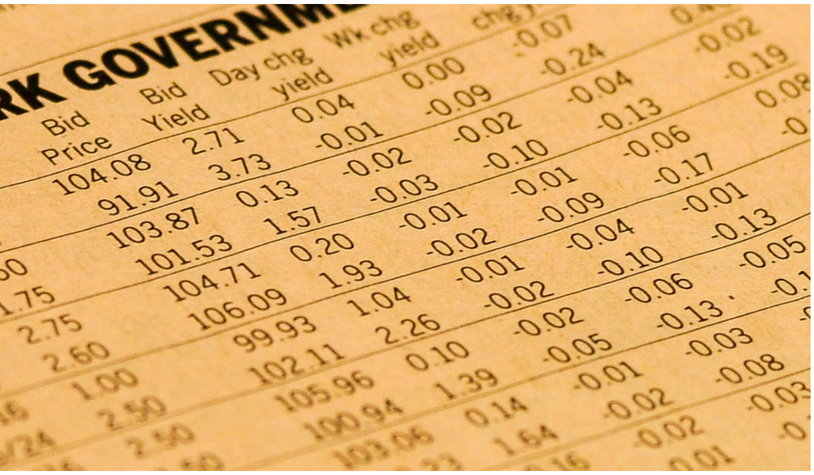

ASIA BOND MONITOR

SEPTEMBER 2015

ASIAN DEVELOPMENT BANK

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Bond Market Outlook

Emerging East Asia's bond markets have seen rising yields as investors shift away from emerging markets.[1] Weaker growth and depreciating currencies have combined to make emerging market bonds less attractive to investors. Bond yields in advanced economies have remained broadly stable, with inflationary pressures muted amid hesitant economic recoveries. Falling oil prices have further dampened inflationary pressures.

The brighter economic outlook in the United States (US) suggests that the Federal Reserve could be poised to raise interest rates as early as September. However, recent weakness in developing economies and declining oil prices may make the Federal Reserve more cautious in raising interest rates.

Movements in 10-year local currency (LCY) government bond yields in emerging East Asia were mixed between 1 June and 14 August. While stock markets have experienced large losses, bond prices in several economies have held up. In the People's Republic of China (PRC) and the Philippines, bond yields have even fallen. On the other hand, Indonesian, Malaysian, and Vietnamese bond markets experienced large increases in yields. Both Indonesia and Malaysia have a large foreign investor share in their bond markets and therefore are exposed to the shift in investor preferences away from emerging markets.

Currencies across the region depreciated against the US dollar between 1 June and 14 August. The only exception was Hong Kong, China, whose currency is pegged to the US dollar. The People's Bank of China (PBOC) moved to make the Chinese renminbi more market-oriented, resulting in a fall of 3.1% in the currency's value against the US dollar during the period under review. Among the region's currencies, the Malaysian ringgit experienced the largest depreciation at 10.7%, followed by the Korean won at 6.3% and the Thai baht at 4.5%.

The possibility of the Federal Reserve raising interest rates and a shift in preferences away from emerging market assets have combined to increase the risks for the region's bond markets, given that (i) outflows of funds from the region could be destabilizing to the region's bond markets, (ii) further depreciations of the region's currencies could weaken corporates with large amounts of foreign currency bonds outstanding, and (iii) lower commodity prices could adversely affect highly leveraged companies in the commodity sector.

LCY Bond Market Growth in Emerging East Asia

The size of emerging East Asia's LCY bond market rose to US$8,625 billion at end-June, with growth accelerating on both a quarter-on-quarter and year-on-year basis in 2Q15 compared with the previous quarter. Five out of the nine emerging East Asian markets recorded faster quarter-on-quarter growth in 2Q15—the PRC, the Republic of Korea, Malaysia, Singapore, and Thailand—while all markets in the region exhibited positive year-on-year growth.

The PRC was the largest LCY bond market in emerging East Asia at the end of June with outstanding bonds worth US$5,590 billion, followed by the Republic of Korea at US$1,756 billion. The third largest bond market in the region was Malaysia at US$285 billion, more than half of which comprised *sukuk* (Islamic bonds), making it the largest *sukuk* market in the region.

The value of emerging East Asia's LCY bonds outstanding as a share of gross domestic product (GDP) climbed to 59.5% at end-June from 57.7% at end-March, buoyed by an increase in the size of government bonds relative to GDP. The Republic of Korea posted the highest bonds-to-GDP share at 129.8%, followed by Malaysia (95.3%), Singapore (82.5%), and Thailand (72.3%).

LCY bond issuance in emerging East Asia climbed to US$1,423 billion in 2Q15 from US$958 billion in 1Q15, led by greater bond issuance activity in the PRC; Hong Kong, China; and the Republic of Korea.

Structural Developments in Emerging East Asia's LCY Bond Markets

Foreign investors' share of the Indonesian LCY government bond market rose to 39.6% at end-June

[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.

from 38.6% at end-March, induced by higher yields. Similarly, foreign holdings of LCY government bonds in Malaysia increased to 32.4% at end-June from 30.1% at end-March, while foreign holdings of LCY government bonds in Thailand slid to 16.5% from 17.3% in the same period. Meanwhile, the foreign investor shares of the LCY government bond markets in Japan and the Republic of Korea have remained relatively constant.

In LCY corporate bond markets, foreign investors' share in the Indonesian market fell to 9.5% at end-June from 10.5% at end-March, while in the Republic of Korea, foreign investors account for a negligible 0.2% of the total.

In July, LCY bond markets in Indonesia, the Republic of Korea, and Malaysia experienced net foreign capital outflows, influenced partly by expectations of an interest rate hike in the US. In contrast, Thailand's LCY bond market posted net foreign capital inflows in the same month.

LCY Bond Yields

The majority of emerging East Asian LCY bond yields rose between 1 June and 14 August on the back of heightened expectations that the Federal Reserve would raise interest rates.

Yields in Hong Kong, China and Singapore rose for most tenors, as both markets typically track US market movements owing to the nature of their monetary policies. In Indonesia, rising inflation, due to currency depreciation and the removal of fuel subsidies, resulted in a rise in all yields except for the 1-year tenor. In Malaysia, lower global oil prices, ringgit depreciation, and higher inflation drove yields upward.

In other emerging East Asian markets, yields fell on lowered growth outlooks as the region's governments sought to boost growth by easing monetary policy. The entire yield curve of the Republic of Korea and Thailand shifted downward. The Republic of Korea reduced its policy rates by 25 basis points (bps) in June to 1.50%. In Thailand, policy rates were kept unchanged in 2Q15, but the central bank emphasized the need to keep monetary policy accommodative to spur demand and move away from deflation. In the PRC, yields fell at the longer-end of the curve as the PBOC implemented a number of monetary easing measures to stimulate growth. In the Philippines, yields fell for most tenors on the back of easing inflation. In August, the central bank kept policy rates unchanged, citing a benign inflation outlook in the short-term.

Special Section: *Sukuk* Developments in Emerging East Asia

Emerging East Asia's *sukuk* (Islamic bond) market held firm despite headwinds from challenging developments in the global economy. The region's *sukuk* market managed to post modest growth in the first half of the year amid uncertainties surrounding an anticipated interest rate hike by the Federal Reserve and, more importantly, falling oil prices that affected oil-rich producing markets who are active participants in Islamic financial markets. Growth was largely driven by *sukuk*'s rising acceptance as an important source of financing as demand for infrastructure funding continues to grow and interest from nonmainstream *sukuk* markets begins to advance.

The outstanding amount of *sukuk* in emerging East Asia reached US$186.3 billion at end-June, compared with only US$59.9 billion at the end of 2008, representing a compounded annual growth rate of 19.1%. The region's *sukuk* market was up 6.0% from US$175.9 billion at end-December 2014. At the end of June, emerging East Asia's outstanding government *sukuk* reached US$89.2 billion and corporate *sukuk* stood at US$97.2 billion.

Malaysia is home to the largest *sukuk* market in emerging East Asia and the entire world, accounting for an 86.5% share of the region's total *sukuk* stock at end-June. It was followed by Indonesia with a share of 11.1%, while all other emerging East Asian markets (Brunei Darussalam; Hong Kong, China; Singapore) had a combined 2.3% share. The region's outstanding *sukuk* were largely denominated in Malaysian ringgit, with an equivalent value of US$154.9 billion, representing an 83.1% share of the total stock.

Sukuk issuance in emerging East Asia declined to US$78.5 billion in 2014 from highs of US$89.7 billion in 2012 and US$79.5 billion in 2013. While still robust, issuance volume has been on a downtrend since the 2013 "taper tantrum" when emerging markets experienced large capital outflows in response to statements from the Federal Reserve that it planned to wind down its monthly asset purchases. In the first half of 2015, total *sukuk* issuance volume in emerging East Asia reached US$26.9 billion.

Global and Regional Market Developments

Emerging East Asia's bond markets have seen rising yields as investors shift away from emerging markets.[2] Weaker growth and depreciating currencies have combined to make emerging market bonds less attractive to investors. Bond yields in advanced economies have remained broadly stable, with inflationary pressures muted amid hesitant economic recoveries. Falling oil prices have further dampened inflationary pressures.

The United States (US) economy gathered pace in 2Q15, growing by an annual rate of 3.7%, up from 0.6% in 1Q15. Personal consumption and exports contributed to the improved growth performance. The brighter economic outlook in the US suggests that the Federal Reserve could be poised to raise interest rates as early as September. However, recent weakness in developing economies and declining oil prices may make the Federal Reserve more cautious in raising interest rates.

The eurozone's economy has also picked up, growing 1.5% year-on-year (y-o-y) in 2Q15, a slight improvement from 1.2% y-o-y growth in 1Q15. A weaker euro has helped provide a boost for exports, thereby supporting growth and offsetting the poor performance in the industrial sector. With the agreement on a third bailout for Greece, the threat of a spread of the debt crisis to the rest of Europe has been avoided for now. Nevertheless, concerns remain about the sustainability of the Greek debt burden without substantial debt relief.

The Japanese economy contracted at an annual rate of 1.4% in 2Q15 after posting strong growth of 4.5% in 1Q15. Declines in personal consumption, business investment, and exports contributed to the negative growth. With the economy still weak, the Bank of Japan will likely continue its expansionary monetary stance.

Movements in 10-year local currency (LCY) government bond yields in emerging East Asia were mixed between 1 June and 14 August **(Table A)**. While stock markets have experienced large losses, bond prices in several economies have held up. In the People's Republic of China and the Philippines, bond yields have even fallen—by 16 basis points (bps) and 10 bps, respectively. On the other hand, Indonesian, Malaysian, and Vietnamese bond yields have increased by 54 bps, 34 bps, and 31 bps, respectively. Both Indonesia and Malaysia have a large foreign investor share in their bond markets and therefore are exposed to the shift in investor preferences away from emerging markets. Currencies across the region depreciated against the US dollar between 1 June and 14 August. The only exception was Hong Kong, China, whose currency is pegged to the US dollar. The People's Bank of China moved to make the Chinese renminbi more market-oriented, resulting in a fall of 3.1% in the currency's value against the US dollar during the period under review. Among the region's currencies, the Malaysian ringgit experienced the largest depreciation at 10.7%, followed by the Korean won at 6.3% and the Thai baht at 4.5%.

Credit default swap (CDS) spreads across emerging East Asia have been rising **(Figure A)**, reflecting increased risk perception among investors amid slowing growth and falling stock markets. Malaysia, Indonesia, Viet Nam, and Thailand all saw their CDS spreads rise sharply. In contrast, CDS spreads in Italy, Spain, Portugal, and Ireland have all stabilized with the agreement on the third bailout for Greece **(Figure B)**. They had spiked earlier over concerns that Greece might not be able to service its large debt burden and would be forced to leave the eurozone. Financial market conditions have been relatively calm in the US and the volatility index has remained stable. However, emerging markets have been perceived as riskier and emerging market spreads are rising as a result **(Figure C)**.

In the eurozone, bond yields have been easing as the agreement on the third bailout for Greece has removed the risk of a debt crisis for now. The continued expansionary stance of the European Central Bank and declining oil prices have also contributed to lower yields in the eurozone **(Figure D)**. The resolution of the Greek debt crisis has helped to bring Greek bond yields down sharply. Both US and Japanese bond yields have eased slightly. In emerging East Asia, risk premiums increased. Rising Malaysian and Indonesian risks premiums likely reflect investor concerns about these economies' reliance on oil and gas revenues amid declining global prices **(Figure E)**.

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

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	8	2	–	(1.0)	–
United Kingdom	7	3	0.4	(5.8)	(2.9)
Japan	0.2	(3)	(4)	(0.9)	0.4
Germany	(6)	12	(1)	(3.9)	(1.7)
Emerging East Asia					
China, People's Rep. of	5	(16)	14	(17.9)	(3.1)
Hong Kong, China	2	17	–	(13.1)	0.0
Indonesia	22	54	38	(12.1)	(4.3)
Korea, Rep. of	(6)	(6)	12	(5.7)	(6.3)
Malaysia	27	34	57	(8.4)	(10.7)
Philippines	(36)	(10)	16	(3.4)	(3.7)
Singapore	3	17	–	(8.2)	(3.7)
Thailand	(3)	(1)	29	(5.5)	(4.5)
Viet Nam	12	31	38	2.4	(1.3)
Select European Markets					
Greece	603	(186)	(1,631)	(18.3)	(1.7)
Ireland	(6)	7	(2)	3.9	(1.7)
Italy	(5)	(10)	(6)	(0.8)	(1.7)
Portugal	(25)	(24)	(3)	(4.7)	(1.7)
Spain	0.7	5	6	(3.2)	(1.7)

( ) = negative, – = not available, bps = basis points, FX = foreign exchange.
Notes:
1. Data reflect changes between 1 June and 14 August 2015.
2. For emerging East Asia, a positive (negative) value for the FX rate indicates the appreciation (depreciation) of the local currency against the US dollar.
3. For European markets, a positive (negative) value for the FX rate indicates the depreciation (appreciation) of the local currency against the US dollar.
Sources: Bloomberg LP and Institute of International Finance (IIF).

Foreign holdings of Indonesian LCY government bonds continued to increase in 2Q15. Higher yields have attracted foreign investors to Indonesian bonds, with the foreign share of LCY government bonds rising to 39.6% from 38.6% at the end of 1Q15. Similarly, foreign holdings of LCY government bonds in Malaysia increased to 32.4% at end-June from 30.1% at end-March. In contrast, foreign holdings of LCY government bonds in Thailand slid from 17.3% to 16.5% between end-March and end-June **(Figure F)**. In Japan and the Republic of Korea, foreign holdings of LCY governments have remained relatively constant.

The possibility of the Federal Reserve raising interest rates and a shift in preferences away from emerging market assets have combined to increase the risks for the region's bond markets:

Outflows of funds could destabilize the region's bond markets. Increased risk perception has led to a sell-off across emerging markets as a whole. The impending rise in US interest rates has also made emerging market bonds less attractive. Hence, bond yields have generally risen across the region as foreign investors withdraw funds from the market. If the withdrawal is gradual, the impact on the region's bond markets should be minimal. However, if there is a sudden rush for the exit, it could result in large swings in bond prices similar to what happened during the "taper tantrum" of 2013. Low levels of liquidity in the region's bond markets could exacerbate the volatility. Large bond price movements could make the bond markets look more risky and potentially lead to even greater outflows of funds.

Further depreciation of the region's currencies could weaken corporates with a large amount of foreign currency bonds outstanding. Most emerging East Asian currencies have weakened relative to the US dollar in 2015. If more funds were to flow out of the region, it would put further downward pressure on the region's currencies. Governments have borrowed mostly in local currency so the risk to them from depreciation is less. However, the corporate sector has relied more on foreign currency borrowing. In 2014, foreign currency

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

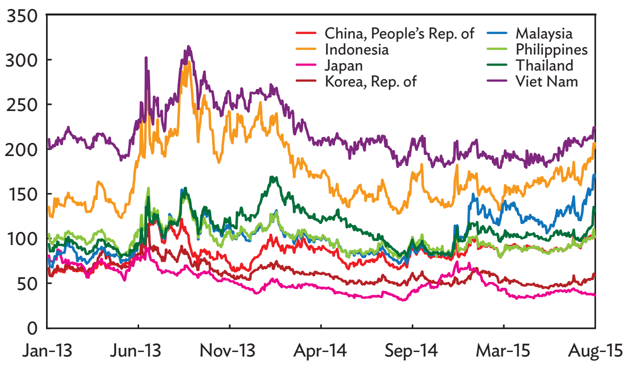


Figure B: Credit Default Swap Spreads for Select European Markets[a, b] (senior 5-year)

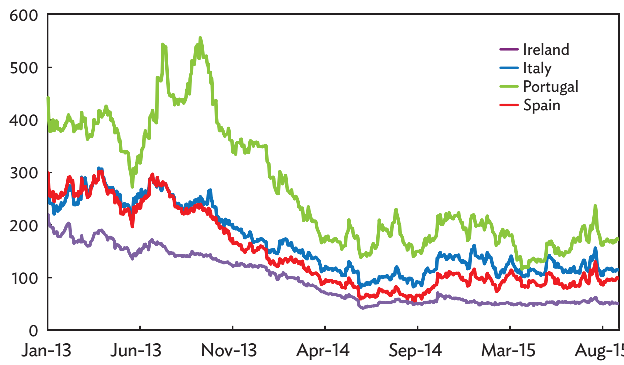


Figure C: US Equity Volatility and Emerging Market Sovereign Bond Spreads[b]

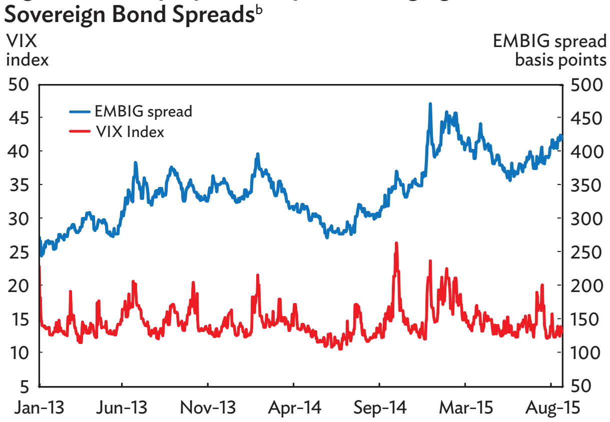


Figure D: 10-Year Government Bond Yields[b] (% per annum)

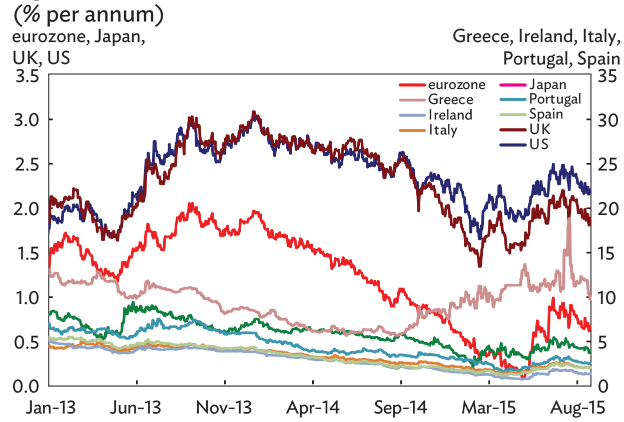


Figure E: JPMorgan EMBI Sovereign Stripped Spreads[a, b]

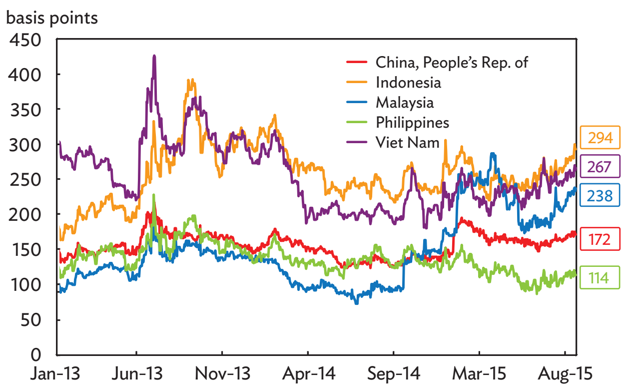
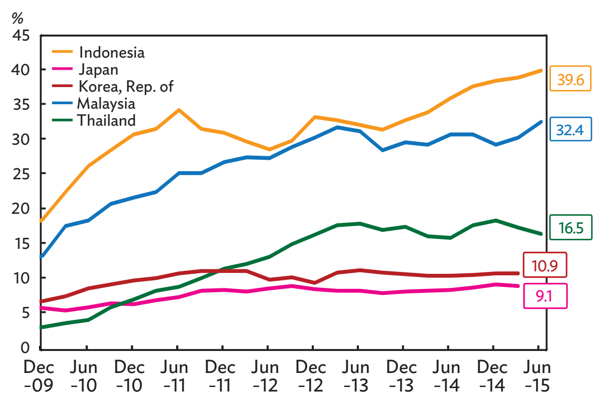


Figure F: Foreign Holdings of LCY Government Bonds in Select Asian Economies[c] (% of total)



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 14 August 2015.

[c] Data as of end-June 2015 except for Japan and the Republic of Korea (end-March 2015).

Sources: *AsianBondsOnline* and Bloomberg LP.

issuance by the corporate sector in emerging East Asia reached US$207 billion.[3] This exposes them to higher debt servicing costs in the face of depreciation, especially if they do not have foreign currency earnings. Another concern is that the environment for refinancing foreign currency borrowings will become more difficult.

Lower commodity prices could adversely affect highly leveraged companies in the commodity sector. The slide in commodity prices, especially oil, has sharply reduced revenues for companies in the commodity sector. Companies that borrowed heavily during the preceding commodity boom will face a harder time servicing their loans with their earnings under pressure. Those companies that have resorted to US dollar loans face the additional risk of higher interest rates and tighter refinancing requirements.

[3] Foreign currency bond issuance refers to bonds denominated in currencies other than the home economy's currency. The data exclude certificates of deposit and offshore renminbi-denominated bonds.

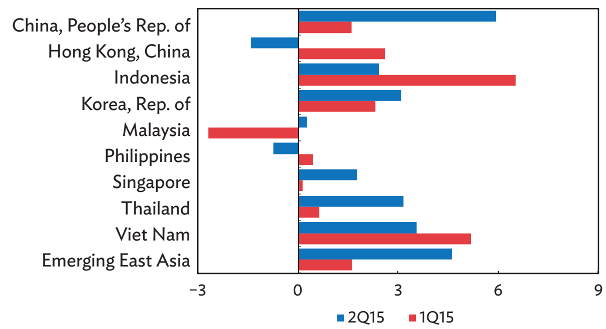
Bond Market Developments in the Second Quarter of 2015

Size and Composition

Emerging East Asia's local currency bonds outstanding climbed to US$8,625 billion at the end of June.[4]

The amount of emerging East Asia's local currency (LCY) bonds outstanding rose to US$8,625 billion at the end of June. Growth accelerated to 4.6% quarter-on-quarter (q-o-q) in 2Q15 from 1.6% q-o-q in 1Q15 **(Figure 1a)**. Five out of the nine LCY bond markets in the region saw their q-o-q growth rates accelerate in 2Q15: the People's Republic of China (PRC), the Republic of Korea, Malaysia, Singapore, and Thailand. Markets in Indonesia and Viet Nam also expanded in 2Q15, albeit at a slower pace than in the previous quarter. The LCY bond markets of Hong Kong, China and the Philippines contracted on a q-o-q basis during the review period.

Figure 1a: Growth of LCY Bond Markets in 1Q15 and 2Q15 (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 30 June 2015 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Directorate General of Budget Financing and Risk Management Ministry of Finance, 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 largest LCY bond market in emerging East Asia in 2Q15 remained that of the PRC with outstanding bonds of US$5,590 billion at end-June. The PRC further increased its share of the region's aggregate bond stock from 63.8% at end-March to 64.8% at end-June after recording the fastest growth rate in the region at 5.9% q-o-q in 2Q15, up from 1.6% q-o-q in 1Q15. The rapid growth was driven mostly by an increase in government bonds, which rose 6.9% q-o-q, while corporate bonds expanded 4.1% q-o-q. The increase in government bonds was mostly driven by an increase in local government bonds, as existing higher-yielding local government debt was swapped for lower-yielding bonds in order to ease financial pressures. Corporate bond growth was also strong, partly due to the additional capital-raising efforts of financial institutions. In contrast, the stock of central bank bonds continued to fall as the People's Bank of China (PBOC) has not issued bonds since December 2013.

At the end of June, the Republic of Korea's outstanding LCY bond stock stood at US$1,756 billion, up 3.1% q-o-q. Growth was largely driven by an increase in the stock of corporate bonds, specifically, special public bonds, financial debentures, and private corporate bonds. Government bonds also contributed to growth, particularly from the stock of central bank bonds and central government bonds.

The third largest bond market in the region was that of Malaysia at a size of US$285 billion at end-June on marginal growth of 0.2% q-o-q in 2Q15. Its corporate bond market growth of 1.4% q-o-q was offset by a 0.7% q-o-q drop in the stock of government bonds. Government bonds continued to decline in 2Q15 as Bank Negara Malaysia (BNM) has not issued BNM monetary notes since the start of the year.

More than half of Malaysia's LCY bond market consists of *sukuk* (Islamic bonds). Not surprisingly, Malaysia remained the largest *sukuk* market in the region in 2Q15. *Sukuk* issues dominate Malaysia's corporate bond market and accounted for a 72.1% share of the aggregate corporate bond stock at end-June. The share of government *sukuk* relative to the total government

[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.

bond market, while much lower, remained significant at 39.6%.

In Thailand, LCY bonds outstanding stood at US$284 billion at end-June on growth of 3.1% q-o-q. Growth was driven by increases in the stock of Treasury bonds and bills, central bank bonds, and corporate bonds. On the other hand, the stock of state-owned enterprise and other bonds contracted on a q-o-q basis.

At the end of June, the LCY bond market in Singapore stood at US$241 billion, posting growth of 1.7% q-o-q in 2Q15 after expanding a marginal 0.1% q-o-q in 1Q15. Growth was buoyed by increases in the stock of Singapore Government Securities bills and bonds, which rose 5.3% q-o-q. The corporate bond market in Singapore grew a marginal 0.2% q-o-q in 2Q15.

Hong Kong, China's LCY bond market contracted in 2Q15 to US$196 billion at end-June for a 1.5% q-o-q decline. The drop in bonds outstanding was due mainly to reduced issuances of Exhange Fund Notes, HKSAR bonds, and corporate bonds.

The LCY bond market in Indonesia reached a size of US$125 billion in 2Q15, posting modest 2.4% q-o-q growth after gaining 6.5% q-o-q in 1Q15. Growth was driven by increases in the stock of central government bonds as the government continued its frontloading policy in 2Q15, targeting 59% of gross LCY bond issuance to be completed within the first 6 months of the year. Corporate bonds also contributed to growth on higher volume of new corporate debt issues.

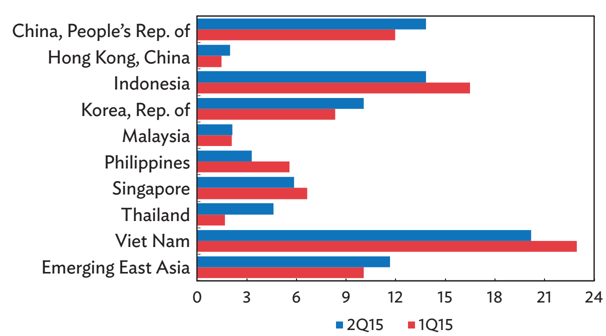
On the other hand, the stock of central bank bills declined as Bank Indonesia temporarily ceased issuance of conventional *Sertifikat* Bank Indonesia (SBI) between April and July, choosing to only issue *shari'ah*-compliant SBI. Bank Indonesia focused on using monetary policy tools other than SBI, such as Bank Indonesia Deposit Certificates and reverse repo, to strengthen liquidity management in the banking system.

In the Philippines, the outstanding size of the LCY bond market declined to US$103 billion at end-June, contracting 0.8% q-o-q. The stocks of government bonds and corporate bonds both declined in 2Q15. The drop in the stock of government bonds was due mainly to a decline in outstanding government-controlled issues, as PHP11.3 billion worth of bonds issued by the Power Sector Assets and Liabilities Management matured during the review period. Also, the Bureau of the Treasury did not issue any special series bonds in 2Q15.

At the end of June, Viet Nam's LCY bond market climbed to a size of US$43 billion, expanding at a much slower pace of 3.5% q-o-q in 2Q15 compared with 5.1% q-o-q growth in 1Q15. Both central bank bonds and Treasury bonds contributed to the growth. However, growth was much slower in 2Q15 for Treasury bonds, due to low demand from investors, resulting in auctions not meeting their target amid investor concerns about government finances. In 2015, the government only issued bonds with maturities of 5 years or more. Demand for long-dated tenors, however, was weak, resulting in higher bids during auctions that the government was not willing to accept. On the other hand, the stock of state-owned enterprise bonds and corporate bonds contracted during the review period.

On a year-on-year (y-o-y) basis, emerging East Asia's LCY bond market grew at a pace of 11.6% in 2Q15, up from 10.1% annual growth in 1Q15 **(Figure 1b)**. All markets in the region recorded positive y-o-y growth rates in

Figure 1b: Growth of LCY Bond Markets in 1Q15 and 2Q15 (y-o-y, %)



LCY = local currency, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from LCY base and do not include currency effects.
3. Emerging East Asia growth figures are based on 30 June 2015 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Directorate General of Budget Financing and Risk Management Ministry of Finance, 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).

2Q15. The fastest growing markets on a y-o-y basis were Viet Nam (20.2%), and Indonesia and the PRC (13.8% each). All other emerging East Asian markets recorded y-o-y growth rates of between 2.0% and 10.0%.

Emerging East Asia's government bond market continued to dominate the LCY bond market, representing a share of 60.2% of the region's total bond stock at end-June **(Table 1)**. The total government bond stock reached US$5,194 billion in 2Q15, expanding 5.2% q-o-q and 12.3% y-o-y. The PRC had the largest government bond market in emerging East Asia at a size of US$3,603 billion, equivalent to 69.4% of the region's total government bond stock. It was followed by the Republic of Korea (US$722 billion) and Thailand (US$216 billion). Except for the Republic of Korea, where the corporate bond segment comprised a 58.9% share of the total bond stock, all markets comprised a larger share of government bonds than corporate bonds at end-June.

The outstanding size of the region's corporate bond segment reached US$3,430 billion at end-June, climbing 3.6% q-o-q and 10.7% y-o-y. The largest corporate bond markets in the region were those of the PRC (US$1,987 billion) and the Republic of Korea (US$1,033 billion), representing shares of 57.9% and 30.1% of the region's total, respectively. The remaining 11.9% share of the region's total corporate bond stock was accounted for by all other emerging East Asian markets.

The size of emerging East Asia's LCY bond market as a share of gross domestic product (GDP) climbed to 59.5% at end-June from 57.7% at end-March **(Table 2)**. The share of government bonds to GDP rose to 35.8% at end-June from 34.6% at end-March. On the other hand, the share of corporate bonds to GDP was broadly unchanged at 23.7% in 2Q15 compared with 23.2% in 1Q15. As a share of GDP, the largest market was that of the Republic of Korea, which had a bond market-to-GDP share of 129.8%, followed by Malaysia (95.3%), Singapore (82.5%), and Thailand (72.3%).

Foreign investor holdings in the region's LCY government bond markets remained stable in 2Q15.

Foreign demand for emerging East Asia's LCY government bonds remained robust in 2Q15, despite improving economic conditions in the United States (US) as well as the depreciation of the region's currencies vis-à-vis the US dollar. At end-June, foreign investors were once again the largest investor group in the Indonesian and Malaysian LCY government bond markets, accounting for more than 30% of the total in both markets **(Figure 2)**.

The share of foreign holdings in Indonesia's LCY government bond market continued to climb in 2Q15, rising to 39.6% at end-June from 38.6% at end-March. Foreign investors were still attracted to the relatively high yields of Indonesia's debt instruments, which are the highest among emerging East Asian markets.

In Malaysia, foreign holders increased their holdings of government bonds, with their share rising to 32.4% at end-June from 30.1% at end-March. The increase in demand for government bonds, however, may be attributed to a reallocation of investments due to the maturing of foreign investors' placements in central bank bonds; BNM ceased issuance of central bank bonds at the start of the year and only resumed issuance in August.

The share of foreign holdings in Thailand's government bond market declined to 16.5% at end-June from 17.3% at end-March, as investors were wary of the government's ability to stimulate its worsening economy. In the Republic of Korea, the share of foreign bond holdings in government bonds remained steady at 10.9% in 1Q15, the most recent quarter for which data are available.

In contrast to foreign holdings of government bonds, foreign investors hold significantly smaller amounts of corporate bonds in Indonesia and the Republic of Korea. In Indonesia, foreign investors' share of the LCY corporate bond market slipped to 9.5% at end-June after rising to 10.5% at end-March. In the Republic of Korea, foreign investors account for a negligible 0.2% of total corporate bond outstanding **(Figure 3)**, despite the fact that the Republic of Korea's corporate bonds comprise a majority of its LCY bond market.

Net foreign capital outflows from the region's LCY bond markets were recorded in July amid a looming interest rate hike by the US Federal Reserve.

Three out of the four emerging East Asian markets for which data are available recorded net capital outflows from their LCY bond markets in July **(Figure 4)**. Sentiments in the LCY bond market were dragged down

Table 1: Size and Composition of LCY Bond Markets

	2Q14		1Q15		2Q15		Growth Rate (LCY-base %)				Growth Rate (US$-base %)			
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	2Q14		2Q15		2Q14		2Q15	
							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	4,911	100.0	5,279	100.0	5,590	100.0	4.2	11.7	5.9	13.8	4.4	10.5	5.9	13.8
Government	3,164	64.4	3,370	63.8	3,603	64.5	3.3	10.1	6.9	13.9	3.5	8.9	6.9	13.9
Corporate	1,747	35.6	1,909	36.2	1,987	35.5	5.9	14.6	4.1	13.7	6.2	13.4	4.1	13.7
Hong Kong, China														
Total	193	100.0	199	100.0	196	100.0	(1.9)	0.3	(1.5)	2.0	(1.9)	0.4	(1.4)	2.0
Government	110	56.9	111	55.5	109	55.5	0.4	1.8	(1.3)	(0.4)	0.5	1.9	(1.3)	(0.4)
Corporate	83	43.1	89	44.5	87	44.5	(4.9)	(1.7)	(1.6)	5.1	(4.8)	(1.6)	(1.6)	5.1
Indonesia														
Total	123	100.0	125	100.0	125	100.0	4.8	24.2	2.4	13.8	0.2	4.6	0.4	1.3
Government	105	85.2	107	86.0	107	85.7	5.6	28.0	2.0	14.5	1.1	7.9	(0.1)	1.9
Corporate	18	14.8	17	14.0	18	14.3	0.02	5.9	5.0	9.9	(4.3)	(10.8)	2.9	(2.1)
Korea, Rep. of														
Total	1,759	100.0	1,712	100.0	1,756	100.0	1.4	7.8	3.1	10.0	6.7	21.7	2.5	(0.2)
Government	692	39.4	712	41.6	722	41.1	3.5	9.9	2.0	15.0	9.0	24.1	1.5	4.3
Corporate	1,066	60.6	1,001	58.4	1,033	58.9	0.1	6.5	3.8	6.8	5.4	20.2	3.3	(3.1)
Malaysia														
Total	328	100.0	290	100.0	285	100.0	0.2	6.0	0.2	2.1	1.9	4.3	(1.6)	(13.1)
Government	191	58.1	165	57.0	161	56.5	(0.3)	4.1	(0.7)	(0.6)	1.4	2.5	(2.5)	(15.4)
Corporate	138	41.9	125	43.0	124	43.5	0.9	8.7	1.4	6.0	2.6	7.0	(0.5)	(9.8)
Philippines														
Total	103	100.0	105	100.0	103	100.0	1.4	8.9	(0.8)	3.3	4.1	7.7	(1.7)	(0.03)
Government	87	84.9	88	83.7	86	83.9	1.9	6.5	(0.5)	2.0	4.6	5.2	(1.4)	(1.3)
Corporate	16	15.1	17	16.3	17	16.1	(1.0)	25.4	(2.0)	10.5	1.6	23.9	(2.9)	6.9
Singapore														
Total	247	100.0	233	100.0	241	100.0	2.5	2.0	1.7	5.9	3.4	3.8	3.6	(2.1)
Government	152	61.6	140	60.1	147	60.7	3.3	1.1	2.8	4.2	4.2	2.8	4.7	(3.6)
Corporate	95	38.4	93	39.9	95	39.3	1.1	3.6	0.2	8.5	2.0	5.4	2.0	0.4
Thailand														
Total	283	100.0	286	100.0	284	100.0	0.2	3.4	3.1	4.6	0.2	(1.1)	(0.7)	0.4
Government	216	76.3	218	76.0	216	76.0	(0.3)	0.02	3.1	4.2	(0.4)	(4.3)	(0.7)	(0.04)
Corporate	67	23.7	69	24.0	68	24.0	2.1	15.9	3.2	6.2	2.1	10.9	(0.6)	1.9
Viet Nam														
Total	37	100.0	42	100.0	43	100.0	5.9	36.4	3.5	20.2	4.7	35.6	2.2	17.4
Government	36	98.4	42	98.5	43	98.7	6.0	38.3	3.7	20.5	4.8	37.5	2.4	17.7
Corporate	0.6	1.6	0.6	1.5	0.6	1.3	(1.2)	(27.5)	(8.5)	0.1	(2.3)	(27.9)	(9.7)	(2.2)
Emerging East Asia														
Total	7,983	100.0	8,272	100.0	8,625	100.0	3.1	9.9	4.6	11.6	4.4	11.5	4.3	8.0
Government	4,753	59.5	4,952	59.9	5,194	60.2	3.0	9.2	5.2	12.3	3.9	9.6	4.9	9.3
Corporate	3,230	40.5	3,320	40.1	3,430	39.8	3.3	11.0	3.6	10.7	5.1	14.4	3.3	6.2
Japan														
Total	10,493	100.0	9,000	100.0	8,877	100.0	0.7	3.0	0.6	2.3	2.6	0.8	(1.4)	(15.4)
Government	9,686	92.3	8,326	92.5	8,224	92.6	0.8	3.5	0.7	2.6	2.7	1.2	(1.2)	(15.1)
Corporate	807	7.7	674	7.5	653	7.4	(0.1)	(1.9)	(1.2)	(2.2)	1.7	(4.0)	(3.1)	(19.1)

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

Notes:

1. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.
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 30 June 2015 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, Directorate General of Budget Financing and Risk Management Ministry of Finance, 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).

