



SUSTAINABLE BOND MARKET DEVELOPMENTS IN EMERGING EAST ASIA

Bond Market Development in ASEAN+3: Asia Bond Monitor November 2021

Donghyun Park




Economic Research and Regional Cooperation Department
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Key Messages

- Between 31 August and 5 November, financial conditions in emerging East Asian markets weakened.
- LCY bonds outstanding in emerging East Asia reached USD21.7 trillion at the end of September, with ASEAN markets maintaining rapid growth during the third quarter.
- ASEAN LCY bond markets have sound market capacity, with solid maturity and investor profiles.
- Sustainable bond markets in ASEAN+3 reached an aggregate size of USD388.7 billion at end of September, accounting for 19.2% of the global total.
- Risks to regional financial conditions are tilted to the downside.

Regional financial conditions weakened on the back of inflationary pressures and unwinding of the Federal Reserve's asset purchase program

	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	19	14	–	3.9	–
United Kingdom	19	13	0.2	2.6	(1.9)
Japan	2	4	1	4.5	(3.0)
Emerging East Asia					
China, People's Rep. of	(2)	4	17	(1.5)	1.0
Hong Kong, China	13	39	–	(3.9)	(0.07)
Indonesia	4	(0.3)	13	7.0	(0.4)
Korea, Rep. of	52 	44 	1	(7.2) 	(2.2)
Malaysia	33	37	12	(4.3)	(0.1)
Philippines	46	86	16	7.1	(1.2)
Singapore	46	36	–	6.1	(0.4)
Thailand	22	35	3	(0.8)	(3.1)
Viet Nam	1	4	8	9.4	0.4



bps = basis points.

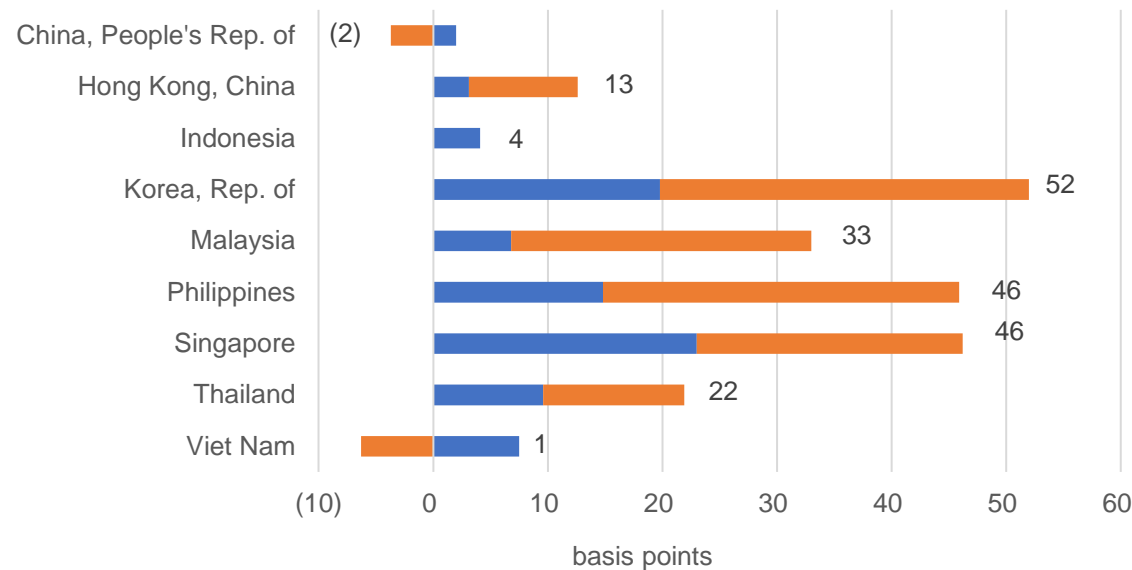
Note: Data reflect changes between 31 August and 5 November 2021.

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



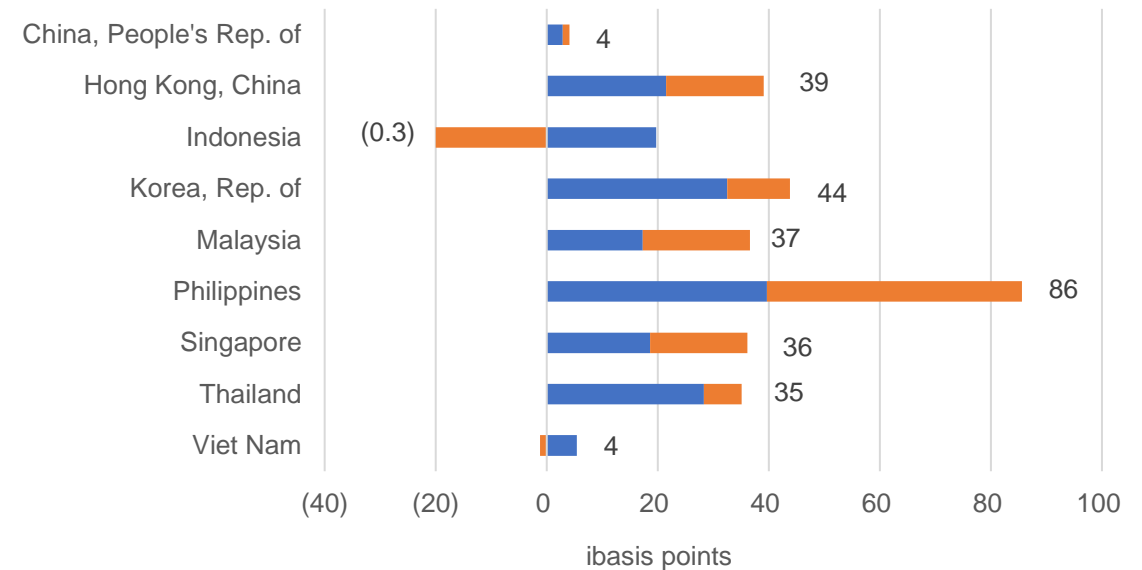
Bond yields rose in nearly all emerging East Asian markets, tracking higher US bond yields and reflecting inflationary concerns in some regional markets

