

5 September 2016

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Key Developments in Asian Local Currency Markets

Consumer price inflation eased in Indonesia to 2.8% year-on-year (y-o-y) in August from 3.2% y-o-y in July as food and transportation costs normalized following the conclusion of Eid celebrations. In the Republic of Korea, consumer price inflation weakened in August to 0.4% y-o-y from 0.7% y-o-y in July. After exiting from deflation in April, consumer price inflation in Thailand rose to 0.3% y-o-y in August from 0.1% y-o-y in July. Prices of food and nonalcoholic beverages, which account for 33.5% of the index, rose 1.9% y-o-y in August after increasing 1.8% y-o-y in July.

➤ The Republic of Korea's real gross domestic product growth for the second quarter (Q2) of 2016 was revised upward by the Bank of Korea last week to 0.8% quarter-on-quarter and 3.3% y-o-y.

➤ The People's Republic of China's Purchasing Managers Index (PMI) for manufacturing rose to 50.4 in August from 49.9 in July. Singapore's PMI posted a slower rate of contraction at 49.8 in August from a reading of 49.3 in July. New orders and new exports, higher factory output and employment all contributed to the improvement.

➤ Japan's industrial production in July was unchanged on a month-on-month (m-o-m) basis, after rising 2.3% m-o-m in June. Industrial production in the Republic of Korea improved in July as y-o-y growth accelerated to 1.6% from 0.8% in June, led by manufacturing output.

➤ The Republic of Korea's merchandise exports climbed 2.6% y-o-y in August, while merchandise imports inched up 0.1% y-o-y. The current account surplus of the Republic of Korea narrowed to USD8.7 billion in July from USD12.1 billion in June as a result of reductions in the merchandise trade surplus and primary income surplus, and increases in the services account and secondary income account deficits. Thailand's exports in July amounted to USD17.3 billion, contracting 4.5% y-o-y after growing 1.9% y-o-y in June. Imports totaled USD14.1 billion, shedding 8.6% y-o-y in July following a decline of 9.3% y-o-y in June. Thailand's current account surplus rose to USD3.7 billion in July from USD3.0 billion in June. While the trade surplus narrowed in June, the net services, primary income, and secondary income account contributed to growth in the current account surplus.

➤ The Republic of Korea's external debt position increased by USD2.5 billion in Q2

Asia Bond Monitor June 2016

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10-Year Selected LCY Government Security Yields Close of 2 September 2016 basis point change from

Markets	Latest Closing	Previous Day*	Previous Week*	1-Jan-16*
US	1.60	3.43	-2.72	-66.70
EU	-0.04	2.30	2.90	-67.20
Japan	-0.03	1.50	3.70	-29.80
PRC	2.79	-1.20	4.30	-7.30
Hong Kong, China	0.93	0.00	-0.10	-65.20
India	7.12	-0.30	-1.10	-61.20
Indonesia	6.95	-11.10	-11.40	-180.50
Korea, Rep. of	1.52	-0.30	10.70	-56.30
Malaysia	3.58	-1.00	2.50	-60.60
Philippines	3.45	2.15	4.25	-65.24
Singapore	1.76	-1.88	-1.28	-83.82
Thailand	2.26	0.60	11.50	-24.40
Viet Nam	7.00	0.00	0.30	-17.20

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 - Benchmark Yield Curves - Local Currency Government Bonds
 - 2-versus-10 Yield Spread Chart
 - Policy Rate versus Inflation Rate Charts
 - Credit Default Swap Spreads & Exchange Rate Indexes
 - Selected Debt Security Issuances
 - Selected Asia Data Releases

2016 and amounted to USD391.8 billion at the end of June. The quarterly increase in the country's external debt was mainly triggered by a rise in short-term external debt, outweighing the decline in long-term external debt.

➤ The fiscal deficit of the Government of the Philippines expanded about 57% y-o-y to PHP50.7 billion in July as a result of lower government revenues and higher government expenditures.

➤ LCY government bond yields last week rose for all tenors in the PRC, the Republic of Korea, and Thailand; and for most tenors in Hong Kong, China; Malaysia; and Viet Nam. Yields fell for most tenors in Indonesia and Singapore. Meanwhile, yield movements were mixed in the Philippines. Yield spreads between the 2-year and 10-year maturities narrowed for all markets except in Indonesia, Malaysia, Thailand, and Viet Nam.

Summary Text of News Articles

Consumer Price Inflation Eases in Indonesia and the Republic of Korea, Rises in Thailand in August

Consumer price inflation eased in Indonesia to 2.8% year-on-year (y-o-y) in August from 3.2% y-o-y in July as food and transportation costs normalized after the conclusion of Eid celebrations. On a month-on-month (m-o-m) basis, Indonesia reported deflation of 0.02% in August. Bank Indonesia estimates inflation will fall within its target range of 3.0%–5.0% in 2016.

Consumer price inflation weakened in the Republic of Korea in August to 0.4% y-o-y from 0.7% y-o-y in July, according to the latest Consumer Price Index (CPI) report of Statistics Korea. By CPI expenditure category, the slower y-o-y hike in August was triggered by a y-o-y decrease in prices for housing, water, electricity, gas and other fuels, as well as slower y-o-y price hikes in education, restaurant and hotels, and miscellaneous goods and services. On a m-o-m basis, the CPI fell 0.1% in August after inching up 0.1% in July.