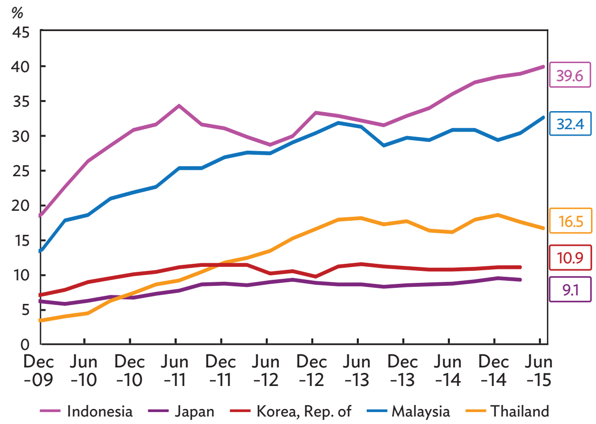
Table 2: Size and Composition of LCY Bond Markets (% of GDP)

	2Q14	1Q15	2Q15
China, People's Rep. of			
Total	50.0	50.8	53.0
Government	32.2	32.4	34.1
Corporate	17.8	18.4	18.8
Hong Kong, China			
Total	67.9	67.4	65.3
Government	38.6	37.4	36.2
Corporate	29.3	30.0	29.0
Indonesia			
Total	14.6	15.1	15.1
Government	12.4	13.0	13.0
Corporate	2.2	2.1	2.2
Korea, Rep. of			
Total	121.9	126.6	129.8
Government	48.0	52.6	53.4
Corporate	73.9	74.0	76.4
Malaysia			
Total	98.4	96.0	95.3
Government	57.2	54.8	53.9
Corporate	41.3	41.3	41.5
Philippines			
Total	37.2	36.6	35.8
Government	31.6	30.6	30.1
Corporate	5.6	6.0	5.8
Singapore			
Total	79.7	81.4	82.5
Government	49.1	48.9	50.0
Corporate	30.6	32.5	32.4
Thailand			
Total	70.5	70.4	72.3
Government	53.8	53.5	54.9
Corporate	16.7	16.9	17.4
Viet Nam			
Total	21.1	22.9	23.4
Government	20.8	22.6	23.1
Corporate	0.3	0.3	0.3
Emerging East Asia			
Total	57.4	57.7	59.5
Government	34.2	34.6	35.8
Corporate	23.2	23.2	23.7
Japan			
Total	219.2	220.3	220.4
Government	202.3	203.8	204.2
Corporate	16.9	16.5	16.2

GDP = gross domestic product, LCY = local currency.
Notes:
1. Data for GDP is from CEIC. 2Q15 GDP figure for the Republic of Korea carried over from 1Q15.
2. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates.

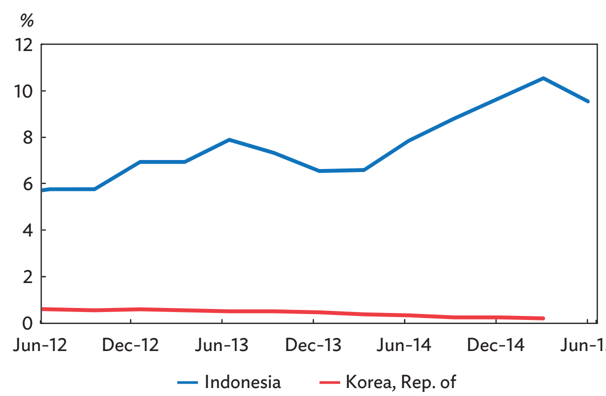
Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Directorate General of Budget Financing and Risk Management Ministry of Finance, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of 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 2015 except for Japan and the Republic of Korea (end-March 2015).
Source: *AsianBondsOnline*.

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

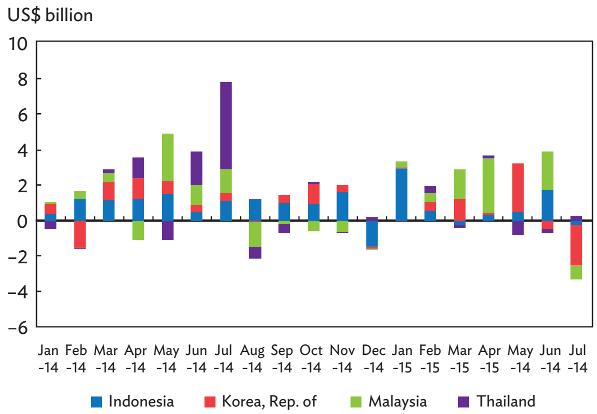


LCY = local currency.
Note: For Indonesia, data as of 26 June 2015. For the Republic of Korea, data as of end-March 2015.
Source: Based on data from Otoritas Jasa Keuangan and The Bank of Korea.

by renewed concerns over the timing of the US Federal Reserve's rate hike as conditions in the US point to a more stable economic situation. Most local currencies in the region also weakened vis-à-vis the US dollar during the review period.

The Republic of Korea recorded the largest outflow among the four markets providing data on capital flows. A total of US$2.2 billion in net foreign outflows from its bond market was recorded in July, the largest

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



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-July 2015.
3. Figures were computed based on 31 July 2015 exchange rates to avoid currency effects.

Sources: Directorate General of Budget Financing and Risk Management Ministry of Finance, Financial Supervisory Service, Bank Negara Malaysia, and Thai Bond Market Association.

sell-off in the Republic of Korea's debt market since December 2011. The largest net bond outflows from the Korean LCY bond market were generated by investors in Thailand, the US, and Malaysia.

In Malaysia, net foreign bond outflows in July totaled US$0.8 billion amid concerns over a number of domestic issues such as the depreciation of its local currency, slower economic growth, and falling oil prices. In Indonesia, foreign investors withdrew about US$0.3 billion from the LCY bond market in July.

Thailand recorded US$0.3 billion in net foreign capital inflows into its bond market in July. Thailand's bond market has seen volatile movement in foreign capital flows since the start of the year, with net outflows of foreign capital in January–July.

Emerging East Asia's LCY bond issuance rose in 2Q15.

LCY bond issuance in emerging East Asia climbed to US$1,423 billion in 2Q15 from US$958 billion in 1Q15 and US$1,106 billion in 2Q14, buoyed by greater bond issuance activity in the PRC; Hong Kong, China; and the Republic of Korea **(Table 3)**.

The PRC's LCY bond issuance in 2Q15 amounted to CNY3,729 billion (US$601 billion), which comprised 42.3% of the regional total. Growth came largely from increased local government bond issuance following the Ministry of Finance's implementation of its debt swap program for local governments. Meanwhile, the PRC's LCY corporate bond issuance exhibited mixed growth in 2Q15, rising from 1Q15's issuance level but declining from 2Q14's.

In Hong Kong, China, sales of LCY bonds reached HKD3,416 billion (US$441 billion) in 2Q15, up from issuance levels in 1Q15 and 2Q14, mainly due to the Hong Kong Monetary Authority issuing more Exchange Fund Bills. In contrast, LCY corporate bond issuance was lower on both a q-o-q and y-o-y basis in 2Q15.

The Republic of Korea's LCY bond market showcased an increase in issuance activity in 2Q15, levelling off at KRW224,668 billion (US$201 billion) on the back of growth in corporate bond issuance. Meanwhile, bond issuance in the government sector declined on a q-o-q basis in 2Q15, mainly due to decreased issuance of Korea Treasury Bonds and industrial finance debentures. On a y-o-y basis, however, government issuance increased in 2Q15.

The six member economies of the Association of Southeast Asian Nations (ASEAN)—Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam—accounted for a combined LCY bond issuance amount equivalent to US$180 billion, up from US$169 billion in 1Q15 but down from US$215 billion in 2Q14.

LCY bond sales in Indonesia reached IDR114,837 billion (US$9 billion) in 2Q15, down from 1Q15 as Bank Indonesia did not issue conventional SBI during the quarter under review, instead issuing only *shari'ah*-compliant SBI. Issuance of Treasury instruments also declined as the government programmed a much larger volume of bonds for auction in 1Q15 compared with 2Q15. Conversely, issuance of Indonesian LCY bonds on a y-o-y basis was marginally higher due mainly to larger corporate bond sales than in 2Q14.

In Malaysia, 2Q15 LCY bond issuance was valued at MYR62 billion (US$16 billion), up on a q-o-q basis but lower on a y-o-y basis. The quarterly growth was led by increased issuance of Government Investment Issues and corporate bonds. On the other hand, issuance of

Table 3: LCY-Denominated Bond Issuance (gross)

	2Q14		1Q15		2Q15		Growth Rate (LCY-base %)		Growth Rate (US$-base %)	
							2Q15		2Q15	
	Amount (US$ 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	456	100.0	300	100.0	601	100.0	100.5	31.9	100.4	32.0
Government	209	46.0	144	47.9	370	61.6	157.7	76.7	157.6	76.8
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	209	46.0	144	47.9	370	61.6	157.7	76.7	157.6	76.8
Corporate	246	54.0	156	52.1	231	38.4	47.8	(6.2)	47.8	(6.1)
Hong Kong, China										
Total	292	100.0	315	100.0	441	100.0	39.8	51.0	39.9	51.0
Government	285	97.6	305	96.7	434	98.6	42.6	52.5	42.6	52.5
Central Bank	284	97.4	304	96.3	434	98.4	42.9	52.5	42.9	52.5
Treasury and Other Govt.	0.5	0.2	1.0	0.3	0.6	0.1	(40.5)	23.7	(40.5)	23.7
Corporate	7	2.4	11	3.3	6	1.4	(39.3)	(8.8)	(39.3)	(8.9)
Indonesia										
Total	10	100.0	12	100.0	9	100.0	(25.2)	0.3	(26.7)	(10.7)
Government	8	85.3	11	92.0	7	79.4	(35.4)	(6.6)	(36.7)	(16.9)
Central Bank	2	24.6	2	17.7	0.2	1.9	(91.9)	(92.1)	(92.0)	(93.0)
Treasury and Other Govt.	6	60.7	9	74.3	7	77.5	(22.0)	28.0	(23.5)	13.9
Corporate	1	14.7	0.9	8.0	2	20.6	92.3	40.5	88.5	25.0
Korea, Rep. of										
Total	144	100.0	174	100.0	201	100.0	16.6	54.3	16.0	40.0
Government	82	57.1	82	47.4	79	39.3	(3.1)	6.4	(3.7)	(3.5)
Central Bank	47	32.6	45	26.0	46	23.1	3.5	9.2	3.0	(0.9)
Treasury and Other Govt.	35	24.5	37	21.4	33	16.3	(11.3)	2.6	(11.7)	(7.0)
Corporate	62	42.9	91	52.6	122	60.7	34.5	118.2	33.8	97.9
Malaysia										
Total	37	100.0	13	100.0	16	100.0	25.6	(48.0)	23.3	(55.7)
Government	29	77.7	8	62.3	8	51.8	4.4	(65.3)	2.4	(70.5)
Central Bank	19	52.2	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	9	25.5	8	62.3	8	51.8	4.4	5.7	2.4	(10.1)
Corporate	8	22.3	5	37.7	8	48.2	60.6	12.5	57.7	(4.3)
Philippines										
Total	5	100.0	3	100.0	2	100.0	(23.7)	(52.2)	(24.6)	(53.9)
Government	4	75.3	3	91.8	2	80.6	(33.1)	(48.9)	(33.8)	(50.6)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	4	75.3	3	100.0	2	80.6	(33.1)	(48.9)	(33.8)	(50.6)
Corporate	1	24.7	0.3	8.2	0.5	19.4	81.7	(62.4)	78.8	(63.9)
Singapore										
Total	86	100.0	72	100.0	77	100.0	5.4	(3.8)	7.3	(11.0)
Government	83	96.0	70	98.0	73	94.6	1.7	(5.2)	3.5	(12.3)
Central Bank	75	87.4	67	93.1	66	85.6	(3.2)	(5.7)	(1.4)	(12.8)
Treasury and Other Govt.	7	8.6	3	4.9	7	9.0	93.8	0.0	97.3	(7.5)
Corporate	3	4.0	1	2.0	4	5.4	188.7	30.5	194.0	20.8
Thailand										
Total	65	100.0	58	100.0	66	100.0	18.4	5.8	14.0	1.5
Government	50	77.5	50	86.8	54	81.6	11.3	11.4	7.2	6.9
Central Bank	39	60.5	36	62.8	41	62.8	18.5	9.9	14.1	5.5
Treasury and Other Govt.	11	17.1	14	24.0	12	18.8	(7.3)	16.4	(10.7)	11.7
Corporate	15	22.5	8	13.2	12	18.4	64.8	(13.4)	58.7	(16.8)

continued on next page

Table 3 *continued*

	2Q14		1Q15		2Q15		Growth Rate (LCY-base %)		Growth Rate (US$-base %)	
							2Q15		2Q15	
	Amount (US$ 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	12	100.0	11	100.0	10	100.0	(13.7)	(16.2)	(14.8)	(18.2)
Government	12	99.2	11	100.0	10	100.0	(13.7)	(15.5)	(14.8)	(17.5)
Central Bank	9	76.4	8	68.2	8	86.3	9.2	(5.4)	7.8	(7.6)
Treasury and Other Govt.	3	22.8	4	31.8	1	13.7	(62.9)	(49.7)	(63.4)	(50.9)
Corporate	0.1	0.8	0	0.0	0	0.0	–	–	–	–
Emerging East Asia										
Total	1,106	100.0	958	100.0	1,423	100.0	49.0	32.2	48.6	28.6
Government	762	68.9	684	71.4	1,037	72.9	51.9	40.0	51.6	36.1
Central Bank	477	43.1	461	48.2	596	41.9	29.3	29.1	29.1	25.0
Treasury and Other Govt.	286	25.8	223	23.3	441	31.0	99.1	58.0	98.1	54.5
Corporate	344	31.1	273	28.6	386	27.1	41.6	14.9	41.2	12.2
Japan										
Total	522	100.0	414	100.0	404	100.0	(0.5)	(6.3)	(2.4)	(22.5)
Government	480	91.9	392	94.7	379	93.7	(1.6)	(4.6)	(3.5)	(21.1)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	480	91.9	392	94.7	379	93.7	(1.6)	(4.6)	(3.5)	(21.1)
Corporate	42	8.1	22	5.3	26	6.3	18.8	(26.4)	16.5	(39.1)

( ) = negative, – = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Corporate bonds include issues by 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 30 June 2015 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, Directorate General of Budget Financing and Risk Management Ministry of Finance, 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)..

Malaysian Government Securities and Treasury bills declined q-o-q. On a y-o-y basis, Malaysia's overall issuance volume declined as BNM monetary notes have not been issued since the start of the year.

The amount of LCY bonds sold in the Philippines during 2Q15 totaled PHP112 billion (US$2 billion), which was less than in both 1Q15 and 2Q14. This decline was largely due to fewer issuances of Treasury and other government bonds as no issuances of special series bills were made by the Bureau of the Treasury in 2Q15.

Singapore's LCY bond issuance in 2Q15, which amounted to SGD104 billion (US$77 billion), exhibited a mixed performance, rising from 1Q15 but declining from 2Q14. The quarterly increase was on the back of higher issuance of Singapore Government Securities bills and bonds, and corporate notes, while the negative y-o-y growth was mainly a result of lower issuance of Monetary Authority of Singapore bills.

Thailand's LCY bond sales stood at THB2,217 billion (US$66 billion) in 2Q15, recording positive q-o-q and y-o-y growth rates. The impetus for quarterly growth was the corporate sector, while for y-o-y growth it was both the central government and the central bank being more active bond issuers.

In Viet Nam, LCY bond sales slowed to VND211,674 billion (US$10 billion) in 2Q15, down on both a q-o-q and y-o-y basis, largely due to lower Treasury and other government bond issues. Most auctions in 2Q15 fell short of the government's target as investors were bidding for higher yields.

Intra-emerging East Asian bond issuance in 2Q15 totaled US$3.4 billion, up 16.4% q-o-q but down 44.2% y-o-y, largely due to the PRC and Hong Kong, China. PRC issuers raised a combined US$1.0 billion worth of bonds denominated in Hong Kong dollars, Korean won, Malaysian ringgit, and Singapore dollars.

Issuers from Hong Kong, China sold US$1.1 billion worth of bonds in Chinese renminbi, Korean won, and Singapore dollars. Both of these issuance amounts were higher on a q-o-q basis but lower on a y-o-y basis.

In the Republic of Korea, three domestic banks—Korea Development Bank, Korea Eximbank, and Kookmin Bank—issued a combined US$636 million worth of multiple-tranche bonds denominated in Chinese renminbi, Hong Kong dollars, and Singapore dollars during 2Q15. The issuance amount in 2Q15 was lower q-o-q but higher on a y-o-y basis.

ASEAN issuers raised a combined US$601 million worth of bonds denominated in emerging East Asian currencies other than their home currency in 2Q15, which was down 5.1% q-o-q but up 156.2% y-o-y. Indonesia's Medco Energi issued a SGD100 million 3-year bond with a 5.9% coupon in May. The Lao People's Democratic Republic raised THB12 billion from a triple-tranche bond sale in June. The bond issuance comprised a THB1 billion 3-year bond at a 3.56% coupon, a THB5 billion 5-year bond at 4.32%, and a THB6 billion 10-year bond at 5.0%. Malaysia's CIMB Bank and Maybank sold SGD-denominated bonds in 2Q15. CIMB Bank's SGD100 million 3-year bond issued in June carried a 2.12% coupon, while Maybank's SGD50 million 2-year bond issued in April and SGD54 million 3-year bond sold in June had coupon rates of 1.85% and 2.08%, respectively. Thailand's Mitr Phol Sugar issued CNY126 million worth of 3-year bonds at a 5.15% coupon in June.

Emerging East Asia sustained robust G3 currency bond issuance in January–July.[5]

Emerging East Asia sustained a robust level of G3 currency bond issuance in the first 7 months of 2015, accumulating US$122.3 billion worth of bond sales denominated in US dollars, euros, and Japanese yen. This amount was equal to 61.6% of full-year 2014's issuance total and was about 1% larger than in January–July 2014 **(Table 4)**. Among the G3 currencies, US dollar issuance comprised 90% of the regional total, followed by the euro (9%) and Japanese yen (1%).

The PRC was the largest source of G3 currency bonds in the region, accounting for US$68.7 billion, or 56.2% of the regional total in January–July, with almost half of this amount coming from financial institutions. The largest PRC-based G3 currency bond issuer was Sinopec, which raised US$6.5 billion from a multiple-tranche G3 bond sale in April.

The Republic of Korea accounted for the region's second largest G3 currency bond issuance in January–July at US$13.8 billion. Financial institutions were the largest issuer group, led by Korea Eximbank, the largest Korean issuer of G3 currency bonds with total bond sales of US$4.5 billion. Hong Kong, China followed suit with US$12.3 billion worth of G3 currency bond sales that were spearheaded by financial institutions; however, one of its notable issues was the government's US$1 billion 5-year *sukuk* sold in June at 1.894%.

ASEAN's G3 currency bond issuance in January–July reached US$27.5 billion, which represented 81.1% of its 2014 total. Indonesia led the subregion with US$10.8 billion, 69% of which was issued by the government in the form of three US$-denominated bonds totaling US$6 billion and one EUR-denominated bond worth EUR1.25 billion. Malaysia's G3 currency bonds were valued at US$7.7 billion—the second highest total in ASEAN—led by Petronas, which raised US$5 billion from selling three US$-denominated conventional bonds worth a combined US$3.75 billion and one US$-denominated *sukuk* worth US$1.25 billion in March. Philippine G3 currency bonds amounted to US$3.2 billion, led by a US$2 billion 25-year sovereign bond. Singapore's US$5.7 billion worth of G3 currency bond sales were mostly raised by financial institutions (68% of total), while Thailand's US$150 million in G3 currency issuance came entirely from a 5-year bond issued by the Export–Import Bank of Thailand.

On a monthly basis, emerging East Asia's G3 currency bond issuance reached its peak in May at US$22.4 billion before falling to US$19.9 billion in June, and further declining to US$13.8 billion in July amid financial market volatility induced by the debt crisis in Greece and market expectations of a looming US policy rate hike in September **(Figure 5)**.

[5] G3 currency bonds are bonds denominated in either euros, Japanese yen, or US dollars.

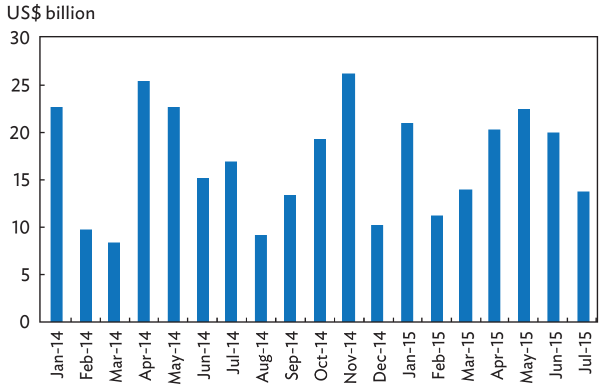
Table 4: G3 Currency Bond Issuance

2014			1 January–31 July 2015		
Issuer	**Amount (US$ million)**	**Issue Date**	**Issuer**	**Amount (US$ million)**	**Issue Date**
China, People's Rep. of	**98,227**		**China, People's Rep. of**	**68,703**	
Bank of China 5% 2024	3,000	13-Nov-14	Sinopec 2.5% 2020	2,500	28-Apr-15
ICBC 6% Perpetual	2,940	10-Dec-14	Bank of Communications 5% Perpetual	2,450	29-Jul-15
Alibaba 2.5% 2019	2,250	28-Nov-14	China Construction Bank 3.875% 2025	2,000	13-May-15
Alibaba 3.6% 2024	2,250	28-Nov-14	CNOOC Finance 3.5% 2025	2,000	5-May-15
CNOOC Finance 4.25% 2024	2,250	30-Apr-14	China Cinda Finance (2015) 4.25% 2025	1,700	23-Apr-15
Tencent Holdings 3.375% 2019	2,000	29-Apr-14	Sinopec 3.25% 2025	1,500	28-Apr-15
Sinopec 1.0136% 2017	1,800	10-Apr-14	Huarong Finance II 5.5% 2025	1,400	16-Jan-15
State Grid Overseas Investment 4.125% 2024	1,600	7-May-14	China Cinda Finance (2015) 3.125% 2020	1,300	23-Apr-15
Others	80,137		Others	53,853	
Hong Kong, China	**34,530**		**Hong Kong, China**	**12,341**	
Hutchison Whampoa 1.625% 2017	2,000	31-Oct-14	Shimao Property 8.375% 2022	1,100	10-Feb-15
Hutchison Whampoa 1.375% 2021	1,815	31-Oct-14	Hong Kong, China (Sovereign) *Sukuk* 1.894% 2020	1,000	3-Jun-15
Others	30,715		Others	10,241	
Indonesia	**11,423**		**Indonesia**	**10,756**	
Indonesia (Sovereign) 5.875% 2024	2,000	15-Jan-14	Indonesia (Sovereign) 4.125% 2025	2,000	15-Jan-15
Indonesia (Sovereign) 6.75% 2044	2,000	15-Jan-14	Indonesia (Sovereign) 5.125% 2045	2,000	15-Jan-15
Pertamina 6.45% 2044	1,500	30-May-14	Pelabuhan Indonesia 4.25% 2025	1,100	5-May-15
Indonesia (Sovereign) 4.35% 2024	1,350	10-Sep-14	Garuda Indonesia *Sukuk* 5.95% 2020	500	3-Jun-15
Perusahaan Gas Negara (PGN) 5.125% 2024	1,350	16-May-14	Pelabuhan Indonesia 5.375% 2045	500	5-May-15
Others	3,223		Others	4,656	
Korea, Rep. of	**31,714**		**Korea, Rep. of**	**13,759**	
Republic of Korea (Sovereign) 4.125% 2044	1,000	10-Jun-14	Korea Eximbank 2.875% 2025	1,250	21-Jan-15
Woori Bank 4.75% 2024	1,000	30-Apr-14	Korea Eximbank 2.25% 2020	1,000	21-Jan-15
Republic of Korea (Sovereign) 2.125% 2024	947	10-Jun-14	Industrial Bank of Korea 2% 2020	700	23-Apr-15
Others	28,766		Others	10,809	
Malaysia	**3,567**		**Malaysia**	**7,655**	
Cahaya Capital 0.162% 2021	500	18-Sep-14	Petronas Capital 3.5% 2025	1,500	18-Mar-15
AmBank 3.125% 2019	400	3-Jul-14	Petronas Capital 4.5% 2045	1,500	18-Mar-15
EXIM *Sukuk* Malaysia 2.874% 2019	300	19-Feb-14	Petronas Global *Sukuk* 2.707% 2020	1,250	18-Mar-15
Others	2,367		Others	3,405	
Philippines	**2,675**		**Philippines**	**3,186**	
Philippines (Sovereign) 4.2% 2024	1,500	21-Jan-14	Philippines (Sovereign) 3.95% 2040	2,000	20-Jan-15
SM Investments 4.875% 2024	350	10-Jun-14	Security Bank 3.95% 2020	300	3-Feb-15
SMC Global Power 7.5% Perpetual	350	7-May-14	Vista Land & Landscapes 7.375% 2022	300	18-Jun-15
Others	475		Others	586	
Singapore	**11,661**		**Singapore**	**5,739**	
OCBC Bank 4% 2024	1,000	15-Apr-14	Global Logistics Properties 3.875% 2025	1,000	4-Jun-15
OCBC Bank 4.25% 2024	1,000	19-Jun-14	BOC Aviation 3% 2020	750	30-Mar-15
Avago Technologies 2% 2021	1,000	6-May-14	HPHT Finance (15) 2.875% 2020	500	17-Mar-15
Others	8,661		Others	3,489	
Thailand	**3,565**		**Thailand**	**150**	
Viet Nam	**1,000**		**Viet Nam**	**0**	
Emerging East Asia Total	**198,362**		**Emerging East Asia Total**	**122,289**	
Memo Items:			**Memo Items:**		
India	**18,323**		**India**	**9,489**	
Bharti Airtel 5.35% 2024	1,000	20-May-14	Bharti Airtel 4.375% 2025	1,000	10-Jun-15
Abja Investment 5.95% 2024	1,000	31-Jul-14	Reliance Industries 4.125% 2025	1,000	28-Jan-15
Others	16,323		Others	7,489	
Sri Lanka	**2,165**		**Sri Lanka**	**1,534**	

Note: Data exclude certificates of deposit.

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

Figure 5: G3 Currency Bond Issuance



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

Government bond yields rose between 1 June and 14 August for most tenors in most markets in emerging East Asia on heightened expectations that the Federal Reserve would hike interest rates.

Recent economic data in 2Q15 for the US bolstered the case that the Federal Reserve may soon hike interest rates. GDP growth in the US accelerated to an annual rate of 3.7% in 2Q15 from a revised 0.6% in 1Q15. In addition, the preliminary measure of industrial production jumped in July by 0.6% month-on-month (m-o-m), up from 0.1% m-o-m in June, the fastest pace in 8 months. US nonfarm payroll employment grew 173,000 in August. The unemployment rate fell to 5.1% in August from 5.3% in July. Lastly, housing starts rose to an 8-year high of 1.21 million units in July, up 0.2% m-o-m.

Yields on 2-year bonds rose for the majority of emerging East Asian markets between 1 June and 14 August **(Figures 6a and 6b)**. The exceptions were for markets whose central banks were easing monetary policy (the Republic of Korea and Thailand) or have indicated the potential to ease policy given low inflation (the Philippines). Yields on 10-year bonds also mirrored movements in the 2-year yields, except for the PRC, whose 10-year yield fell **(Figures 7a and 7b)**.

In terms of the overall yield curve, yields in Hong Kong, China and Singapore rose for most tenors, as both economies typically track US market movements owing to the nature of their monetary policies **(Figure 8)**.

In Malaysia and Indonesia, yield movements were exacerbated by other external and domestic factors. While US economic growth appears to be improving, weaknesses in other markets have lowered the expected growth rate of the global economy. The eurozone reported GDP growth of 0.3% q-o-q in 2Q15, down from 0.4% q-o-q in 1Q15. Japan's GDP contracted at an annual rate of 1.6% in 2Q15. The PRC's GDP grew 7.0% y-o-y in 2Q15 compared with 7.4% in full-year 2014.

While slower economic growth in Malaysia should have eased yield pressures, lower oil prices have led to the depreciation of the ringgit, thereby increasing risk premiums. In addition, a reduction in fuel subsidies and the imposition of a Goods and Services Tax have caused inflation in Malaysia to spike **(Figure 9a)**. This has led Malaysia's entire yield curve to rise by an average of 29 basis points (bps), with the 5-year tenor rising the most at 44 bps.

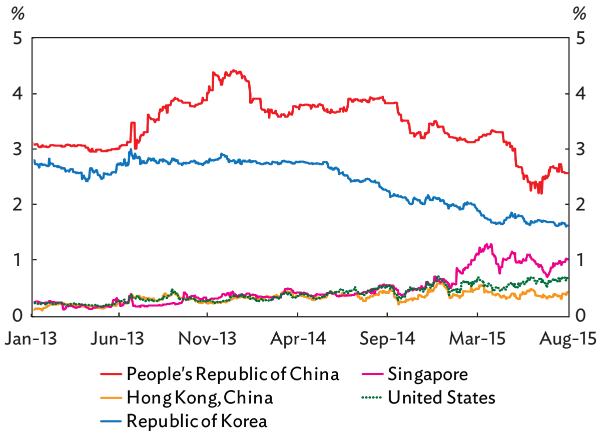
Indonesia also faced a similar story during the period under review. Rising inflation due to the removal of fuel subsidies and depreciation of the rupiah resulted in increased yields for all tenors except the 1-year **(Figure 9b)**. If the 1-year tenor is excluded, yields rose by an average of 53 bps.

In Viet Nam, the upward yield curve movement was driven by a mix of external and domestic factors. The entire yield curve shifted upward on rising expectations of a US policy rate hike. Yields were also facing upward pressure due to the government's drive to increase credit growth and a lack of investor demand for government bonds.

In other emerging East Asian markets, yields fell on a lowered growth outlook as governments sought to boost growth by easing monetary policy. The entire yield curve of the Republic of Korea and Thailand shifted downward. The Republic of Korea reduced its policy rates by 25 bps in June to 1.50% due to weakening exports amid reduced global demand **(Figure 10a)**. In Thailand, policy rates were kept unchanged in June and August, though the Bank of Thailand had earlier reduced policy rates in April. In August, the central bank emphasized the need to keep monetary policy accommodative to spur demand and escape deflation.

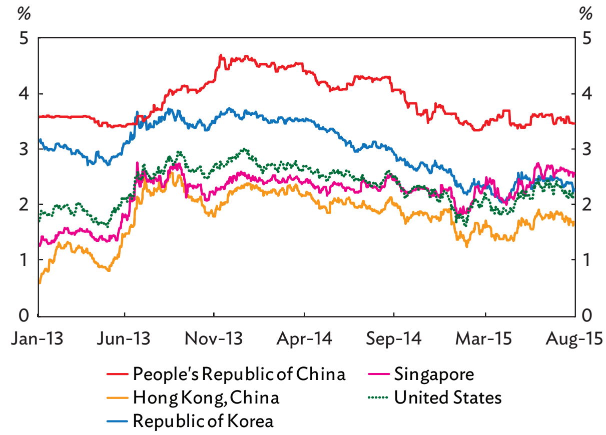
In the PRC, yields fell at the longer-end but rose at the shorter-end of the curve. The fall in yields at the longer-

Figure 6a: 2-Year LCY Government Bond Yields



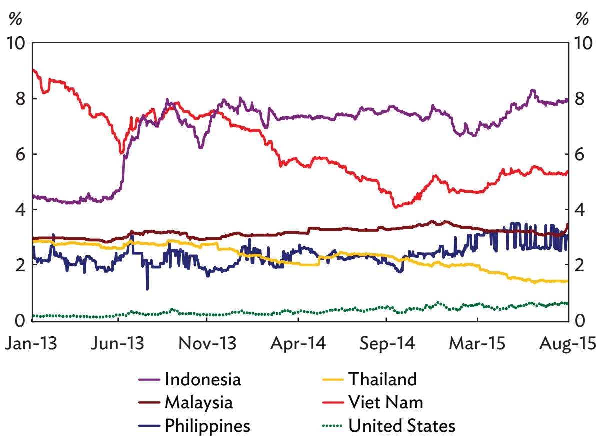
LCY = local currency.
Note: Data as of 14 August 2015.
Source: Based on data from Bloomberg LP.

Figure 7a: 10-Year LCY Government Bond Yields



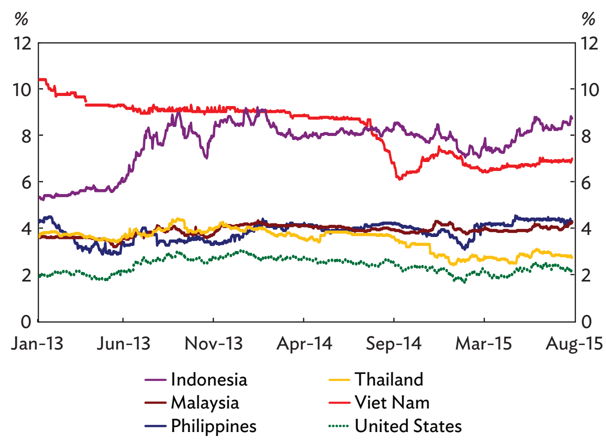
LCY = local currency.
Note: Data as of 14 August 2015.
Source: Based on data from Bloomberg LP.

Figure 6b: 2-Year LCY Government Bond Yields



LCY = local currency.
Note: Data as of 14 August 2015.
Source: Based on data from Bloomberg LP.