Changes in 2-Year LCY Government Bond Yields



■ 31 Aug 2021 to 30 Sep 2021 ■ 30 Sep 2021 to 5 Nov 2021

Changes in 10-Year LCY Government Bond Yields



■ 31 Aug 2021 to 30 Sep 2021 ■ 30 Sep 2021 to 5 Nov 2021

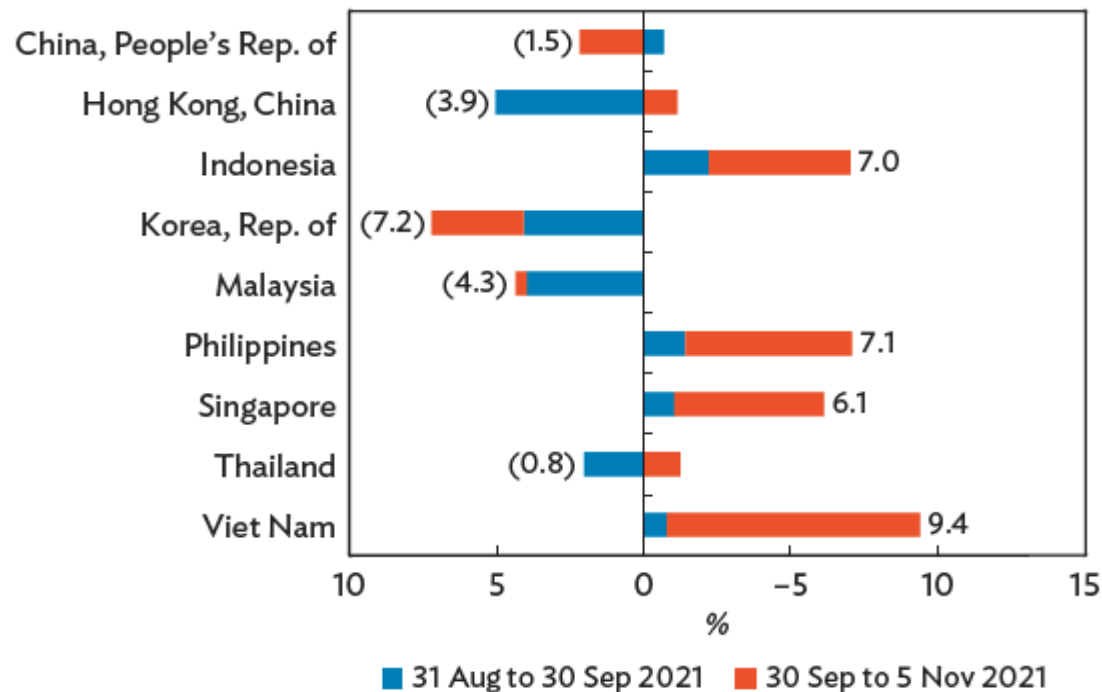
LCY = local currency.

Note: Data reflect changes between 31 August and 5 November 2021.

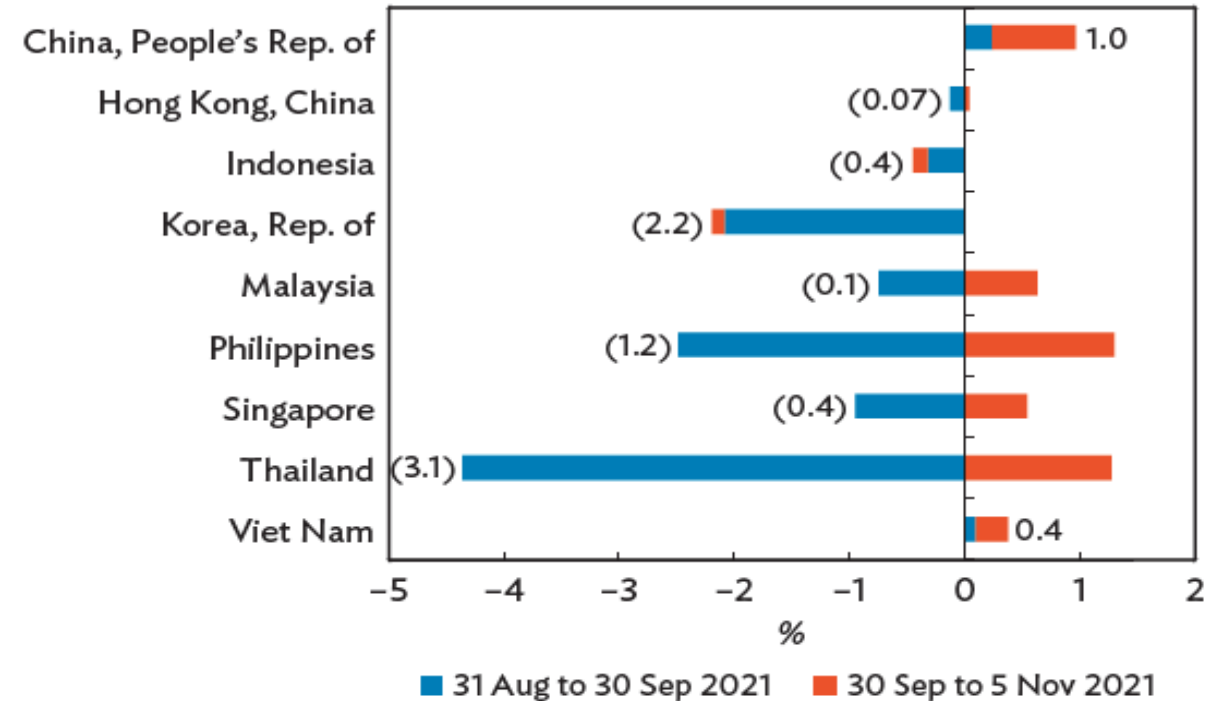
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Equity markets were mixed and regional currencies mostly weakened in September when the Federal Reserve first signaled tapering

Changes in Equity Indexes in Emerging East Asia



Changes in FX Rates (against the USD)



FX = foreign exchange, USD = US dollar.

Note: Data reflect changes from 31 August to 30 September and 30 September to 5 November 2021.

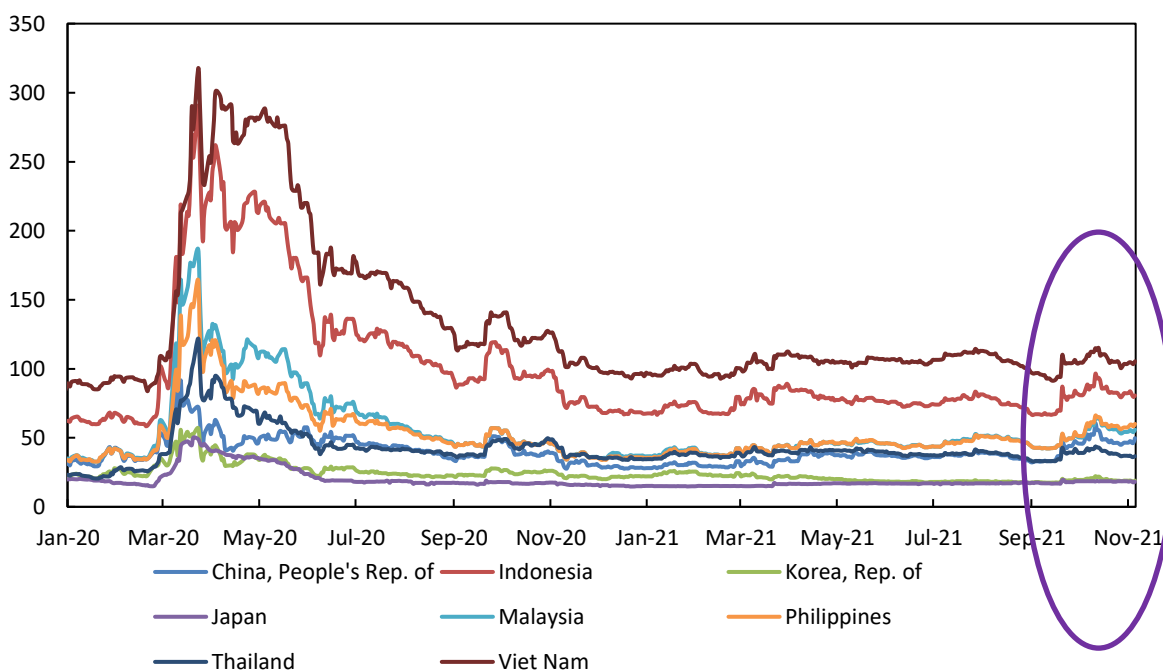
Source: ADB. *Asia Bond Monitor November 2021*. Manila.