After exiting from deflation in April, Thailand's inflation rose to 0.3% y-o-y in August from 0.1% y-o-y in July. Prices of food and nonalcoholic beverages, which account for 33.5% of the index, rose 1.9% y-o-y in August after increasing 1.8% y-o-y in July, while prices of nonfood items and beverages, which account for 66.5% of the index, fell 0.6% y-o-y in August after declining 0.8% y-o-y in July. On a m-o-m basis, the CPI dipped 0.04% in August after decreasing 0.35% in July.

For historical trends in Indonesia's inflation rate, refer to this link:

https://asianbondsonline.adb.org/indonesia/data/marketwatch.php?code=policy_rate_and_inflation_trends

For historical trends in the Republic of Korea's inflation rate, refer to this link:

https://asianbondsonline.adb.org/korea/data/marketwatch.php?code=policy_rate_and_inflation_trends

For historical trends in Thailand's inflation rate, refer to this link:

https://asianbondsonline.adb.org/thailand/data/marketwatch.php?code=policy_rate_and_inflation_trends

The Republic of Korea's Q2 2016 Real Economic Growth Revised Upward

The Republic of Korea's real gross domestic product growth for the second quarter (Q2) of 2016 was revised upward by the Bank of Korea last week to 0.8% quarter-on-quarter and 3.3% y-o-y from advance estimates of 0.7% quarter-on-quarter and 3.2% y-o-y released on 26 July.

The PRC's Manufacturing PMI Rises in August

The People's Republic of China's (PRC) Purchasing Managers Index (PMI) for manufacturing rose to 50.4 in August from 49.9 in July. The production subindex rose to 52.6 from 52.1, while the orders subindex rose to 51.3 from 50.4. The new export orders subindex also rose—from 49.0 to 49.7—but export activity remained weak as the subindex fell below the 50 demarcation indicating an expansion.

Industrial Production Unchanged in Japan, Improves in the Republic of Korea in July

Japan's industrial production in July was unchanged on a month-on-month (m-o-m) basis, after rising 2.3% m-o-m in June. The shipments index increased 0.9% m-o-m. Meanwhile, the inventories index fell 2.4% m-o-m. On a y-o-y basis, industrial production declined 3.8% in July.

Industrial production in the Republic of Korea improved in July as y-o-y growth accelerated to 1.6% y-o-y from 0.8% y-o-y in June according to Statistics Korea, led by manufacturing output growth, which quickened to 1.7% y-o-y in July from 1.0% y-o-y in June. On a m-o-m basis, industrial production grew 1.4% in July, a reversal from a 0.4% contraction in June.

Summary Text of News Articles

**The Republic of Korea's Merchandise Exports and Imports Rebound in August,
Current Account Surplus Narrows in July;
Thailand's Exports and Imports Contract in July, Current Account Surplus Widens in July**

The Republic of Korea's merchandise exports climbed 2.6% y-o-y in August, the first y-o-y increase following 19 consecutive months of negative growth. Merchandise imports inched up 0.1% y-o-y in August after posting y-o-y decreases for 22 consecutive months.

The current account surplus of the Republic of Korea narrowed to USD8.7 billion in July from USD12.1 billion in June as a result of reductions in the merchandise trade surplus and primary income surplus and increases in the services account and secondary income account deficits, according to the latest balance of payments data of the Bank of Korea. Between June and July, the merchandise trade surplus fell from USD12.7 billion to USD10.8 billion, the services account deficit climbed from USD1.4 billion to USD1.5 billion, the primary income surplus dropped from USD1.3 billion to USD49 million, and the secondary income deficit inched up from USD0.5 billion to USD0.6 billion.

Thailand's exports in July amounted to USD17.3 billion, a contraction of 4.5% y-o-y after growth of 1.9% y-o-y in June. Imports totaled USD14.1 billion, shedding 8.6% y-o-y in July following a decline of 9.3% y-o-y in June. Manufacturing and agricultural exports led the contraction in exports, while imports of intermediate goods and raw materials declined on weak domestic demand. According to the Bank of Thailand, subdued exports were mainly due to a slow economic recovery among Thailand's major trading partners.

Thailand's current account surplus rose to USD3.7 billion in July from USD3.0 billion in June. While the trade surplus dropped to USD3.2 billion in July from USD3.8 billion in June, the net services, primary income, and secondary income account registered a surplus of USD0.5 billion in July following a deficit of USD0.8 billion in June. The robust tourism sector continues to contribute to Thailand's current account surplus.

The Republic of Korea's External Debt Rises in Q2 2016

The Republic of Korea's external debt position increased by USD2.5 billion in Q2 2016 and amounted to USD391.8 billion at the end of June, according to the Bank of Korea. The quarterly increase in the country's external debt was mainly triggered by a USD2.7 billion hike in short-term external debt, which reached USD106.8 billion at the end of June, outweighing the USD0.2 billion drop in long-term external debt, which was valued at USD285.0 billion.