Figure 7b: 10-Year LCY Government Bond Yields



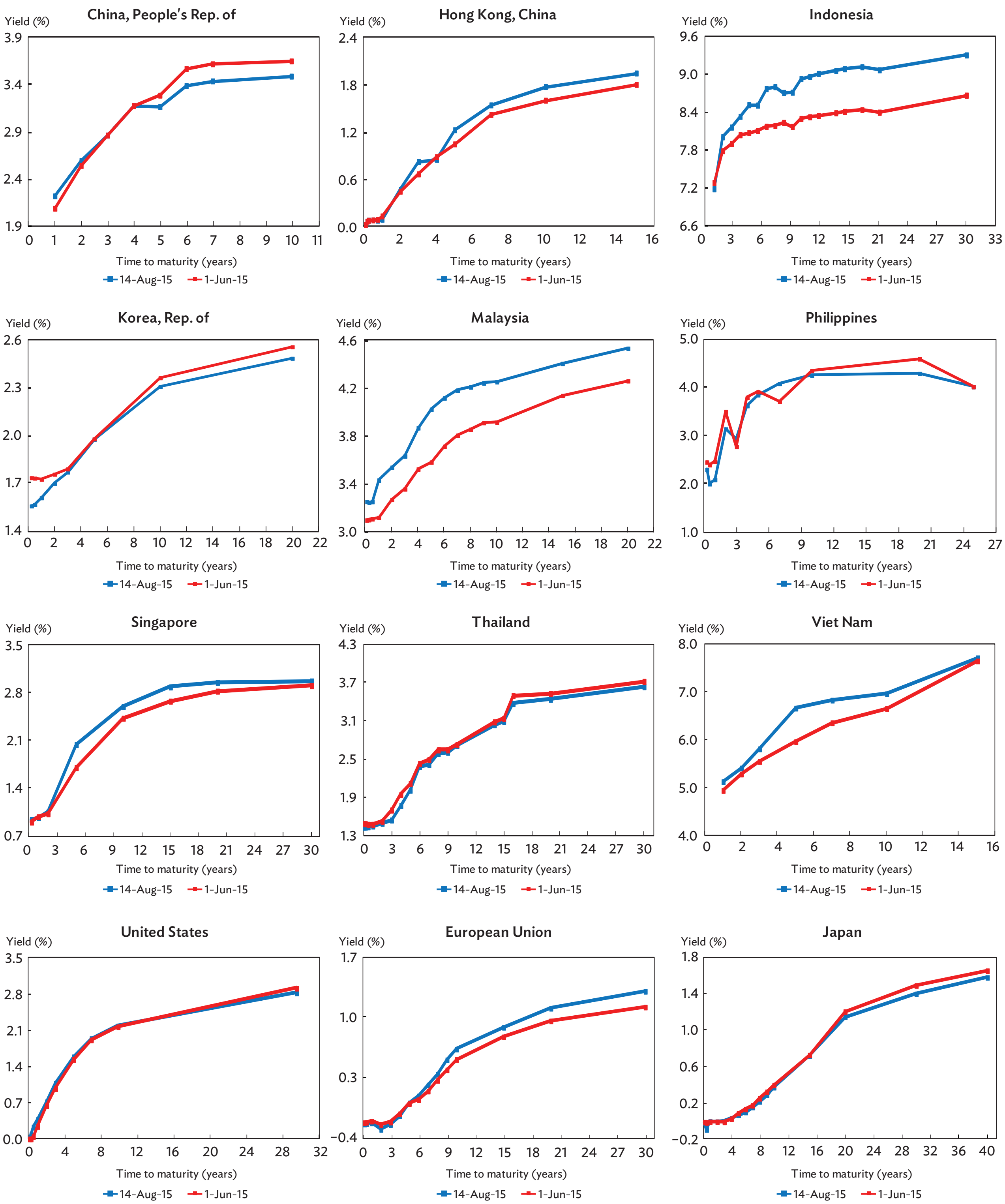
LCY = local currency.
Note: Data as of 14 August 2015.
Source: Based on data from Bloomberg LP.

end was due to slower GDP growth, forcing the PBOC to implement a number of easing measures. In June, reserve requirement ratios were reduced for certain financial institutions and policy rates were reduced by 25 bps, taking the 1-year lending rate to 4.85% and the 1-year deposit rate to 2.0% **(Figure 10b)**. In August, the PBOC again lowered policy rates by another 25 bps, setting the 1-year lending rate to 4.6% and the 1-year deposit rate to 1.75%. The central bank also cut the reserve requirement ratio by 50 bps for all financial institutions, while qualifying financial institutions were granted additional reserve requirement ratio cuts. The rise in yields at the lower-end of the curve was driven by increased demand for bonds as the slower growth outlook led to a significant decline in the PRC's stock market in June.

In the Philippines, yields fell for most tenors on the back of easing inflation. The central bank kept policy rates unchanged in August, citing a benign inflation outlook in the short-term.

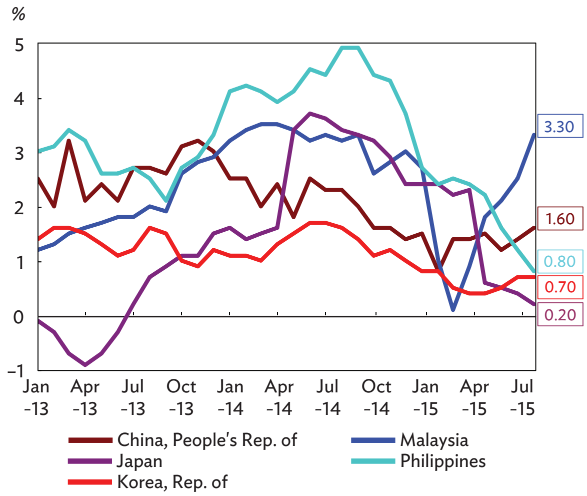
The 2-year versus 10-year spread rose in almost all markets in line with concerns regarding the timing of a Federal Reserve rate hike **(Figure 11)**. The spread fell in the PRC and was unchanged in the Republic of Korea.

Figure 8: Benchmark Yield Curves—LCY Government Bonds



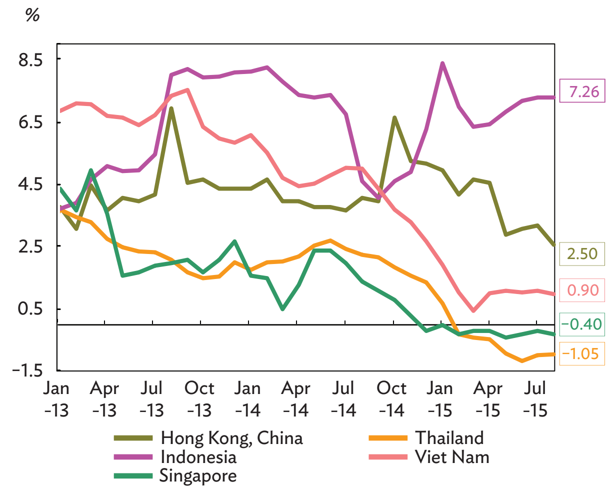
LCY = local currency.
Source: Based on data from Bloomberg LP.

Figure 9a: Headline Inflation Rates



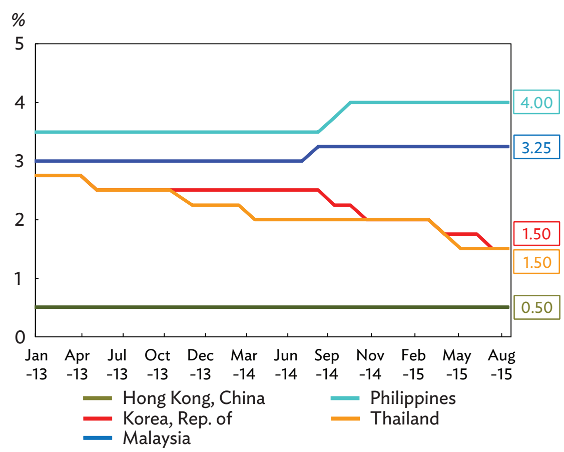
Note: Data as of July 2015.
Source: Based on data from Bloomberg LP.

Figure 9b: Headline Inflation Rates



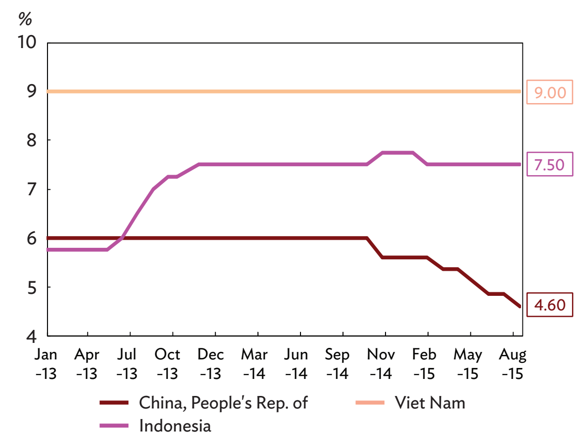
Note: Data as of July 2015.
Source: Based on data from Bloomberg LP.

Figure 10a: Policy Rates



Note: Data as of end-August 2015.
Source: Based on data from Bloomberg LP.

Figure 10b: Policy Rates



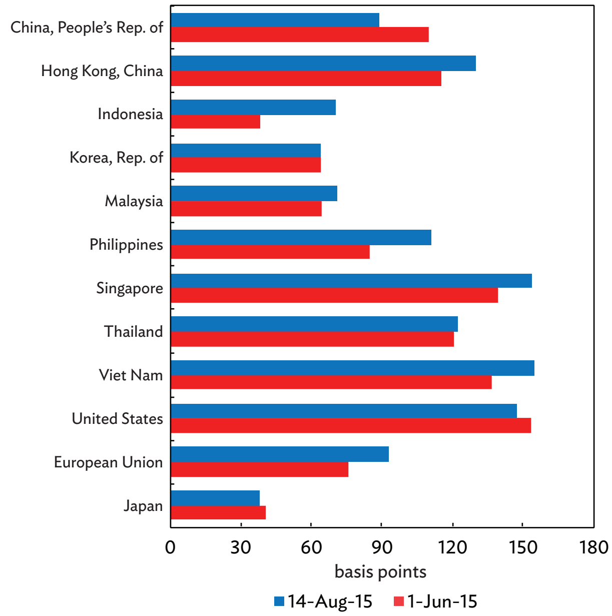
Notes:
1. Data as of end-August 2015.
2. For Viet Nam base interest rate was used.
Source: Based on data from Bloomberg LP.

AAA-rated corporate yields in the PRC and Malaysia fell versus government yields.

Credit spreads between AAA-rated corporate bonds and government bonds narrowed in the PRC and Malaysia between 1 June and 14 August. The narrowing spread in the PRC was mostly due to increased demand for corporate bonds amid monetary easing conducted by the PBOC. In Malaysia, the narrowing was driven mostly by the large uptick in government bond yields. In the Republic of Korea, credit spreads were roughly unchanged **(Figure 12a)**.

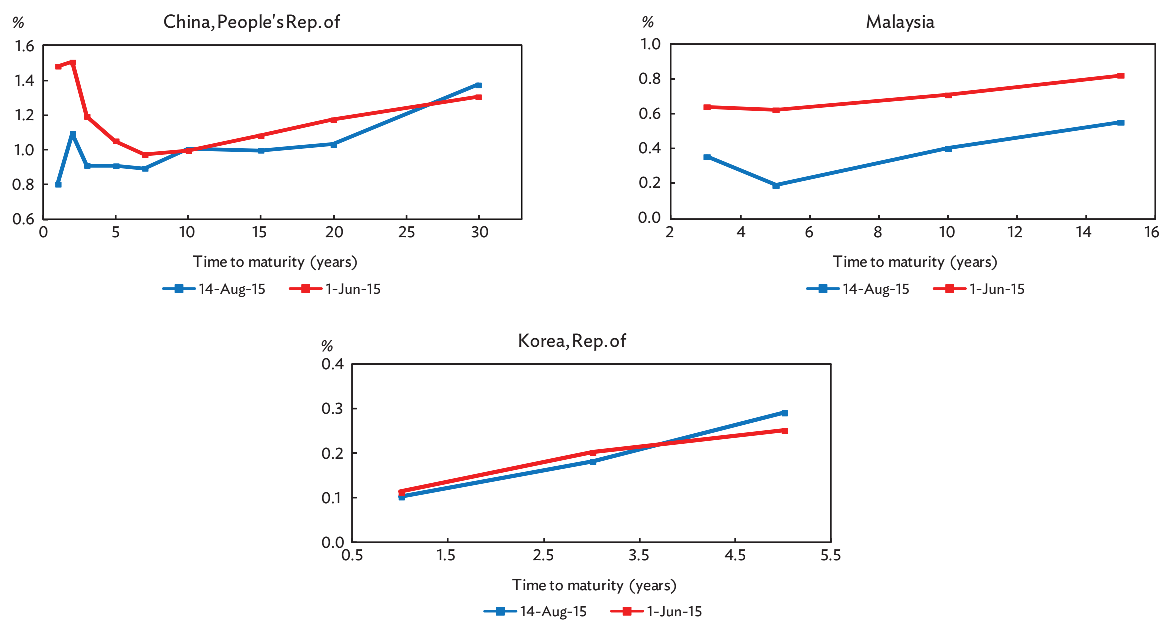
Between 1 June and 14 August, the credit spreads between lower-rated corporate bonds and AAA-rated bonds were roughly unchanged in all three markets for which data are available **(Figure 12b)**.

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



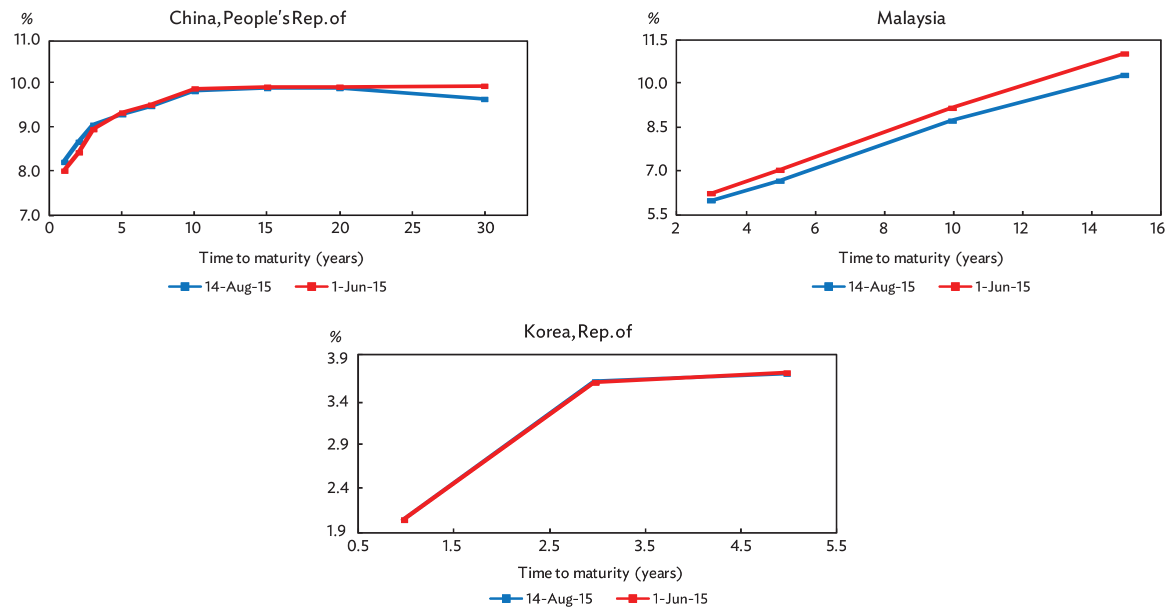
Source: Based on data from Bloomberg LP.

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



LCY = local currency.
Notes:
1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
2. For Malaysia, data on corporate bond yields are as of 29 May 2015 and 14 August 2015.
Sources: People's Republic of China (*ChinaBond*), Republic of Korea (EDAILY *BondWeb*), and Malaysia (Bank Negara Malaysia).

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



LCY = local currency.

Notes:

1. For the People's Republic of China and the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB+.
2. For Malaysia, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB.
3. For Malaysia, data on corporate bond yields are as of 29 May 2015 and 14 August 2015.

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

PBOC Reduces Reserve Requirement Ratios

On 28 June, the People's Bank of China (PBOC) lowered the reserve requirement ratios of select financial institutions. City commercial banks and village and town commercial banks with a certain level of agricultural loans will be entitled to a 50-basis-points (bps) reduction in their reserve requirement ratios. Other banks—such as foreign banks and state-owned commercial banks that have met a certain level of loans to the agricultural sector or small enterprises—are entitled to a 50-bps reduction in their reserve requirement ratios. Finally, finance companies will have their reserve requirement ratios reduced by 300 bps.

PBOC Removes Bond Quotas for Sovereign Wealth Funds and Central Banks

On 16 July, the PBOC removed investment bond quotas for foreign central banks, sovereign wealth funds, and certain international financial institutions, such as the World Bank, investing in the interbank bond market. In addition, the application process for these institutions was streamlined and now requires simply registering with the PBOC before investing.

PBOC Revises Exchange-Rate-Setting Mechanism

On 11 August, the PBOC revised its central parity exchange-rate-setting mechanism. The PBOC said that under the new guidelines, market makers should submit quotes based on the prior closing of the interbank foreign exchange market, along with current demand and supply conditions. The quote should also take into account exchange rate movements in other currencies. According to the PBOC, external factors such as a recovering economy in the United States (US), weaker growth in the European Union and Japan (among other economies), and a strong trade surplus have led to a disparity in market expectations in the renminbi exchange rate versus the current exchange rate being set. The new mechanism is designed to move the central parity exchange rate more in line with market expectations.

Hong Kong, China

Hong Kong, China Issues US$-Denominated *Sukuk*

On 28 May, the Government of the Hong Kong Special Administrative Region of the People's Republic of China issued a US$1.0 billion 5-year *sukuk* (Islamic bond). This was the second *sukuk* issued by the government, with the first taking place in September 2014. The bond was priced at a rate of 1.894%. The government said that the *sukuk* is based on the *wakalah* structure, in which one-third of the assets are based on units in a Hong Kong, China building and the remainder are in *shari'ah*-compliant commodities.

Indonesia

Bank Indonesia Eases Macroprudential Measures to Spur Growth

In June, Bank Indonesia eased macroprudential measures by revising its policies for loan-to-value and financing-to-value ratios for property loans, and for automotive loan down payments. Bank Indonesia increased by 10 percentage points the loan-to-value ratio for property loans and the financing-to-value ratio for *shari'ah*–compliant property credit, which raised the maximum loanable amount for home buyers. Also, Bank Indonesia reduced by 5 percentage points the down payment requirement for automotive loans, bringing the new minimum down payment for two-wheelers to 20% and for passenger cars to 25%. The relaxation of these macroprudential policies aimed to support economic growth.

Bank Indonesia Revises Auction Process for Monetary Instruments and Expands Tenors for Reverse Repos

In August, Bank Indonesia revised its auction process for reverse repurchase agreements (reverse repo) for government bonds and *Sertifikat* Bank Indonesia (SBI), as part of efforts to stabilize the rupiah. The central bank said that it will offer a fixed rate on the two instruments instead of a variable rate. Also, Bank Indonesia will offer longer tenors such as 3-month reverse repos, and increase issuances of 9-month and 12-month SBIs. The frequency of foreign exchange swaps was also reduced to a weekly basis.

Republic of Korea

MOSF Announces 2015 Supplementary Budget

The Ministry of Strategy and Finance (MOSF) announced in July a supplementary budget for 2015. About KRW5.4 trillion will be used to finance the revenue shortfall in 2015, while KRW6.2 trillion will be utilized to augment budget expenditures—specifically for water resources management and support of the working class, and to deal with the adverse effects of the Middle East Respiratory Syndrome. MOSF stated that the supplementary budget will be largely funded by government bonds.

FSC to Enhance KRX's Competitiveness

The Financial Services Commission (FSC) reported in July plans to improve the competitiveness of the Korea Exchange (KRX). Specifically, the FSC intends to establish a holding company for KRX, which will have as its subsidiaries the Korea Stock Price Index exchange, the Korean Securities Dealers Automated Quotations exchange, and the derivatives exchange. Revisions to the Financial Investment Services and Capital Markets Act are planned to allow for the creation of this holding company.

Malaysia

BNM to Create Comprehensive Guidelines on Major Islamic Finance Contracts

In June, Bank Negara Malaysia (BNM) announced that it will create a comprehensive set of guidelines for all major Islamic finance contracts, including the finalization of operating standards, by the end of the year. The guidelines will address inconsistencies in the use and interpretation of Islamic contracts, and will complement the existing *shari'ah* guidelines already issued by BNM.

SC Implements Lodge and Launch Framework for Wholesale Products

On 15 June, the Securities Commission Malaysia (SC) implemented the Lodge and Launch Framework for wholesale products, which incorporate the Guidelines on Unlisted Capital Market Products issued on 29 March. This initiative is expected to significantly reduce the time-to-market for wholesale products from the current approval timeframe of 14–21 days. The Lodge and Launch Framework enables wholesale products to be launched to the market once all required information is submitted via the SC's online system. The wholesale products covered under this initiative include wholesale funds, structured products, bonds, *sukuk*, and asset-backed securities.

Philippines

Department of Finance Issues Guidelines on Government Depository Banks

Consistent with its mandate to ensure effective management of government resources, on 4 July, the Department of Finance issued revised guidelines on the application of the Treasury Single Account, which involves the automation and integration of the government's Public Financial Management System. The Treasury Single Account, which consolidates all government bank accounts, allows the National Treasury to determine its available resources in a speedy manner, reducing costs in the process. The new set of guidelines also highlight the roles of government offices and agencies in prudent fiscal management.

Singapore

Singapore Signs Third Bilateral Swap Agreement with Japan

The third bilateral swap agreement between Japan and Singapore was signed on 21 May by the Bank of Japan and the Monetary Authority of Singapore (MAS). The agreement aims to enhance bilateral financial cooperation, strengthen trade ties, and contribute to economic growth between the two countries by enabling authorities to exchange their local currencies for US dollars. The facility will allow Japan to swap Japanese yen worth up to US$1 billion while Singapore can exchange Singapore dollars up to US$3 billion.

MAS Launches Singapore Savings Bond

In July, MAS launched the Singapore Savings Bond, a capital-protected government bond that will be made available only to retail investors. The Singapore Savings Bond will pay tax-exempt, semi-annual interest with a step-up feature, at a rate based on the average yield of benchmark Singapore Government Securities the month prior to issuance. The 10-year bond, which will have a denomination of SGD500 and a limit of SGD100,000 for each holder, will first be issued on 1 October. MAS plans to issue a total of SGD2.4 billion of savings bonds this year.

Thailand

SEC Eases its Facilitation of Debt Securities Offerings

The Securities and Exchange Commission, Thailand (SEC) reported in July that it had eased the process by which it facilitates debt securities offerings via the Capital Market Supervisory Board's approval of revisions to existing regulations. Under the revised rules, which according to the SEC will take effect in 3Q15, an issuer can be given a 2-year program allowing for multiple debt securities offerings within the prescribed period. The SEC stated that this will help promote issuance of corporate bonds.

SEC Revises Regulations on Cross-Border Offerings of Debt Securities and Collective Investment Schemes

The SEC announced in May that the Capital Market Supervisory Board had revised regulations governing cross-border offerings of debt securities and collective investment schemes. One of the revisions will allow nonresident issuers to sell *sukuk* in Thailand. The revised regulations, according to the SEC, will take effect in 3Q15.

Viet Nam

SBV Widens Exchange Rate Trading Band

On 12 August, the State Bank of Viet Nam (SBV) widened the exchange rate trading band for the Vietnamese dong to ±2% from ±1%. The decision to adjust the exchange rate trading band was made to minimize the effect of the unexpected devaluation of the Chinese renminbi on 11 August. On 19 August, the SBV further widened the exchange rate trading band to ±3%. As a result, the new VND–US$ exchange ceiling rate was set at VND22,547 per dollar and the floor exchange rate at VND21,333 per dollar.

SBV Devalues the Vietnamese Dong for the Third Time in 2015

On 19 August, the SBV weakened the Vietnamese dong by 1% to a reference rate of VND21,890 per dollar. This marked the third time since the beginning of the year that the reference rate has been adjusted. The move was made to mitigate the effects of the Chinese renminbi's depreciation, as well as in response to concerns over a possible rate hike by the US Federal Reserve.

Sukuk Developments in Emerging East Asia

Emerging East Asia's *sukuk* (Islamic bond) market held firm in 2Q15 despite headwinds from challenging developments in the global economy.[6] The region's *sukuk* market managed to post modest growth in the first half of the year, amid uncertainties surrounding the anticipated interest rate hike by the United States (US) Federal Reserve and, more importantly, falling oil prices that affected oil-producing economies who are active participants in Islamic financial markets. Growth was largely driven by *sukuk*'s rising acceptance as an important source of financing as demand for infrastructure funding continues to grow and interest from nonmainstream *sukuk* markets begins to advance.

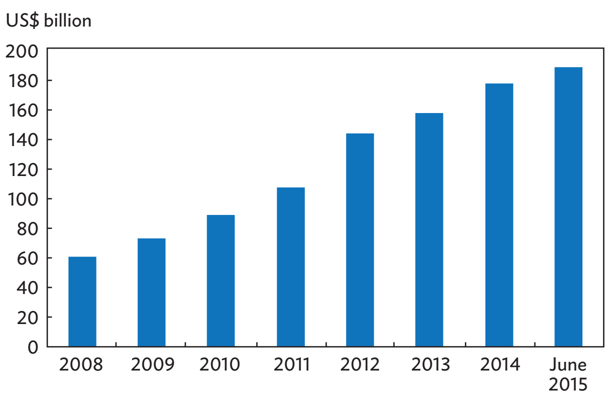
At the end of June, the outstanding amount of *sukuk* in emerging East Asia had reached US$186.3 billion, up from only US$59.9 billion at the end of 2008, which represented a compounded annual growth rate of 19.1%. In the first half of 2015, the *sukuk* market expanded 6.0% from US$175.9 billion in 2014 **(Figure 13)**.

Malaysia is home to the largest *sukuk* market in emerging East Asia and the entire world. It dominates the region's market, accounting for an 86.5% share of the region's total *sukuk* stock at end-June. It was followed by Indonesia with a share of 11.1%, while all other emerging East Asian *sukuk* markets (Brunei Darussalam; Hong Kong, China; and Singapore) together only represent a 2.3% share of the total.

Malaysia dominates both the local currency (LCY) and foreign (FCY) currency *sukuk* markets. LCY-denominated *sukuk* accounted for an 89.7% share of the region's total bond stock at end-June, while the remaining 10.3% share was accounted for by FCY-denominated *sukuk* **(Figure 14)**.

At the end of June, the region's outstanding *sukuk* were primarily denominated in Malaysian ringgit, which had an equivalent value of US$154.9 billion and represented an 83.1% share of the region's total stock **(Figure 15)**. Other markets in the region have also issued MYR-denominated *sukuk*, taking advantage of Malaysia's pioneering efforts in creating a well-developed regulatory framework and market infrastructure for *shari'ah*-compliant financial products. The Indonesian plantation firm Bumitama Agri issued MYR-denominated bonds twice in 2014. In Singapore, all FCY corporate *sukuk* have been issued in

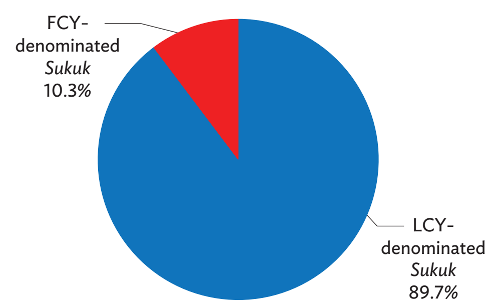
Figure 13: *Sukuk* Outstanding in Emerging East Asia



Notes:
1. Emerging East Asia's *sukuk* market comprises Brunei Darussalam; Hong Kong, China; Indonesia; Malaysia; and Singapore.
2. Data includes local currency and foreign currency *sukuk*.
3. Local currency and foreign currency values were converted based on 30 June 2015 currency exchange rate and do not include currency effects.

Sources: Autoriti Monetari Brunei Darussalam; Bank Indonesia; Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST); Directorate General of Budget Financing and Risk Management, Ministry of Finance; Otoritas Jasa Keuangan; and Bloomberg LP.

Figure 14: LCY and FCY *Sukuk* Outstanding in Emerging East Asia

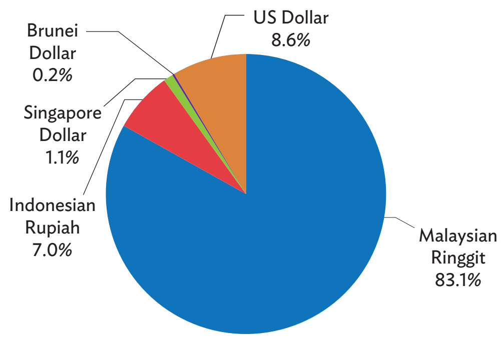


FCY = foreign currency, LCY = local currency.
Notes:
1. Emerging East Asia's *sukuk* market comprises Brunei Darussalam; Hong Kong, China; Indonesia; Malaysia; and Singapore.
2. LCY-denominated *sukuk* refers to a market's issuance of *sukuk* denominated in its home currency, while FCY-denominated *sukuk* refers to a market's issuance of *sukuk* denominated in a currency other than its home currency.
3. Data as of end-June 2015.

Sources: Autoriti Monetari Brunei Darussalam; Bank Indonesia; Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST); Directorate General of Budget Financing and Risk Management, Ministry of Finance; Otoritas Jasa Keuangan; and Bloomberg LP.

[6] Emerging East Asia's *sukuk* market comprises Brunei Darussalam; Hong Kong, China; Indonesia; Malaysia; and Singapore.

Figure 15: Outstanding *Sukuk* in Emerging East Asia by Currency



Notes:
1. Emerging East Asia's *sukuk* market comprises Brunei Darussalam; Hong Kong, China; Indonesia; Malaysia; and Singapore.
2. Data includes local currency and foreign currency *sukuk*.
3. Data as of end-June 2015.

Sources: Autoriti Monetari Brunei Darussalam; Bank Indonesia; Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST); Directorate General of Budget Financing and Risk Management, Ministry of Finance; Otoritas Jasa Keuangan;, and Bloomberg LP.

Malaysian ringgit, including issuances by Golden Assets International and First Resources. Even Hong Kong, China's Noble Group issued MYR-denominated *sukuk* in 2012 and 2013.

Next to the Malaysian ringgit, the US dollar was the region's currency of choice for *sukuk* issues. Outstanding US$-denominated *sukuk* totaled US$16.0 billion at end-June. Indonesia is the most active market in terms of US$-denominated *sukuk*, with a total outstanding amount of US$7.5 billion The Indonesian government regularly issues global *sukuk* as part of its budget financing plan and instrument diversification strategy. It also issues global *sukuk* to support the development of the global Islamic financial market and to create a pricing benchmark for global *sukuk* issues. At the end of June, the Indonesian government's outstanding global *sukuk* stood at US$7.0 billion. The only other US$-denominated *sukuk* from Indonesia was the US$0.5 billion issuance of state-owned airline operator Garuda Indonesia in 2015.

Malaysia's aggregate US$-denominated *sukuk* totaled US$6.5 billion at end-June. Of this amount, global *sukuk* issued by the government comprised US$3.5 billion and *sukuk* issued by corporate firms comprised the remaining US$3.0 billion.

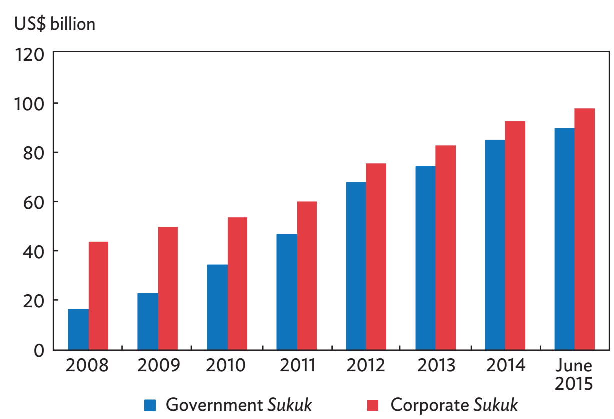
The remaining US$2.0 billion was accounted for by Hong Kong, China, whose government sold its first *sukuk* in September 2014 through the issue of a US$1.0 billion 5-year *sukuk* at a profit rate of 2.005%. The *sukuk* was structured following the *wakalah* Islamic principle. The issuance was an important milestone for Hong Kong, China in its foray into the Islamic financial market. The government issued another US$1.0 billion 5-year *sukuk* in June 2015 that carried a profit rate of 1.894%.

IDR-denominated *sukuk* accounted for a 7.0% share of the region's total outstanding *sukuk* at end-June. All of which were issued by the Indonesian government through the auction of Islamic Treasury bills (SPN-S) and Islamic Treasury bonds, known as *Surat Berharga Syariah Negara* (SBSN), and the issuance of retail *sukuk*. The government auctions Islamic Treasury instruments on a bi-monthly basis.

Sukuk denominated in Singapore dollars and Brunei dollars only accounted for an aggregate 1.3% share of the total. Issuance in Singapore dollars came from both Singapore and Malaysian corporates, while BND-denominated *sukuk* were mainly issued by Autoriti Monetari Brunei Darussalam, a statutory body acting as the central bank.

At the end of June, emerging East Asia's outstanding government *sukuk* reached US$89.2 billion, while corporate *sukuk* stood at US$97.2 billion **(Figure 16)**. Unlike the conventional bond market, where the government sector

Figure 16: Composition of *Sukuk* Outstanding in Emerging East Asia



Notes:
1. Emerging East Asia's *sukuk* market comprises Brunei Darussalam; Hong Kong, China; Indonesia; Malaysia; and Singapore.
2. Data includes local currency and foreign currency *sukuk*.
3. Local currency and foreign currency values were converted based on 30 June 2015 currency exchange rate and do not include currency effects.

Sources: Autoriti Monetari Brunei Darussalam; Bank Indonesia; Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST); Directorate General of Budget Financing and Risk Management, Ministry of Finance; Otoritas Jasa Keuangan; and Bloomberg LP.

dominates issuance, in the *sukuk* space, it is the corporate issues that account for a larger share. Nonetheless, government *sukuk* have steadily advanced over the years, with a share of total *sukuk* outstanding nearly doubling from 27.5% in 2008 to 47.8% at end-June.

Corporate *sukuk* accounted for a 52.2% share of the region's total *sukuk* stock during the review period. Only the markets of Malaysia and Singapore had a larger share of corporate sector *sukuk* vis-à-vis the government. In the case of Singapore, its entire stock of *sukuk* outstanding came from the corporate sector.

Sukuk issuance in emerging East Asia recorded a modest decline in 2014 to US$78.5 billion from 2013's US$79.5 billion and 2012's high of US$89.2 billion **(Figure 17)**. While still robust, issuance volume has been on a downtrend since the 2013 "taper tantrum" when emerging markets experienced large capital outflows in response to statements from the Federal Reserve that it planned to wind down its monthly asset purchases. In the first half of 2015, total *sukuk* issuance volume in emerging East Asia reached US$26.9 billion.

Malaysia led the decline as its issuance volume has steadily dropped, particularly for government *sukuk*. In the first half of 2015, Malaysia ceased issuance of *shari'ah*-compliant Bank Negara Monetary Notes (BNMNs), which accounted for 55.4% of total LCY issuance in 2014. However, issuance of *shari'ah*-compliant BNMNs resumed in August.

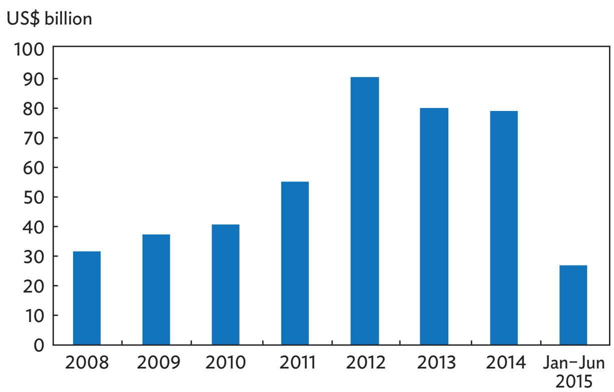
Bucking the declining trend in issuance volume was Indonesia, where *sukuk* issuance volume has steadily risen from only US$1.5 billion in 2008 to US$7.0 billion through the first half of 2015. Hong Kong, China also increased its total issuance volumes in 2014 and 2015 as a result of the government's successive issues of US$1.0 billion *sukuk*.

Malaysia

Malaysia is home to the largest *sukuk* market in emerging East Asia, accounting for an 86.5% share of the region's total *sukuk* stock at end-June. The Malaysian *sukuk* market, including LCY- and FCY-denominated *sukuk*, reached a size of US$161.3 billion at end-June, up from a modest US$58.8 billion in 2008 on compounded annual growth of 16.8% **(Figure 18)**.

In 2014, Malaysia's LCY *sukuk* market surpassed conventional bonds in terms of LCY bond market share with 52% of the total. This share has since climbed to 54% as of end-June 2015. The growth is a testament to Malaysia's vast experience in Islamic finance, given its established regulatory infrastructure in facilitating the

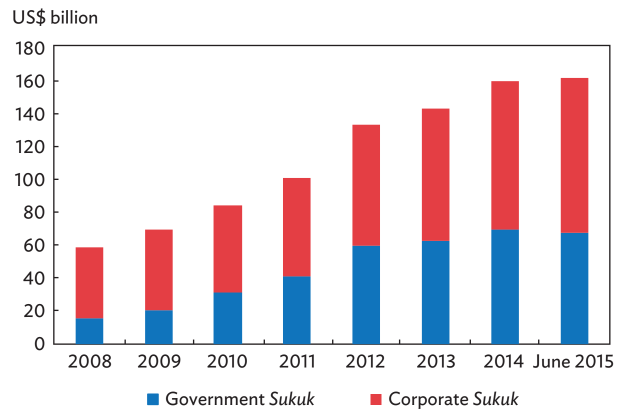
Figure 17: *Sukuk* Issuance in Emerging East Asia



Notes:
1. Emerging East Asia's *sukuk* market comprises Brunei Darussalam; Hong Kong, China; Indonesia; Malaysia; and Singapore.
2. Data includes local currency and foreign currency *sukuk*.
3. Local currency and foreign currency values were converted based on 30 June 2015 currency exchange rate and do not include currency effects.

