
23.	DAD SPV	22.5	0.7	Yes	No	Finance and Securities
24.	Kiatnakin Bank	21.9	0.7	No	Yes	Banking
25.	Bangkok Dusit Medical Services	21.1	0.7	No	Yes	Health Care
26.	ICBC Thai Leasing	20.4	0.6	No	No	Finance and Securities
27.	PTT Global Chemical	20.3	0.6	No	Yes	Petrochemicals and Chemicals
28.	Bangkok Bank	20.0	0.6	No	Yes	Banking
29.	Pruksa Real Estate	20.0	0.6	No	Yes	Property Development
30.	Bangkok Expressway	19.4	0.6	No	Yes	Transportation and Logistics
Total Top 30 LCY Corporate Issuers		**1,345.0**	**41.5**			
Total LCY Corporate Bonds		**2,235.0**	**68.9**			
Top 30 as % of Total LCY Corporate Bonds		**60.2%**	**60.2%**			

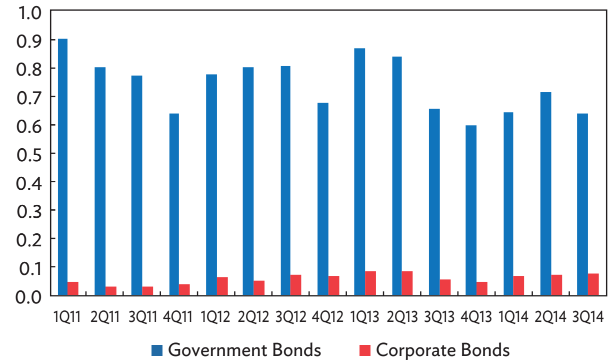
LCY = local currency.
Notes:
1. Data as of end-September 2014.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Table 3: Notable LCY Corporate Bond Issuance in 3Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
TMB Bank		
10-year bond	5.50	15.00
CP All		
10-year bond	5.05	10.44
Bangkok Dusit Medical Services		
5-year bond	1.85	10.00
PTT Global Chemical		
7-year bond	4.50	10.00
Toyota Leasing (Thailand)		
5-year bond	3.85	8.00

LCY = local currency.
Source: Bloomberg LP.

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



Sources: Bank of Thailand and ThaiBMA.

3Q14 were (i) TMB Bank's (Basel III-compliant) THB15 billion Tier 2 10-year bond carrying a 5.5% coupon, (ii) CP All's THB10.4 billion 10-year bond offering a 5.05% coupon, (iii) Bangkok Dusit Medical Services' THB10 billion 5-year zero-coupon convertible bond, (iv) PTT Global Chemical's THB10 billion 7-year bond carrying a 4.5% coupon, and (v) Toyota Leasing Thailand's THB8 billion 5-year bond offering a 3.85% coupon **(Table 3)**.