The Philippines' Fiscal Deficit Expands in July

The fiscal deficit of the Government of the Philippines expanded 57% y-o-y to PHP50.7 billion in July as a result of lower government revenues and higher government expenditures, according to the Bureau of the Treasury. Government revenues fell 5% y-o-y to PHP170.3 billion in July; while tax revenues increased 1% y-o-y, nontax revenues declined 31% y-o-y. Meanwhile, government expenditures rose 5% y-o-y to PHP220.9 billion in July.

Selected Government Security Yields

Tip: Zoom-in on the table using the Acrobat zoom tool

3-Month Selected LCY Government Security Yields

Markets	Latest Closing	basis point change from		
		Previous Day*	Previous Week*	1-Jan-16*
US	0.32	-0.51	0.51	15.69
EU	-0.58	-0.20	1.30	-13.10
Japan	-0.25	0.00	-0.50	-20.90
PRC	2.63	0.00	0.00	45.00
Hong Kong, China	0.10	0.00	0.00	3.00
India	8.31	0.00	0.00	0.00
Korea, Rep. of	1.26	-0.50	2.50	-29.20
Malaysia	2.71	5.00	6.50	-15.60
Philippines	1.25	-24.28	-21.95	-141.66
Singapore	0.64	0.00	-1.30	-25.30
Thailand	1.35	0.00	0.00	-14.85