Sources: Autoriti Monetari Brunei Darussalam; Bank Indonesia; Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST); Directorate General of Budget Financing and Risk Management, Ministry of Finance; Otoritas Jasa Keuangan; and Bloomberg LP.

Figure 18: *Sukuk* Outstanding in Malaysia



Notes:
1. Data include local currency and foreign currency *sukuk*.
2. Local currency and foreign currency values were converted based on 30 June 2015 currency exchange rate and do not include currency effects.

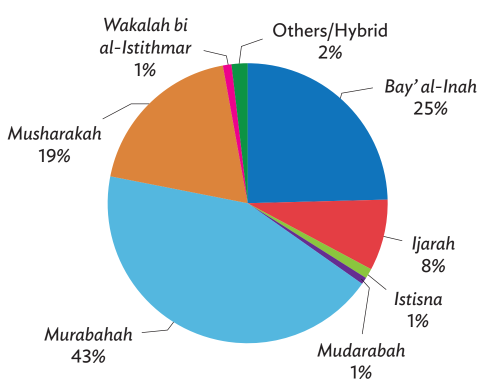
Sources: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) and Bloomberg LP.

sukuk market, including origination, listing, reporting, trading, and settlement systems. Malaysia also boasts a strong *shari'ah* governance framework that comprises *shari'ah* committees under the Securities Commission Malaysia (SC) and Bank Negara Malaysia (BNM). These institutions provide regulatory guidance in the development of the Islamic finance market in Malaysia.

Malaysia's lead in the development of Islamic finance not only translates into issuance volume, but also through the innovation of more *shari'ah* products to cater to a wider investor base. Over the years, *sukuk* structures in Malaysia have evolved from debt-based principles (*murabahah*) to lease-based (*ijarah*), profit-sharing (*musharakah*), and manufacturing contract-based (*istitna*), and also include hybrid structures based on combinations of *shari'ah* contracts. At end-June, Malaysia's LCY *sukuk* were characterized by a wide distribution of *shari'ah* principles, including sale and buyback (*bay al'inah*), *murabahah*, and *musharakah* **(Figure 19)**.

Malaysia's government *sukuk* market has exhibited impressive growth over the years. At end-June, the total outstanding amount of Malaysia's government

Figure 19: Composition of the LCY *Sukuk* Market in Malaysia



LCY = local currency.
Notes:
1. *Bay' al-Inah* are Islamic bonds that involve the sale and buy-back of an asset.
2. *Ijarah* are Islamic bonds backed by a lease agreement.
3. *Istisna* are Islamic bonds backed by a purchase order contract.
4. *Mudarabah* are Islamic bonds backed by a profit-sharing scheme from a business venture or partnership.
5. *Murabahah* are Islamic bonds backed by a commodity mark-up sale transaction.
6. *Musharakah* are Islamic bonds backed by a joint-venture arrangement between two or more parties.
7. *Wakalah bi al-Istithmar* are Islamic bonds where a person nominates another person to act on his behalf.
8. Data includes government and corporate *sukuk*.
9. Data as of end-June 2015.
Sources: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) and Bloomberg LP.

sukuk reached US$67.4 billion, up from a modest size of US$15.8 billion in 2008. Moreover, the share of government *sukuk* to Malaysia's aggregate *sukuk* market has also increased from a share of 26.8% in 2008 to 41.8% at end-June.

Government Investment Issues (GIIs) continued to account for the majority of total LCY government *sukuk* with a share of 86% at end-June. GIIs are long-term, non-interest bearing government securities issued to raise funds for developmental expenditure. GIIs are issued through competitive auction by BNM on behalf of the government and have maturities of 3, 7, 5, 10, 15, and 20 years. The different maturities of GIIs also provide a benchmark yield curve for Islamic market reference. Since the start of their issuance in 2001, GIIs had been based on the *bay' al-inah* principle, an arrangement that involves the sale and buyback of an asset. However, beginning in July 2013, GIIs have been based on the *murabahah* structure **(Table 5)**.

Shari'ah-compliant BNMNs previously accounted for a sizable portion of government *sukuk* **(Figure 20)**. These are short-term instruments, with maturities of up to 3 years, issued by BNM to manage liquidity in the Islamic money market. However, in 2015, BNM ceased issuance of the instrument. As a result, *Sukuk Perumahan Kerajaan*, which are Islamic bonds issued by the government to extend and refinance funding for housing loans to government employees, now account for the second largest share at 12%.

The Government of Malaysia had US$3.5 billion worth of FCY-denominated sovereign *sukuk* outstanding at end-June, including a US$2.0 billion dual-tranche *sukuk* issued in July 2011 under the special purpose vehicle *Wakalah* Global *Sukuk*. In April 2015, the Government of Malaysia again issued a US$1.5 billion dual-tranche *sukuk* via special purpose vehicle Malaysia Sovereign *Sukuk*. The issue comprised a US$1 billion 10-year tranche and a US$500 million 30-year tranche. This extended the maturity profile of government *sukuk* to 30 years from 10- to 20-year GIIs.

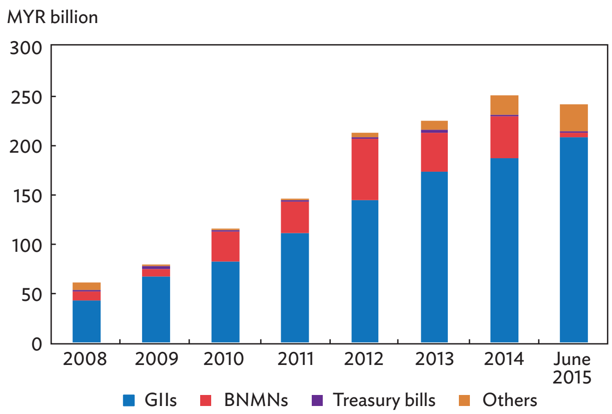
At end-June, financial firms–including banks, development financial institutions, and nonbanking financial institutions–were the largest investor group in LCY government *sukuk* at 49.0% of the total. This group was followed by social security institutions, comprising the Employees Provident Fund and the Social Security Organisation of Malaysia, with a 37.4% share **(Figure 21)**. Foreign holders and

Table 5: Size and Composition of the Government *Sukuk* Market in Malaysia

Instrument	Amount Outstanding (billion)		Structure
	MYR	US$	
Total	**254.2**	**67.4**	
LCY Government			
Government Investment Issue	131.0	34.7	*Bay' al-Inah*
Government Investment Issue	76.0	20.1	*Murabahah*
Bank Negara Islamic Monetary Notes	4.2	1.1	*Murabahah*
Malaysian Treasury Bills	1.9	0.5	*Bay' al-Inah*
Sukuk Perumahan Kerajaan	27.9	7.4	*Murabahah*
FCY Government			
Malaysia Sovereign *Sukuk*	5.7	1.5	*Wakalah bi al-Istithmar*
Wakala Global *Sukuk* Bhd.	7.5	2.0	*Wakalah bi al-Istithmar*

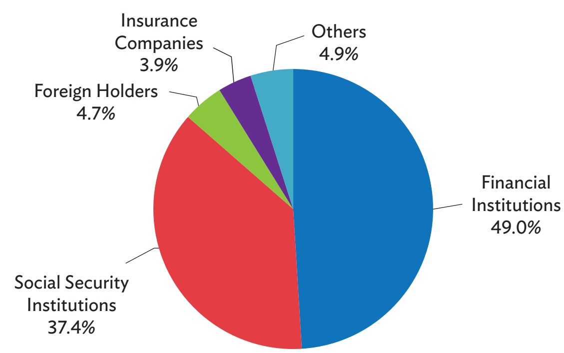
FCY = foreign currency, LCY = local currency.
Notes:
1. *Bay' al-Inah* are Islamic bonds that involve the sale and buy-back of an asset.
2. *Murabahah* are Islamic bonds backed by a commodity mark-up sale transaction.
3. *Wakalah bi al-Istithmar* are Islamic bonds in which one person nominates another person to act on his behalf.
4. Data as of end-June 2015.
Sources: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) and Bloomberg LP.

Figure 20: LCY Government *Sukuk* Outstanding in Malaysia by Type of Instrument



BNMNs = Bank Negara Monetary Notes, GIIs = Government Investment Issues, LCY = local currency.
Note: Others refers to securities issued by Cagamas and Khazanah in 2008–2011. From 2012 until end-June 2015, it refers to *Sukuk Perumahan Kerajaan*, which are Islamic bonds issued by the government to refinance funding for housing loans to government employees and to extend new housing loans.
Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST).

Figure 21: GII Investor Profile in Malaysia



GII = Government Investment Issue.
Note: Data as of end-June 2015.
Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST).

insurance companies, meanwhile, accounted for 4.7% and 3.9%, respectively. Others, which include statutory bodies, nominees, and trustee companies, had a share of 4.9%

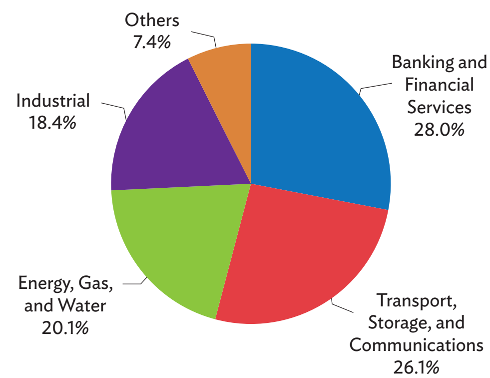
The corporate *sukuk* market in Malaysia has continued to exhibit steady growth over the years. Total outstanding corporate *sukuk* reached US$93.9 billion at end-June, more than double the amount of US$43.0 billion in 2008, including US$5 billion worth of FCY-denominated *sukuk*. Malaysia's LCY corporate *sukuk* now dominate the LCY corporate bond market with a share of about 72% of the total.

Given Malaysia's vast experience in Islamic finance, the number of firms that have tapped the *sukuk* market for funding requirements have grown exponentially over the years. Highway operator Project Lebuhraya Usahasama remained the largest issuer at end-June with outstanding bonds valued at MYR30.6 billion (US$8.1 billion). Proceeds are being used to finance the purchase of five toll road concessions. State-owned institutions have also used the *sukuk* market as source-funding for various social and infrastructure projects. Khazanah Nasional, a sovereign wealth fund, was the second largest issuer of corporate *sukuk* with total outstanding bonds of MYR20 billion at end-June. The third largest issuer was Danainfra Nasional, which was established to fund Malaysia's infrastructure projects, with outstanding *sukuk* of MYR18 billion **(Table 6)**.

The LCY corporate *sukuk* market of Malaysia is dominated by three major industries **(Figure 22)**. Financial firms, including banks, accounted for the largest share at 28%. Firms involved in transportation, logistics, and telecommunications industries followed with 26%. Energy and utility companies–electricity, oil, gas, and water–followed with an aggregate share of 20%.

Given the industry profile of corporate *sukuk* issuers, which are predominantly in the infrastructure, electricity generation, and water industries, and their corresponding long-term projects, almost two-thirds of the outstanding LCY corporate *sukuk* at end-June were longer-dated maturities ranging from 10 years to 50 years **(Figure 23)**.

Figure 22: LCY Corporate *Sukuk* Issuer Profile in Malaysia



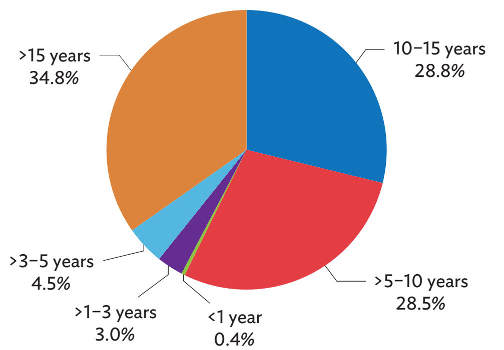
LCY = local currency.
Note: Data as of end-June 2015.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Table 6: Top 15 Issuers of LCY Corporate *Sukuk* in Malaysia

	Issuers	Outstanding Amount (MYR billion)	Outstanding Amount (US$ billion)	State-owned	Type of Industry
1.	Project Lebuhraya Usahasama	30.60	8.11	No	Transport, Storage, and Communications
2.	Khazanah	20.00	5.30	Yes	Finance
3.	Danainfra Nasional	17.60	4.66	Yes	Finance
4	Prasarana	13.70	3.63	Yes	Transport, Storage, and Communications
5	Pengurusan Air	11.93	3.16	Yes	Energy, Gas, and Water
6.	Cagamas	11.07	2.93	Yes	Finance
7.	Perbadanan Tabung Pendidikan Tinggi Nasional	11.00	2.92	Yes	Finance
8.	Sarawak Energy	7.00	1.86	Yes	Energy, Gas, and Water
9.	Aman Sukuk	6.72	1.78	Yes	Communications Equipment
10.	BGSM Management	6.02	1.60	No	Transport, Storage, and Communications
11.	Turus Pesawat	5.31	1.41	Yes	Finance
12.	1Malaysia Development	5.00	1.33	Yes	Finance
13.	Celcom Networks	5.00	1.33	No	Transport, Storage, and Communications
14.	Malakoff Power	4.88	1.29	No	Energy, Gas, and Water
15.	Manjung Island Energy	4.85	1.29	No	Energy, Gas, and Water

LCY = local currency.
Notes:
1. Data as of end-June 2015.
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 23: LCY Corporate *Sukuk* in Malaysia by Maturity

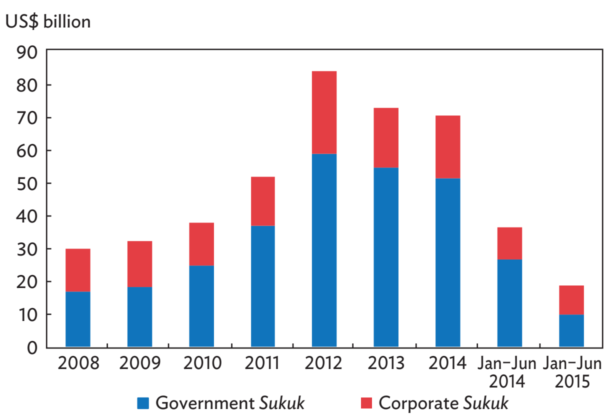


LCY=local currency.
Note: Data as of end-June 2015.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Since 2013, Malaysia's *sukuk* issuance has been on a downward trend **(Figure 24)**. Total *sukuk* issuance dropped from US$83.8 billion in 2012 to US$72.8 billion in 2013, and further to US$70.4 billion in 2014. *Sukuk* issuance fell amid volatility in the market in 2013, primarily on speculation over the Federal Reserve's quantitative easing policy. The drop in oil prices in the latter part of 2014 also broadly affected global *sukuk* markets, which are predominantly based in oil-producing economies.

In the first half of 2015, total *sukuk* issuance in Malaysia plunged to US$18.5 billion from US$36.3 billion in the same period in 2014. The drop in *sukuk* issuance was primarily due to BNM ending its issuance of BNMNs, which on average accounted for almost half of total *sukuk* issuance in Malaysia **(Figure 25)**. Not including the issuance of *shari'ah*-compliant BNMNs, total *sukuk* issuance for the first half of 2015 of US$18.5 billion was on par with the US$17.0 billion issued in the same period in 2014.

Figure 24: *Sukuk* Issuance in Malaysia



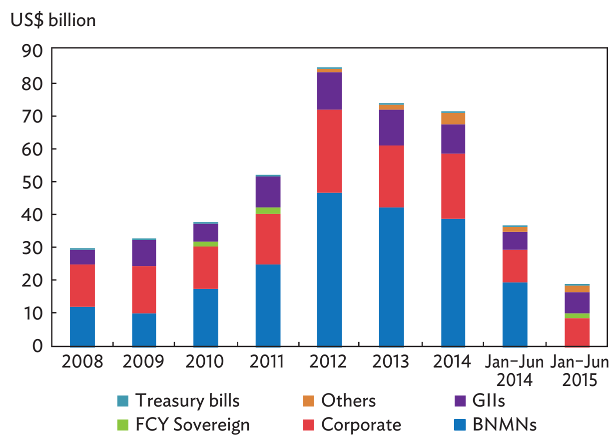
Notes:
1. Data include local currency and foreign currency *sukuk*.
2. Local currency and foreign currency values were converted based on 30 June 2015 currency exchange rate and do not include currency effects.

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

In its endeavor to further promote the development of Islamic finance, particularly the *sukuk* market, various landmark policy and regulatory developments have been announced and implemented in Malaysia. In 2014, the SC announced revisions to the guidelines for the issuance of private debt securities and *sukuk* in Malaysia. Effective 1 January 2015, subject to existing *sukuk* guidelines, unrated *sukuk* may be traded; for rated *sukuk*, the issuer may opt to discontinue the credit rating of the *sukuk*. This is expected to further deepen liquidity in the *sukuk* market.

Also in 2014, the SC launched the Sustainable and Responsible *Sukuk* Framework, adding to the existing investment channels for *sukuk* investors and issuers. Sovereign wealth fund Khazanah Nasional was the first issuer under this framework in June 2015, raising

Figure 25: Sukuk Issuance in Malaysia by Type of Instrument



BNMNs = Bank Negara Monetary Notes, FCY = foreign currency, GIIs = Government Investment Issues.
Notes:
1. Data include local currency and foreign currency *sukuk*.
2. Local currency and foreign currency values were converted based on 30 June 2015 currency exchange rate and do not include currency effects.
3. "Others" refer to *Sukuk Perumahan Kerajaan*, which are Islamic bonds issued by the governments to refinance funding for housing loans to government employees and to extend new housing loans.

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

MYR100 million worth of 7-year *sukuk* via a special purpose vehicle Ihsan *Sukuk*. The proceeds were used by Yayasan AMIR, a nonprofit organization involved in the Trust Schools Programme, which is a public–private partnership with the Ministry of Education.

On 15 June, the SC implemented the Lodge and Launch Framework for wholesale products, which incorporate the Guidelines on Unlisted Capital Market Products issued on 29 March. This initiative is expected to significantly reduce the time-to-market for wholesale products, including *sukuk*, from the current approval timeframe of 14–21 days. The Lodge and Launch Framework enables wholesale products to be launched once all required information is submitted via the SC's online system.

Indonesia

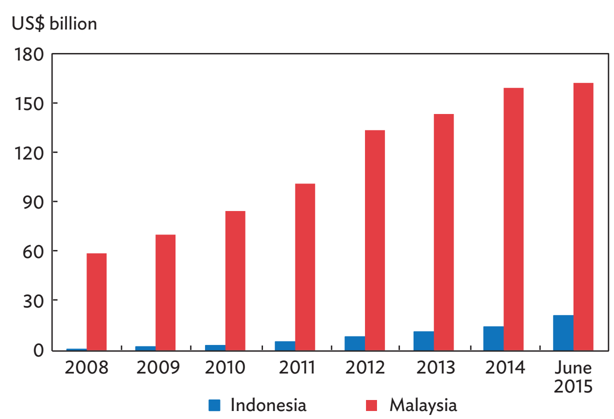
The second largest *sukuk* market in emerging East Asia is that of Indonesia, with an outstanding amount equivalent to US$20.7 billion at end-June, up from less than US$1.0 billion in 2008. This translates to a compounded annual growth rate of 61.1% since 2008, compared with the regional average of 19.1% and Malaysia's rate of 16.8%. However, while Indonesia is home to the second largest *sukuk* market in the region, its size is still significantly smaller than that of Malaysia **(Figure 26)**.

The pace of growth of *sukuk* in Indonesia lags behind that of Malaysia despite being home to the largest Muslim population in the world. This may be partly due to the fact that Islamic banking assets in Indonesia remain small, accounting for less than 5% of total banking assets in 2014. The government, however, expects this to improve and aims to expand the market share of Islamic banks to 15% by 2023. In line with this goal, capital market regulator Otoritas Jasa Keuangan launched a 5-year roadmap for the development of Islamic banking in Indonesia earlier this year.

At the end of June, the *sukuk* market in Indonesia accounted for only one-tenth of the total outstanding bond stock. Much of the growth of the *sukuk* market is driven by the government sector, which totaled US$19.3 billion at end-June, compared with corporate *sukuk* at US$1.4 billion **(Figure 27)**. This despite the early headway made by the corporate sector in issuing *sukuk* compared with the government. The first corporate *sukuk* issuance in Indonesia dates back to 2002, while the Indonesian government only commenced issuance of *sukuk* in 2008 following the passage of the State *Shari'ah* Securities Bill.

Since its initial *sukuk* issuance in 2008, the government has included *sukuk* issuance as a source of financing for the state budget. The government has issued a diverse

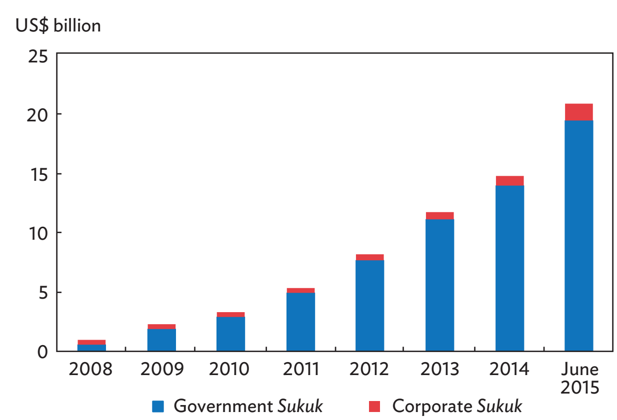
Figure 26: *Sukuk* Outstanding in Indonesia and Malaysia



Notes:
1. Data includes local currency and foreign currency *sukuk*.
2. Local currency and foreign currency values were converted based on 30 June 2015 currency exchange rate and do not include currency effects.

Sources: Bank Indonesia; Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST); Directorate General of Budget Financing and Risk Management, Ministry of Finance; Otoritas Jasa Keuangan; and Bloomberg LP.

Figure 27: Composition of *Sukuk* Outstanding in Indonesia



Notes:
1. Data includes local currency and foreign currency *sukuk*.
2. Local currency and foreign currency values were converted based on 30 June 2015 currency exchange rate and do not include currency effects.

Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Otoritas Jasa Keuangan.

array of *sukuk* instruments in line with its objective of supporting the depth and breadth of Islamic finance in both domestic and global markets, allowing it to tap a wider investor base in the process. The government issues *sukuk* through its special purpose vehicle, Perusahaan Penerbit SBSN. The various types of central government *sukuk* instruments in the market at end-June are presented in **Table 7**.

Tradable *sukuk* includes both LCY- and FCY-denominated government *sukuk*. LCY-denominated *sukuk* issues consisted of Islamic Treasury bills and bonds, known as SPN-S, and SBSN. The Indonesian government regularly issues these instruments through bi-monthly auctions. Target issue sizes normally range between IDR2.0 trillion and IDR2.5 trillion per auction date. SPN-S are 6-month Islamic Treasury bills carrying a zero-coupon rate, while SBSN are medium- to long-dated Islamic Treasury bonds carrying a fixed-rate coupon.

In terms of maturity, the government has extended the *sukuk* curve beyond 10 years with the issuance of 15-, 20-, 25-, and 30-year bonds. The longest-dated tenor is a 30-year project-based *sukuk* issued as PBS005 in May 2013. In 2015, the government's *sukuk* issuance has been focused on project-based *sukuk* with maturities of 1.5, 5, and 25 years.

Most *sukuk* auctions in the first half of the year were successful. Only three out of 12 auctions fell short of the government's target amount. Investors were mostly interested in short-duration issues as reflected by the hefty demand for such issues during auctions. In most instances, the government rejects bids for long-dated maturities when investors are bidding up yields.

The government also issues retail *sukuk* once a year through a book-building process. Retail *sukuk* carry a 3-year maturity and are offered only for Indonesian individual investors. Foreigners, however, may participate in the secondary market. Since its first issuance of *sukuk* in 2009, the government has issued seven series of retail *sukuk*, most recently in March 2015 (SR-007) when it raised IDR21,985 billion.

The first few series of retail *sukuk* were structured following the Islamic principle of *ijarah* (sale and lease back), where the underlying assets were state-owned. Retail *sukuk* beginning with series SR-004 followed *ijarah* asset to be leased and utilized infrastructure projects as the underlying asset.

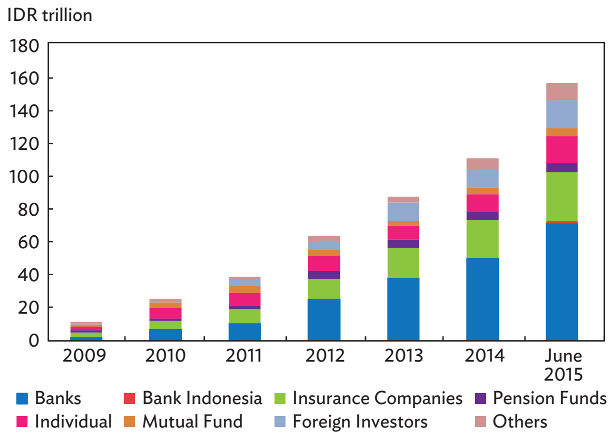
Domestic investors dominate when it comes to holdings of LCY central government *sukuk*. At the end of June, banking institutions were the largest holders of LCY central government *sukuk*, accounting for an aggregate 45.5% share to the total, driven largely by the increased holdings of conventional banks **(Figure 28)**. *Sukuk* holdings of conventional banks steadily rose from a 3.7% share in 2009 to a 39.2%

Table 7: Central Government *Sukuk* Instruments in Indonesia

Type of Instrument	Outstanding Amount		*Sukuk* Structure	Underlying Asset
	IDR billion	US$ billion		
Tradable Sukuk				
LCY Government Sukuk				
Islamic Treasury Bills	5,280	0.40	*Ijarah* Sale and Lease Back	State-Owned Assets
Islamic Fixed Rate	16,587	1.24	*Ijarah* Sale and Lease Back	State-Owned Assets
Retail *Sukuk*	69,871	5.24	*Ijarah* Asset to be Leased	Government Projects
Project-Based *Sukuk*	64,471	4.83	*Ijarah* Asset to be Leased	Government Projects
FCY Government *Sukuk*				
Sukuk Negara Indonesia	–	7.00	*Ijarah* Sale and Lease Back and *Wakalah*	State-Owned Assets
Memo Item:				
Nontradable *Sukuk*				
Hajj Fund *Sukuk*	33,197	2.49	*Ijarah al-Khadamat*	*Hajj* Services

– = not applicable.
Notes:
1. *Ijarah* are Islamic bonds backed by a sale and lease back agreement.
2. *Ijarah* Asset to be Leased *sukuk* are Islamic bonds backed by a lease agreemet.
3. *Ijarah al-Khadamat* are Islamic bonds backed by service.
4. Data as of end-June 2015.
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Otoritas Jasa Keuangan; and Bloomberg LP.

Figure 28: Investor Profile for LCY Central Government *Sukuk* in Indonesia



LCY = local currency.
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

share at end-June. On the other hand, *shari'ah* banks' share has slipped from 15.4% in 2009 to only 6.3% at end-June.

The second largest investor group comprised insurance companies, who accounted for a 19.0% share of the total LCY central government *sukuk* stock at end-June. Insurance companies' holdings of government *sukuk* have fallen from a 27.6% share of the total in 2009. Both individual investors and foreign investors held about 10% of government *sukuk* at end-June.

The Indonesian government is also an active issuer of *sukuk* in the global market. It first issued global *sukuk*, known as *Sukuk* Negara Indonesia, in 2009. Since then, it has issued six series of global *sukuk*. Prior to 2014, the government's global *sukuk* were structured following the *ijarah* principle described above. In 2014, an important feature of the government's US$1.5 billion global *sukuk* was its structure, which followed the Islamic principles of *ijarah* and *wakalah* (agency agreement using infrastructure projects procured from the government as the underlying asset).

The 2014 US$-denominated global *sukuk* of Indonesia was also the government's first issuance of a US$ global *sukuk* that included a Gulf Cooperation Council-based *shari'ah* board as deal adviser alongside the *shari'ah* boards of the international banks that managed the issuance.

In May 2015, the government issued a 10-year *sukuk* worth US$2.0 billion, marking the largest-ever *sukuk* sale by Indonesia and the largest single-tranche sale globally. The *sukuk* was issued at par with a rate of return of 4.32%. The 2015 global *sukuk* was issued following the *wakalah* principle with 51% of the issue backed by state-owned assets, including land and buildings, and 49% by project assets under construction or to be constructed. The *sukuk* sale was oversubscribed with the order book exceeding US$6.8 billion.

At the end of June, the government's nontradable *sukuk* stock stood at IDR33.2 trillion. Forming part of this category were *Sukuk Dana Haji* Indonesia, representing *sukuk* that were sold through private placement and issued following the principle of *ijarah al-khadamat* (bond backed by service), utilizing funds for *Hajj*-related services as the underlying asset.

Bank Indonesia accounts for a small share of government *sukuk* via its issuance of *shari'ah*-compliant central bank certificates known as Sertifikat Bank Indonesia *Shari'ah* (SBIS). SBIS are short-term instrument for open market operations used to manage liquidity in the financial system. Currently, 9-month SBIS are being auctioned once a month and are structured following the *jua'lah* principle (arrangement based on service charges). At the end of June, the total SBIS stock reached a size of IDR8.5 trillion, broadly comparable with the size of Indonesia's corporate *sukuk* market. In August, Bank Indonesia began issuance of 12-month SBIS.

Corporate *sukuk* growth in Indonesia remains muted despite the corporate segment's early lead in *sukuk* issuance. The stock of corporate *sukuk* rose from a size of US$0.4 billion in 2008 to US$1.4 billion at the end of June. Prior to 2014, all corporate *sukuk* issuances were LCY-denominated. It was only in 2014 when FCY-denominated corporate *sukuk* were first issued by Bumitama Agri in Malaysian ringgit. Garuda Indonesia followed suit in 2015 with a US$-denominated issue. The national flag carrier was the first corporate issuer to tap the offshore bond market following approval of *shari'ah*-compliant currency hedging tools by the National *Shari'ah* Board in April.

At the end of June, outstanding FCY-denominated corporate *sukuk* had surpassed LCY-denominated corporate *sukuk*. FCY-denominated corporate *sukuk* comprise only three bond series issued by two corporate firms.

On the other hand, the LCY-corporate *sukuk* market in Indonesia comprises 42 bond series issued by 15 corporate firms. Nearly 60% of the bonds issued were structured following the Islamic principle of *ijarah*. A list of corporate *sukuk* instruments in Indonesia is provided in **Table 8**.

The top corporate *sukuk* issuer in Indonesia was state-owned power firm PLN with *sukuk* outstanding valued at IDR1,847 billion, which accounted for 21.9% of the total corporate *sukuk* stock at end-June **(Table 9)**. (PLN was also the second largest corporate issuer of conventional bonds.) The next largest issuer was Bank Muamalat, with an outstanding *sukuk* stock of IDR1,500 billion, followed by telecommunications firm Indosat with *sukuk* valued at IDR1,078 billion.

Table 8: LCY Corporate *Sukuk* Instruments in Indonesia

Sukuk Structure	Outstanding Amount (IDR billion)
Sukuk Ijarah	4,525
Sukuk Mudharabah	2,419
Sukuk Mudharabah Subordinated	1,500

LCY = local currency.
Notes:
1. *Sukuk Ijarah* are Islamic bonds backed by a lease agreement.
2. *Sukuk Mudharabah* are Islamic bonds backed by a profit-sharing scheme from a business venture or partnership.
3. Data as of end-June 2015.
Source: Indonesia Stock Exchange and Otoritas Jasa Keuangan.

All LCY corporate *sukuk* issuers in Indonesia also issue conventional bonds, with the exception of Bank Muamalat Indonesia and Bank BNI Syariah. However, their conventional bond issues were larger than their *sukuk* issues. Most LCY corporate *sukuk* carry maturities of 5–10 years. The longest-dated LCY corporate *sukuk* is that of PLN's *sukuk ijarah* issued in July 2010, which carries a maturity of 12 years.

As part of efforts to boost Islamic finance in Indonesia, capital market regulator Otoritas Jasa Keuangan launched a 5-year roadmap involving various strategies including reduced fees for *shari'ah*-compliant banking products and intensified coordination and monitoring of the Islamic banking industry, among others. The roadmap also called for the consolidation of state-owned and commercial Islamic banks. In addition, Otoritas Jasa

Table 9: LCY Corporate *Sukuk* Issuers in Indonesia

Issuers	Outstanding Amount LCY Bonds		Type of Industry
	(IDR billion)	(US$ billion)	
1. PLN	1,847	0.14	Energy
2. Bank Muamalat Indonesia	1,500	0.11	Banking
3. Indosat	1,078	0.08	Telecommunications
4. Adira Dinamika Multi Finance	919	0.07	Finance
5. Summarecon Agung	600	0.04	Property, Real Estate, and Building Construction
6. Bank BNI Syariah	500	0.04	Banking
7. Bank Internasional Indonesia	300	0.02	Banking
8. Berlian Laju Tanker	300	0.02	Transportation
9. Tiga Pilar Sejahtera Food	300	0.02	Consumer Goods
10. Adhi Karya	250	0.02	Property, Real Estate, and Building Construction
11. Mayora Indah	250	0.02	Consumer Goods
12. Aneka Gas Industri	200	0.01	Basic Industry and Chemicals
13. Sumberdaya Sewatama	200	0.01	Energy
14. Bank Sulselbar	100	0.01	Banking
15. Bank Nagari	100	0.01	Banking

LCY = local currency.
Note: Data as of end-June 2015.
Sources: Indonesia Stock Exchange and Otoritas Jasa Keuangan.

Keuangan announced plans to ease ceilings on foreign ownership of Islamic banks.

To further boost liquidity in the *shari'ah* financial market, a mini Master Repo Agreement (MRA) was signed between Bank Indonesia and 18 *shari'ah* banks and business units in July. The mini MRA will serve as a standard contract for *shari'ah*-compliant repurchase transactions, using government *sukuk* as collateral. The mini MRA is expected to boost interbank transactions in the *shari'ah* financial market.

Hong Kong, China

Hong Kong, China's *sukuk* market is the third largest in the region, with outstanding stock amounting to US$2.2 billion at end-June. Growth has largely been driven by the government sector, which issued US$1.0 billion each of global *sukuk* in September 2014 and June 2015. The only other *sukuk* issuances from Hong Kong, China are those of holding firm Noble Group, with three issuances of MYR-denominated *sukuk*.

Paving the way for *sukuk* issuance by the government was the passage of an amendment to the tax and duty legislation of Hong Kong, China in July 2013. The regulation allowed for equal taxation treatment for the issuance of *sukuk* and conventional bonds. The passage of this law marked an important milestone for the development of Islamic finance in Hong Kong, China.

Singapore

Singapore is home to the fourth largest *sukuk* market in the region with outstanding *sukuk* worth US$1.7 billion at end-June. Its *sukuk* market comprises corporate issues only, both LCY- and FCY-denominated. About 70% of its *sukuk* stock are FCY-denominated, all in Malaysian ringgit, while the remaining 30% are denominated in Singapore dollars.

Sukuk growth remains undeveloped with issuance limited to only a few corporate names. At the end of June, there were only two issuers of FCY-denominated *sukuk* and five issuers of LCY-denominated *sukuk*. Hindering growth is the absence of appropriate regulatory measures and tax treatment guidelines for *shari'ah*-compliant financing structures, which are still being worked on by regulators and the Islamic finance industry.

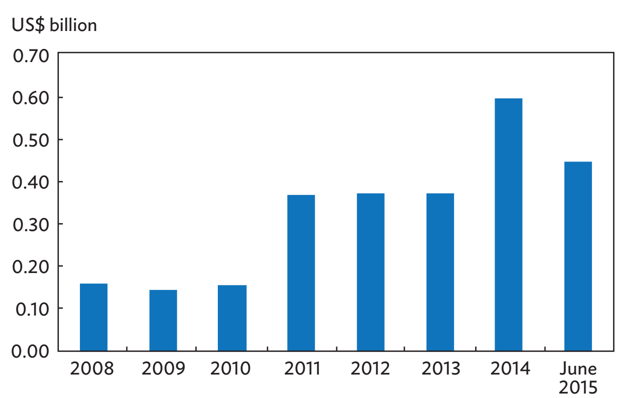
Brunei Darussalam

Brunei Darussalam's *sukuk* market is the smallest in the region with a total stock of US$0.5 billion at end-June **(Figure 29)**. The market solely comprises regular issuances of short-term government *Sukuk al-Ijarah* managed and administered by Autoriti Monetari Brunei Darussalam. The *Sukuk al-Ijarah* program was intended to pioneer the development of Brunei Darussalam's domestic capital market. Over the years, the program has served as a liquidity tool in regulating the banking industry and been used to establish a benchmark yield curve to further assist in the development of the domestic bond market.