Risk premiums edged up and ASEAN bond markets witnessed capital outflows in September

Credit Default Swap Spreads

Midsread in basis points

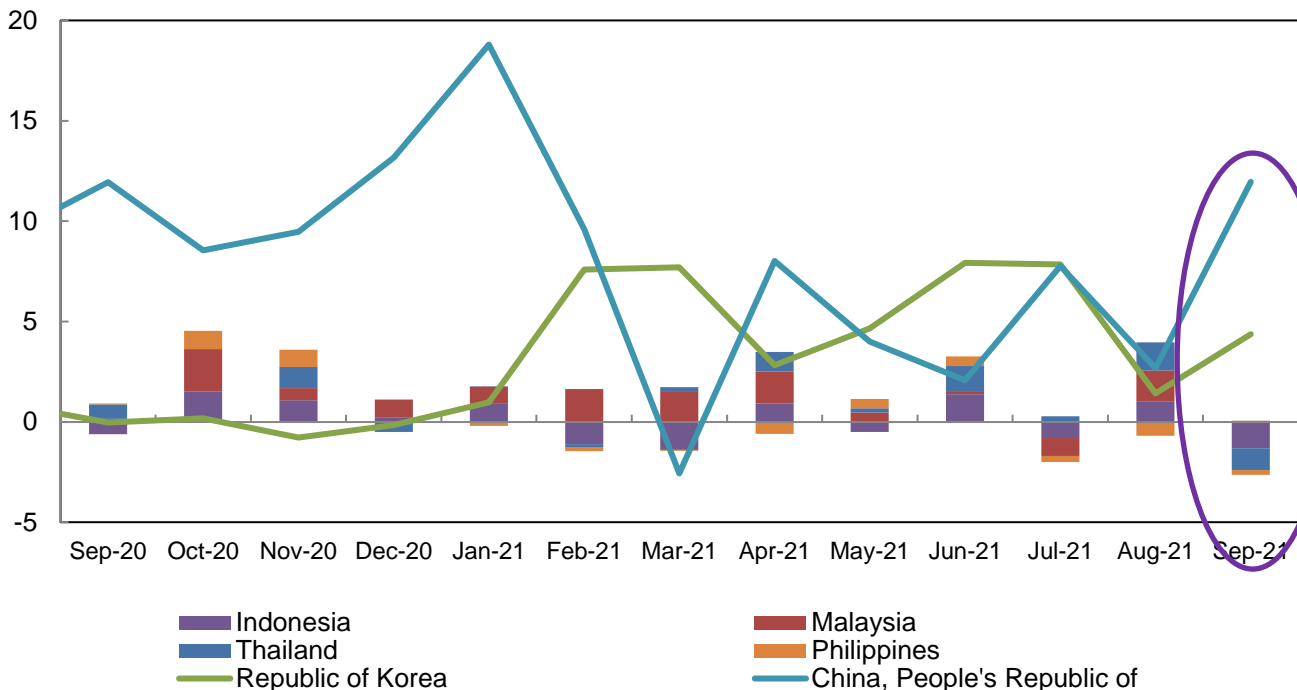


Note: Data coverage is from 1 January 2020 to 5 November 2021.

Source: ADB. *Asia Bond Monitor November 2021*. Manila.

Foreign Capital Flows in Local Currency Bond Markets in Emerging East Asia

USD billion



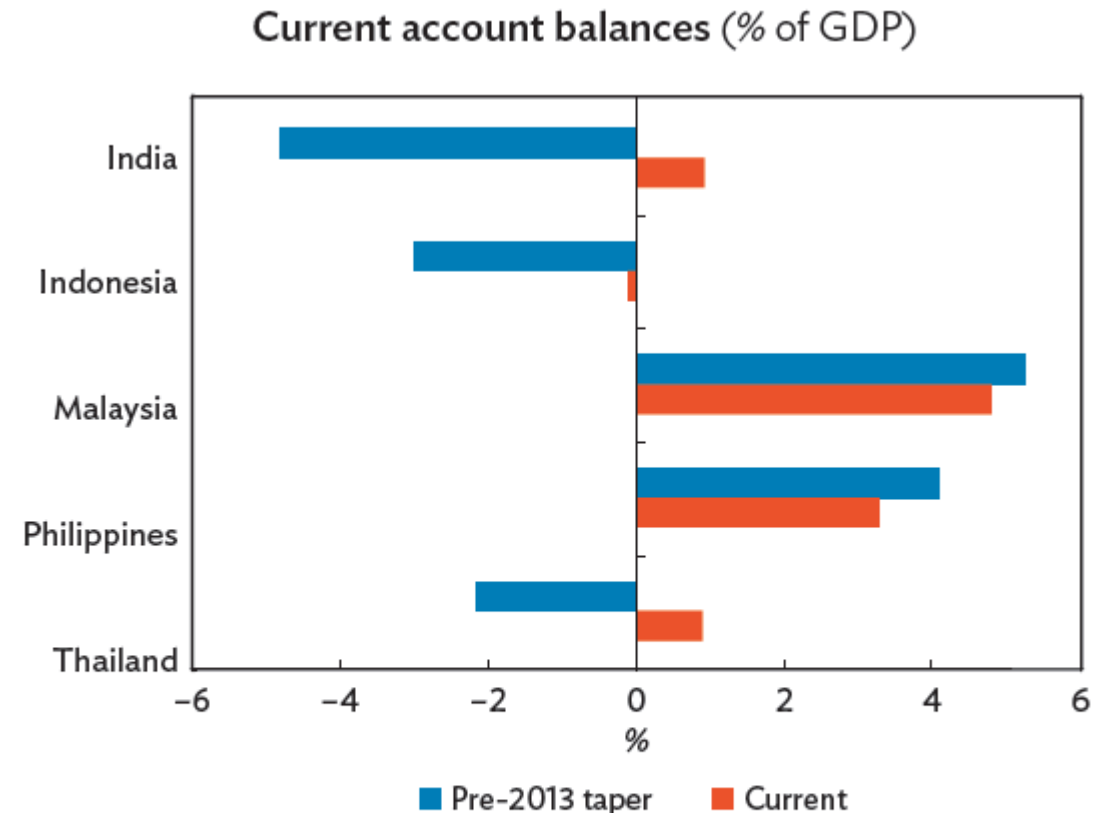
USD = United States.