Close of 2 September 2016

10-Year Selected LCY Government Bond Yields

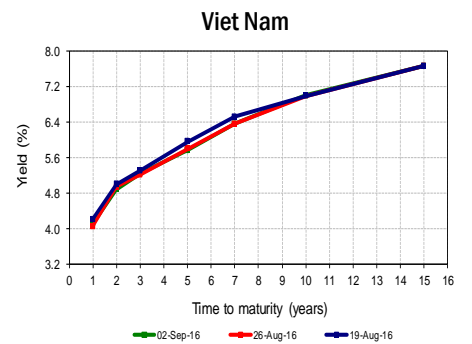
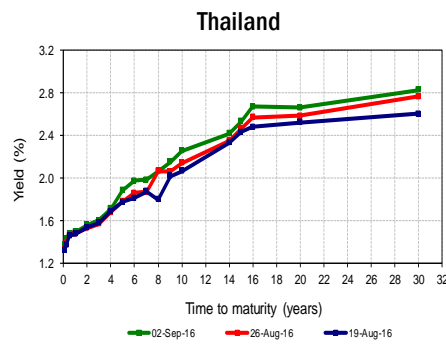
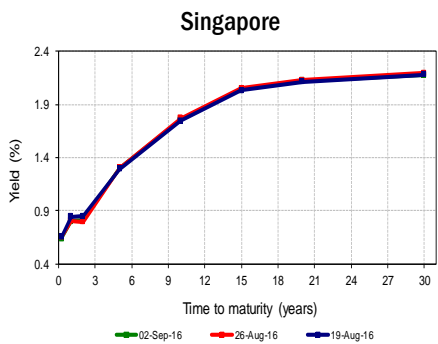
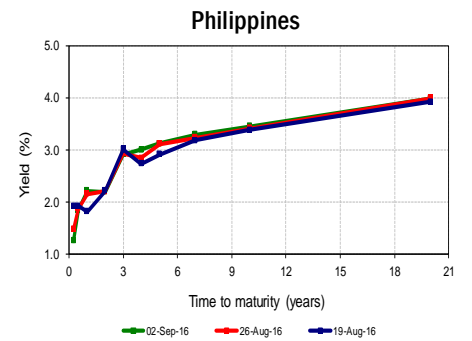
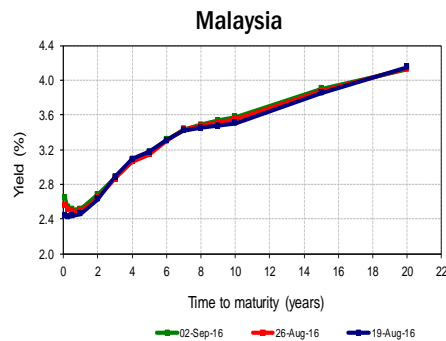
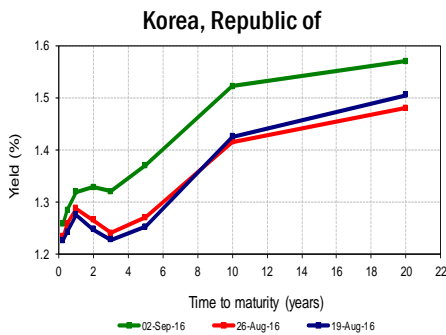
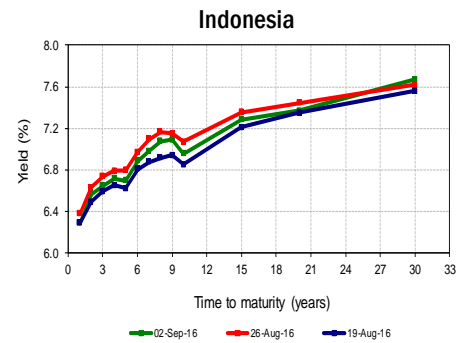
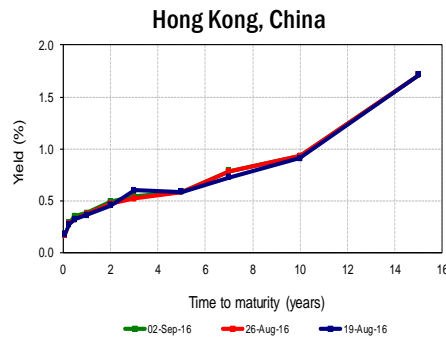
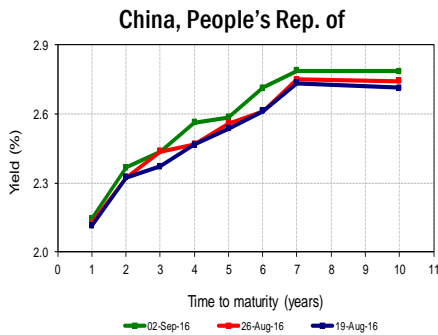
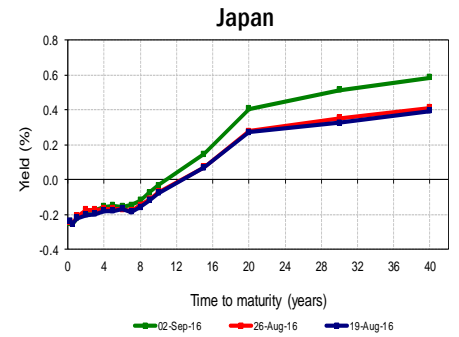
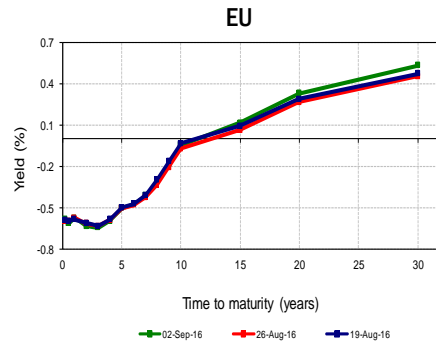
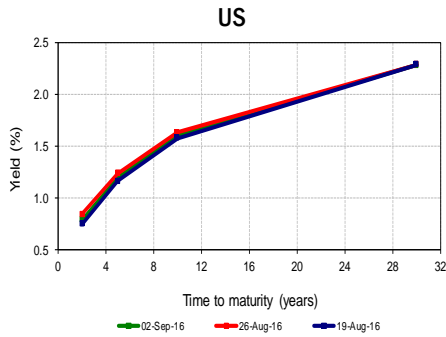
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US	1.60	3.43	-2.72	-66.70
EU	-0.04	2.30	2.90	-67.20
Japan	-0.03	1.50	3.70	-29.80
PRC	2.79	-1.20	4.30	-7.30
Hong Kong, China	0.93	0.00	-0.10	-65.20
India	7.12	-0.30	-1.10	-61.20
Indonesia	6.95	-11.10	-11.40	-180.50
Korea, Rep. of	1.52	-0.30	10.70	-56.30
Malaysia	3.58	-1.00	2.50	-60.60
Philippines	3.45	2.15	4.25	-65.24
Singapore	1.76	-1.88	-1.28	-83.82
Thailand	2.26	0.60	11.50	-24.40
Viet Nam	7.00	0.00	0.30	-17.20

