

13 March 2017

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Key Developments in Asian Local Currency Markets

Japan's real gross domestic product (GDP) growth in the fourth quarter of 2016 was revised upward to 0.3% quarter-on-quarter (q-o-q) from a preliminary estimate of 0.2% q-o-q. The revised GDP reading was at par with the growth rate posted in the third quarter of 2016. The upward revision was primarily due to the 0.2% q-o-q increase in private demand compared with a preliminary estimate of there being no increase, led by accelerated growth in private nonresidential investment. Public demand posted a larger decline of 0.3% q-o-q, mainly due to a faster contraction in public investment. On an annualized basis, Japan's economic growth in the fourth quarter of 2016 was revised upward to 1.2% from 1.0%.

➤ The People's Republic of China's (PRC) consumer prices rose 0.8% year-on-year (y-o-y) in February, down from a 2.5% y-o-y increase in January due to a decline in food prices. Meanwhile, producer prices rose 7.8% y-o-y in February 2008 due to rising commodity prices. Consumer price inflation in the Philippines accelerated to 3.3% y-o-y in February from 2.7% y-o-y in January. The faster growth was attributed to accelerated annual increases in prices for food and nonalcoholic beverages; alcoholic beverages and tobacco; housing, water, electricity, gas, and other fuels; transport; and communications.

➤ In yuan-denominated terms, exports from the PRC rose 4.2% y-o-y and imports climbed 44.7% y-o-y in February. The PRC reported a trade deficit of CNY60.4 billion for the month of February. Exports from the Philippines generated revenue of USD5.1 billion in January, up 22.5% y-o-y. Imports to the Philippines were valued at USD7.4 billion on an increase of 9.1% y-o-y. In January, the Philippines's trade deficit marginally widened to USD2.3 billion.

➤ Japan's current account surplus narrowed to JPY66 billion in January from JPY1.1 trillion in December. Japan's goods account recorded a deficit of JPY853 billion in January, a reversal from the JPY807 billion surplus. In the same period, the primary income account surplus widened and the services account deficit narrowed.

➤ In February, foreign exchange reserves climbed in Indonesia, slipped in the Philippines, and were unchanged in Malaysia.

➤ Foreign demand for the Republic of Korea's local currency bonds continued to rise in February, with foreign investors buying a net KRW5,186 billion of listed bonds, up from KRW1,665 billion in January.

Asia Bond Monitor November 2016

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10-Year Selected LCY Government Security Yields Close of 10 March 2017 basis point change from

Markets	Latest Closing	Previous Day*	Previous Week*	1-Jan-17*
US	2.57	-3.08	9.65	13.02
EU	0.49	5.90	12.90	27.70
Japan	0.09	-0.70	1.10	4.30
PRC	3.48	0.00	5.00	46.00
Hong Kong, China	1.96	2.90	2.20	-1.30
India	6.90	4.30	12.00	38.90
Indonesia	7.52	2.00	2.30	-44.90
Korea, Rep. of	2.31	-1.40	8.70	21.50
Malaysia	4.19	1.40	1.40	-3.40
Philippines	5.24	29.32	25.89	60.94
Singapore	2.46	3.21	11.20	-1.22
Thailand	2.81	-1.80	7.50	15.70
Viet Nam	6.16	-1.80	0.70	-21.80

- TABLES & GRAPHS**
- ▶ Selected Government Security Yields
 - ▶ 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

➤ On 6 March, Bank Indonesia and the Bank of Korea agreed to renew their KRW10.7 trillion–IDR115 trillion bilateral local currency swap arrangement for a period of 3 years.

➤ On 7 March, Japan Credit Rating Agency revised Indonesia's sovereign rating outlook to positive from stable and affirmed its BBB– issuer credit rating. In making its decision, Japan Credit Rating Agency noted two drivers of the change in Indonesia's sovereign rating outlook: (i) an improved investment climate and (ii) contained private external debt.

➤ Local currency government bond yields climbed for most markets, mostly tracking the uptick in United States (US) yields, as most markets priced-in a looming rate hike by the Federal Reserve. The only exception was in Indonesia where yields were mixed. The yield spread between the 2- and 10-year yields rose in all emerging East Asian markets except for the PRC and Viet Nam.

Summary Text of News Articles

GDP Growth in Japan Revised Upward to 0.3% q-o-q in the Fourth Quarter of 2016

Japan's real gross domestic product (GDP) growth in the fourth quarter of 2016 was revised upward to 0.3% quarter-on-quarter (q-o-q) from a preliminary estimate of 0.2% q-o-q. The revised GDP reading was at par with the growth rate posted in the third quarter of 2016. The upward revision was primarily due to a 0.2% q-o-q increase in private demand, compared with a preliminary estimate of there being no increase, led by accelerated growth in private nonresidential investment. Public demand posted a larger decline of 0.3% q-o-q, mainly due to a faster contraction in public investment. On an annualized basis, Japan's economic growth in the fourth quarter of 2016 was revised upward to 1.2% from 1.0%.

The PRC's Consumer Price Inflation Falls and Producer Price Inflation Rises in February; Consumer Price Inflation in the Philippines Accelerates to 3.3% y-o-y in February

The People's Republic of China's (PRC) consumer prices rose only 0.8% year-on-year (y-o-y) in February, compared with a 2.5% y-o-y increase in January, driven by a decline in food prices due to the timing of the Lunar New Year, which was in February in 2016 but in January in 2017. Food prices fell 4.3% y-o-y in February after climbing 2.7% y-o-y in January. Rising commodity prices in February drove producer price inflation to 7.8% y-o-y in February, the highest level since October 2008, from 6.9% y-o-y in January.