The first government *sukuk* in Brunei Darussalam was issued in April 2006. By the end of June, Autoriti Monetari Brunei Darussalam had issued 119 series of *sukuk* totaling US$6.5 billion and with maturities of 91, 182, 273, and 364 days **(Figure 30)**. Brunei Darussalam's corporate *sukuk* market has yet to be developed as only one firm has ever issued corporate *sukuk*. Brunei LNG issued BND100 million worth of *sukuk* in 2006, but the bond matured in 2007.

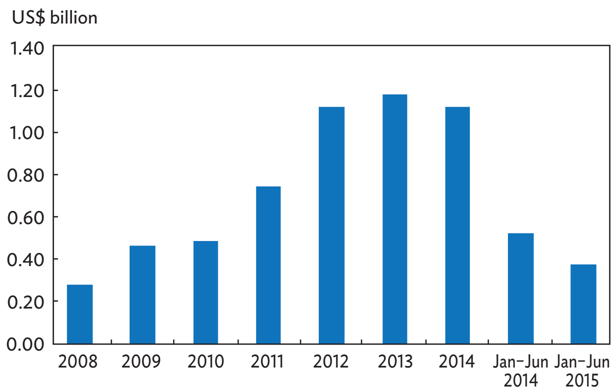
In line with Autoriti Monetari Brunei Darussalam's efforts to further develop the domestic capital market, including the *sukuk* market, the Securities Market Order was enacted in June 2013 and its implementing guidelines were issued in February 2015. This regulation included new provisions to facilitate public offerings of *sukuk* and

Figure 29: LCY *Sukuk* Outstanding in Brunei Darussalam



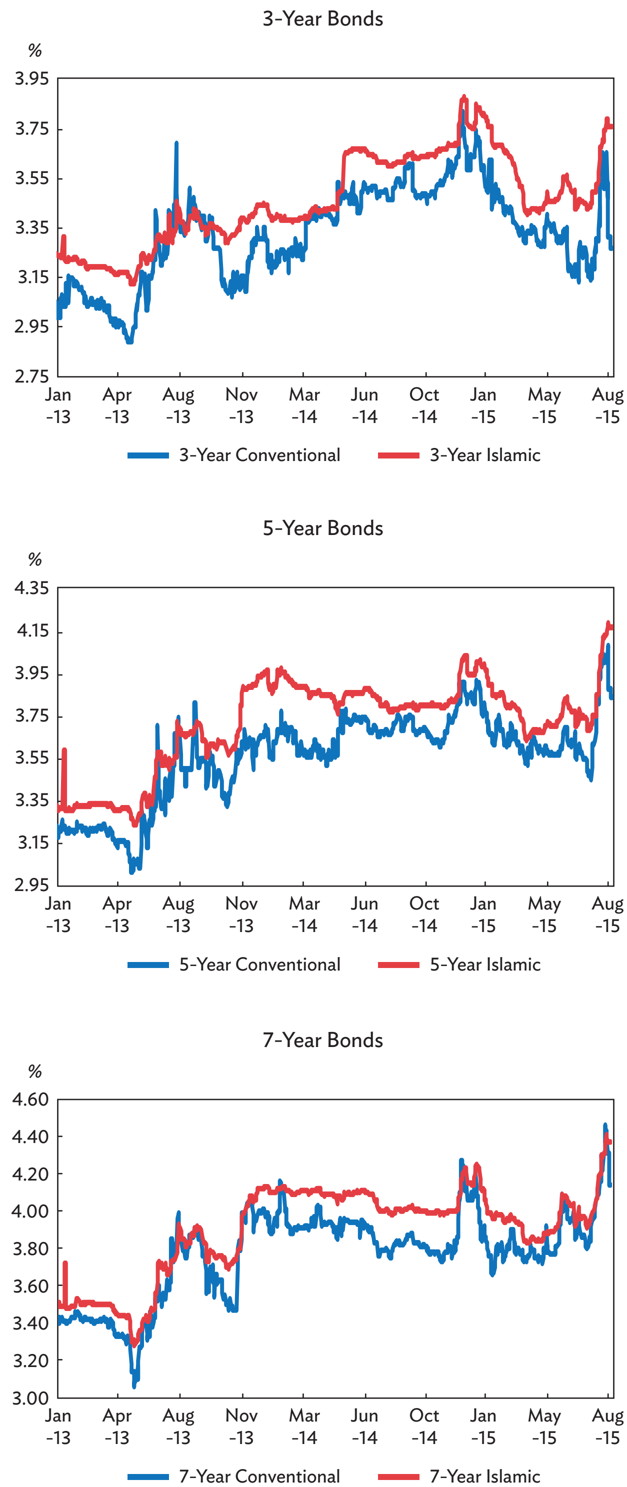
LCY = local currency.
Note: LCY values were converted based on 30 June 2015 currency exchange rates and do not include currency effects.
Source: Autoriti Monetari Brunei Darusallam.

Figure 30: LCY *Sukuk* Issuance in Brunei Darussalam



LCY = local currency.
Note: LCY values were converted based on 30 June 2015 currency exchange rates and do not include currency effects.
Source: Autoriti Monetari Brunei Darusallam.

Figure 31: LCY Malaysian *Sukuk* Profit Rates vs. Conventional Government Bond Yields



LCY = local currency.
Note: Data as of 31 August 2015.
Source: Based on data from Bloomberg LP.

other *shari'ah*-compliant securities. The legislation is expected to be implemented over the next few years.

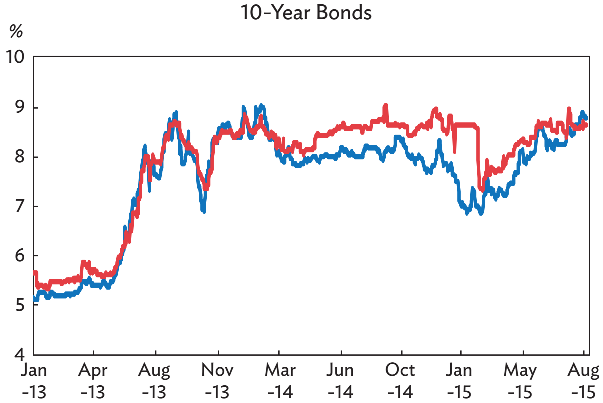
The Government of Brunei Darussalam announced in 2015 that it is looking into issuing longer-dated *sukuk* to extend the maturity of its issuances. This initiative is not just to create a benchmark yield for longer-dated securities, but also to serve as a new funding source for the government as it aims to reduce its reliance on oil and gas revenues. In addition, the government also has plans to broaden the investor base for sovereign *sukuk* as only a handful of domestic commercial banks are currently participating in the issuance of the short-term Sukuk *Al-Ijarah*.

Sukuk Yield Comparisons

As mentioned above, Malaysia has the largest *sukuk* market in the region, and its market is more liquid than Indonesia's. However, *sukuk* still tend to trade at a premium relative to conventional government issues. This is manifested in a liquidity premium, which widens during times of market stress, despite the fact that *sukuk* instruments are collateralized. This suggests that investors are still concerned with the ease of trading *sukuk*.

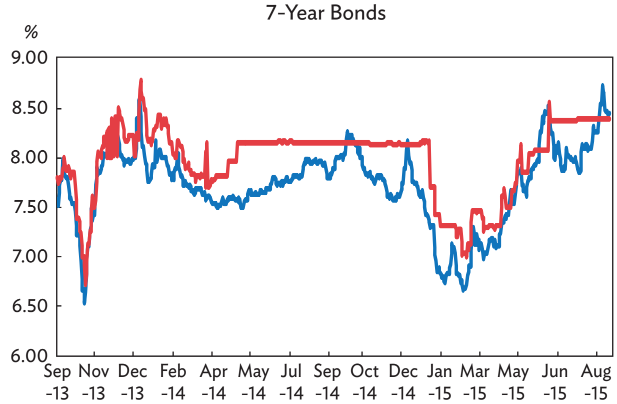
In 2014, yields rose and the spreads between the LCY Malaysian *sukuk* profit rates and those of conventional government bonds widened in anticipation of the impacts on the Malaysian economy of the end of US quantitative easing and low global oil prices **(Figure 31)**.

Figure 32: LCY Indonesian *Sukuk* Profit Rate vs. Conventional Government Bond Yield



LCY = local currency.
Note: Data as of 31 August 2015.
Source: Based on data from Bloomberg LP.

Figure 33: LCY Indonesian *Sukuk* Profit Rate vs. Conventional Government Bond Yield



LCY = local currency.
Note: Data as of 31 August 2015.
Source: Based on data from Bloomberg LP.

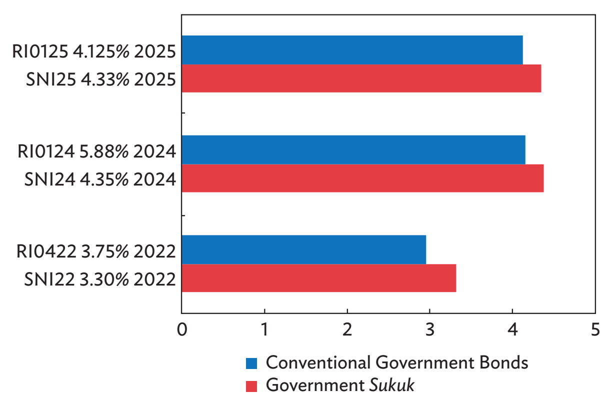
In 2015, spreads narrowed with the addition of Malaysian *sukuk* to Barclay's *Sukuk* Index before widening in August due to continued concerns regarding low oil prices and the depreciation of the Malaysian ringgit.

In Indonesia, there has been a narrowing of spreads in 2015 for bonds with an original maturity of 10 years **(Figure 32)**, but a widening for bonds with an original maturity of 7 years **(Figure 33)**. The divergence could mean that the LCY *sukuk* market in Indonesia is becoming much less liquid. However, Indonesia's *sukuk* yields also showed some widening in 2014.

In contrast, the US$-denominated *sukuk* market of Indonesia is more liquid compared with its LCY counterpart as evidenced by the more consistent pricing of US$ bonds **(Figure 34)**. In addition, the spread between US$-denominated *sukuk* and conventional bonds has narrowed over time, indicating that the US$ *sukuk* market in Indonesia is becoming more developed.

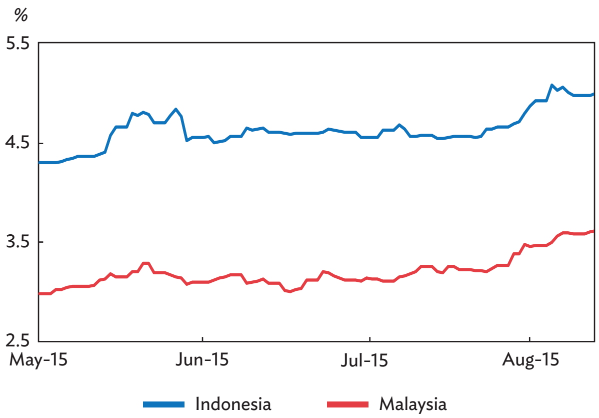
In terms of risk profile, the US$-denominated markets *sukuk* of Malaysia and Indonesia are highly correlated. The yield comparison of two recently issued Malaysian and Indonesian *sukuk* shows that their yield movements were broadly similar **(Figure 35)**.

Figure 34: Conventional vs. Sukuk 10-Year US$-Denominated Sovereign Bond Yields in Indonesia



Notes:
1. Conventional government bond yields refer to yield to maturity at the time the comparable sukuk was issued.
2. For government *sukuk*, coupon rates were used.
Sources: Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Bloomberg LP.

Figure 35: 10-Year Yields of Global Sovereign *Sukuk* in Indonesia and Malaysia



Notes:
1. Data as of 31 August 2015.
2. For Indonesia, 10-year global sovereign *sukuk* was issued in May 2015 and carries a 4.325% rate of return.
3. For Malaysia, 10-year global sovereign *sukuk* was issued in April 2015 and carries a 3.043% rate of return.

Source: Based on data from Bloomberg LP.

Market Summaries

People's Republic of China

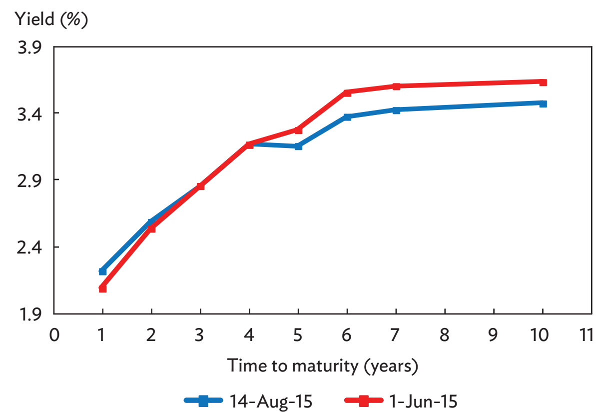
Yield Movements

Between 1 June and 14 August, the local currency (LCY) government bond yield curve in the People's Republic of China (PRC) shifted downward for tenors of 5 years or more, with yields falling between 12 basis points (bps) and 18 bps **(Figure 1)**. The 6-year and 7-year tenors both fell by 18 bps. For the 1-year tenor, yields rose 13 bps, and the 2-year tenor rose 5 bps. The 3-year and 4-year tenors remained unchanged. As a result of the yield curve's movements, the 2-year versus 10-year spread fell to 89 bps from 110 bps during the period under review.

The downward shift at the longer-end of the curve was mostly due to the continued slowdown of the PRC's economy. Gross domestic product growth remained unchanged in 2Q15 from 1Q15 at 7.0% year-on-year (y-o-y), compared with growth of 7.4% in full-year 2014. Other economic indicators also showed a slowdown. Industrial production growth fell to 6.0% y-o-y in July from 6.8% y-o-y in June. Growth in private investment in fixed assets also continued to decline, falling to 11.2% y-o-y in January–July from 11.4% in January–June.

The PRC's growth has also been hampered by lower external demand. Exports fell 8.3% y-o-y in July after rising 2.8% y-o-y in June, driven by lower demand from advanced economies. The slower growth outlook prompted the People's Bank of China (PBOC) to implement additional easing measures in 2Q15. In June, the PBOC implemented a targeted reduction in deposit-taking institutions' reserve requirement ratios (See Policy, Institutional, and Regulatory Developments at the end of this Market Summary for more details.) The central bank also reduced its policy rates by 25 bps, taking the 1-year lending rate to 4.85% and the 1-year deposit rate to 2.00%. In August, the PBOC again reduced policy rates by another 25 bps, resulting in a 1-year lending rate of 4.6% and a 1-year deposit rate of 1.75%. The PBOC also reduced reserve requirement ratios and revised the central parity exchange-rate-setting mechanism. While the PBOC said the goal was a more market-oriented exchange rate, the move resulted in a depreciation of

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



LCY = local currency.
Source: Bloomberg LP.

1.9% on the day it was first implemented and a 1.6% decline on the second day.

Despite the PBOC's easing measures, yields at the shorter-end of the curve rose, driven mostly by increased liquidity demands following the stock market crash in June. Between 1 June and 14 August, the Shanghai Stock Exchange Composite Index fell about 18%. The stock market crash also contributed to the fall in yields at the longer-end of the curve as investors flocked to the safety of bond market assets. However, the stock market crash increased the liquidity requirements of financial institutions amid investors' demand for cash, driving short-term rates upward.

Size and Composition

The amount of outstanding LCY bonds in the PRC reached CNY34.7 trillion (US$5.6 trillion) at end-June, an increase of 5.9% quarter-on-quarter (q-o-q) and 13.8% y-o-y, largely driven by growth in Treasury bonds and local corporate bonds **(Table 1)**.

Government Bonds. LCY government bonds outstanding grew 6.9% q-o-q and 13.9% y-o-y in 2Q15, driven by growth

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

	Outstanding Amount (billion)						Growth Rates (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	CNY	US$	CNY	US$	CNY	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**30,462**	**4,911**	**32,731**	**5,279**	**34,666**	**5,590**	**4.2**	**11.7**	**5.9**	**13.8**
Government	19,625	3,164	20,894	3,370	22,344	3,603	3.3	10.1	6.9	13.9
Treasury Bonds	9,461	1,525	10,263	1,655	11,284	1,820	3.6	12.1	9.9	19.3
Central Bank Bonds	489	79	428	69	428	69	(11.4)	(50.8)	0.0	(12.5)
Policy Bank Bonds	9,675	1,560	10,203	1,646	10,632	1,715	3.9	15.2	4.2	9.9
Corporate	10,837	1,747	11,837	1,909	12,322	1,987	5.9	14.6	4.1	13.7
Policy Bank Bonds										
China Development Bank	6,217	1,002	6,337	1,022	6,538	1,054	3.8	12.5	3.2	5.2
Export–Import Bank of China	1,480	239	1,694	273	1,797	290	1.5	16.7	6.1	21.4
Agricultural Devt. Bank of China	1,978	319	2,172	350	2,297	370	5.9	23.3	5.7	16.1

( ) = 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. 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, Wind*, and Bloomberg LP

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)				Growth Rate (%)				
					q-o-q				y-o-y
	3Q14	4Q14	1Q15	2Q15	3Q14	4Q14	1Q15	2Q15	2Q15
Commercial Bank Bonds and Tier 2 Notes	1,536	1,612	1,639	1,748	18.6	5.0	1.7	6.6	35.0
SOE Bonds	630	622	612	612	(0.1)	(1.2)	(1.5)	(0.1)	(2.9)
Local Corporate Bonds	2,231	2,306	2,377	2,456	31.1	3.4	3.1	3.3	44.3
Commercial Papers	1,768	1,738	1,866	2,038	19.5	(1.7)	7.3	9.2	37.7
Medium Term Notes	4,054	4,179	4,227	4,342	5.4	3.1	1.2	2.7	12.9

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

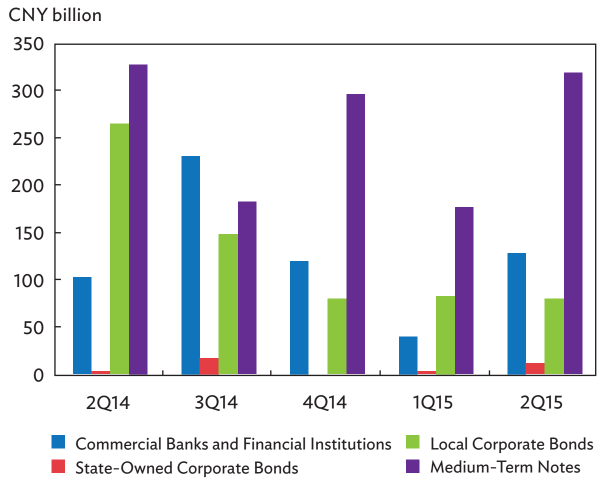
in policy bank bonds and Treasury bonds. The growth in Treasury bonds was dominated by a rapid increase in local government bonds. Local government bonds grew 61.0% q-o-q to CNY1.8 trillion. The rise in local government bonds was due to the central government's local government debt swap program, which sought to ease financing pressure as a large amount of local government debt was set to mature this year. Local government finances have also weakened this year, owing to lower revenue (due to lower property taxes) as well as increased government expenditures (e.g., shantytown renovations).

The amount of central bank bonds was steady on a q-o-q basis but fell on a y-o-y basis as the PBOC continued to opt to use other tools to manage liquidity, such as reverse repos, having not issued central bank bonds since December 2013.

Corporate Bonds. Corporate bonds outstanding grew 4.1% q-o-q and 13.7% y-o-y in 2Q15 to reach CNY12.3 trillion **(Table 2)**. Bonds with strong positive growth rates were those issued by banks and insurance companies, commercial paper, and local corporates. Commercial paper increased 9.2% q-o-q, while bonds issued by commercial banks and insurance companies rose 6.6% q-o-q. Local corporate bonds rose 3.3% q-o-q.

The rise in bonds issued by commercial bank bonds and insurance companies was due to a resurgence in the issuance of subordinated debt in 2Q15 versus 1Q15 as

Figure 2: Corporate Bond Issuance in Key Sectors



LCY = local currency.
Sources: *ChinaBond* and *Wind*.

financial companies sought to bolster their capital bases **(Figure 2)**. Of the major corporate bond categories, however, medium-term notes were the largest in terms of issuance in 2Q15, due to refinancing as a number of medium-term notes matured.

A relatively small number of issuers dominate the PRC's corporate bond market **(Table 3)**. At the end of 2Q15, the top 30 corporate bond issuers accounted for CNY5.0 trillion worth of corporate bonds outstanding, or about 41% of the market. The 10 largest issuers accounted for CNY3.3 trillion worth of bonds outstanding.

State-owned companies—defined as majority-owned by the government—continued to dominate the corporate bond market in 2Q15. Among the top 30 corporate issuers at end-June, 21 were state-owned. By industry, the top 30 list is dominated by banks, largely as a result of their capital-raising efforts under the PRC's implementation of Basel III.

Table 4 presents the most notable corporate bond issuances in 2Q15.

Investor Profile

Treasury Bonds and Policy Bank Bonds. Banks remained the investor category comprising the largest share of the PRC's Treasury bond market, which includes policy bank bonds, accounting for a slightly smaller share of the market at end-June (75.6%) than in the same period a year earlier (76.7%) **(Figure 3)**.

Corporate Bonds. Banks were also the largest holders of corporate bonds at the end of 2Q15, albeit with a comparatively smaller share than their holdings of Treasury bonds and policy bank bonds. Banks' share of corporate bonds fell to 25.6% at the end of 2Q15 from 28.9% a year earlier **(Figure 4)**. The second largest holders of corporate bonds were funds institutions, with a 26.0% share at end-June, up from a 22.9% share a year earlier.

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

Liquidity

As a result of the uncertainty surrounding the timing of a US interest rate hike and slowing domestic economic growth, the use of interest rate swaps increased in 2Q15, with the total volume of swaps rising 16.8% q-o-q. The bulk of interest rate swaps involved the 7-day repo rate, which accounted for 89% of all volume traded **(Table 5)**.

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 Shanghai Interbank Offered Rate (SHIBOR) shock and a crackdown on illegal bond trades. However, 2Q15 showed a massive uptick in trading for all types of government bonds. The increased demand for government bonds was due to a flight to safety as the PRC's stock market experienced a significant decline in 2Q15.

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	1,133.5	182.79	Yes	No	Transportation
2.	State Grid Corporation of China	450.5	72.65	Yes	No	Public Utilities
3.	China National Petroleum	350.0	56.44	Yes	No	Energy
4.	Bank of China	298.9	48.20	Yes	Yes	Banking
5.	Industrial and Commercial Bank of China	260.0	41.93	Yes	Yes	Banking
6.	Agricultural Bank of China	260.0	41.93	Yes	Yes	Banking
7.	China Construction Bank	188.0	30.32	Yes	Yes	Banking
8.	China Minsheng Bank	136.5	22.01	No	Yes	Banking
9.	Petrochina	136.0	21.93	Yes	Yes	Energy
10.	Industrial Bank	136.0	21.93	No	Yes	Banking
11.	Shanghai Pudong Development Bank	124.2	20.03	No	Yes	Banking
12.	China Power Investment	121.4	19.58	Yes	No	Public Utilities
13.	Bank of Communications	119.0	19.19	No	Yes	Banking
14.	Central Huijin Investment	109.0	17.58	Yes	No	Diversified Financial
15.	Senhua Group	109.0	17.57	Yes	No	Energy
16.	China Citic Bank	103.5	16.69	No	Yes	Banking
17.	China Everbright Bank	88.9	14.34	Yes	Yes	Banking
18.	China Merchants Bank	79.0	12.74	No	Yes	Banking
19.	China Three Gorges Project	76.5	12.34	Yes	No	Public Utilities
20.	China Southern Power Grid	75.0	12.09	Yes	No	Public Utilities
21.	China Guodian	73.4	11.83	Yes	No	Public Utilities
22.	Haitong Securities	71.0	11.45	No	Yes	Financial Services
23.	Beijing State-owned Assets Operation & Management Center	70.5	11.37	Yes	No	Diversified Financial
24.	China Datang	69.2	11.16	Yes	No	Energy
25.	Shaanxi Coal and Chemical Industry Group	69.0	11.13	Yes	No	Energy
26.	China Petroleum and Chemical	68.5	11.05	Yes	Yes	Energy
27.	China Life	68.0	10.97	Yes	Yes	Insurance
28.	Tianjin Infrastructure Investment Group	67.9	10.95	Yes	No	Capital Goods
29.	Bank of Beijing	61.5	9.92	No	Yes	Banking
30.	CITIC Securities	58.3	9.40	No	Yes	Financial Services
Total Top 30 LCY Corporate Issuers		**5,032.13**	**811.50**			
Total LCY Corporate Bonds		**12,322.09**	**1,987.11**			
Top 30 as % of Total LCY Corporate Bonds		**40.8%**	**40.8%**			

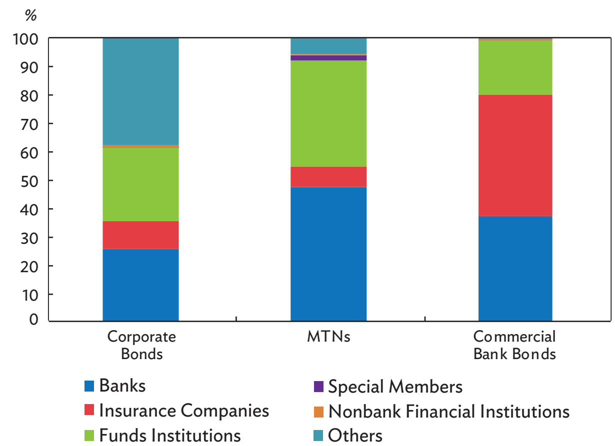
LCY = local currency.
Notes:
1. Data as of end-June 2015.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Table 4: Notable LCY Corporate Bond Issuance in 2Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China Railway Corp.		
10-year bond	4.28	15
10-year bond	4.3	15
10-year bond	4.24	10
Haitong Securities Co. Ltd.		
3-year bond	5.3	15
5-year bond	5.5	15
China Minsheng Bank		
10-year bond	5.4	20
Petrochina		
3-year bond	4.03	20
China Cinda Asset Management		
5-year bond	4.3	10
State Grid Corporation of China		
1-year bond	3.4	10

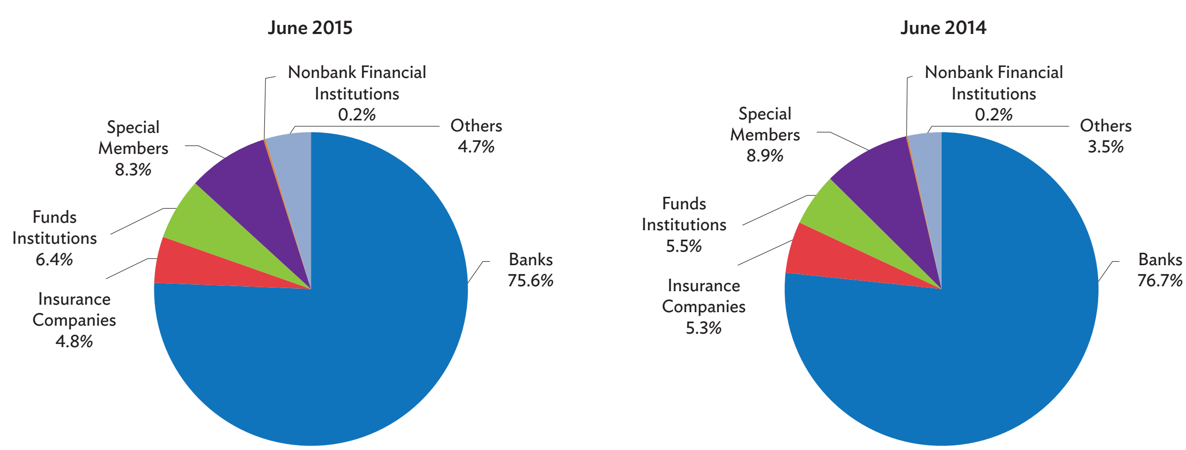
LCY = local currency.
Source: Bloomberg LP.

Figure 5: Investor Profile across Bond Categories



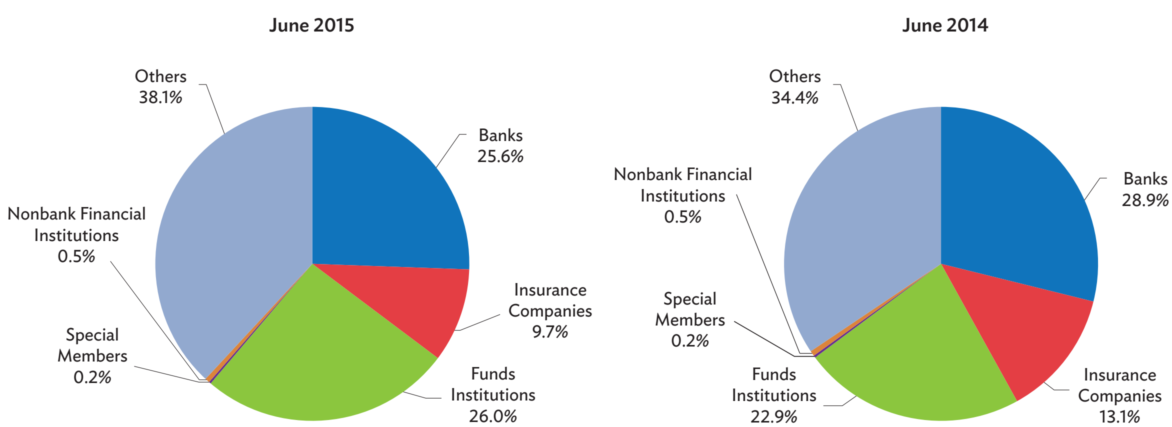
MTNs = medium-term notes.
Note: Data as of end-June 2015.
Source: *ChinaBond*.

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



LCY = local currency.
Source: *ChinaBond*.

Figure 4: LCY Corporate Bonds Investor Profile



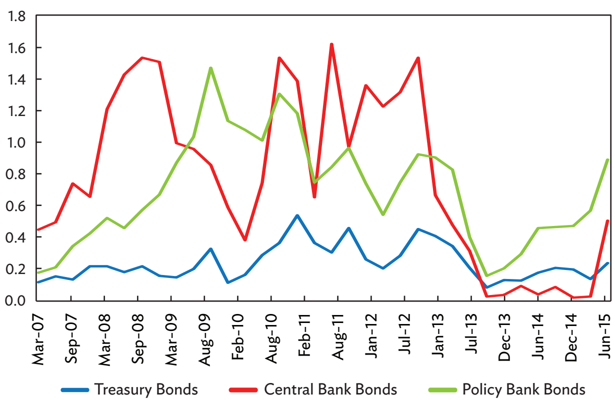
LCY = local currency.
Source: *ChinaBond*.

Table 5: Notional Values of the PRC's Interest Rate Swap Market in 2Q15

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	% of Total Notional Amount	Number of Transactions	Growth Rate (%) q-o-q
7-Day Repo Rate	1,727.5	89.1	15,569	13.2
Overnight SHIBOR	62.0	3.2	237	36.4
3-Month SHIBOR	136.6	7.0	1,270	92.5
1-Year Term Deposit Rate	5.1	0.3	34	(63.4)
LIBOR	0.0	0.0	0	0.0
1-Year Lending Rate	8.2	0.4	10	61.2
LPR1Y	0.0	0.0	0	0.0
3-Year Lending Rate	0.0	0.0	0	0.0
5-Year Lending Rate	0.0	0.0	0	0.0
Total	**1,939.3**	**100.0**	**17,120**	**16.8**

( ) = negative, PRC = People's Republic of China, LIBOR = London Interbank Offered Rate, q-o-q = quarter-on-quarter, Repo = repurchase, SHIBOR = Shanghai Interbank Offered Rate.
Note: Growth rate computed based on notional amounts.
Sources: *ChinaMoney*.

Figure 6: Turnover Ratios for Government Bonds



Source: *ChinaBond*.

Policy, Institutional, and Regulatory Developments

PBOC Reduces Reserve Requirement Ratios

On 28 June, the PBOC lowered the reserve requirement ratios of select financial institutions. City commercial banks and village and town commercial banks with a certain level of agricultural loans will be entitled to a 50-bps reduction in their reserve requirement ratios. Other banks—such as foreign banks and state-owned commercial banks that have met a certain level of loans to the agricultural sector or small enterprises—are entitled to a 50-bps reduction in their reserve requirement ratios. Finally, finance companies will have their reserve requirement ratios reduced by 300 bps.

PBOC Removes Bond Quotas for Sovereign Wealth Funds and Central Banks

On 16 July, the PBOC removed investment bond quotas for foreign central banks, sovereign wealth funds, and certain international financial institutions, such as the World Bank, investing in the interbank bond market. In addition, the application process for these institutions was streamlined and now requires simply registering with the PBOC before investing.

PBOC Revises Exchange-Rate-Setting Mechanism

On 11 August, the PBOC revised its central parity exchange-rate-setting mechanism. The PBOC said that under the new guidelines, market makers should submit quotes based on the prior closing of the interbank foreign exchange market, along with current demand and supply conditions. The quote should also take into account exchange rate movements in other currencies. According to the PBOC, external factors such as a recovering economy in the United States, weaker growth in the European Union and Japan (among other economies), and a strong trade surplus have led to a disparity in market expectations in the renminbi exchange rate versus the current exchange rate being set. The new mechanism is designed to move the central parity exchange rate more in line with market expectations

Hong Kong, China

Yield Movements

Hong Kong, China's yield movements between 1 June and 14 August mostly tracked yield movements in the United States (US) **(Figure 1)**. Yields rose for most of Hong Kong, China's longer-dated tenors, despite only slightly better gross domestic product (GDP) growth in 2Q15 and benign inflation.

For tenors of 6 months or less, yield movements were unchanged. The 9-month and 1-year tenor fell 1 basis point (bp) and 4 bps, respectively. For the remaining tenors, yields rose between 2 bps and 18 bps.

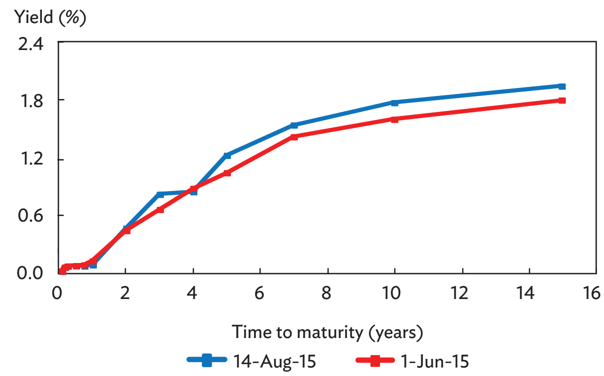
The largest movement came from the 5-year tenor, which rose 18 bps, followed by the 10-year, tenor which rose 17 bps. The 2-year-versus-10-year spread rose to 130 bps on 14 August from 115 bps on 1 June.

Hong Kong, China's yield curve movements closely follow those of the US due to Hong Kong, China's fixed exchange rate system. The US yield curve rose for nearly all tenors during the period under review, with the exception of the 30-year tenor, on increased prospects that the US Federal Reserve would raise interest rates following positive economic data.

Hong Kong, China's GDP grew 2.8% year-on-year (y-o-y) in 2Q15, up from revised 2.4% y-o-y growth in 1Q15. The faster GDP growth in 2Q15 was due to stronger household consumption, which rose 6.0% y-o-y compared with 5.3% y-o-y in the prior quarter. In addition, GDP growth was also helped by a decline in goods imports, which contracted 3.2% y-o-y in 2Q15 after rising 0.1% y-o-y in 1Q15. On the other hand, GDP growth was constrained by a weaker external environment, with exports of goods falling 3.6% y-o-y in 2Q15 after rising 0.4% in the previous quarter. Gross domestic capital formation expanded 6.5% y-o-y in 2Q15, after increasing 7.5% in 1Q15, while government expenditure growth slowed marginally to 3.3% y-o-y from 3.4%.

Inflation remained subdued between April and July. Consumer price inflation in Hong Kong, China slowed to 2.5% y-o-y in July from 3.1% y-o-y in June. In contrast, average inflation for 1Q15 was 4.4% y-o-y. The government said that it expects inflation to remain subdued given weak growth in most developed economies.

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 fell 1.5% quarter-on-quarter (q-o-q) but rose 2.0% y-o-y to reach HKD1,523 billion (US$196 billion) at end-June **(Table 1)**. The q-o-q decline was due to declines in both government and corporate bonds outstanding, while on a y-o-y basis, growth in corporate bonds managed to offset the decline in government bonds.