Note: Data coverage is from September 2020 to September 2021.

Source: ADB. *Asia Bond Monitor November 2021*. Manila.

Limited signs of another taper tantrum so far

- The Federal Reserve will start tapering its asset purchase program in November.
- Compared to the Taper Tantrum of May-June 2013,
 - ✓ the Federal Reserve is now more transparent in signaling its expected monetary policy path, and
 - ✓ emerging Asian markets have stronger economic fundamentals.



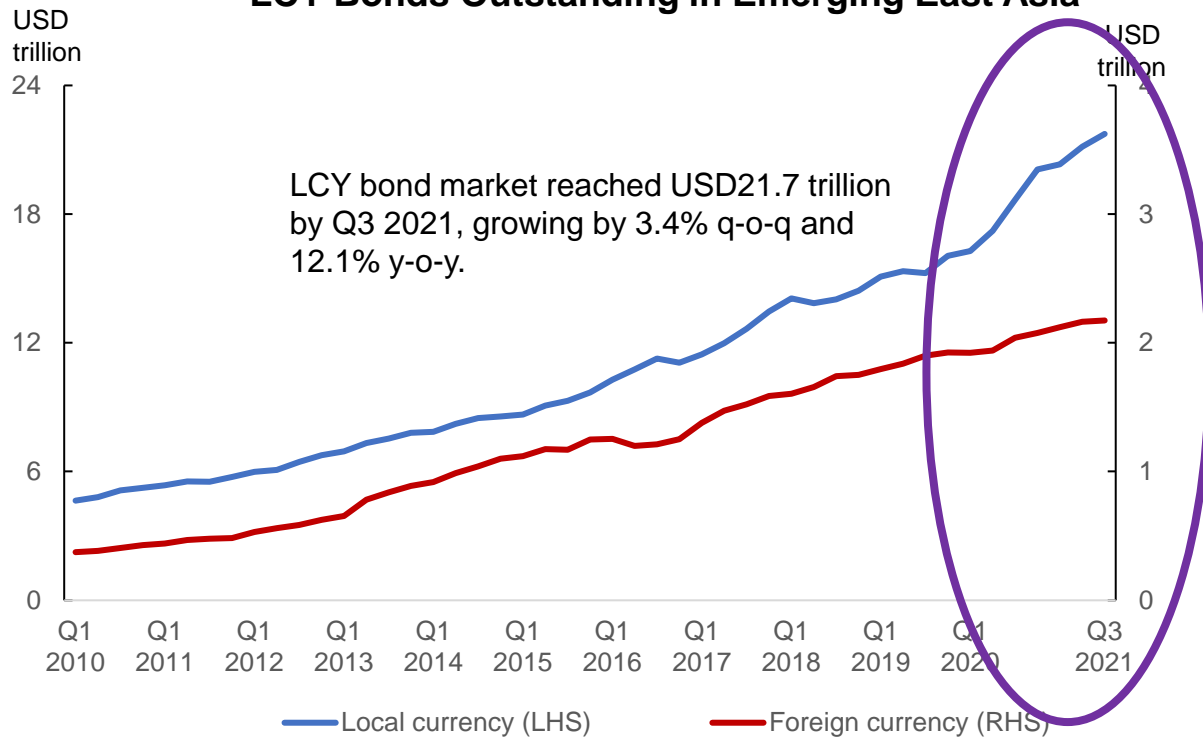
GDP = gross domestic product.

Notes: "Pre-2013 taper" refers to the current account-to-GDP ratio in the first quarter of 2013. "Current" refers to the second quarter of 2021.

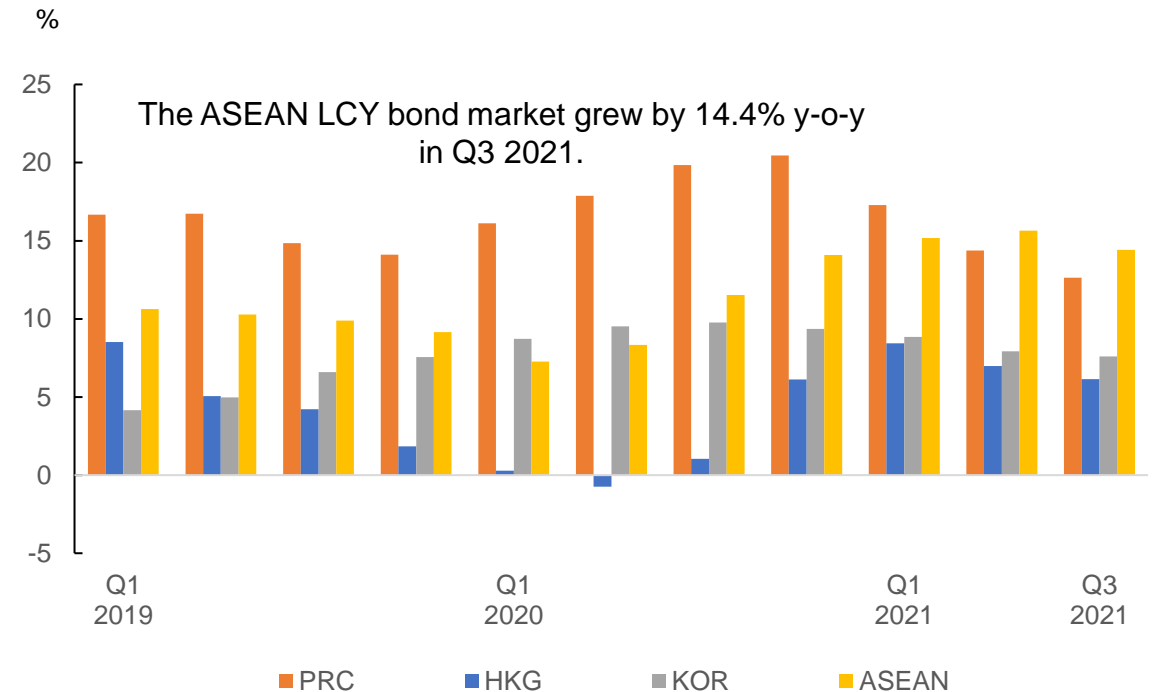
Source: Bloomberg, LP.