Close of 2 September 2016

EU = European Union, LCY = local currency, PRC = People's Republic of China, US = United States.
 Source: Based on data from Bloomberg, LP.

Benchmark Yield Curves – LCY Government Bonds

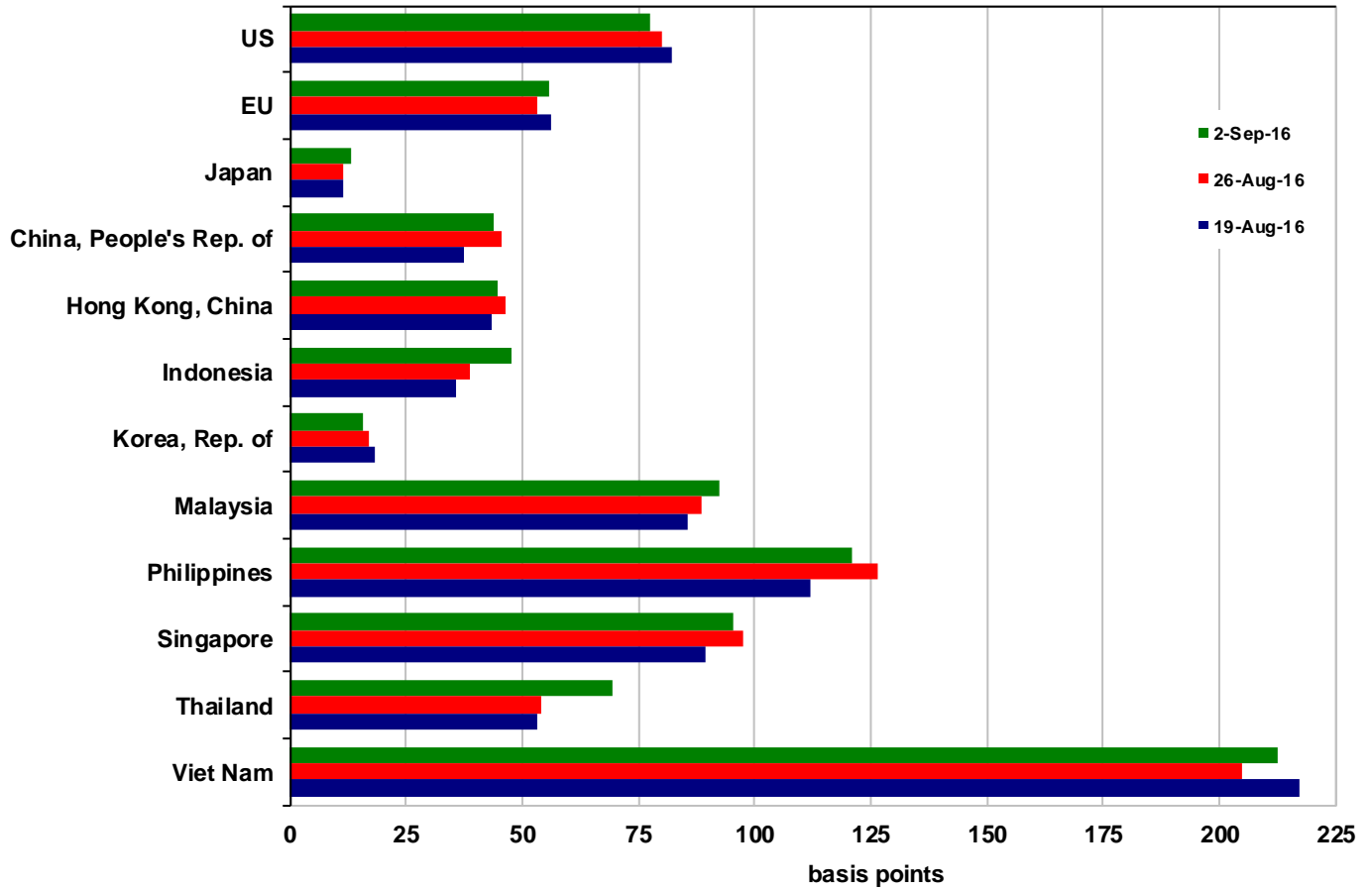
Tip: Zoom-in on the table using the Acrobat zoom tool



EU = European Union, LCY = local currency US = United States.
Source: Based on data from Bloomberg.

2- versus 10- Year Yield Spread Chart

Tip: Zoom-in on the table using the Acrobat zoom tool

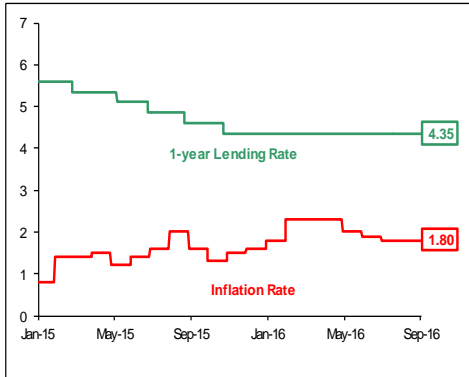


EU = European Union, US = United States.
 Source: Based on data from Bloomberg LP.

Policy Rate versus Inflation Rate

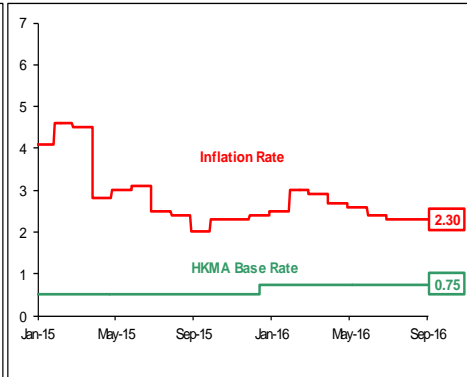
Tip: Zoom-in on the table using the Acrobat zoom tool

China, People's Rep. of



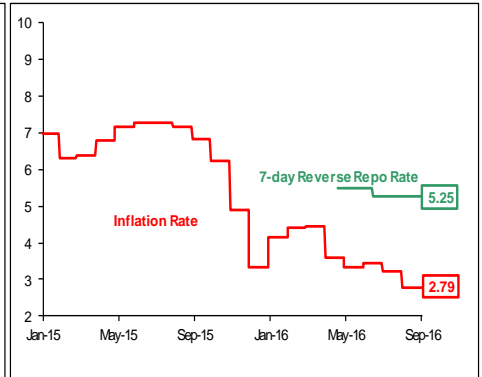
The PRC uses the 1-year lending rate as one of its policy rates.
Source: Bloomberg LP.

Hong Kong, China



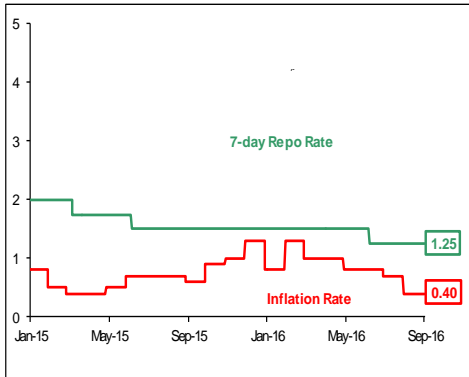
The Hong Kong Monetary Authority maintains a Discount Window Base Rate.
Source: Bloomberg LP.