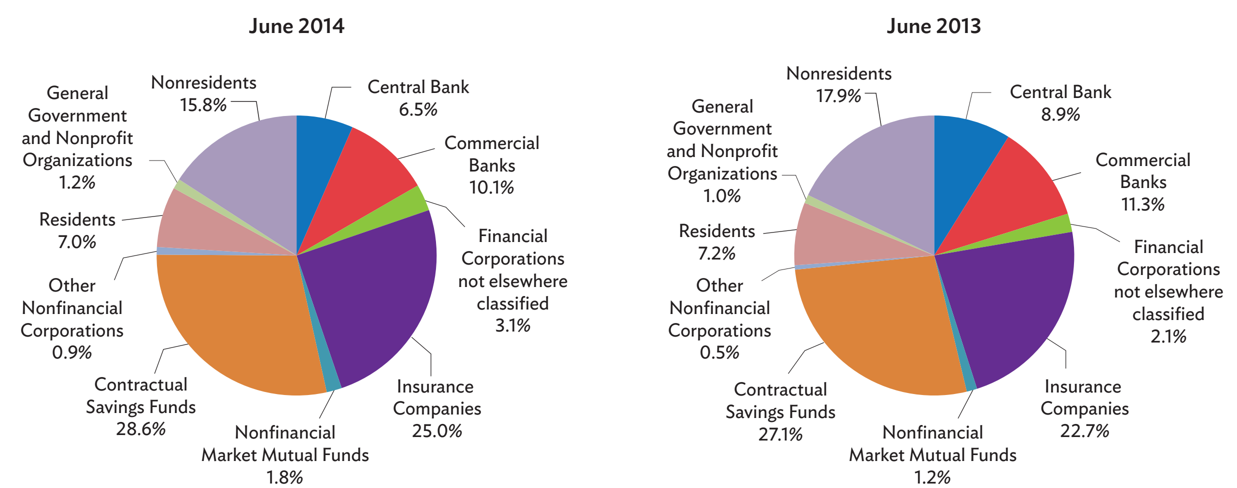
Liquidity

The turnover ratio for LCY government bonds fell to 0.64 in 3Q14 from 0.71 in 2Q14, while the turnover ratio for LCY corporate bonds remained steady at 0.07 **(Figure 2)**. The quarterly drop in the turnover ratio for LCY government bonds was brought about by a q-o-q decline in the trading value of government bonds, central bank bonds, and Treasury bills.

Investor Profile

As of end-June, contractual savings funds were the largest investor group in Thailand's LCY government bond market, with holdings accounting for 29% of the total LCY government bond market **(Figure 3)**. They were followed by insurers, which held 25% of the total.

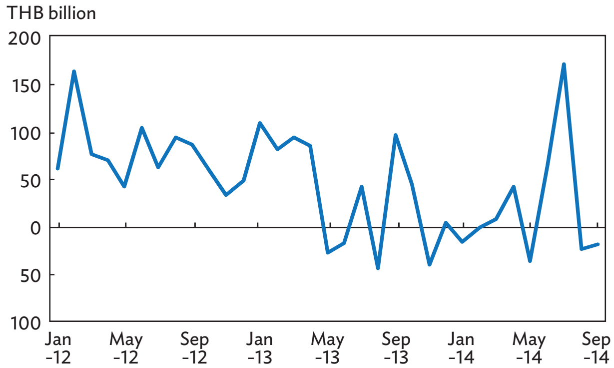
Figure 3: LCY Government Bonds Investor Profile



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

Foreign investors recorded net sales of Thai LCY bonds in September and August following relatively large net bond purchases in July **(Figure 4)**. However, on a q-o-q basis, foreign investor net bond purchases rose to THB128.1 billion in 3Q14 from THB69.3 billion in 2Q14 amid a positive economic outlook.

Figure 4: Foreign Investors' Net Purchases of LCY Bonds in Thailand



LCY = local currency.
Source: ThaiBMA.

Policy, Institutional, and Regulatory Developments

SEC Allows Commercial Banks to Offer Basel III-Compliant Tier 2 Instruments to Retail Investors

The Securities and Exchange Commission (SEC) announced in September that the Capital Market Supervisory Board has approved regulations to allow the offering of commercial banks' Basel III-compliant Tier 2 instruments to retail investors, with the regulations to take effect starting in 4Q14.

Revised Rules on Adequacy of Net Capital of Securities Companies

The SEC announced in September that the Capital Market Supervisory Board had approved the revision of rules governing securities firms that are unable to maintain adequate net capital as required. The revised rules took effect in October 2014.

Viet Nam

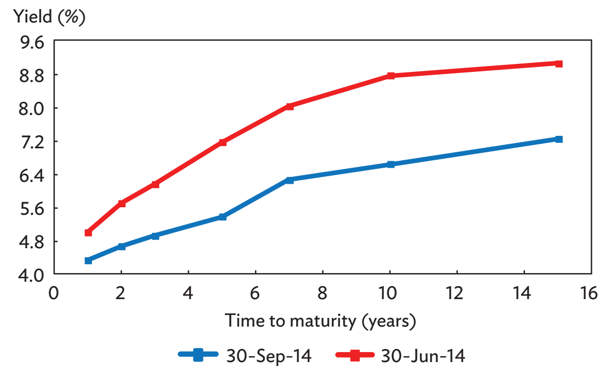
Yield Movements

Viet Nam's local currency (LCY) government bond yields fell sharply for all tenors between end-June and end-September, with declines ranging from 67 basis points (bps) to 212 bps **(Figure 1)**. The yield spread between 2-year and 10-year bonds tightened to 197 bps from 306 bps at end-June.

Quickening economic growth, benign inflation, and a credit rating upgrade from Moody's in July likely helped reduce Viet Nam's borrowing costs. Real gross domestic product (GDP) growth accelerated to 6.2% year-on-year (y-o-y) in 3Q14 from revised growth of 5.4% in 2Q14. For the first 3 quarters of 2014, the country's GDP growth stood at 5.6% on an annualized basis, up from 5.2% in the first 2 quarters of the year, driven by the services sector as well as the industrial and construction sectors. Meanwhile, inflation remained benign, easing to 3.6% y-o-y in September—the slowest pace since October 2009—from 4.3% in August. Price increases for food and foodstuffs (4.5%), housing and construction materials (3.1%), and transport (0.5%) moderated compared with the previous month.