ASEAN bond markets expanded rapidly in the third quarter, while the People's Rep. of China and the Rep. of Korea saw growth moderation

LCY Bonds Outstanding in Emerging East Asia



Growth of Emerging East Asian Bond Markets, y-o-y



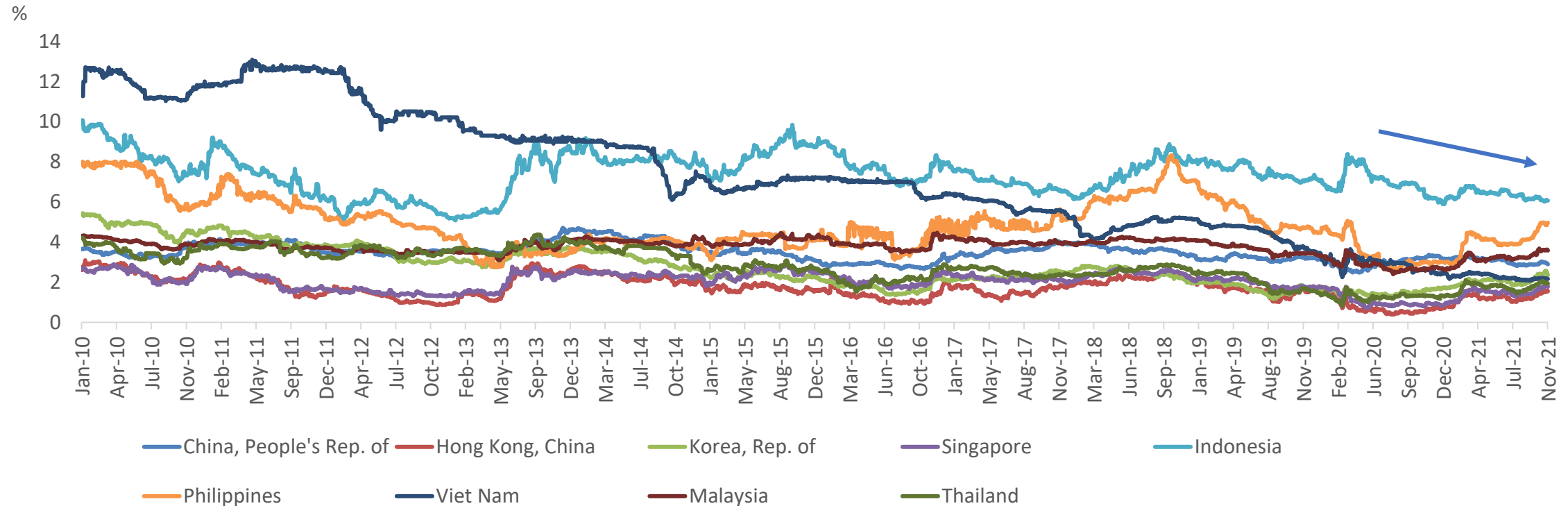
LCY = local currency, LHS = left-hand side, Q = quarter, RHS = right-hand side, USD = United States dollar, y-o-y = year-on-year.

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

Source: *AsianBondsOnline*.

Regional bond markets have sound market capacity, as evidenced by low bond yields amid rapid expansion

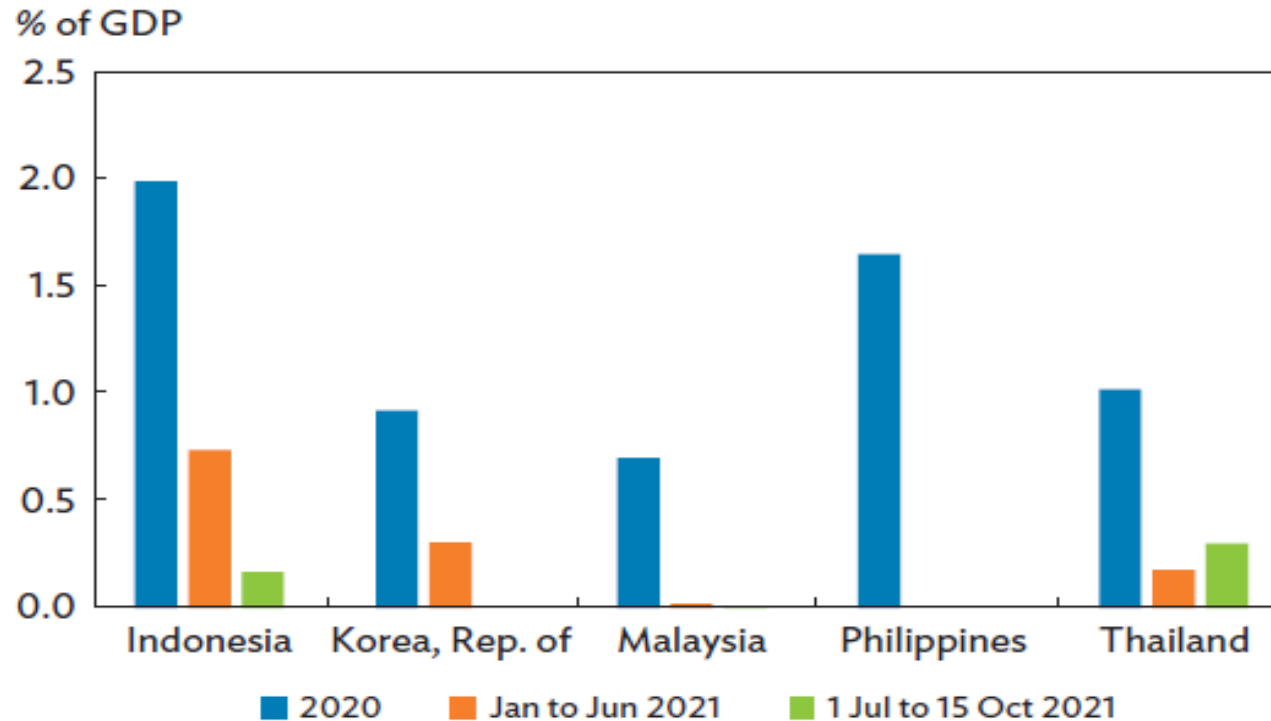
10-Year Government Bond Yields in Emerging East Asia



Note: Data coverage is from 1 January 2010 to 5 November 2021.
Source: Based on Bloomberg LP data.