Indonesia



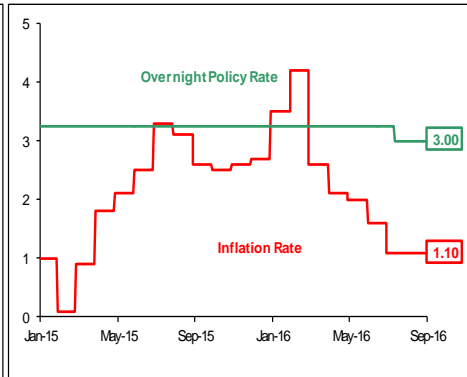
Bank Indonesia shifted its policy rate to the 7-day reverse repo rate effective 19 August 2016.
Source: Bloomberg LP.

Korea, Republic of



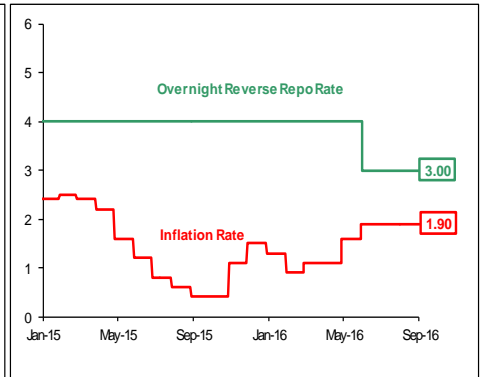
The Bank of Korea shifted its policy rate from the overnight repurchase (repo) rate to the 7-day repo rate in March 2008.
Source: Bloomberg LP.

Malaysia



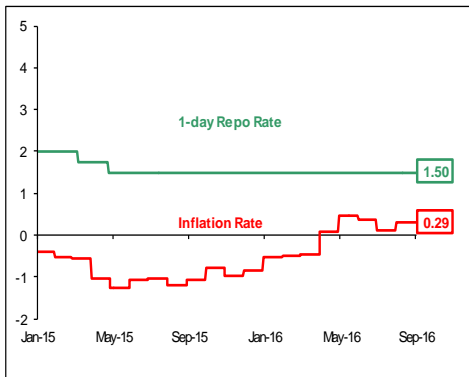
Bank Negara Malaysia uses the overnight policy rate (OPR) as its policy rate.
Source: Bloomberg LP.

Philippines



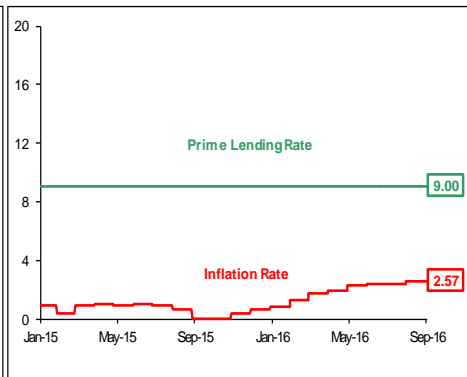
Bangko Sentral uses the Philippine overnight reverse repurchase agreement rate as one of its policy instruments.
Source: Bloomberg LP.

Thailand



The Bank of Thailand replaced the 14-day repurchase rate with the 1-day repurchase rate in January 2007 as its policy rate.
Source: Bloomberg LP.