Exchange Fund Bills (EFBs) outstanding rose 0.4% q-o-q, due to increased issuance in 2Q15, which rose 43.0% q-o-q. The much smaller q-o-q rise in EFBs outstanding was due to the issuance of shorter-dated tenors leading to larger proportion of the bonds maturing.

Exchange Fund Notes (EFNs) continued to decline, falling 4.1% q-o-q and 5.9% y-o-y, as the Hong Kong Monetary Authority sought to align the EFN market with Hong Kong Special Administrative Region (HKSAR) bonds by replacing issuances of EFNs with tenors of 3 years or more with HKSAR bonds.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	HKD	US$	HKD	US$	HKD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,493**	**193**	**1,545**	**199**	**1,523**	**196**	**(1.9)**	**0.3**	**(1.5)**	**2.0**
Government	849	110	857	111	846	109	0.4	1.8	(1.3)	(0.4)
Exchange Fund Bills	684	88	686	89	689	89	0.1	0.4	0.4	0.7
Exchange Fund Notes	68	9	67	9	64	8	(0.4)	(0.9)	(4.1)	(5.9)
HKSAR Bonds	97	13	104	13	93	12	3.2	16.2	(11.3)	(4.5)
Corporate	644	83	688	89	677	87	(4.9)	(1.7)	(1.6)	5.1

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

Table 2: Notable LCY Corporate Bond Issuance in 2Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
The Hong Kong Mortgage Corporation		
1-year bond	0.44	2.00
2-year bond	0.44	0.50
3-year bond	1.34	0.40
China Energy Reserve and Chemicals Group Overseas		
7-year bond	6.30	2.00
Beijing Enterprises Water Capital Investment		
5-year bond	3.90	0.70
Swire Pacific		
7-year bond	2.50	0.40
HKCG (Finance)		
15-year bond	3.25	0.40
Hong Fat Ginseng Holdings		
3.5-year bond	6.00	0.13

LCY = local currency.
Source: Central Moneymarkets Unit, Hong Kong Monetary Authority.

In 2Q15, however, the amount outstanding of HKSAR bonds declined, falling 11.3% q-o-q and 4.5% y-o-y due to a decline in the issuance of HKSAR bonds. In 2Q15, a total of HKD4.7 billion worth of HKSAR bonds were issued, down from HKD7.9 billion in the prior quarter.

The five largest nonbank issuances in 2Q15 came from the Hong Kong Mortgage Corporation (HKD2.9 billion), China Energy Reserve and Chemicals Group Overseas (HKD2.0 billion), Beijing Water Capital Investment (HKD0.7 billion), Swire Pacific (HKD0.4 billion), and HKCG (Finance) (HKD0.4 billion) **(Table 2)**.

Total corporate bonds outstanding fell 1.6% q-o-q in 2Q15, with bond issuance falling 39.3% q-o-q. The decline in corporate bonds outstanding was due to continued uncertainty regarding the US Federal Reserve's rate hike as well as rising interest rates.

The top 30 nonbank issuers in Hong Kong, China had outstanding bonds amounting to HKD121.2 billion at end-June, representing 17.9% of total outstanding corporate bonds at end-June. The top 30 list of issuers was dominated by real estate firms **(Table 3)**. The Hong Kong Mortgage Corporation remained the top issuer in Hong Kong, China with outstanding bonds of HKD19.1 billion. Next was Sun Hung Kai Properties with HKD9.7 billion, followed by CLP Power Hong Kong Financing with HKD9.5 billion of bonds outstanding. Among the top 30, six were state-owned companies and 11 were Hong Kong Exchange-listed firms. Only one state-owned company, the MTR Corporation, was not listed on the Hong Kong Exchange.

Policy, Institutional, and Regulatory Developments

Hong Kong, China Issues US$-Denominated *Sukuk*

On 28 May, the Government of the Hong Kong Special Administrative Region of the People's Republic of China issued a US$1.0 billion 5-year *sukuk* (Islamic bond). This was the second *sukuk* issued by the government, with the first taking place in September 2014. The bond was priced at a rate of 1.894%. The government said that the *sukuk* is based on the *wakalah* structure, in which one-third of the assets are based on units in a Hong Kong, China building and the remainder are in *shari'ah*-compliant commodities.

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 Corporation	19.12	2.47	Yes	No	Finance
2.	Sun Hung Kai Properties (Capital Market)	9.71	1.25	No	No	Real Estate
3.	CLP Power Hong Kong Financing	9.46	1.22	No	No	Electric
4.	Wharf Finance	7.22	0.93	No	No	Diversified
5.	The Link Finance (Cayman) 2009	6.79	0.88	No	No	Finance
6.	HKCG (Finance)	6.42	0.83	No	No	Gas
7.	Swire Pacific	5.93	0.76	No	Yes	Diversified
8.	MTR Corporation (C.I.)	5.75	0.74	Yes	Yes	Transportation
9.	NWD (MTN)	5.05	0.65	No	Yes	Real Estate
10.	Hongkong Electric Finance	4.51	0.58	No	No	Electric
11.	Wheelock Finance	4.04	0.52	No	No	Diversified
12.	Kowloon-Canton Railway	3.40	0.44	Yes	No	Transportation
13.	Urban Renewal Authority	3.30	0.43	Yes	No	Real Estate
14.	Yue Xiu Enterprises (Holdings)	3.00	0.39	No	No	Diversified
15.	Airport Authority Hong Kong	2.80	0.36	Yes	No	Transportation
16.	Yue Xiu Property	2.30	0.30	No	No	Real Estate
17.	CK Hutchison Holdings	2.21	0.28	No	Yes	Real Estate
18.	Bohai International	2.00	0.26	No	No	Diversified
19.	China Energy Reserve and Chemicals Group Overseas	2.00	0.26	No	No	Oil
20.	Swire Properties MTN Financing	2.00	0.26	No	No	Real Estate
21.	Emperor International Holdings	1.95	0.25	No	Yes	Real Estate
22.	Hong Kong Science and Technology Parks	1.71	0.22	Yes	No	Real Estate
23.	Cathay Pacific MTN Financing	1.70	0.22	No	Yes	Airlines
24.	Cheung Kong Holdings	1.65	0.21	No	Yes	Real Estate
25.	Hysan (MTN)	1.50	0.19	No	Yes	Real Estate
26.	Nan Fung Treasury	1.31	0.17	No	No	Real Estate
27.	Tencent Holdings	1.20	0.15	No	Yes	Comunications
28.	Henderson Land MTN	1.19	0.15	No	Yes	Finance
29.	Dragon Drays	1.00	0.13	No	No	Diversified
30.	K. Wah International	1.00	0.13	No	Yes	Real Estate
Total Top 30 Nonbank LCY Corporate Issuers		**121.18**	**15.64**			
Total LCY Corporate Bonds		**677.09**	**87.36**			
Top 30 as % of Total LCY Corporate Bonds		**17.9%**	**17.9%**			

LCY = local currency.
Notes:
1. Data as of end-June 2015.
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 1 June and 14 August, the local currency (LCY) government bond yield curve in Indonesia rose for all tenors except those at the very short-end **(Figure 1)**. Yields rose between 22 basis points (bps) and 68 bps from the 2-year maturity through the long-end of the curve. At the short-end, yields fell 10 bps for the 1-year maturity. The spread between the 2-year and 10-year maturities widened to 70 bps in mid-August from 38 bps in early June.

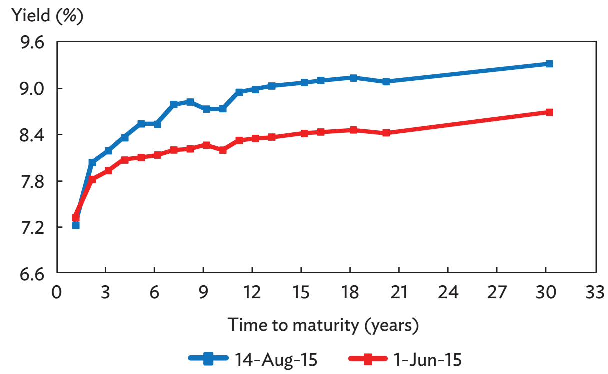
The uptick in yields was reflective of increasing expectations of an imminent rate hike by the United States (US) Federal Reserve. Overall sentiment in Indonesia's LCY bond market was further dragged down by higher inflationary expectations and the rupiah's depreciation. The unexpected devaluation of the Chinese renminbi in August also contributed to the yield uptick.

Inflation has remained elevated, largely due to the government's removal of fuel subsidies at the beginning of the year. Consumer prices were up 6.8% year-on-year (y-o-y) in April and 7.2% y-o-y in May. Inflation accelerated to 7.3% y-o-y in June and remained at that level in July, driven by a seasonal increase in consumer spending related to the Muslim celebration of Ramadan and Idul Fitri.

The continued weakness of the Indonesian rupiah vis-à-vis the US dollar has weighed down investor sentiment in the bond market. As of 14 August, the Indonesian rupiah had fallen 11.3% year-to-date. Much of this weakness stemmed from the lingering uncertainty over the timing of US monetary tightening, and more recently, the devaluation of the Chinese renminbi in August.

Given these developments, Bank Indonesia continued to hold to its tight monetary policy stance and has kept the benchmark interest rate steady at 7.50% since February. Bank Indonesia deems its policy supportive of steering inflation toward its target range of 3.0%–5.0%. The central bank also remains committed in ensuring rupiah stability by optimizing monetary operations. To boost growth, Bank Indonesia has instead chosen to relax macroprudential measures to promote credit growth.

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



LCY = local currency.
Source: Bloomberg LP.

(See Policy, Institutional, and Regulatory Developments at the end of this Market Summary for more details.)

While foreign investors continued to chase Indonesia's high yields, negative externalities have exposed its bond market to increasing risk of capital flight. At end-June, the share of foreign holdings in Indonesia's LCY bond market had risen to 39.6% from 38.6% at end-March. By end-July, however, foreign investor interest had weakened and the foreign holdings share dipped to 39.0%.

Economic growth in Indonesia slowed to 4.67% y-o-y in 2Q15 from 4.72% y-o-y in 1Q15. The slower economic growth was brought about by weak investment growth and moderating increases in both government consumption and household consumption. Bank Indonesia, however, expects the economy to recover in the second half of the year amid accelerated spending by the government on infrastructure projects. On a quarter-on-quarter (q-o-q) and nonseasonally adjusted basis, economic growth climbed to 3.78% in 2Q15 from –0.17% in 1Q15.

Size and Composition

The LCY bond market in Indonesia continued to grow in 2Q15, reaching a size of IDR1,668.2 trillion (US$125 billion) at end-June **(Table 1)**. Growth rates, however, moderated to 2.4% q-o-q and 13.8% y-o-y from 6.5% q-o-q and 16.5% y-o-y in 1Q15. Indonesia's LCY bond market was still dominated by conventional bonds,

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	IDR	US$	IDR	US$	IDR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,465,790**	**123**	**1,629,143**	**125**	**1,668,177**	**125**	**4.8**	**24.2**	**2.4**	**13.8**
Government	1,248,379	105	1,401,586	107	1,429,181	107	5.6	28.0	2.0	14.5
Central Govt. Bonds	1,131,630	95	1,305,486	100	1,356,434	102	5.5	27.4	3.9	19.9
of which: *Sukuk*	101,329	9	145,229	11	156,209	12	4.7	27.1	7.6	54.2
Central Bank Bills	116,749	10	96,100	7	72,748	5	7.2	34.9	(24.3)	(37.7)
of which: *Sukuk*	6,792	0.6	8,810	0.7	8,458	0.6	26.3	46.9	(4.0)	24.5
Corporate	217,412	18	227,557	17	238,996	18	0.02	5.9	5.0	9.9
of which: *Sukuk*	7,105	0.6	7,078	0.5	7,944	0.6	(1.2)	(4.2)	12.2	11.8

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources. 2Q15 *sukuk* data taken from Indonesia Stock Exchange.
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-June stood at IDR261.5 trillion.
Sources: Bank Indonesia, Directorate General of Budget Financing and Risk Management Ministry of Finance, Indonesia Stock Exchange, Otoritas Jasa Keuangan, and Bloomberg LP.

which represented 89.7% of the total bond stock at end-June. The remaining 10.3% were accounted for by *sukuk* (Islamic bonds).

Government Bonds. At end-June, the outstanding stock of government bonds climbed to IDR1,429.2 trillion on growth of 2.0% q-o-q and 14.5% y-o-y. Growth was mainly driven by an increase in the stock of central government bonds, which comprised conventional and Islamic Treasury bills and bonds issued by the Ministry of Finance. On the other hand, the outstanding amount of central bank bills, which are known as *Sertifikat* Bank Indonesia (SBI), continued to decline in 2Q15.

Central Government Bonds. The outstanding amount of central government bonds reached IDR1,356.4 trillion at end-June, up 3.9% q-o-q and 19.9% y-o-y. Growth came mainly from increases in the stock of conventional fixed-rate bonds and Treasury bills, and Islamic Treasury instruments, particularly Islamic Treasury bills, and project-based *sukuk*.

The government continued its frontloading policy in 2Q15, targeting 59% of gross LCY bond issuance to be completed within the first 6 months of the year. In 2Q15, a total of IDR89.0 trillion worth of Treasury bills and bonds were issued by the government through weekly auctions. Central government bond issuance volume, however, was lower on a q-o-q basis, but higher compared with the previous year. A few of the auctions fell below target as some auctions were met with weak demand.

Central Bank Bills. The outstanding size of central bank bills, or SBI, slipped to IDR72.7 trillion at end-June, down significantly on a q-o-q and y-o-y basis. Bank Indonesia issues SBI as one of its tools for liquidity management in the banking system. In 2Q15, Bank Indonesia temporarily ceased issuance of conventional SBI and instead only issued *shari'a*-compliant SBI carrying a 9-month maturity. Gross issuance volume of *shari'a*-compliant SBI reached IDR2.2 trillion in 2Q15, markedly lower on both a q-o-q and y-o-y basis.

Corporate Bonds. The outstanding stock of LCY corporate bonds in Indonesia climbed to IDR239.0 trillion at end-June, expanding by 5.0% q-o-q and 9.9% y-o-y. Indonesia's corporate bond sector only accounted for 14.3% of the aggregate LCY bond stock. This sector is mostly dominated by conventional bonds, with corporate sukuk comprising only a 3.3% share of the total corporate bond stock.

At end-June, the top 30 LCY corporate bond issuers in Indonesia accounted for total bonds outstanding of IDR179.2 trillion, representing a 75.0% share of the total LCY corporate bond market **(Table 2)**. More than half of the firms on the list were from the banking and financing sectors, with the rest coming from capital-intensive industries such as energy; telecommunications; and property, real estate, and building construction. A total of 11 state-owned firms were included among the top 30, five of which ranked within the top 10.

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.	Indonesia Eximbank	20,909	1.57	Yes	No	Banking
2.	PLN	14,073	1.06	Yes	No	Energy
3.	Indosat	10,742	0.81	No	Yes	Telecommunications
4.	Telekomunikasi Indonesia	10,000	0.75	Yes	Yes	Telecommunications
5.	Astra Sedaya Finance	8,890	0.67	No	No	Finance
6.	Bank Internasional Indonesia	8,360	0.63	No	Yes	Banking
7.	Perum Pegadaian	8,319	0.62	Yes	No	Finance
8.	Adira Dinamika Multifinance	8,293	0.62	No	Yes	Finance
9.	Bank Tabungan Negara	7,950	0.60	Yes	Yes	Banking
10.	Bank CIMB Niaga	7,750	0.58	No	Yes	Banking
11.	Bank Permata	6,482	0.49	No	Yes	Banking
12.	Bank Pan Indonesia	6,000	0.45	No	Yes	Banking
13.	Jasa Marga	5,900	0.44	Yes	Yes	Toll Roads
14.	Federal International Finance	5,435	0.41	No	No	Finance
15.	Bank OCBC NISP	5,378	0.40	No	Yes	Banking
16.	Sarana Multigriya Finansial	4,738	0.36	Yes	No	Finance
17.	Agung Podomoro Land	4,575	0.34	No	Yes	Property, Real Estate, and Building Construction
18.	Indofood Sukses Makmur	4,000	0.30	No	Yes	Food and Beverages
19.	Bank Tabungan Pensiunan Nasional	3,835	0.29	No	Yes	Banking
20.	Bank Mandiri	3,500	0.26	Yes	Yes	Banking
21.	Medco-Energi International	3,500	0.26	No	Yes	Petroleum and Natural Gas
22.	Antam	3,000	0.22	Yes	Yes	Petroleum and Natural Gas
23.	Bumi Serpong Damai	2,750	0.21	No	Yes	Property, Real Estate, and Building Construction
24.	BCA Finance	2,425	0.18	No	No	Finance
25.	Wahana Ottomitra Multiartha	2,400	0.18	No	Yes	Finance
26.	Garuda Indonesia	2,000	0.15	Yes	Yes	Transportation
27.	Permodalan Nasional Madani	2,000	0.15	Yes	No	Finance
28.	Sumber Alfaria Trijaya	2,000	0.15	No	Yes	Retail
29.	Summarecon Agung	2,000	0.15	No	Yes	Property, Real Estate, and Building Construction
30.	Indomobil Finance Indonesia	1,969	0.15	No	No	Finance
Total Top 30 LCY Corporate Issuers		**179,173**	**13.43**			
Total LCY Corporate Bonds		**238,996**	**17.92**			
Top 30 as % of Total LCY Corporate Bonds		**75.0%**	**75.0%**			

LCY = local currency.
Notes:
1. Data as of end-June 2015.
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.

State-owned Indonesia Eximbank was the largest corporate bond issuer in Indonesia with an outstanding bond stock of IDR20.9 trillion at end-June. Taking the second spot was another state-owned firm, PLN, with outstanding LCY bonds valued at IDR14.1 trillion. Climbing to the third spot was telecommunications firm Indosat, with an outstanding bond stock of IDR10.7 trillion.

In 2Q15, the volume of new corporate debt issues nearly doubled to IDR23.6 trillion from IDR12.3 trillion in the previous quarter. A total of 15 corporate firms raised funds through the bond market in 2Q15, most of which were from the banking and financial sectors. There were 40 new corporate bond series issued during the quarter, including seven *sukuk* bond series.

In terms of maturity structure, 26 bond series carried maturities of more than 1 year to 3 years, six bond series had maturities of more than 3 years to 5 years, and six bond series carried maturities of more than 5 years to 10 years. Two new bond series extended the maturity profile of Indonesia's corporate bonds beyond 10 years: Telekomunikasi Indonesia's 15-year and 30-year bonds.

The largest corporate bond issuance in 2Q15 came from telecommunications companies, including Telekomunikasi Indonesia's issuance worth IDR7.0 trillion in four tranches, and Indosat's issuance worth IDR3.1 trillion in five tranches each of conventional bonds and *sukuk*. The largest corporate bond issuances in 2Q15 are presented in **Table 3**.

Table 3: Notable LCY Corporate Bond Issuance in 2Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Telekomunikasi Indonesia		
7-year bond	9.925	2,200
10-year bond	10.25	2,100
15-year bond	10.60	1,200
30-year bond	11.00	1,500
Indosat		
370-day bond	8.55	554
370-day *sukuk ijarah*	8.55	55
3-year bond	9.25	782
3-year *sukuk ijarah*	9.25	76
5-year bond	10.00	584
5-year *sukuk ijarah*	10.00	67
7-year bond	10.25	337
7-year *sukuk ijarah*	10.25	43
10-year bond	10.40	427
10-year *sukuk ijarah*	10.40	175
Federal International Finance		
370-day bond	8.50	939
3-year bond	9.25	2,061
Toyota Astra Financial Services		
370-day bond	8.50	698
3-year bond	9.25	811
Bank UOB Indonesia		
370-day bond	8.60	400
3-year bond	9.40	600
5-year bond	9.60	500
Sumber Alfaria Trijaya		
3-year bond	9.70	600
5-year bond	10.00	400
Wahana Ottomitra Multiartha		
370-day bond	9.25	140
3-year bond	10.25	860

LCY = local currency, *sukuk ijarah* = Islamic bonds backed by a leasing agreement.
Source: Indonesia Stock Exchange.

Foreign Currency Bonds. The government continued to frontload its G3 issuance in 2015 in anticipation of a possible interest rate hike by the Federal Reserve. Following its issuance of US$4.0 billion via a dual-tranche sale in January and US$2.0 billion worth of *sukuk* in May, the Indonesian government returned to the G3 market with the sale of EUR-denominated and JPY-denominated bonds in July and August, respectively.

In July, the government priced EUR1.25 billion of 10-year bonds, marking Indonesia's second EUR-denominated bond issue. The bond carried a coupon rate of 3.375% and was priced to yield 3.555%. The bond sale was oversubscribed, with the order book reaching EUR2.4 billion. In terms of investor allocation, 37% went to investors from the US, 13% was allocated to Asian investors (excluding Indonesia), and 7% went to investors in Indonesia. Investors based in Europe were allocated an aggregate share of 43%. The bond was listed on both the Singapore Exchange and the Frankfurt Stock Exchange.

In August, the government sold a total of JPY100 billion of samurai bonds in three tranches. The bonds consisted of a JPY22.5 billion 3-year bond priced at a coupon rate of 1.08%, a JPY22.5 billion 5-year bond priced at a coupon rate of 1.38%, and a JPY55.0 billion 10-year bond priced at a coupon rate of 0.91%. Neither the 3-year nor 5-year bond has a guarantee, marking the first issuance of unguaranteed Indonesian bonds in Japan. On the other hand, the 10-year bond carries a guarantee from the Japan Bank for International Cooperation. The bonds were offered through private placement targeted for Japan-based qualified institutional investors.

Investor Profiles

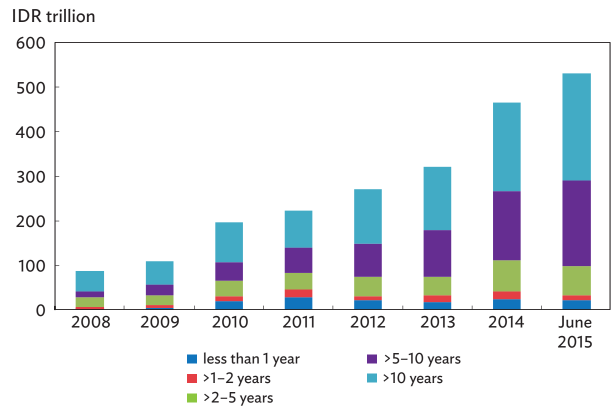
Central Government Bonds. Foreign investors remained the largest investor group in Indonesia's LCY government bond market in 2Q15. Foreign holdings' share of government bonds rose to 39.6% at end-June from 35.7% a year earlier **(Figure 2)**. In absolute terms, outstanding bonds held by foreign investors amounted to IDR537.5 trillion at end-June. Foreign investors remained attracted to Indonesia's LCY government bonds as they offer the highest yields among emerging East Asian markets.

In terms of maturity structure, foreign investors shored up their holdings of long-term maturities in the first half of 2015, with bonds with maturities of more than 10 years inching up to 45% of total foreign holdings by the end of June **(Figure 3)**. At the same time, foreign holdings of medium-dated bonds (more than 5 years to 10 years) rose to 36% of foreign investors' total holdings. In contrast, foreign holdings of bonds with maturities of 5 years or less declined as a share of total foreign holdings between end-December 2014 and end-June 2015.

At end-June, banking institutions comprised the second largest investor group in the central government bond market with a share of 27.2%. However, this was down from a share of 31.4% a year earlier. Insurance companies recorded a decline in its share of holdings of central government bonds at end-June compared with a year earlier.

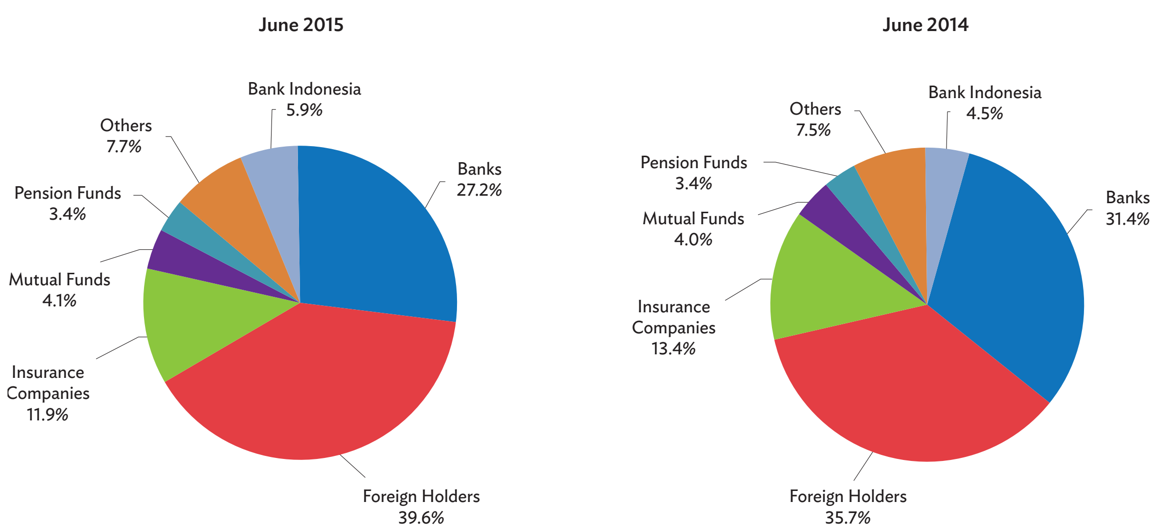
All other domestic investor groups recorded slight y-o-y increases in their share of holdings of central government bonds at end-June. Bank Indonesia increased its share to 5.9% as it intervened in the market to help stabilize bond prices. The share of holdings held by other investors increased to 7.7% at end-June, due mainly to purchases by individual (retail) investors. Mutual fund holdings of central government bonds

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



LCY = local currency.
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

Figure 2: LCY Central Government Bonds Investor Profile

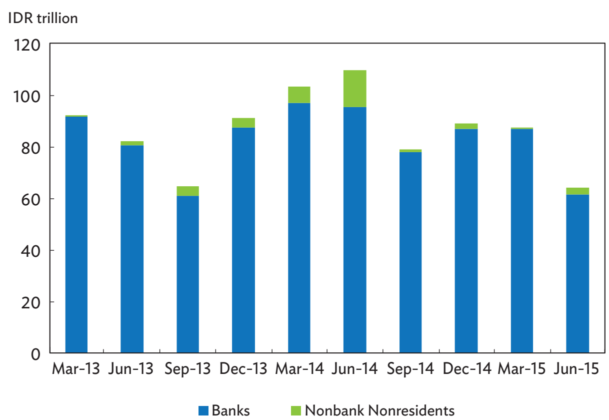


LCY = local currency.
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

rose marginally to a 4.1% share at end-June from 4.0% a year earlier.

Central Bank Bills. Banking institutions were the dominant holders of central bank bills, or SBI, in 2Q15 **(Figure 4)**. At end-June, bank holdings of SBI climbed to a share of 95.9% of the total from 86.9% a year earlier. The remaining 4.1% share of SBI holdings was accounted for by foreign nonbank investors, whose share of SBI holdings rose from end-March but fell when compared with a year earlier.

Figure 4: LCY Central Bank Bills Investor Profile



LCY = local currency.
Source: Bank Indonesia.

Policy, Institutional, and Regulatory Developments

Bank Indonesia Eases Macroprudential Measures to Spur Growth

In June, Bank Indonesia eased macroprudential measures by revising its policies for loan-to-value and financing-to-value ratios for property loans, and for automotive loan down payments. Bank Indonesia increased by 10 percentage points the loan-to-value ratio for property loans and the financing-to-value ratio for *shari'ah*–compliant property credit, which raised the maximum loanable amount for home buyers. Also, Bank Indonesia reduced by 5 percentage points the down payment requirement for automotive loans, bringing the new minimum down payment for two-wheelers to 20% and for passenger cars to 25%. The relaxation of these macroprudential policies aimed to support economic growth.

Mandatory Use of Rupiah for Domestic Transactions

In July, Bank Indonesia implemented a policy dictating the mandatory use of the Indonesian rupiah for domestic transactions. The ban on the use of foreign currencies for onshore transactions seeks to help ease the demand for foreign currency and manage the stability of the Indonesian rupiah. Certain exceptions to the regulation were granted, including transactions related to implementation of the state budget, international trade, international funding by parties where one party is located overseas, foreign currency transactions involving banks as allowed by the laws on banks and *shari'a*-compliant banks, transactions involving securities issued by the government in foreign currencies in the primary and secondary markets, and other foreign currency transactions as may be allowed by Bank Indonesia.

Bank Indonesia Revises Auction Process for Monetary Instruments and Expands Tenors for Reverse Repos

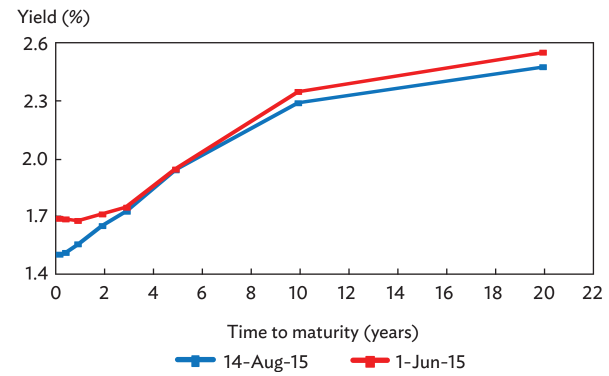
In August, Bank Indonesia revised its auction process for reverse repurchase agreements (reverse repo) for government bonds and SBI, as part of efforts to stabilize the rupiah. The central bank said that it will offer a fixed rate on the two instruments instead of a variable rate. Also, Bank Indonesia will offer longer tenors such as 3-month reverse repos, and increase issuances of 9-month and 12-month SBIs. The frequency of foreign exchange swaps was also reduced to a weekly basis.

Republic of Korea

Yield Movements

Local currency (LCY) government bond yields in the Republic of Korea fell for all tenors between 1 June and 14 August, with yields for shorter-term tenors registering the largest declines **(Figure 1)**. Expectations of a sluggish domestic economy and low inflationary pressures partly contributed to the decrease in yields. Meanwhile, the yield spread between the 2-year and 10-year tenors was broadly unchanged.

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



LCY = local currency.
Source: Bloomberg LP.

Real gross domestic product growth in the Republic of Korea decelerated in 2Q15—leveling off at 0.3% quarter-on-quarter (q-o-q) and 2.2% year-on-year (y-o-y) per the Bank of Korea's advance estimates released in July—down from 0.8% q-o-q and 2.5% y-o-y in 1Q15. The Bank of Korea also announced in July that it had lowered its 2H15 real gross domestic product growth forecast for the Republic of Korea to 2.8% y-o-y from a previous projection of 3.1% y-o-y reported in April.

The policy rate in the Republic of Korea was lowered once in 2Q15. On 11 June, the Bank of Korea's Monetary Policy Committee decided to reduce the base rate by 25 basis points (bps) to 1.50% amid a sluggish export performance and the adverse impacts of the Middle East Respiratory Syndrome on household consumption. On both 9 July and 13 August, the committee decided to keep steady the policy rate at its current level.

Inflationary pressures inched up throughout 2Q15, as consumer price inflation rose to 0.7% y-o-y in June from 0.5% y-o-y in May and 0.4% y-o-y in April, based on Statistics Korea data. In July, consumer price inflation remained at 0.7% y-o-y.

Size and Composition

The Republic of Korea's LCY bond market exhibited relatively strong growth in 2Q15 as the outstanding amount of bonds expanded 3.1% q-o-q and 10.0% y-o-y, compared with growth of 2.3% q-o-q and 8.3% y-o-y in 1Q15 and 1.4% q-o-q and 7.8% y-o-y in 2Q14 **(Table 1)**. At end-June, Korean LCY bonds outstanding totaled KRW1,958.3 trillion (US$1,756 billion), of which 41.1% were government bonds and 58.9% were corporate bonds.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	KRW	US$	KRW	US$	KRW	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,779,533**	**1,759**	**1,900,194**	**1,712**	**1,958,273**	**1,756**	**1.4**	**7.8**	**3.1**	**10.0**
Government	700,464	692	789,741	712	805,593	722	3.5	9.9	2.0	15.0
Central Bank Bonds	174,000	172	184,940	167	188,310	169	1.9	5.2	1.8	8.2
Central Government Bonds	485,792	480	513,685	463	527,583	473	4.1	10.6	2.7	8.6
Industrial Finance Debentures	40,671	40	91,116	82	89,700	80	3.7	24.0	(1.6)	120.5
Corporate	1,079,069	1,066	1,110,453	1,001	1,152,680	1,033	0.1	6.5	3.8	6.8

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg 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.

LCY government bonds outstanding at end-June totaled KRW805.6 trillion, up 2.0% q-o-q and 15.0% y-o-y. A relatively large portion of this amount came from outstanding LCY central government bonds, which were at valued KRW527.6 trillion at end-June and exhibited growth rates of 2.7% q-o-q and 8.6% y-o-y, led by an increase in the existing stock of Korea Treasury Bonds. The outstanding amount of central bank bonds, or Monetary Stabilization Bonds, also rose in 2Q15—recording growth rates of 1.8% q-o-q and 8.2% y-o-y—to reach KRW188.3 trillion at end-June. Meanwhile, the stock of industrial finance debentures exhibited a mixed performance in 2Q15 with negative q-o-q and positive y-o-y growth to level off at KRW89.7 trillion at end-June.

Issuance of LCY government bonds exhibited a mixed performance in 2Q15, falling 3.1% q-o-q but rising 6.4% y-o-y. The q-o-q decline was largely due to decreased bond issuance by the central government, while the y-o-y increase was mostly a result of increased issuance of central bank bonds.

The outstanding amount of LCY corporate bonds expanded 3.8% q-o-q and 6.8% y-o-y in 2Q15, a faster clip compared with 1Q15's growth of 1.6% q-o-q and 3.0% y-o-y, and 2Q14's 0.1% q-o-q and 6.5% y-o-y. The q-o-q increase in 2Q15 stemmed from growth in the existing stock of special public bonds, financial debentures, and private corporate bonds. Meanwhile, the y-o-y expansion occurred on the back of positive growth in financial debentures and private corporate bonds.

At end-June, the combined LCY bonds outstanding of the top 30 corporate issuers in the Republic of Korea reached KRW724.6 trillion, which accounted for 62.9% of total LCY corporate bonds outstanding **(Table 2)**. The largest LCY corporate bond issuer continued to be Korea Housing Finance Corporation. Issuance of LCY corporate bonds was up 34.5% q-o-q and 118.2% y-o-y in 2Q15 amid positive growth in the issuance of special public bonds, financial debentures, and private corporate bonds. Of the five most notable LCY corporate bonds issued in 2Q15, three were from special public agencies and two were from a domestic bank **(Table 3)**.

Investor Profile

Insurance companies and pension funds remained the largest investor group in the Republic of Korea's LCY government bond market, comprising 31.3% of the total market at end-March **(Figure 2)**. Compared with end-March 2014, the share of insurance companies and pension funds was up 1.4 percentage points, while the share of banks slid 1.6 percentage points, the most of any investor group.

Insurance companies and pension funds were also the largest investor group in the LCY corporate bond market, with a 35.4% share at end-March **(Figure 3)**. Between end-March 2014 and end-March 2015, the share of LCY bonds held by insurance companies and pension funds climbed 1.8 percentage points, an increase second only to that of households and nonprofit institutions, which climbed 2.0 percentage points. On the other hand, the share of banks fell 3.0 percentage points during the same period, the largest y-o-y drop among all investor groups.

Net foreign investment in the Republic of Korea's LCY bond market reached KRW2,779 billion in 2Q15, up from 1Q15 and 2Q14 levels of KRW2,067 billion and KRW2,590 billion, respectively. On a monthly basis, net foreign bond investment stood at KRW143 billion in April and climbed to KRW3,197 billion in May; however, foreign investors sold Korean LCY bonds in June and July, generating net outflows of KRW561 billion and KRW2,618 billion, respectively, amid the Greek debt crisis and expectations of a policy rate hike in the United States **(Figure 4)**.

Ratings Update

Fitch Ratings (Fitch) in July affirmed the Republic of Korea's long-term foreign currency issuer default rating and long-term LCY issuer default rating at AA− and AA, respectively. The outlook for both ratings was stable. According to Fitch, the Republic of Korea's sovereign ratings are supported by a strong macroeconomic performance, sound external balances, and moderate government debt.

Rating and Investment Information (R&I) reported in July that it has affirmed the Republic of Korea's foreign currency issuer rating at A+ and domestic currency issuer rating at AA−. It also maintained a stable outlook for both ratings. According to R&I, its ratings are partly based on the economy's "prudent fiscal management" and low government debt.