Some central banks in the region implemented asset purchase programs to support market functioning and government financing

Central Bank Local Currency Bond Purchases in Emerging East Asia



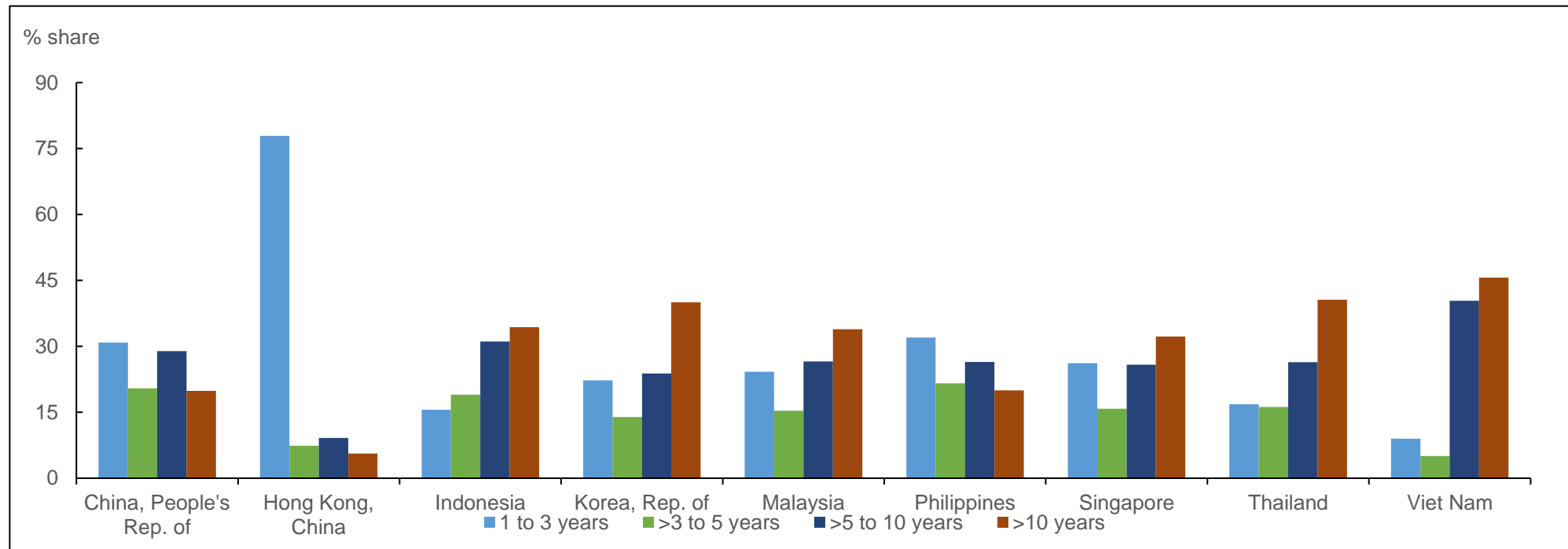
Notes:

1. Central bank purchases as a share of 2021 gross domestic product (GDP) are based on June 2021 GDP.
2. For Indonesia, data cover the period 1 January to 15 June 2021 and 16 June to 15 October 2021.
3. For the Republic of Korea, there were no additional purchases for the period 1 July to 15 October 2021.
4. For the Philippines, data for 2021 are not available.
5. For Thailand, data cover the period 1 January to 30 June and 1 July to 18 October 2021.

Source: ADB, *Asia Bond Monitor November 2021*. Manila.

Mid-term and long-term LCY bonds account for a majority of emerging East Asia's LCY bond market stock, especially in ASEAN

Maturity Profiles of Local Currency Government Bond Markets in Emerging East Asia



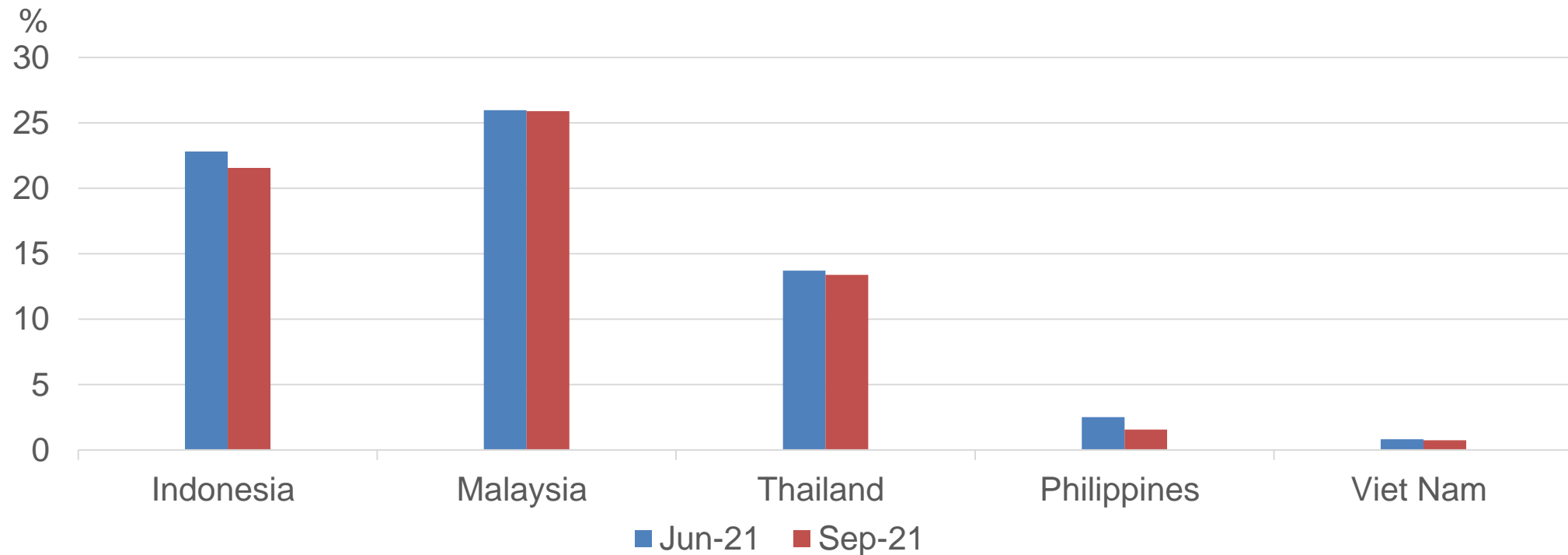
Notes:

1. Government bonds include Treasury bills and bonds.
2. Data as of 30 September 2021.

Source: ADB. *Asia Bond Monitor November 2021*. Manila.