Viet Nam

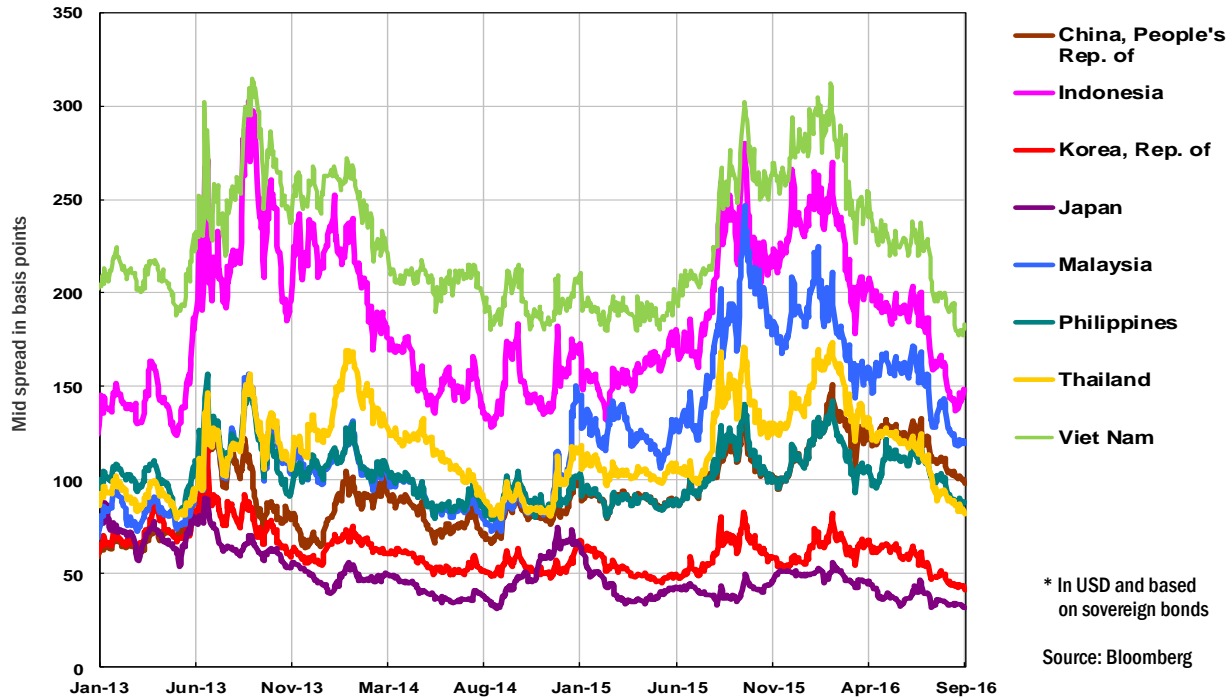


The State Bank of Viet Nam uses a benchmark prime lending rate as its policy rate.
Source: Bloomberg LP.

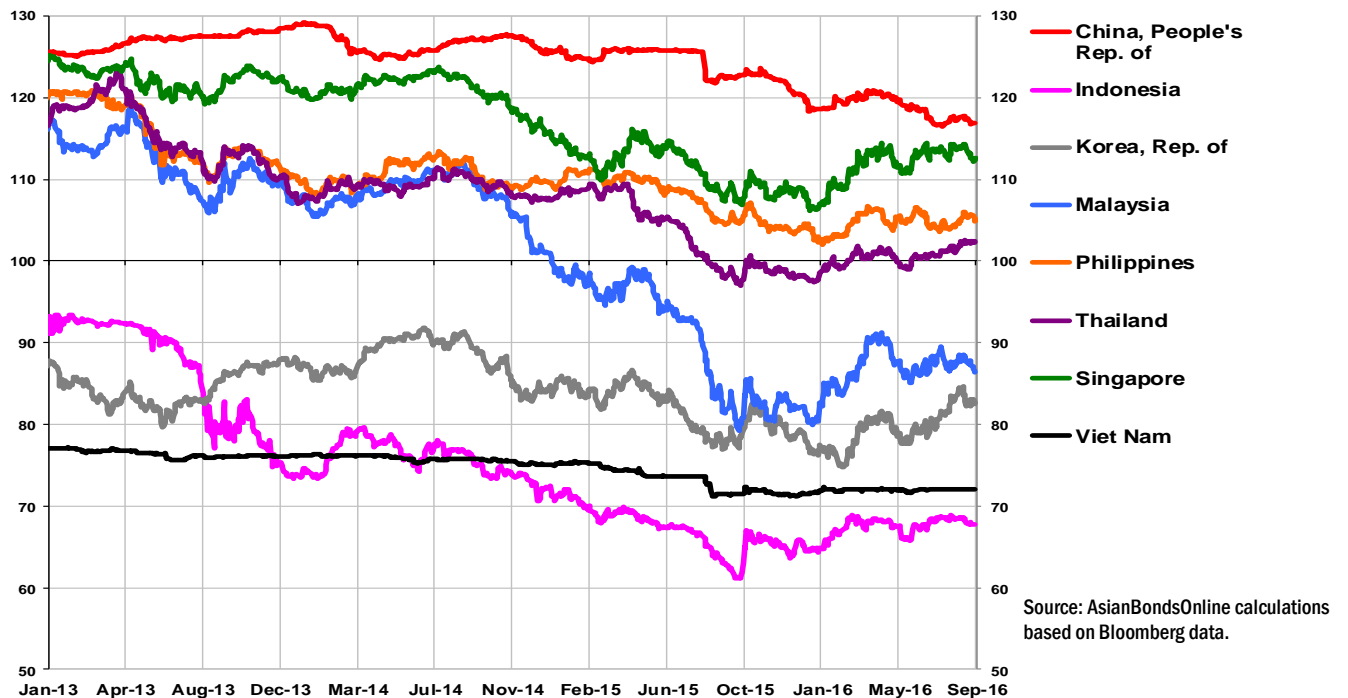
Credit Default Swap Spreads and Exchange Rate Indexes

Tip: Zoom-in on the table using the Acrobat zoom tool

Credit Default Swap Spreads – Senior 5-Year*



Exchange Rate Indexes (vis-à-vis USD, 2 January 2007=100)



Selected Debt Security Issuances (29 August – 2 September 2016)