Indications of a possible upgrade from Fitch Ratings may have added to Viet Nam's positive momentum. In September, Fitch commented that it may raise Viet Nam's rating in the next 12–18 months to BB–, three levels below investment grade, from B+ on stronger external finances.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

Total LCY bonds outstanding in Viet Nam continued to grow on both a quarterly and an annual basis in 3Q14 to reach VND802.8 trillion (US$38 billion), driven by expansion in the government sector **(Table 1)**.

Government Bonds. LCY government bonds outstanding rose to VND791.0 trillion (US$37 billion) at end-September, up 1.9% quarter-on-quarter (q-o-q) and 54.5% y-o-y.

Government issuance amounted to VND229 trillion in 3Q14, with issuance from the State Bank of Viet Nam

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	VND	US$	VND	US$	VND	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**527,304**	**25**	**788,313**	**37**	**802,796**	**38**	**(8.8)**	**18.8**	**1.8**	**52.2**
Government	511,945	24	775,943	36	790,976	37	(8.7)	24.8	1.9	54.5
Treasury Bonds	267,800	13	412,263	19	408,560	19	(17.4)	22.4	(0.9)	52.6
Central Bank Bills	46,405	2	153,926	7	173,038	8	6.5	110.3	12.4	272.9
State-Owned Enterprise Bonds	197,741	9	209,754	10	209,377	10	2.3	16.7	(0.2)	5.9
Corporate	15,359	1	12,370	0.6	11,820	0.6	(10.0)	(54.1)	(4.4)	(23.0)

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

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

Issuers		Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (VND billion)	LCY Bonds (US$ billion)			
1.	Techcom Bank	3,000.00	0.14	No	No	Finance
2.	Asia Commercial Joint Stock	3,000.00	0.14	No	Yes	Finance
3.	HAGL JSC	2,480.00	0.12	No	Yes	Real Estate
4.	Vincom	1,000.00	0.05	No	Yes	Real Estate
5.	Vinpearl	1,000.00	0.05	No	Yes	Resorts and Theme Parks
6.	Kinh Bac City Development	500.00	0.02	No	Yes	Real Estate
7.	Saigon Telecommunication	300.00	0.01	No	No	Computer Services
8.	Binh Chanh Construction	300.00	0.01	No	Yes	Building and Construction
9.	Tan Tao Investment	130.00	0.01	No	No	Real Estate
10.	Ho Chi Minh City Securities	110.00	0.01	No	No	Finance
Total LCY Corporate Issuers		**11,820.00**	**0.56**			

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

comprising VND202 trillion, or close to 90% of the total issuance during the quarter.

Corporate Bonds. LCY corporate bonds stood at VND11.8 trillion (US$0.6 billion) at end-September. A total of 10 issuers comprised the entire corporate bond sector **(Table 2)**.

Policy, Institutional, and Regulatory Developments

Viet Nam Releases New FCY Rules for Vietnamese Nationals

On 17 July, the Government of Viet Nam issued Decree No. 70/2014/ND-CP allowing Vietnamese nationals to deposit foreign currency (FCY) in local banks and withdraw principal and interest in the currency deposited. The decree also allows resident and nonresident to buy, transfer, or carry FCY abroad without the need to show certification of fulfilment of tax obligations in Viet Nam. Residents with FCY-denominated incomes from exports or other income sources abroad may transfer them into their FCY-denominated accounts in licensed credit institutions in Viet Nam. On the other hand, if residents intend to retain such income abroad, they must first acquire permission from the SBV.

VSD Issues Rules on Securities Lending

On 6 September, the Viet Nam Securities Depository (VSD) released the list of securities to be used as collateral under its Decision No. 111/QD-VSD on securities lending regulations. This comprises 223 codes listed on Viet Nam's two national stock exchanges, including government bonds and government-guaranteed bonds listed on the Ha Noi Stock Exchange. The rate to be deducted from the prices of securities used as collateral was set at 5% for government and government-guaranteed bonds, 30% for securities in the VN30 and HNX30 packages, and 40% for all other bonds. Lending rates shall be based on the agreement between the borrower and lender, but should not exceed 120% of the rate regulated by the SBV.

Asia Bond Monitor
November 2014

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

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