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

	Issuers	Outstanding Amount		State-Owned	Listed on		Type of Industry
		LCY Bonds (KRW billion)	LCY Bonds (US$ billion)		KOSPI	KOSDAQ	
1.	Korea Housing Finance Corp.	82,784	74.2	Yes	No	No	Financial
2.	Korea Land & Housing Corp.	55,415	49.7	Yes	No	No	Real Estate
3.	NH Investment & Securities	53,736	48.2	Yes	Yes	Yes	Securities
4.	KDB Daewoo Securities	49,440	44.3	Yes	Yes	No	Securities
5.	Korea Investment and Securities	44,782	40.1	No	No	No	Securities
6.	Korea Deposit Insurance Corp.	35,810	32.1	Yes	No	No	Insurance
7.	Industrial Bank of Korea	35,017	31.4	Yes	Yes	No	Bank
8.	Mirae Asset Securities	33,188	29.8	No	Yes	No	Securities
9.	Korea Electric Power Corp.	27,270	24.4	Yes	Yes	No	Utilities
10.	Hana Daetoo Securities	23,558	21.1	No	No	No	Securities
11.	Korea Expressway	22,100	19.8	Yes	No	No	Infrastructure
12.	Hyundai Securities	21,885	19.6	No	Yes	No	Securities
13.	Kookmin Bank	18,720	16.8	No	No	No	Bank
14.	Korea Rail Network Authority	18,220	16.3	Yes	No	No	Infrastructure
15.	Woori Bank	17,715	15.9	Yes	No	No	Bank
16.	Shinhan Bank	16,913	15.2	No	No	No	Bank
17.	Samsung Securities	15,486	13.9	No	Yes	No	Securities
18.	Korea Gas Corp.	15,449	13.8	Yes	Yes	No	Utilities
19.	Daishin Securities	14,997	13.4	No	Yes	No	Securities
20.	Small & Medium Business Corp.	14,555	13.0	Yes	No	No	Financial
21.	Standard Chartered First Bank Korea	12,140	10.9	No	No	No	Bank
22.	Korea Student Aid Foundation	11,810	10.6	Yes	No	No	Financial
23.	Shinhan Investment Corp.	11,803	10.6	No	No	No	Securities
24.	Korea Railroad Corp.	10,800	9.7	Yes	No	No	Infrastructure
25.	Hana Bank	10,710	9.6	No	No	No	Bank
26.	Korea Water Resources Corp.	10,676	9.6	Yes	Yes	No	Utilities
27.	Korea Eximbank	10,070	9.0	Yes	No	No	Bank
28.	Hyundai Capital Services	10,004	9.0	No	No	No	Financial
29.	Shinyoung Securities	9,957	8.9	No	Yes	Yes	Securities
30.	Shinhan Card	9,596	8.6	No	No	No	Financial
Total Top 30 LCY Corporate Issuers		**724,606.3**	**649.6**				
Total LCY Corporate Bonds		**1,152,680.0**	**1,033.3**				
Top 30 as % of Total LCY Corporate Bonds		**62.9%**	**62.9%**				

KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, LCY = local currency.
Notes:
1. Data as of end-June 2015.
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 2Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Korea Deposit Insurance Corporation		
3-year bond	1.86	900.0
5-year bond	2.12	680.0
Industrial Bank of Korea		
9-month bond	1.56	400.0
1-year bond	1.61	360.0
Korea Rural Community Corporation		
3-year bond	1.89	520.0

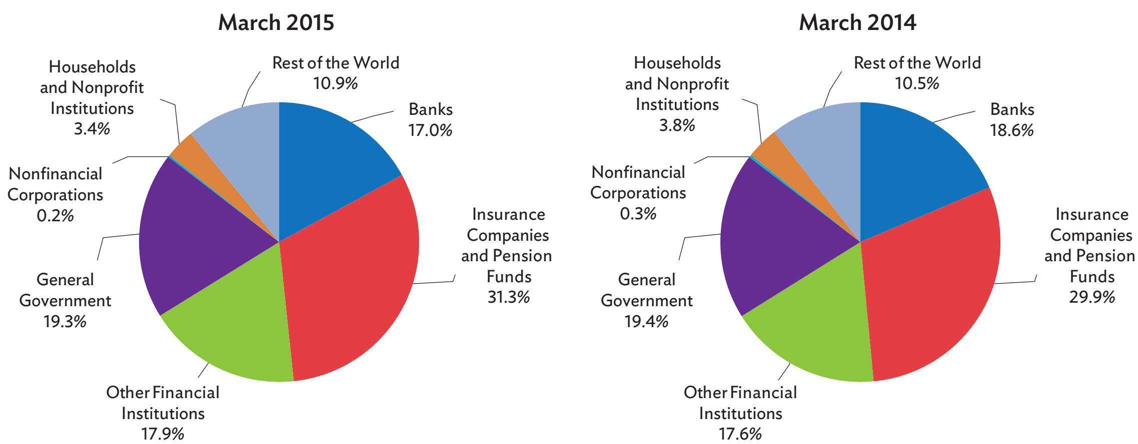
LCY = local currency.
Note: Coupon rates for 1-year bond of Woori Bank and 0.8-year bond of Industrial Bank of Korea are indicative yields as of 13 August 2015.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

MOSF Announces 2015 Supplementary Budget

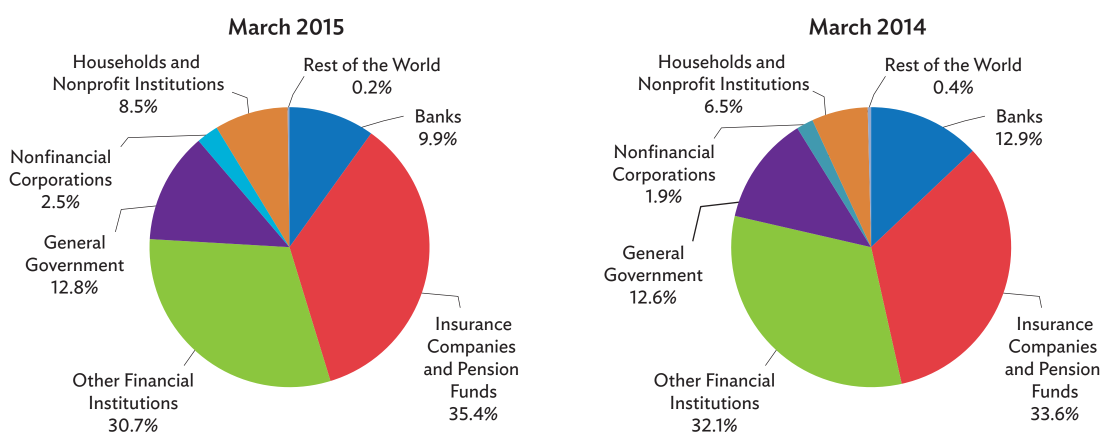
The Ministry of Strategy and Finance (MOSF) announced in July a supplementary budget for 2015. About KRW5.4 trillion will be used to finance the revenue shortfall in 2015, while KRW6.2 trillion will be utilized to augment budget expenditures—specifically for water resources management and support of the working class, and to deal with the adverse effects of

Figure 2: LCY Government Bonds Investor Profile



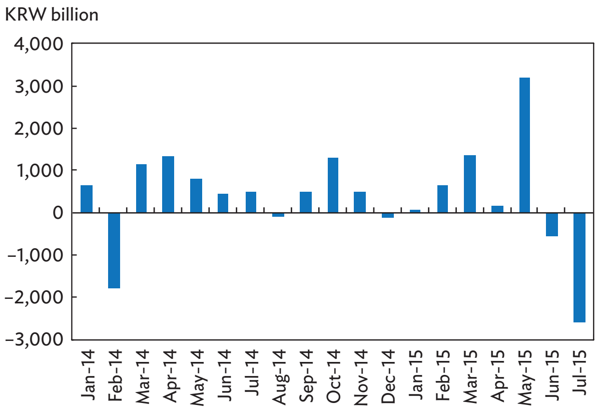
LCY = local currency.
Sources: *AsianBondsOnline* and The Bank of Korea.

Figure 3: LCY Corporate Bonds Investor Profile



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

Figure 4: Net Foreign Investment in LCY Bonds in the Republic of Korea



LCY = local currency.
Source: Financial Supervisory Service.

the Middle East Respiratory Syndrome. MOSF stated that the supplementary budget will be largely funded by government bonds.

FSC to Enhance KRX's Competitiveness

The Financial Services Commission (FSC) reported in July plans to improve the competitiveness of the Korea Exchange (KRX). Specifically, the FSC intends to establish a holding company for KRX, which will have as its subsidiaries the Korea Stock Price Index exchange, the Korean Securities Dealers Automated Quotations exchange, and the derivatives exchange. Revisions to the Financial Investment Services and Capital Markets Act are planned to allow for the creation of this holding company.

FSC Introduces Measures to Manage Household Debt

In July, the FSC launched a set of measures that will manage household debt in the Republic of Korea. According to the FSC, these measures are aimed at (i) accelerating the improvement of the quality of household loans, (ii) enhancing the assessment of borrowers' ability to repay, (iii) tightening the management of household debt in the nonbanking sector, and (iv) strengthening the ability of banks to respond to shocks.

Malaysia

Yield Movements

Between 1 June and 14 August, Malaysian local currency (LCY) government bond yields rose for all tenors as the market remained cautious over domestic and external developments **(Figure 1)**. Yields for tenors of less than 1 year increased between 14 basis points (bps) and 16 bps, while yields for tenors of 1 year to 20 years rose between 27 bps and 44 bps.

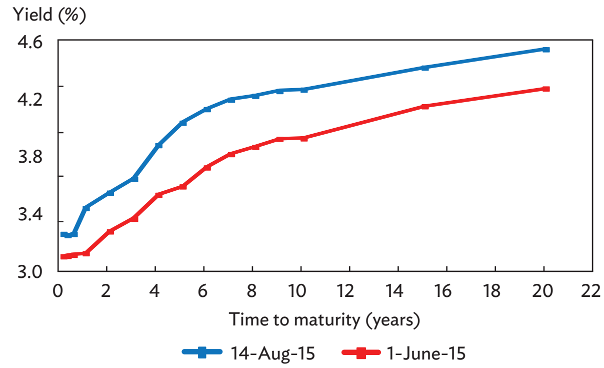
Yields rose as the market continued to monitor economic developments in the United States (US) that might signal the start of rate hikes by the US Federal Reserve. In August, concerns over the slowdown of the economy of the People's Republic of China and the devaluation of the Chinese renminbi further contributed to the rise in yields and the sharp depreciation of the Malaysian ringgit.

As of 14 August, the ringgit had depreciated 16.7% year-to-date. The weakness of the currency is a reflection of the market's bearish outlook on Malaysia's economic growth and fiscal condition amid the continued decline in global oil prices, and impact of the PRC's economic slowdown. In addition, the market has also taken note of the fall in Bank Negara Malaysia's (BNM) foreign reserves to below US$100 billion in July, an indication that BNM has been intervening to support the Malaysian ringgit. The decline in foreign reserves increases Malaysia's vulnerability to further capital outflows.

The continued depreciation of the Malaysian ringgit against the US dollar resulted in foreign investors selling off their holdings of local bonds. Data from BNM showed a decline in foreign holdings of central government debt securities to MYR177 billion in July from MYR180 billion in June, the largest recorded monthly outflow year-to-date.

Furthermore, inflation continues to be on an upward trend rising to 3.3% year-on-year (y-o-y) at end-July from 0.9% y-o-y at end-March raising speculations that the BNM may raise policy rates to abate inflation. The rise in inflation was primarily due to upward adjustments in domestic fuel prices and the effects of the Goods and Services Tax (GST).

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



LCY = local currency.
Source: Bloomberg LP.

In its policy meeting held on 9 July, BNM decided to maintain its overnight policy rate at 3.25% stating that Malaysia's economy is expected to continue to grow moderately with support from domestic demand. Private consumption is expected to be slower due to the effects of the implementation of the GST, but will continue to be supported by stable domestic labor market conditions. Inflation is expected to increase in the short-term, due to implementation of the GST and adjustments in fuel prices, before moderating in the second half of 2016.

Meanwhile, Malaysia's gross domestic product growth slowed to 4.9% y-o-y in 2Q15 from 5.6% y-o-y in 1Q15, due to weaker private final consumption expenditure and gross fixed capital formation, and a contraction in exports. Private final consumption expenditure posted an increase of 6.4% y-o-y in 2Q15, down from 8.8% in 1Q15, while gross fixed capital formation growth slowed to 0.5% y-o-y from 7.9% y-o-y. Exports contracted 3.7% y-o-y in 2Q15.

Size and Composition

The Malaysian LCY bond market barely moved in 2Q15, expanding a mere 0.2% quarter-on-quarter (q-o-q) to MYR1,076 billion (US$285 billion) at end-June **(Table 1)**. The increases in the stock of outstanding central government bonds, corporate bonds, and *Sukuk*

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	MYR	US$	MYR	US$	MYR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,053**	**328**	**1,073**	**290**	**1,076**	**285**	**0.2**	**6.0**	**0.2**	**2.1**
Government	612	191	612	165	608	161	(0.3)	4.1	(0.7)	(0.6)
Central Government Bonds	508	158	531	143	557	148	1.2	10.7	4.9	9.6
of which: *sukuk*	190	59	195	53	209	55	5.6	17.6	7.1	9.9
Central Bank Bills	88	28	57	15	23	6	(10.5)	(27.9)	(59.1)	(73.6)
of which: *sukuk*	35	11	19	5	4	1	(12.7)	(30.1)	(78.4)	(88.1)
Sukuk Perumahan Kerajaan	16	5	24	7	28	7	20.2	150.0	14.3	80.0
Corporate	442	138	461	125	468	124	0.9	8.7	1.4	6.0
of which: *sukuk*	302	94	328	89	337	89	1.4	11.1	2.7	11.8

( ) = 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.

Perumahan Kerajaan were capped by the continued decrease in outstanding central bank bills.[7] There was still no issuance of BNM monetary notes in 2Q15. On a y-o-y basis, the LCY bond market grew 2.1% in 2Q15. Government bonds outstanding totaled MYR608 billion (US$161 billion), while corporate bonds summed to MYR468 billion (US$124 billion). *Sukuk* (Islamic bonds) continued to comprise the majority of the LCY bond market with a share of 54% of total bonds outstanding at end-June.

Government Bonds. LCY government bonds outstanding decreased 0.7% q-o-q and 0.6% y-o-y to close at MYR608 billion at end-June. This was due to the continued decline in outstanding BNM monetary notes, which contracted 59.1% q-o-q to MYR23 billion. The central bank ceased issuance of BNM monetary notes—a tool used to manage liquidity in the market—in the first half of 2015 amid easing inflation. Meanwhile, central government bonds—comprising Malaysian Government Securities, Government Investment Issues, and Treasury bills—increased 4.9% q-o-q to MYR557 billion.

Total government bond issuance increased 4.4% q-o-q to MYR32 billion, led by Government Investment Issues. Meanwhile, there was a lesser amount of Malaysian Government Securities and Treasury bills issued in 2Q15.

[7] *Sukuk Perumahan Kerajaan* are Islamic bonds issued by the government to refinance funding for housing loans to government employee and to extend new housing loans.

Corporate Bonds. LCY corporate bonds slightly increased 1.4% q-o-q, bringing total outstanding bonds to MYR468 billion at end-June. The ratio of corporate *sukuk* to total corporate bonds outstanding inched up to 72.1% at end-June from 71.2% at end-March.

Corporate bond issuance rose 60.6% q-o-q to MYR30 billion in 2Q15 (on a total of 53 new issues) from a low base of MYR19 billion in 1Q15. *Sukuk* accounted for the majority of total issuance for the quarter with a share of 64.2%, while conventional bonds registered a share of 35.8%. By type of instrument, Islamic Medium-Term Notes had the highest share of total issuance at 57.8%, next was conventional commercial paper with a share of 27.3%. **Table 2** lists notable corporate bond issuances in 2Q15.

The largest corporate issuers in 2Q15 were from the financial and transportation sectors, led by Danainfra Nasional, Danga Capital, Jambatan Kedua, and Jana Kapital. Danainfra Nasional, a state-owned company established to fund Malaysia's infrastructure projects, issued a multi-tranche *sukuk* comprising a MYR600 million 7-year tranche: MYR300 million each for the 10-year, 15-year, and 20-year tranches; and MYR1 billion each for the 25-year and 30-year tranches. The notes carried 4.15%, 4.33%, 4.61%, 4.79%, 4.95%, and 5.05% profit rates, respectively. Danga Capital issued MYR2 billion worth of 5-year *sukuk* with a profit rate of 4.1%. The bond was rated AAA by RAM Ratings.

Table 2: Notable LCY Corporate Bond Issuance in 2Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Danainfra Nasional		
7-year Islamic MTN	4.15	600
10-year Islamic MTN	4.33	300
15-year Islamic MTN	4.61	300
20-year Islamic MTN	4.79	300
25-year Islamic MTN	4.95	1,000
30-year Islamic MTN	5.05	1,000
Danga		
5-year Islamic MTN	4.10	2,000
Jambatan Kedua		
10-year Islamic MTN	4.30	1,300
15-year Islamic MTN	4.52	700
Jana Kapital		
1-year Islamic MTN	4.30	35
2-year Islamic MTN	4.40	100
3-year Islamic MTN	4.50	100
4-year Islamic MTN	4.60	95
5-year Islamic MTN	4.70	95
6-year Islamic MTN	4.80	100
7-year Islamic MTN	4.90	95
8-year Islamic MTN	5.00	95
9-year Islamic MTN	5.10	95
10-year Islamic MTN	5.20	90
Benih Restu		
10-year Islamic MTN	4.62	1,000
United Overseas Bank Malaysia		
10-year Islamic MTN	4.62	1,000

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

Table 3 provides a breakdown of the top 30 LCY corporate bond issuers in Malaysia, whose total LCY bonds outstanding stood at MYR253.9 billion at end-June, representing 54.3% of the LCY corporate bond market. Financial firms, including banks, comprised 15 of the 30 largest corporate bond issuers, with bonds outstanding worth MYR135.6 billion. Highway operator Project Lebuhraya Usahasama remained the largest issuer with outstanding bonds valued at MYR30.6 billion.

Investor Profile

At end-June, foreign investors held the largest share of government bonds at 33.8%, with a total value of MYR180.1 billion, compared to the same period in 2014 when financial institutions had the largest holdings. The share of government bonds held by financial institutions—including banks, development financial institutions, and nonbank financial institutions—declined to 32.3% from 34.0% at end-June 2014 **(Figure 2)**.

Meanwhile, the share of social security institutions inched up to 27.8% of the total market at end-June from 27.3% a year earlier. The share of insurance companies' government bond holdings fell to 5.7% at end-June from 6.5% a year earlier.

Domestic and foreign banks (commercial and Islamic) remained the largest investor group in LCY corporate bonds at end-June with shares of 47.5% and 5.8%, respectively **(Figure 3)**. Compared with a year earlier, the share of domestic banks increased 1.2 percentage points, while that of foreign banks decreased 1.0 percentage point. The share of life insurance companies increased slightly to 31.7% at end-June from 31.2% a year earlier. Meanwhile, the share of investment banks remained unchanged at 4.9%.

Ratings Update

In July, Fitch Ratings (Fitch) affirmed its A– long-term foreign currency issuer default rating and A long-term local currency issuer default rating for Malaysia. The outlook for both ratings was revised to stable from negative. Fitch cited Malaysia's improving fiscal position, strong real economic growth, and stable inflation as the reasons for its ratings decisions.

Also in July, Standard & Poor's (S&P) affirmed its A–/A-2 foreign currency issuer default rating and A/A-1 local currency issuer default rating for Malaysia, with a stable outlook for both ratings. S&P cited Malaysia's strong external position and monetary flexibility as the reasons for its ratings decisions. S&P also stated that the 1Malaysia Development corruption controversy will not affect the government's implementation of fiscal and economic reforms.

Policy, Institutional, and Regulatory Developments

BNM to Create Comprehensive Guidelines on Major Islamic Finance Contracts

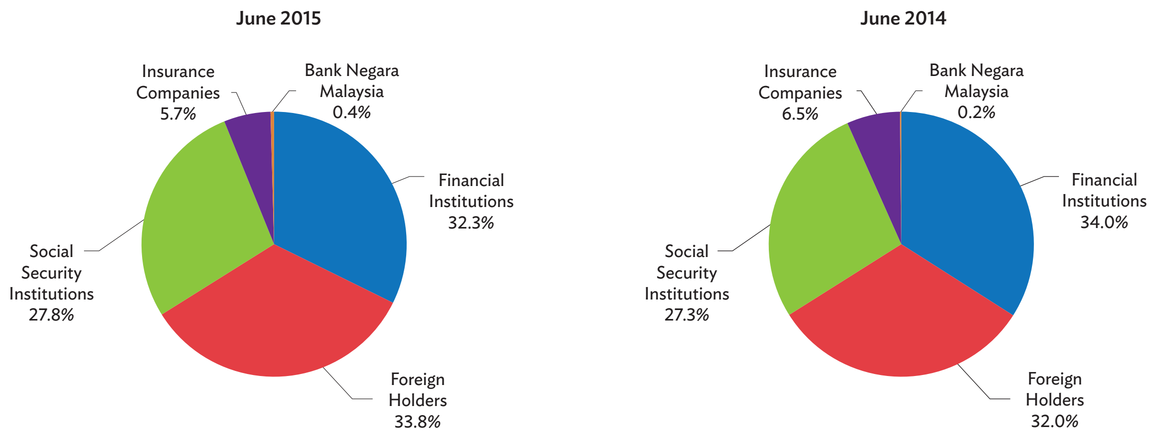
In June, BNM announced that it will create a comprehensive set of guidelines for all major Islamic finance contracts, including the finalization of operating

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	30.6	8.1	No	No	Transport, Storage, and Communications
2.	Cagamas	22.2	5.9	Yes	No	Finance
3.	Khazanah	20.0	5.3	Yes	No	Finance
4.	Danainfra Nasional	17.6	4.7	Yes	No	Finance
5.	Prasarana	15.6	4.1	Yes	No	Transport, Storage, and Communications
6.	Pengurusan Air	11.9	3.2	Yes	No	Energy, Gas, and Water
7.	Maybank	11.4	3.0	No	Yes	Banking
8.	Perbadanan Tabung Pendidikan Tinggi Nasional	11.0	2.9	Yes	No	Finance
9.	CIMB Bank	8.1	2.1	No	No	Banking
10.	Public Bank	7.6	2.0	No	No	Banking
11.	Sarawak Energy	7.0	1.9	Yes	No	Energy, Gas, and Water
12.	Aman Sukuk	6.7	1.8	Yes	No	Construction
13.	BGSM Management	6.0	1.6	No	No	Transport, Storage, and Communications
14.	RHB Bank	5.4	1.4	No	No	Banking
15.	Turus Pesawat	5.3	1.4	Yes	No	Transport, Storage, and Communications
16.	Cagamas MBS	5.0	1.3	Yes	No	Finance
17.	1Malaysia Development	5.0	1.3	Yes	No	Finance
18.	Celcom Networks	5.0	1.3	No	No	Transport, Storage, and Communications
19.	Malakoff Power	4.9	1.3	No	No	Energy, Gas, and Water
20.	Manjung Island Energy	4.9	1.3	No	No	Energy, Gas, and Water
21.	Rantau Abang	4.8	1.3	Yes	No	Finance
22.	YTL Power International	4.8	1.3	No	Yes	Energy, Gas, and Water
23.	Hong Leong Bank	4.7	1.2	No	Yes	Banking
24.	AM Bank	4.5	1.2	No	Yes	Banking
25.	Bank Pembangunan Malaysia	4.4	1.2	Yes	No	Banking
26.	Putrajaya Holdings	4.2	1.1	Yes	No	Property and Real Estate
27.	Tanjung Bin Power	4.0	1.1	No	No	Energy, Gas, and Water
28.	Danga Capital	4.0	1.1	Yes	No	Finance
29.	Telekom Malaysia	3.7	1.0	No	Yes	Transport, Storage, and Communications
30.	TNB Western Energy	3.7	1.0	Yes	No	Energy, Gas, and Water
Total Top 30 LCY Corporate Issuers		**253.9**	**67.3**			
Total LCY Corporate Bonds		**467.9**	**124.0**			
Top 30 as % of Total LCY Corporate Bonds		**54.3%**	**54.3%**			

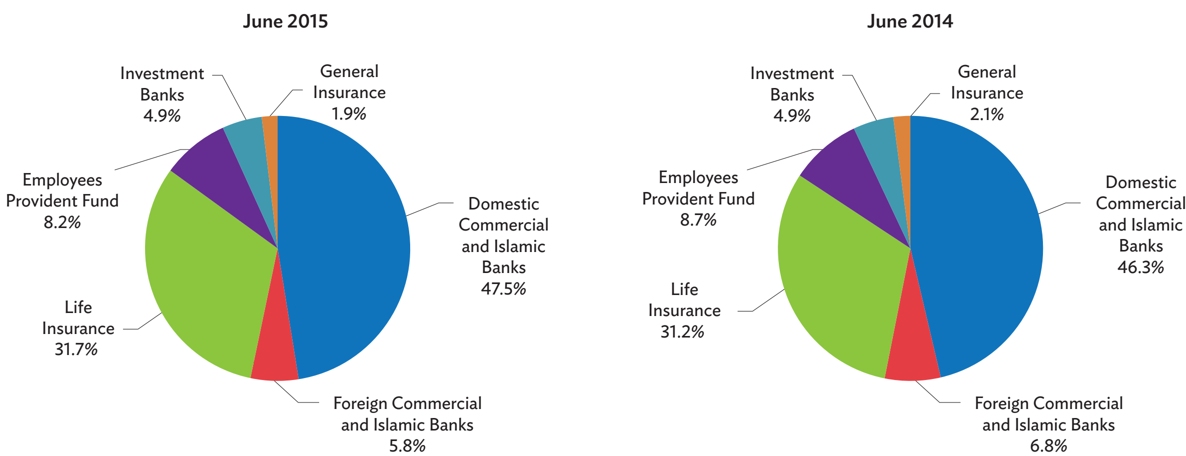
LCY = local currency.
Notes:
1. Data as of end-June 2015.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) data.

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.
Source: Bank Negara Malaysia.

Figure 3: LCY Corporate Bonds Investor Profile



LCY = local currency.
Note: The Employees Provident Fund's (EPF) bond holdings data is as of end-December 2014, as data is based on the EPF's annual report.
Source: Bank Negara Malaysia.

standards, by the end of the year. The guidelines will address inconsistencies in the use and interpretation of Islamic contracts, and will complement the existing *shari'ah* guidelines already issued by BNM.

SC Implements Lodge and Launch Framework for Wholesale Products

On 15 June, the Securities Commission Malaysia (SC) implemented the Lodge and Launch Framework for wholesale products, which incorporate the Guidelines on Unlisted Capital Market Products issued on 29 March. This initiative is expected to significantly reduce the time-to-market for wholesale products from the current approval timeframe of 14–21 days. The Lodge and Launch Framework enables wholesale products to be launched to the market once all required information is submitted via the SC's online system. The wholesale products covered under this initiative include wholesale funds, structured products, bonds, *sukuk*, and asset-backed securities.

Philippines

Yield Movements

Between 1 June and 14 August, Philippine local currency (LCY) government bond yields fell for most tenors **(Figure 1)**. Yields for tenors of 2 years and below fell between 15 basis points (bps) and 40 bps. Yields for tenors of between 4 years and 20 years, with the exception of the 7-year maturity, fell between 6 bps and 30 bps. Yields fell amid easing inflation, giving room for the Bangko Sentral ng Pilipinas (BSP) to maintain its policy rates. Moreover, the decrease in yields was most notable at the shorter-end of the curve as the market remained risk-averse in anticipation of an interest rate hike by the United States (US) Federal Reserve.

Inflation continued to decelerate in 2Q15 to 1.2% year-on-year (y-o-y) in June, and further to 0.8% y-o-y in July. A sufficient supply of food items, the downward adjustments in utility rates, and lower fuel prices contributed to lower inflation.

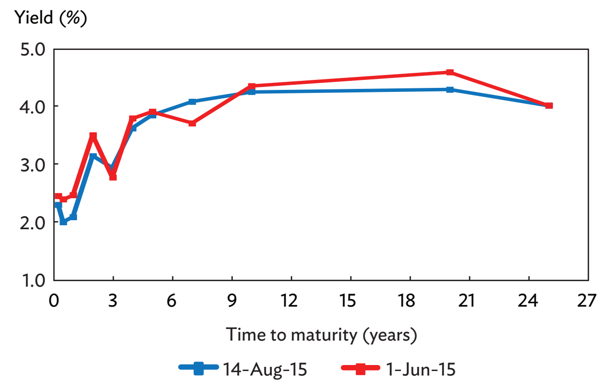
The BSP, at its 13 August monetary policy meeting, decided to keep its policy rates—the overnight borrowing rate and the overnight lending rate—unchanged at 4.00% and 6.00%, respectively. The BSP stated that benign inflation was a result of temporary favorable supply-side conditions, and that inflation is expected to rise gradually and settle within the lower end of the BSP target range of 2.0%–4.0%. The BSP will continue to monitor the upside risks to inflation along with both domestic and external developments.

Meanwhile, the Philippines' economic growth picked up in 2Q15 to 5.6% y-o-y from 5.0% y-o-y in 1Q15. The expansion in 2Q15 was supported by sustained growth in both private and public consumption, which increased 6.2% y-o-y and 3.9% y-o-y, respectively, as well as a boost in capital formation, which rose 17.4% y-o-y. For the first half of 2015, real GDP expanded 5.3% y-o-y, which was less than the 6.1% y-o-y growth posted in the same period in 2014.

Size and Composition

The Philippine LCY bond market contracted 0.8% quarter on quarter (q-o-q) to PHP4,645 billion (US$103 billion) at end-June **(Table 1)**. Government securities accounted for the majority of bonds outstanding, totaling PHP3,896 billion, while corporate bonds summed to PHP749 billion. On a y-o-y basis, the LCY bond market grew 3.3% in 2Q15.

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



LCY = local currency.
Source: Bloomberg LP.

Government Bonds. Outstanding fixed-income instruments issued by the Philippine government and government-controlled companies declined 0.5% q-o-q to PHP3,896 billion at end-June. The decline was most notable among outstanding government-controlled issues, which fell 12.4% q-o-q due to the maturation of Power Sector Assets and Liabilities Management bonds worth PHP11.3 billion. A similar downtrend was noted for outstanding Treasury bills, which decreased 1.1% q-o-q to PHP275 billion, while outstanding Treasury bonds fell 0.2% q-o-q to PHP3,541 billion.

In terms of issuance, 2Q15 saw a lower volume of PHP90 billion compared with PHP135 billion in 1Q15 as the Bureau of Treasury (BTr) issued no special series bills in 2Q15. In terms of maturity profile, the BTr focused on the issuance of shorter tenors for Treasury bonds in 2Q15, with a 3-year and 5-year re-issue worth PHP25.0 billion and PHP22.4 billion, respectively, compared with a 6-year and an 18-year issuance in 1Q15.

Corporate Bonds. Total outstanding LCY corporate bonds decreased 2.0% q-o-q to PHP749 billion. Only three

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	PHP	US$	PHP	US$	PHP	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**4,497**	**103**	**4,681**	**105**	**4,645**	**103**	**1.4**	**8.9**	**(0.8)**	**3.3**
Government	3,819	87	3,917	88	3,896	86	1.9	6.5	(0.5)	2.0
Treasury Bills	288	7	278	6	275	6	(1.6)	(6.4)	(1.1)	(4.6)
Treasury Bonds	3,415	78	3,547	79	3,541	79	2.2	7.9	(0.2)	3.7
Others	116	3	91	2	80	2	–	2.1	(12.4)	(30.9)
Corporate	678	16	765	17	749	17	(1.0)	25.4	(2.0)	10.5

( ) = 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-June 2015, the Government of the Philippines and Petron Corporation had PHP129.7 billion and PHP20.0 billion of outstanding Peso Global Bonds, respectively.
Sources: Bloomberg LP and Bureau of the Treasury.

companies tapped the domestic bond market in 2Q15. BDO Unibank issued a 5-year Long-Term Negotiable Certificate of Deposit; South Luzon Tollway had a triple-tranche issue comprising a 5-, 7-, and 10-year bond; while Ayala Land issued a 7-year bond for an aggregate issuance worth PHP21.8 billion in 2Q15 **(Table 2)**.

Only 51 companies are actively tapping the bond market in the Philippines. The top 30 issuers accounted for 89.9% of the total amount of LCY corporate bonds outstanding at end-June **(Table 3)**. Most of the companies are listed in the Philippine Stock Exchange, with eight firms having privately held shares. Real estate firm Ayala Land topped the list with total outstanding bonds worth PHP64.9 billion. Metrobank and holding company Ayala Corporation were second and third with outstanding amounts of PHP46.8 billion and PHP40.0 billion, respectively.

Table 2: Notable LCY Corporate Bond Issuance in 2Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
BDO Unibank		
5-year LTNCD	3.75	7.50
South Luzon Tollway		
5-year bond	4.99	2.40
7-year bond	5.58	2.40
10-year bond	6.49	2.50
Ayala Land		
7-year bond	4.50	7.00

LCY = local currency.
Source: Bloomberg LP.

Local corporate debt issuers came from a diverse industry mix in 2Q15. Banks and financial firms were the majority of issuers, increasing their collective share to 32.6% of the total at end-June 2015 from 25.7% at end-June 2014 **(Figure 2)**. Real estate firms and holding companies took the second and third spots in 2Q15, leaving the top three corporate bond-issuing industries the same as 2Q14. Issuers involved in electricity generation and distribution accounted for 5.9% of total bonds outstanding in 2Q15, 5.7% of the total came from issuers in the thoroughfares and tollways industry, 5.0% from the brewery and alcoholic beverages industry, and 4.3% from the telecommunications industry.

Investor Profile

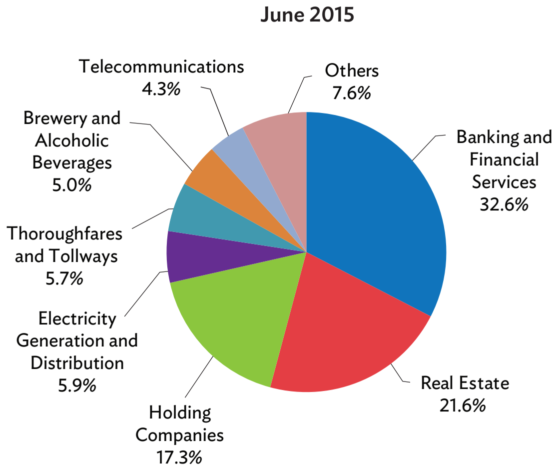
Banks and financial institutions remained the largest holder of government securities at end-June, with a share of the total that increased to 37.2% from 35.0% a year earlier **(Figure 3)**. The share of other investors was up slightly to 7.6% at end-June from 6.7% a year earlier. Contractual savings institutions—including the Social Security System, Government Service Insurance System, Pag-IBIG, and tax exempt institutions—held 28.9% of total government bonds at end-June, similar to the group's share a year earlier. Meanwhile, holdings of government securities among custodians fell to 8.9% from 10.1%, and funds managed by the BTr slightly declined to 16.6% from 18.7% over the same period.