Shares of foreign holdings declined in ASEAN markets in the third quarter

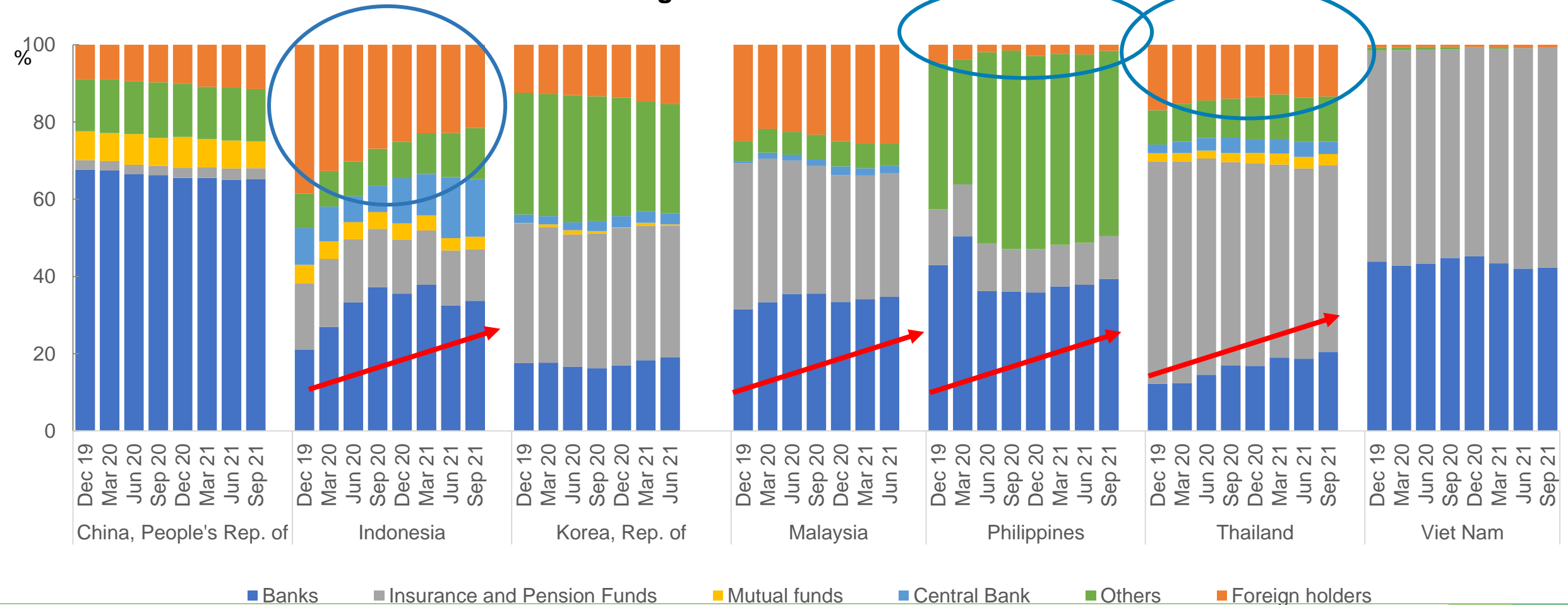
Shares of Foreign Holdings in ASEAN Local Currency Government Bond Markets



Source: AsianBondsOnline.

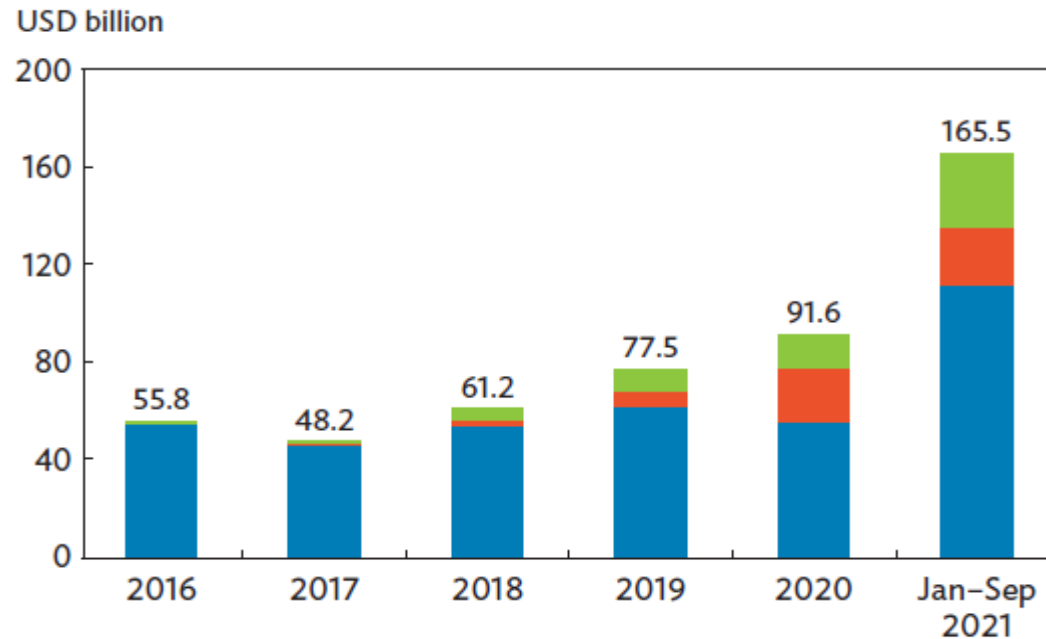
Domestic financial institutions, particularly banks, anchor regional bond markets

Changes in Domestic Investor Profile

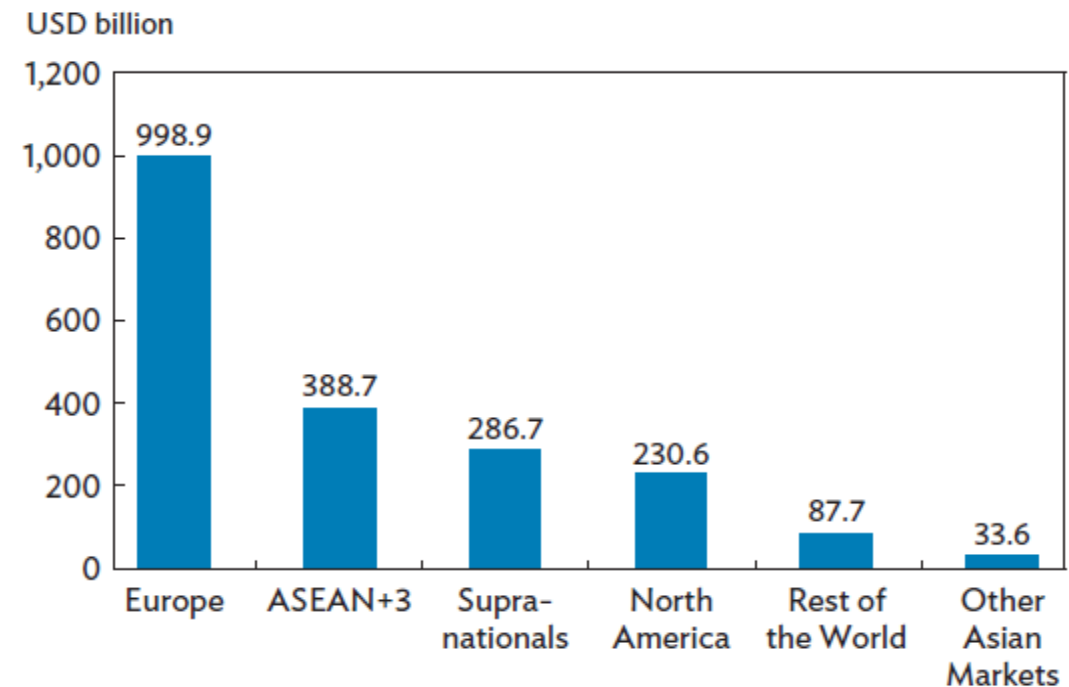


Sustainable bonds outstanding in ASEAN+3 markets reached USD388.7 billion at the end of September