Tip: Zoom-in on the table using the Acrobat zoom tool

Markets	Auction Date	Type of Security	Average Yield (%)	Coupon (%)	Amount Offered (LCY billion)	Amount Issued (LCY billion)
CN	31-Aug	2-year Treasury Bonds	2.34	2.51	26.00	29.08
		7-year Treasury Bonds	2.75	2.75	35.00	38.09
HK	30-Aug	91-day Exchange Fund Bills	0.32		39.68	39.68
		182-day Exchange Fund Bills	0.37		13.00	13.00
ID	30-Aug	3-month Treasury Bills	5.60		12,000.00	2,000.00
		5-year Treasury Bonds	7.14	8.38		6,800.00
		15-year Treasury Bonds	7.40	8.75		2,850.00
		20-year Treasury Bonds	7.48	8.25		1,350.00
JP	30-Aug	2-year Japanese Government Bonds	-0.19	0.10	2,300.00	2,456.70
	1-Sep	3-month Treasury Discount Bills	-0.24		4,400.00	4,439.92
		10-year Japanese Government Bonds	-0.05	0.10	2,400.00	2,397.70
KR	29-Aug	91-day Monetary Stabilization Bonds	1.28		700.00	710.00
		3-year Korea Treasury Bonds	1.26	1.50	950.00	950.00
	30-Aug	30-year Korea Treasury Bonds	1.51	2.00	1,100.00	1,048.00
SG	29-Aug	2-year SGS Bonds	0.83	4.00	2.20	2.20
	30-Aug	28-day MAS Bills	0.14		0.60	0.60
		84-day MAS Bills	0.39		4.00	4.00
TH	29-Aug	91-day Treasury Bills	1.39		5.00	5.00
	30-Aug	28-day Bank of Thailand Bills	1.34		10.00	10.00
		91-day Bank of Thailand Bills	1.43		27.26	27.26
		182-day Bank of Thailand Bills	1.48		35.00	35.00
	31-Aug	19.8-year Government Bonds	2.70	3.40	2.60	2.60
	2-Sep	14-day Bank of Thailand Bills	1.37		55.00	55.00
VN	31-Aug	5-year Treasury Bonds	5.76		3,000.00	3,000.00
		7-year Treasury Bonds	6.34		3,000.00	3,000.00
		30-year Treasury Bonds	8.00		1,000.00	1,000.00

LCY = local currency, MAS = Monetary Authority of Singapore.

Sources: Local market sources and Bloomberg, LP.

Selected Asia Data Releases (6 – 12 September 2016)

Tip: Zoom-in on the table using the Acrobat zoom tool

Economy and Variable	Release Date	Historical Data	Recent Trends
Philippines CPI y-o-y, % AUG	09/06	07/15: 0.8% 08/15: 0.6% 06/16: 1.9% 07/16: 1.9%	Consumer price inflation in the Philippines remained unchanged in July at 1.9% year-on-year (y-o-y).
Malaysia Overnight Policy Rate %	09/07	07/15: 3.25% 08/15: 3.25% 07/16: 3.00% 08/16: 3.00%	At its monetary policy meeting on 13 July, Bank Negara Malaysia decided to cut its overnight policy rate by 25 basis points to 3.0%.
Malaysia Trade Balance MYR billion JUL	09/07	06/15: 8.0 07/15: 2.4 05/16: 3.3 06/16: 5.5	Malaysia's trade surplus widened to MYR5.5 billion in June from MYR3.3 billion in May.
China, People's Rep. of Trade Balance CNY billion AUG	09/08	07/15: 263.01 08/15: 368.03 06/16: 311.16 07/16: 342.76	The People's Republic of China (PRC) reported a trade surplus of CNY342.8 billion in July, compared with USD311.2 billion in June.
Japan Current Account Balance JPY billion JULY	09/08	06/15: 541 07/15: 1,793.8 05/16: 1,809.1 06/16: 974.4	Japan's current account surplus narrowed to JPY974.4 billion in June from JPY1.8 trillion in May.
Japan Annualized GDP q-o-q, % Q216	09/08	Q215: -1.7% Q315: 2.0% Q116: 2.0% Q216: 0.2%	Based on advance estimates, Japan posted annualized gross domestic product growth of 0.2% in the second quarter (Q2) of 2016.
China, People's Rep. of CPI y-o-y, % AUG	09/09	07/15: 1.6% 08/15: 2.0% 06/16: 1.9% 07/16: 1.8%	Consumer price inflation in the PRC eased in July to 1.8% y-o-y from 1.9% y-o-y in June.
China, People's Rep. of PPI y-o-y, % AUG	09/09	07/15: -5.4% 08/15: -5.9% 06/16: -2.6% 07/16: -1.7%	Producer prices in the PRC fell 1.7% y-o-y in July after declining 2.6% y-o-y in June.
Korea, Rep. of 7-Day Repo Rate y-o-y, % Sep-9	09/09	08/15: 1.50% 09/15: 1.50% 07/16: 1.25% 08/16: 1.25%	The Bank of Korea's Monetary Policy Board decided on 13 August to leave the base rate—the 7-day repurchase rate—unchanged at 1.25%.
Malaysia Industrial Production y-o-y, % JULY	09/09	06/15: 4.4% 07/15: 6.1% 05/16: 2.8% 06/16: 5.3%	Malaysia's industrial production growth rose to 5.3% y-o-y in June from 2.8% y-o-y in May.
Philippines Exports y-o-y, % JULY	09/09	06/15: -1.8% 07/15: -1.0% 05/16: -3.8% 06/16: -11.4%	Philippine merchandise exports plunged 11.4% y-o-y in June, compared with a 3.8% y-o-y decline in May.

Source: AsianBondsOnline, Bloomberg LP, and Reuters.

News Articles: Sources for Further Reading

Tip: Click on link to open a new browser (Acrobat Reader 8); for older versions right-click to open a new browser)

Consumer Price Inflation Eases in Indonesia and the Republic of Korea, Rises in Thailand in August

- [Post-Eid Price Corrections trigger Deflation in August](#)
Bank Indonesia (1 September 2016)
- [Consumer Price Index in August 2016](#)
Statistics Korea (31 August 2016)
- [Consumer Price Index and Core Consumer Price Index August 2016](#)
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