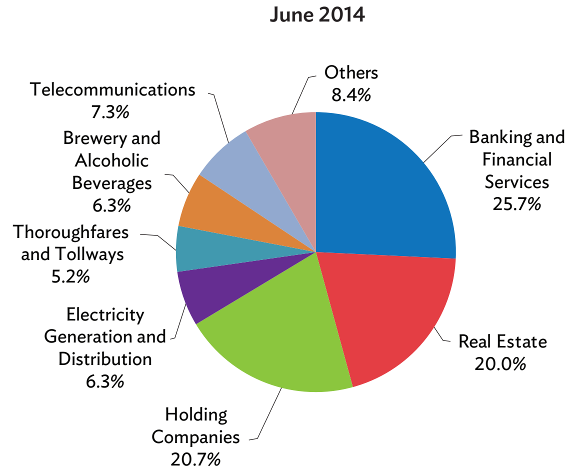
Table 3: Top 30 Issuers of LCY Corporate Bonds in the Philippines

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (PHP billion)	LCY Bonds (US$ billion)			
1.	Ayala Land	64.9	1.4	No	Yes	Real Estate
2.	Metrobank	46.8	1.0	No	Yes	Banking
3.	Ayala Corporation	40.0	0.9	No	Yes	Diversified Operations
4.	San Miguel Brewery	37.8	0.8	No	No	Brewery
5.	BDO Unibank	37.5	0.8	No	Yes	Banking
6.	Philippine National Bank	34.6	0.8	No	Yes	Banking
7.	JG Summit Holdings	30.0	0.7	No	Yes	Diversified Operations
8.	SM Investments	28.3	0.6	No	Yes	Diversified Operations
9.	RCBC	27.1	0.6	No	Yes	Banking
10.	SM Prime	25.0	0.6	No	Yes	Real Estate
11.	Filinvest Land	24.0	0.5	No	Yes	Real Estate
12.	Meralco	23.5	0.5	No	Yes	Electricity Distribution
13.	Security Bank	23.0	0.5	No	Yes	Banking
14.	GT Capital Holdings	22.0	0.5	No	Yes	Investment Companies
15.	South Luzon Tollway	18.3	0.4	No	No	Transport Services
16.	Globe Telecom	17.0	0.4	No	Yes	Telecommunications
17.	East West Bank	16.8	0.4	No	Yes	Banking
18.	Maynilad Water Services	16.4	0.4	No	No	Water
19.	MCE Leisure Philippines	15.0	0.3	No	No	Casino Services
20.	Philippine Long Distance Telephone	15.0	0.3	No	Yes	Telecommunications
21.	Union Bank of the Philippines	14.0	0.3	No	Yes	Banking
22.	Manila North Tollways	13.0	0.3	No	No	Transport Services
23.	First Metro Investment	12.0	0.3	No	No	Investment Banking
24.	Robinsons Land	12.0	0.3	No	Yes	Real Estate
25.	MTD Manila Expressway	11.5	0.3	No	No	Transport Services
26.	Aboitiz Power	10.5	0.2	No	Yes	Electricity Generation
27.	Energy Development	10.5	0.2	No	Yes	Electricity Generation
28.	United Coconut Planters Bank	9.5	0.2	No	No	Banking
29.	Filinvest Development	8.8	0.2	No	Yes	Real Estate
30	Petron	8.4	0.2	No	Yes	Oil Refining and Marketing
Total Top 30 LCY Corporate Issuers		**673.2**	**14.9**			
Total LCY Corporate Bonds		**749.0**	**16.6**			
Top 30 as % of Total LCY Corporate Bonds		**89.9%**	**89.9%**			

LCY = local currency.
Notes:
1. Data as of end-June 2015.
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.

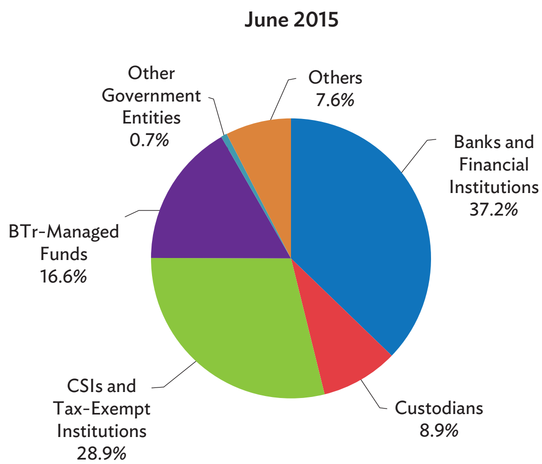
Figure 2: LCY Corporate Bond Issuers by Industry

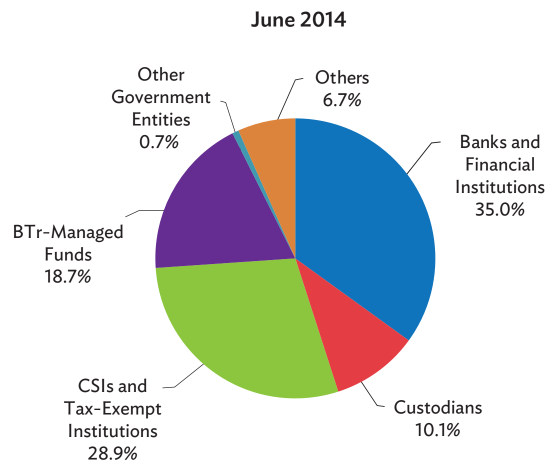




LCY = local currency.
Source: Bloomberg LP.

Figure 3: LCY Government Bonds Investor Profile





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

Ratings Update

In April, Standard and Poor's (S&P) affirmed the Philippines' long-term foreign currency rating of BBB, along with a stable outlook. The ratings agency cited the country's robust external position due to rising foreign exchange reserves and low external debt. In maintaining its stance, S&P mentioned factors such as the Philippines' stable financial system, prudent fiscal management, within-range inflation, young labor market, and strong domestic consumption.

In July, Japanese ratings agency Rating and Investment (R&I) maintained its BBB foreign currency rating of the Philippine sovereign credit, along with a stable outlook. R&I took note of the country's sustained economic growth, robust private consumption, and declining debt-to-GDP ratio in affirming the credit grade. Furthermore, R&I is confident that the Philippines will be able to withstand economic shocks, given the continuous inflow of remittances from overseas Filipino workers and a current account surplus.

Policy, Institutional, and Regulatory Developments

Department of Finance Issues Guidelines on Government Depository Banks

Consistent with its mandate to ensure effective management of government resources, on 4 July, the Department of Finance issued revised guidelines on the application of the Treasury Single Account, which involves the automation and integration of the government's Public Financial Management System. The Treasury Single Account, which consolidates all government bank accounts, allows the National Treasury to determine its available resources in a speedy manner, reducing costs in the process. The new set of guidelines also highlight the roles of government offices and agencies in prudent fiscal management.

BSP Issues Segregation Guidelines on Client Assets

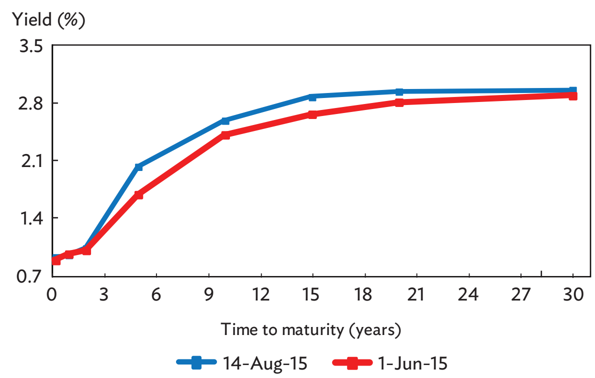
In August, the BSP approved a new set of guidelines for banks on the segregation of deposit funds from money received in a securities brokering agreement. Securities brokering is distinguished from deposit taking, wherein the bank acts as an agent of the customer in the buying and selling of securities. Previously, banks would book money received from customers for the purchase of securities as deposits. Under the new guidelines, the BSP introduced a new account in the bank books, referred to as broker customer account, to distinguish money received from customers for securities brokering purposes. The broker customer account will be exempt from reserve requirements and will not be covered by the Philippine Deposit Insurance Corporation. Consistent with the aim to segregate banking activities from other business activities, the BSP amended the Financial Reporting Package to include reports on securities brokering transactions of its supervised financial institutions. Included in the new guidelines is the monthly report indicating the weekly balances of securities and cash received from customers. The guidelines are consistent with the BSP's move to align with international standards of reporting and to protect customer welfare.

Singapore

Yield Movements

Local currency (LCY) government bond yields in Singapore rose for all tenors except the 1-year maturity, which dipped 1 basis point (bp) between 1 June and 14 August **(Figure 1)**. Yields for Singapore Government Securities (SGS) bonds with maturities of 5-, 10-, and 15-years gained the most, rising 34, 17, and 21 bps, respectively. At the short-end of the curve, yields rose between 3 bps and 4 bps, while at the long-end, yields climbed between 7 bps and 13 bps. As a result, the spread between the 2-year and 10-year maturities widened to 154 bps in mid-August from 140 bps in early June.

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



LCY = local currency.
Source: Bloomberg LP.

The movement in SGS bond yields mirrored that of United States (US) yields, owing to Singapore's developed market status. The rise in yields was reflective of reinforced expectations, on a slew of positive economic developments in the US, that the Federal Reserve will raise interest rates soon. In addition, increased volatility surrounding the unexpected devaluation of the Chinese renminbi provided further impetus for SGS yields to rise.

In its monetary policy statement in April, the Monetary Authority of Singapore (MAS) announced it would maintain its policy of modest and gradual appreciation of the Singapore dollar nominal effective exchange rate (S$NEER) policy band. MAS held constant the width, slope, and the level at which the S$NEER policy band is centered. In August, amid increased volatility in the foreign exchange market, MAS again maintained that its policy stance remained appropriate.

Meanwhile, Singapore's economic growth eased to 1.8% year-on-year (y-o-y) in 2Q15 from 2.8% in 1Q15. The slower growth in in the country's gross domestic product was largely due to a contraction of 4.9% y-o-y in the manufacturing sector. On a seasonally adjusted and quarterly basis, Singapore's economy contracted 4.0% in 2Q15. The Ministry of Trade and Industry revised downward its 2015 economic growth forecast to 2.0%–2.5% from 2.0%–4.0% as earlier projected.

Singapore recorded deflation for the ninth consecutive month in July as consumer prices fell 0.4% y-o-y. Five out of 10 items in the consumer price index (CPI) declined in July. Between June and July, the CPI fell 0.4%.

Size and Composition

The LCY bond market of Singapore expanded 1.7% quarter-on-quarter (q-o-q) in 2Q15 to SGD325.4 billion (US$241 billion) at end-June. Compared with quarterly growth, the LCY bond market's annual expansion was more robust at 5.9% **(Table 1)**.

Government Bonds. The stock of LCY government bonds in Singapore rose 2.8% q-o-q in June to SGD197.4 billion, driven mainly by an increase in outstanding SGS bonds and bills. By end-June, SGS bonds and bills had grown 5.3% q-o-q to reach SGD105.3 billion. New issuances of SGS bonds and bills jumped 93.8% q-o-q to SGD9.3 billion in 2Q15 from SGD4.8 billion in the previous quarter, due to the resumption of Treasury bill issuance for the first time since November 2014.

In contrast, the amount of outstanding MAS bills in 2Q15 versus 1Q15 was unchanged at SGD92.1 billion. However, on a y-o-y basis, the stock of MAS bills increased 3.3% in 2Q15 from SGD89.2 billion a year earlier. The issuance of MAS bills declined 3.2% q-o-q from SGD91.5 billion in 1Q15 to SGD88.6 billion in 2Q15. Compared with the previous quarter, the share of MAS bills issued per tenor

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	SGD	US$	SGD	US$	SGD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**307**	**247**	**320**	**233**	**325**	**241**	**2.5**	**2.0**	**1.7**	**5.9**
Government	189	152	192	140	197	147	3.3	1.1	2.8	4.2
SGS Bills and Bonds	100	80	100	73	105	78	(8.0)	(27.3)	5.3	5.1
MAS Bills	89	72	92	67	92	68	19.9	79.8	0.0	3.3
Corporate	118	95	128	93	128	95	1.1	3.6	0.2	8.5

( ) = 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.

hardly varied, with about 73% of MAS bills issued carrying a 4-week maturity and about 20% carrying a 24-week maturity.

Corporate Bonds. Singapore's stock of LCY corporate bonds grew marginally by 0.2% q-o-q to SGD128.0 billion at end-June. The increase in outstanding LCY corporate bonds, however, was more pronounced on a y-o-y basis at 8.5%.

The 31 biggest corporate issuers in 2Q15 comprised 51.3% of total LCY corporate bonds outstanding. The Housing and Development Board led the group of top issuers with bonds outstanding worth SGD20.0 billion. The second and third spots were taken by financial firms United Overseas Bank and Temasek Financial with bonds outstanding of SGD4.1 billion and SGD3.6 billion, respectively. The top 31 corporate bond issuers for the quarter are shown in **Table 2**.

New corporate debt issued in 2Q15 reached SGD5.6 billion. There were 31 new bond series from 30 corporate entities. Seventeen of these corporate issuers were real estate companies. Meanwhile, the seven largest new corporate bond issues in 2Q15 accounted for 53.6% of the total corporate bond issuance during the quarter. The new bonds issued had tenors that ranged from 2 years to 10 years. In 2Q15, the two largest issuances were a 10-year bond worth SGD650 million from real estate firm Capitaland, and a perpetual bond worth SGD600 million from financial firm Sembcorp Financial Services. The largest corporate bonds issued in 2Q15 are shown in **Table 3**.

Three state-owned firms accounted for 18% of total LCY corporate bonds outstanding at end-June: the Housing and Development Board, Land Transport Authority, and Public Utilities Board. The Public Utilities Board had total outstanding bonds worth SGD1.75 billion, while the Land Transport Authority had aggregate bonds worth SGD1.48 billion.

Ratings Update

In April, Standard and Poor (S&P) affirmed Singapore's AAA sovereign credit rating. The outlook on the rating was stable. The country's prudent fiscal management, sound governmental policies, and political stability all contributed to S&P's stance. The ratings agency based its opinion on Singapore's ability to sustain its budget surplus and tackle issues related to its ageing population. S&P was confident that the rating would remain in place over the next 2 years, taking into account the Singapore government's ability to respond in a forward-looking manner, as well as its sufficient reserves.

Policy, Institutional, and Regulatory Developments

MAS Publishes Guidelines for D-SIBS

In April, MAS published guidelines for the identification and supervision of domestically important banks (D-SIBS), which are banks with a major role in Singapore's economy. To earn the D-SIBS distinction, a bank's interconnectedness, size, substitutability, and complexity will be considered. The identification of D-SIBS will utilize

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	20.04	14.9	Yes	No	Real Estate
2.	United Overseas Bank	4.05	3.0	No	Yes	Banking
3.	Temasek Financial I	3.60	2.7	No	No	Financing
4.	DBS Bank	3.30	2.4	No	Yes	Banking
5.	Capitaland	2.97	2.2	No	Yes	Real Estate
6.	SP PowerAssets	2.20	1.6	No	No	Utilities
7.	FCL Treasury	2.13	1.6	No	No	Real Estate
8.	Public Utilities Board	1.75	1.3	Yes	No	Utilities
9.	City Developments	1.74	1.3	No	Yes	Real Estate
10.	Olam International	1.72	1.3	No	Yes	Consumer Goods
11.	Keppel Corp	1.50	1.1	No	Yes	Diversified
12.	Land Transport Authority	1.48	1.1	Yes	No	Transportation
13.	GLL IHT	1.47	1.1	No	No	Financing
14.	Singapore Airlines	1.30	1.0	No	No	Transportation
15.	Hyflux	1.30	1.0	No	Yes	Utilities
16.	Neptune Orient Lines	1.28	0.9	No	Yes	Logistics
17.	Capitaland Treasury	1.15	0.9	No	No	Financing
18.	Singtel Group Treasury	1.15	0.9	No	Yes	Telecommunications
19.	Keppel Land	1.08	0.8	No	Yes	Real Estate
20.	CapitaMalls Asia Treasury	1.00	0.7	No	No	Financing
21.	Overseas Union Enterprise	1.00	0.7	No	Yes	Real Estate
22.	Oversea-Chinese Banking	1.00	0.7	No	Yes	Banking
23.	PSA	0.95	0.7	No	No	Port Operator
24.	Sembcorp Financial Services	0.94	0.7	No	No	Financing
25.	Mapletree Treasury Service	0.90	0.7	No	No	Financing
26.	National University of Singapore	0.81	0.6	No	Yes	Education
27.	DBS Group	0.80	0.6	No	Yes	Banking
28.	CMT MTN	0.80	0.6	No	No	Financing
29.	Sembcorp Industries	0.75	0.6	No	Yes	Shipbuilding
30.	Global Logistic Properties	0.75	0.6	No	Yes	Real Estate
31.	SMRT Capital	0.75	0.6	No	No	Transportation
Total Top 31 LCY Corporate Issuers		**65.63**	**48.7**			
Total LCY Corporate Bonds		**128.0**	**95.0**			
Top 31 as % of Total LCY Corporate Bonds		**51.3%**	**51.3%**			

LCY = local currency.
Notes:
1. Data as of end-June 2015.
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 2Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Capitaland		
10-year bond	2.80	650
Sembcorp Financial Services		
Perpetual bond	4.75	600
FCL Treasury		
7-year bond	3.65	500
National University of Singapore		
5-year bond	2.20	400
China Jingye Construction		
2-year bond	2.95	300
Overseas Union Enterprise		
5-year bond	3.80	300
Ascott Residence		
Perpetual bond	4.68	250

LCY = local currency.
Source: Bloomberg LP.

a methodology based on existing guidelines set by MAS that take into account the principles set by the Basel Committee on Banking Supervision. Banks classified as domestically incorporated D-SIBS will have higher capital ratios, while banks tagged as having an extensive retail presence will be mandated to domestically incorporate their retail business.

Singapore Signs Third Bilateral Swap Agreement with Japan

The third bilateral swap agreement between Japan and Singapore was signed on 21 May by the Bank of Japan and MAS. The agreement aims to enhance bilateral financial cooperation, strengthen trade ties, and contribute to economic growth between the two countries by enabling authorities to exchange their local currencies for US dollars. The facility will allow Japan to swap Japanese yen worth up to US$1 billion while Singapore can exchange Singapore dollars up to US$3 billion.

MAS Launches Singapore Savings Bond

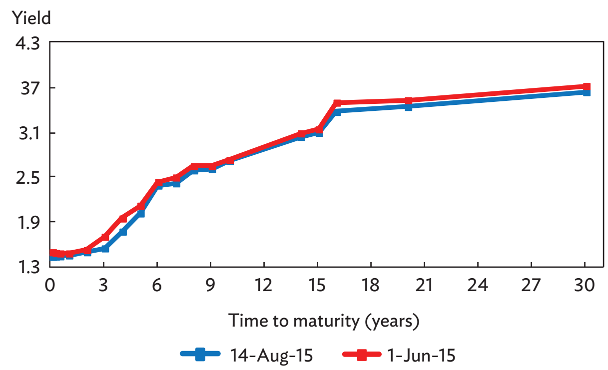
In July, MAS launched the Singapore Savings Bond, a capital-protected government bond that will be made available only to retail investors. The Singapore Savings Bond will pay tax-exempt, semi-annual interest with a step-up feature, at a rate based on the average yield of benchmark Singapore Government Securities the month prior to issuance. The 10-year bond, which will have a denomination of SGD500 and a limit of SGD100,000 for each holder, will first be issued on 1 October. MAS plans to issue a total of SGD2.4 billion of savings bonds this year.

Thailand

Yield Movements

Thailand's local currency (LCY) government bond yields fell for all tenors between 1 June and 14 August—with declines ranging from 1 basis point (bp) for the 10-year tenor to 18 bps for the 4-year tenor—amid expectations of a sluggish economic performance and weak inflationary pressures **(Figure 1)**. In the same period, the yield spread between the 2-year and 10-year tenors widened 1 bp.

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



LCY = local currency.
Source: Bloomberg LP.

The Bank of Thailand's Monetary Policy Committee decided on 5 August to keep the policy interest rate steady at 1.50%. This was the second consecutive time that the committee decided not to change the policy rate. In its 5 August monetary policy decision, the committee underscored the importance of an accommodative monetary policy stance in light of Thailand's gradual economic recovery and its headline inflation remaining negative.

Thailand's real gross domestic product (GDP) growth eased to 2.8% year-on-year (y-o-y) in 2Q15 from 3.0% y-o-y in 1Q15 amid slower growth in private consumption, domestic investment, and nonagricultural production, as well as negative growth in agricultural output, according to data from the Office of the National Economic and Social Development Board. On a seasonally adjusted and quarter-on-quarter (q-o-q) basis, real GDP growth inched up to 0.4% in 2Q15 from 0.3% in 1Q15. Meanwhile, Thailand's Consumer Price Index fell 1.0% y-o-y in July, marking the seventh consecutive month of a y-o-y decrease in overall consumer prices, led by declining energy prices and transport costs.

Size and Composition

LCY bonds outstanding in Thailand rose 3.1% quarter-on-quarter (q-o-q) and 4.6% y-o-y in 2Q15, a relatively faster pace of expansion than 1Q15's growth of 0.6% q-o-q and 1.7% y-o-y, and 2Q14's growth of 0.2% q-o-q and 3.4% y-o-y **(Table 1)**. The expansion of the Thai LCY bond market in 2Q15 was largely driven by increases in the stocks of LCY government bonds and LCY corporate bonds: LCY government bonds outstanding climbed 3.1% q-o-q and 4.2% y-o-y—led by increases in central bank bonds, central

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	THB	US$	THB	US$	THB	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**9,180**	**283**	**9,314**	**286**	**9,606**	**284**	**0.2**	**3.4**	**3.1**	**4.6**
Government	7,008	216	7,079	218	7,299	216	(0.3)	0.02	3.1	4.2
Government Bonds and Treasury Bills	3,425	106	3,578	110	3,602	107	(1.0)	6.0	0.7	5.2
Central Bank Bonds	2,824	87	2,682	82	2,910	86	0.1	(8.9)	8.5	3.0
State-Owned Enterprise and Other Bonds	759	23	819	25	787	23	1.2	12.2	(3.8)	3.7
Corporate	2,173	67	2,235	69	2,307	68	2.1	15.9	3.2	6.2

( ) = 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 end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
Sources: Bank of Thailand and Bloomberg LP.

government bonds, and Treasury bills—while the stock of LCY corporate bonds grew 3.2% q-o-q and 6.2% y-o-y. At end-June, Thai LCY bonds outstanding amounted to THB9.6 trillion (US$284 billion), of which 76% were government bonds and 24% were corporate bonds.

Issuance of Thai LCY government bonds in 2Q15 amounted to THB1.8 trillion, up 11.3% q-o-q and 11.4% y-o-y. Meanwhile, 2Q15 corporate bond issuance totaled THB0.4 trillion, up 64.8% q-o-q but down 13.4% y-o-y.

At end-June, the combined LCY bonds outstanding of the top 30 Thai corporate issuers were valued at THB1,365.4 billion, comprising 59.2% of the overall LCY corporate bond market in Thailand **(Table 2)**. The

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	179.9	5.3	Yes	Yes	Energy and Utilities
2.	CP All	169.5	5.0	No	Yes	Commerce
3.	The Siam Cement	166.5	4.9	Yes	Yes	Construction Materials
4.	Charoen Pokphand Foods	73.1	2.2	No	Yes	Food and Beverage
5.	Thai Airways International	48.6	1.4	Yes	Yes	Transportation and Logistics
6.	Kasikorn Bank	43.5	1.3	No	Yes	Banking
7.	Indorama Ventures	42.6	1.3	No	Yes	Petrochemicals and Chemicals
8.	The Siam Commercial Bank	40.0	1.2	No	Yes	Banking
9.	Toyota Leasing Thailand	37.2	1.1	No	No	Finance and Securities
10.	True Corporation	36.5	1.1	No	Yes	Communications
11.	Bank of Ayudhya	35.8	1.1	No	Yes	Banking
12.	Banpu	35.4	1.0	No	Yes	Energy and Utilities
13.	Thanachart Bank	32.5	1.0	No	No	Banking
14.	PTT Exploration and Production Company	32.1	0.9	Yes	Yes	Energy and Utilities
15.	Phatra Securities	31.7	0.9	No	No	Finance and Securities
16.	Mitr Phol Sugar	31.3	0.9	No	No	Food and Beverage
17.	Thai Oil	28.0	0.8	Yes	Yes	Energy and Utilities
18.	Quality Houses	27.9	0.8	No	Yes	Property and Construction
19.	IRPC	27.6	0.8	Yes	Yes	Energy and Utilities
20.	TMB Bank	25.4	0.8	No	Yes	Banking
21.	ICBC Thai Leasing	24.7	0.7	No	No	Finance and Securities
22.	Krung Thai Card	24.2	0.7	Yes	Yes	Finance and Securities
23.	Krung Thai Bank	23.8	0.7	Yes	Yes	Banking
24.	DAD SPV	22.5	0.7	Yes	No	Finance and Securities
25.	Minor International	22.3	0.7	No	Yes	Food and Beverage
26.	Pruksa Real Estate	22.0	0.7	No	Yes	Property and Construction
27.	Bangkok Dusit Medical Services	20.6	0.6	No	Yes	Health Care Services
28.	PTT Global Chemical	20.3	0.6	No	Yes	Petrochemicals and Chemicals
29.	Bangkok Bank	20.0	0.6	No	Yes	Banking
30.	CH. Karnchang	20.0	0.6	No	Yes	Property and Construction
Total Top 30 LCY Corporate Issuers		**1,365.4**	**40.4**			
Total LCY Corporate Bonds		**2,306.8**	**68.2**			
Top 30 as % of Total LCY Corporate Bonds		**59.2%**	**59.2%**			

LCY = local currency.
Notes:
1. Data as of end-June 2015.
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.

five largest LCY bond issuances in Thailand in 2Q15 were (i) Siam Cement's 3-year and 4-year bonds at THB15 billion each and carrying coupon rates of 3.75% and 3.90%, respectively; (ii) Land & Houses' THB7 billion 3-year bond carrying a 2.81% coupon; (iii) Thanachart Bank's THB7 billion 10.5-year bond with a 4.65% coupon; and (iv) Charoen Pokphand Food's THB6.5 billion 5-year bond with a 3.21% coupon **(Table 3)**.

Table 3: Notable LCY Corporate Bond Issuance in 2Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
Siam Cement		
3-year bond	3.75	15.00
4-year bond	3.90	15.00
Land & Houses		
3-year bond	2.81	7.00
Thanachart Bank		
10.5-year bond	4.65	7.00
Charoen Pokphand Foods		
5-year bond	3.21	6.50

LCY = local currency.
Source: Bloomberg LP.

Investor Profile

Contractual savings funds and insurance companies remained the two largest investor groups in Thailand's LCY government bond market in 2Q15, with their holdings of THB-denominated government bonds at the end of June representing 27.9% and 25.8% of the total, respectively **(Figure 2)**. Compared with a year earlier, the share of commercial banks in LCY government bonds increased the most, gaining 2 percentage points, while the share of individual resident investors incurred the biggest decline at 3 percentage points.

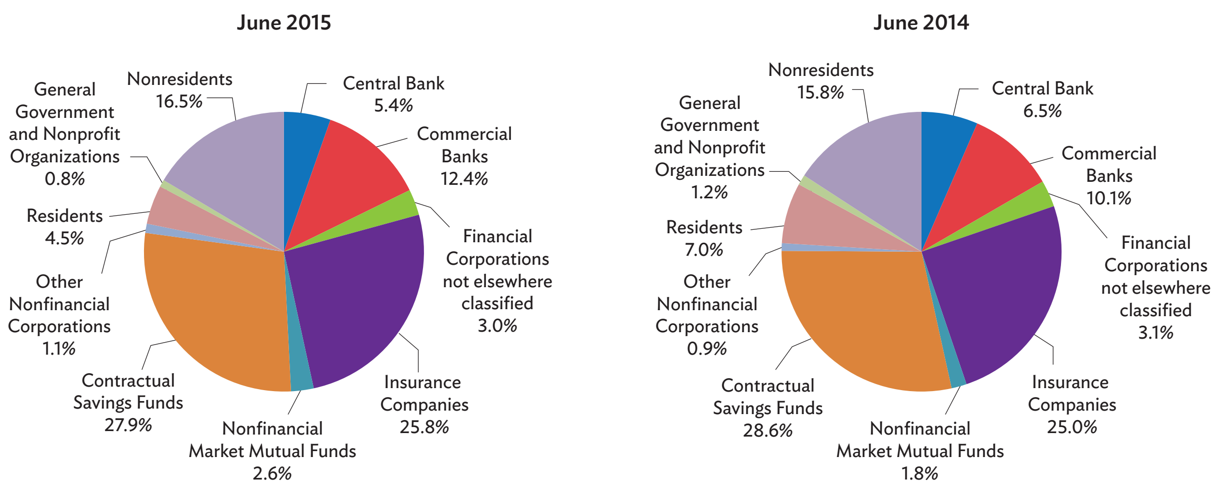
Foreign investors in the Thai LCY bond market recorded net bond sales of THB26.4 billion in 2Q15, a reversal from their net bond purchases of THB7.3 billion in 1Q15. The last 2 months of the second quarter saw foreign investors engaging in net sales of Thai LCY bonds amid external pressures, specifically the looming interest rate hike in the United States and the debt crisis in Greece. However, in July, the market recorded net purchases from foreign investors amounting to THB9.4 billion **(Figure 3)**.

Policy, Institutional, and Regulatory Developments

SEC Eases its Facilitation of Debt Securities Offerings

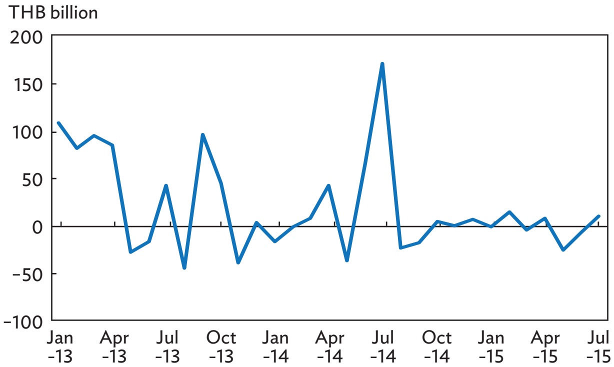
The Securities and Exchange Commission, Thailand (SEC) reported in July that it had eased the process by which it facilitates debt securities offerings via the Capital Market Supervisory Board's approval of revisions to existing regulations. Under the revised rules, which according to the SEC will take effect in 3Q15, an issuer

Figure 2: LCY Government Bonds Investor Profile



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

Figure 3: Foreign Investor Net Trading of LCY Bonds in Thailand



LCY = local currency.
Source: ThaiBMA.

can be given a 2-year program allowing for multiple debt securities offerings within the prescribed period. The SEC stated that this will help promote issuance of corporate bonds.

SEC Revises Regulations on Cross-Border Offerings of Debt Securities and Collective Investment Schemes

The SEC announced in May that the Capital Market Supervisory Board had revised regulations governing cross-border offerings of debt securities and collective investment schemes. One of the revisions will allow nonresident issuers to sell *sukuk* in Thailand. The revised regulations, according to the SEC, will take effect in 3Q15.

Viet Nam

Yield Movements

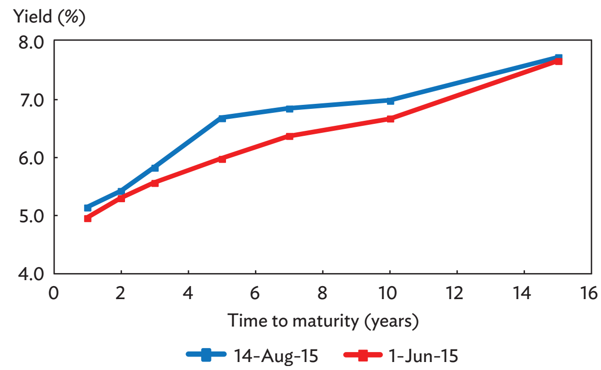
Local currency (LCY) government bond yields in Viet Nam rose for all tenors between 1 June and 14 August, resulting in the entire yield curve shifting upward **(Figure 1)**. Bond yields rose between 12 basis points (bps) and 26 bps from the short-end of the curve through the 3-year maturity. Yields rose the most for the 5-year maturity, gaining 70 bps in mid-August, while gaining the least for the 15-year maturity, which rose 7 bps. The yield spread between the 2-year and 10-year maturities widened to 155 bps on 14 August from 137 bps on 1 June.

The rise in yields across the length of curve was due to the market's reaction to the unexpected devaluation of the Chinese renminbi in August and rising concerns over the possibility of an interest rate hike by the United States (US) Federal Reserve. In response, the State Bank of Viet Nam (SBV) widened the exchange rate trading band for the Vietnamese dong twice in a span of 1 week in mid-August to support export performance and economic growth. (See Policy, Institutional, and Regulatory Developments at the end of this Market Summary for more details.) The State Bank of Viet Nam also devalued the Vietnamese dong for the third time this year on 19 August in an attempt to further shield the economy and calm markets in the light of recent global developments.

Demand for government bonds remained weak during the period under review due to budget concerns, further contributing to the yield pick-up. Banking institutions, which remain the largest holder of government bonds, also took advantage of increasing credit demand and shifted most of their funds in support of lending activities. As most government bond auctions fell short of their target between April and mid-August, the government had to accept higher bids as it needed funds for its budget requirements.

Inflation remained tame in January–July, averaging less than 1.0% year-on-year (y-o-y). Gross domestic product growth rose to 6.4% y-o-y in 2Q15 from 6.1% y-o-y in 1Q15. This brought growth for the first 6 months of the year to 6.3% y-o-y, compared with 5.2% y-o-y over the same 6-month period in 2014. Final consumption grew 8.7% y-o-y and accumulated assets climbed 6.9% y-o-y in January–June.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

Viet Nam's LCY bond market reached a size of VND947.3 trillion at end-June, expanding 3.5% quarter-on-quarter (q-o-q) and 20.2% y-o-y **(Table 1)**. Growth was driven by government bonds, with corporate bonds contracting in 2Q15. Government bonds accounted for a 98.7% share of the total outstanding bond stock and corporate bonds accounted for the remaining 1.3%.

Government Bonds. At end-June, outstanding government bonds climbed to VND934.9 trillion on growth of 3.7% q-o-q and 20.5% y-o-y. Both Treasury bonds and central bank bonds contributed to the growth. On the other hand, the stock of state-owned enterprise bonds contracted during 2Q15, falling 9.8% q-o-q and 8.2% y-o-y.

In 2Q15, total government bond issuance reached VND211.7 trillion, lower on both a q-o-q and y-o-y basis, as the issuance volume for Treasury bonds dropped significantly. Most auctions during the review period fell short of their target due to lack of demand from investors. Beginning in 2015, government bond issuance was limited to maturities of 5 years or more for the purpose of budget financing. This regulation resulted in a number of failed

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	VND	US$	VND	US$	VND	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**788,313**	**37**	**915,061**	**42**	**947,259**	**43**	**5.9**	**36.4**	**3.5**	**20.2**
Government	775,943	36	901,529	42	934,877	43	6.0	38.3	3.7	20.5
Treasury Bonds	412,263	19	529,769	25	542,021	25	10.2	27.2	2.3	31.5
Central Bank Bonds	153,926	7	158,357	7	200,308	9	4.7	253.2	26.5	30.1
State-Owned Enterprise Bonds	209,754	10	213,404	10	192,549	9	(0.6)	8.5	(9.8)	(8.2)
Corporate	12,370	0.6	13,532	0.6	12,382	0.6	(1.2)	(27.5)	(8.5)	0.1

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

auctions as most investors had no interest in longer-dated maturities.

SBV bills accounted for an 86.3% share of the total issuance volume in 2Q15. The remaining 13.7% was accounted for by Treasury bonds and other government bond issues.

Corporate Bonds. The outstanding amount of LCY corporate bonds stood at VND12.4 trillion at end-June, lower on a q-o-q basis but marginally higher on a y-o-y basis. The outstanding stock of corporate bonds has steadily declined since the start of the year due to the absence of new issues in 2015. Most firms have shied away from bond financing and instead chosen to take out loans. However, a number of corporate firms have been issuing debt via private placements to institutional investors.

At end-June, nine corporate firms comprised Viet Nam's entire corporate bond market **(Table 2)**. Leading the list were Asia Commercial Joint Stock Bank and Techcom Bank, with outstanding bond stocks of VND3.0 trillion each. Diversified firm Masan Consumer Holdings was the next largest issuer with an aggregate bond stock of VND2.1 trillion.

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. Asia Commercial Joint Stock Bank	3,000.00	0.14	No	Yes	Finance
2. Techcom Bank	3,000.00	0.14	No	No	Banking
3. Masan Consumer Holdings	2,100.00	0.10	No	No	Diversified Operations
4. HAGL JSC	1,980.00	0.09	No	Yes	Real Estate
5. Ho Chi Minh City Infrastructure	1,081.85	0.05	No	Yes	Infrastructure
6. Ocean Group	980.00	0.04	No	Yes	Consulting Services
7. Tan Tao Investment	130.00	0.01	No	No	Real Estate
8. Ho Chi Minh City Securities	110.00	0.01	No	No	Finance
Total LCY Corporate Issuers	**12,381.8**	**0.57**			

LCY = local currency.
Notes:
1. Data as of end-June 2015.
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.

Policy, Institutional, and Regulatory Developments

SBV Widens Exchange Rate Trading Band

On 12 August, the SBV widened the exchange rate trading band for the Vietnamese dong to ±2% from ±1%. The decision to adjust the exchange rate trading band was made to minimize the effect of the unexpected devaluation of the Chinese renminbi on 11 August. On 19 August, the SBV further widened the exchange rate trading band to ±3%. As a result, the new VND–US$ exchange ceiling rate was set at VND22,547 per dollar and the floor exchange rate at VND21,333 per dollar.

SBV Devalues the Vietnamese Dong for the Third Time in 2015

On 19 August, the SBV weakened the Vietnamese dong by 1% to a reference rate of VND21,890 per dollar. This marked the third time since the beginning of the year that the reference rate has been adjusted. The move was made to mitigate the effects of the Chinese renminbi's depreciation, as well as in response to concerns over a possible rate hike by the US Federal Reserve.

Asia Bond Monitor
September 2015

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

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to the majority of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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