Issuance Volume of Green, Social, and Sustainability Bonds in ASEAN+3



Outstanding Amount of Sustainable Bonds by Global Region at the End of September 2021



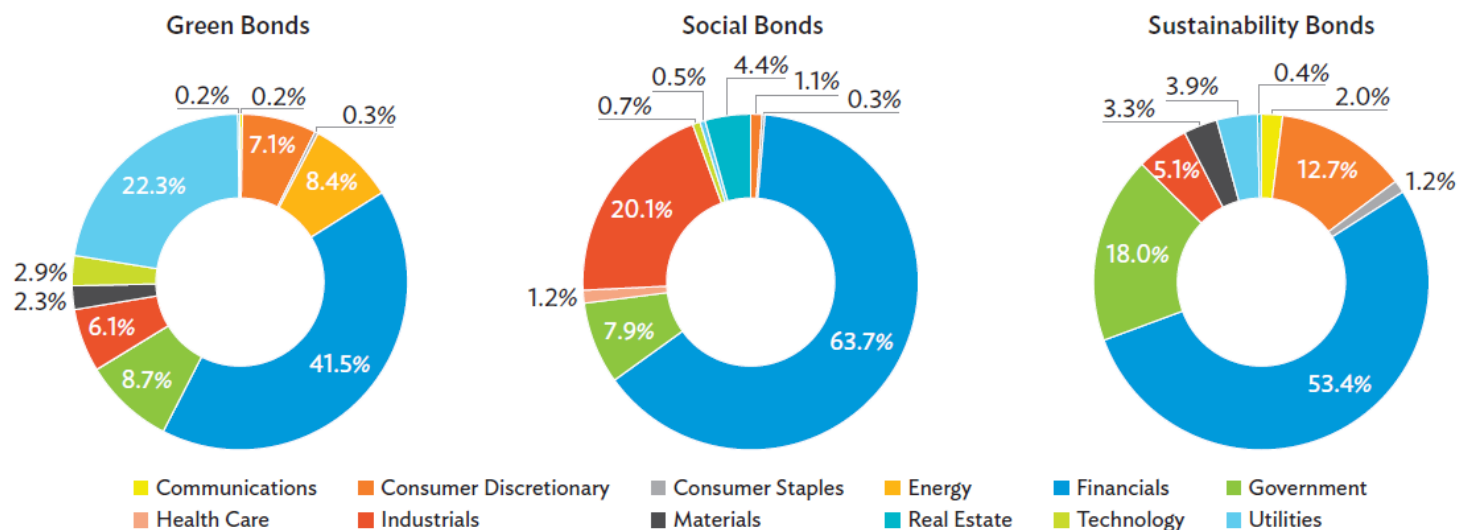
Notes:

1. ASEAN includes the markets of Indonesia, Malaysia, the Philippines, Singapore, and Thailand.
2. ASEAN+3 includes ASEAN members plus the People's Republic of China; Hong Kong, China; Japan; and the Republic of Korea.

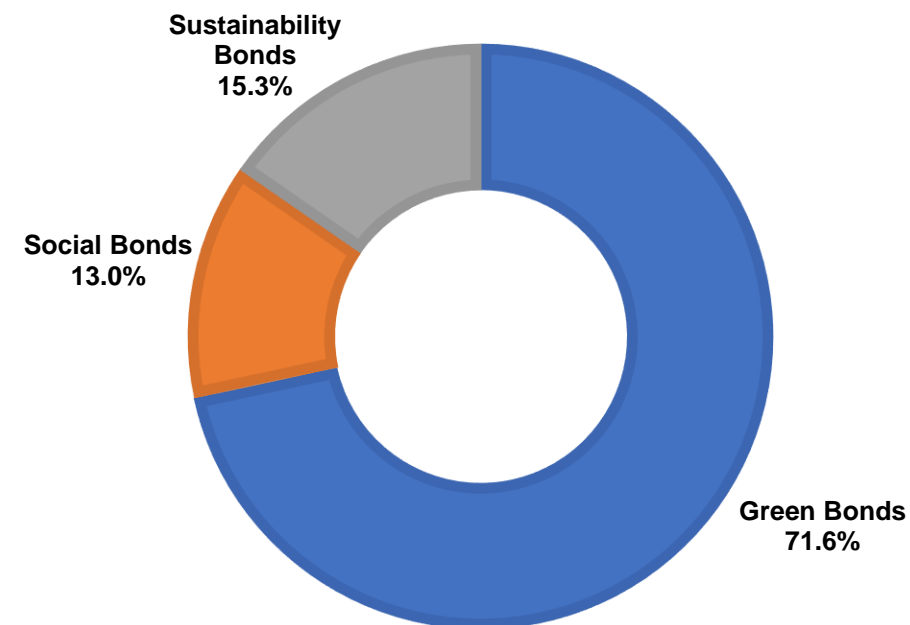
Source: ADB. *Asia Bond Monitor November 2021*. Manila.

Green bonds and financial sector issuers dominate ASEAN+3 sustainable bond market

Outstanding Green, Social, and Sustainability Bonds in ASEAN+3 by Sector of Issuer (share of total)



Sustainable Bonds Outstanding in ASEAN+3 by Type of Bond (share of total)



Notes:

1. ASEAN include the markets of Indonesia, Malaysia, the Philippines, Singapore, and Thailand.
2. ASEAN+3 includes ASEAN members plus the People's Republic of China; Hong Kong, China; the Republic of Korea, and Japan.
3. Data as of the end of September 2021.

Source: ADB. *Asia Bond Monitor November 2021*. Manila.



Risk outlook for regional financial conditions

- Economic uncertainty related to the pandemic remains the largest downside risk:
 - ✓ Possible resurgence of COVID-19 cases, new variants, and slower-than-expected vaccine rollouts in some markets will influence the pace of recovery and affect business sentiment.
- Monetary policy divergence with the US may result in capital outflows. Persistent inflation may induce central banks to tighten their monetary stance, resulting in tighter financial conditions.