Consumer price inflation in the Philippines accelerated to 3.3% y-o-y in February from 2.7% y-o-y in January and from 0.9% y-o-y in February 2016. The February inflation rate, which was the fastest since November 2014, was attributed to accelerated annual price increases for food and nonalcoholic beverages as well as for alcoholic beverages and tobacco; housing, water, electricity, gas, and other fuels; transport; and communications. Year-to-date inflation reached 3.0%, which was still within the government's target range of 2.0%–4.0% for 2017. Core inflation also picked up in February, rising to 2.7% y-o-y from 2.5% y-o-y in the previous month.

For inflation trends in the People's Republic of China, refer to this link:

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

For inflation trends in the Philippines, refer to this link:

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

The PRC's Export Growth Slows and Import Growth Accelerates in February; The Philippines' Trade Deficit Widens to USD2.3 Billion in January

Exports from the PRC rose 4.2% y-o-y in yuan-denominated terms in February after rising 15.9% y-o-y in January. Imports, on the other hand, rose 44.7% y-o-y in February after growing 25.2% y-o-y in January. In January–February, exports grew 11.0% y-o-y and imports grew 34.2% y-o-y. The PRC reported a trade deficit of CNY60.4 billion for the month of February, the first trade deficit since February 2014.

Exports from the Philippines generated revenue of USD5.1 billion in January, a 22.5% y-o-y increase from USD4.2 billion in the same month last year. Exports of electronic products grew 10.4% y-o-y to USD 2.4 billion and comprised 46.1% of export revenue for the month. Japan remained the Philippines' top export destination in January with export receipts of USD887.7 million or 17.3% of the total. Imports to the Philippines were valued at USD7.4 billion or an increase of 9.1% y-o-y. Imports of raw materials and intermediate goods, which account for 38.2% of the total import bill, grew 15.2% y-o-y in January to USD2.8 billion. The PRC remained the Philippines' largest source of imports with a total import bill valued at USD1.6 billion or a share of 20.8% of the total. In January, the Philippines's trade deficit marginally widened to USD2.3 billion from USD2.2 billion in December.

Summary Text of News Articles

Japan's Current Account Surplus Narrows in January

Japan's current account surplus narrowed to JPY66 billion in January from JPY1.1 trillion in December. Japan's goods account recorded a deficit of JPY853 billion in January, a reversal from the JPY807 billion surplus in the previous month as exports declined on a month-on-month basis while imports rose. The secondary income account also posted a higher deficit of JPY111 billion from JPY84 billion in December. The primary income account surplus widened and the services account deficit narrowed.

Foreign Exchange Reserves Climb in Indonesia, Slip in the Philippines, and Remain Steady in Malaysia in February

Indonesia's foreign exchange reserves climbed to USD119.9 billion at the end of February from USD116.9 billion at the end of January, driven by tax revenues and government oil and gas export proceeds, withdrawal of foreign loans, and proceeds from the auction of Bank Indonesia foreign exchange bills. Foreign exchange receipts exceeded disbursements for the repayment of government external debt and the redemption of maturing Bank Indonesia foreign exchange bills. According to Bank Indonesia, at the end of February, Bank Indonesia noted that foreign exchange reserves remain adequate to cover 8.9 months of imports and 8.5 months of imports and debt servicing.

The Philippines' gross international reserves slipped to USD81.1 billion at the end of February from USD81.4 billion at the end of January. Foreign exchange receipts came from the net foreign currency deposits by the national government, which includes proceeds from a USD500 million bond issuance and gold valuation adjustment to the Bangko Sentral ng Pilipinas' gold holdings. Outflows came from the Bangko Sentral ng Pilipinas' foreign exchange operations and the central government's payment of maturing foreign exchange debts. The reserves remained sufficient to finance 9.2 months' worth of imports of goods and payments of services and primary income, and were 5.9 times the short-term external debt based on original maturity and 4.3 times based on residual maturity.

Malaysia's foreign exchange reserves stood at USD95 billion at the end of February, the same as in the previous month but slightly down from USD95.6 billion in February 2016. Malaysia's reserves are sufficient to cover 8.5 months of retained imports and were 1.1 times the economy's short-term foreign exchange.

Net Foreign Bond Investment in the Republic of Korea Increases in February

Foreign demand for the Republic of Korea's local currency bonds rose in February with foreign investors buying a net KRW5,186 billion of listed bonds, up from the KRW1,665 billion in January. Net bond inflows for Korean Treasury bonds amounted to KRW3,078 billion. Among this total, KRW2,108 billion comprised purchases of Monetary Stabilization Bonds issued by the Bank of Korea. Cumulative bond inflows for the first 2 months of 2017 amounted to KRW6,851 billion.

Bank Indonesia and the Bank of Korea Renew Bilateral Local Currency Swap Agreement

On 6 March, Bank Indonesia and the Bank of Korea agreed to the renewal of their bilateral local currency swap arrangement to promote bilateral trade and financial cooperation between the two markets. The agreement calls for the exchange of local currencies of up to KRW10.7 trillion–IDR115 trillion for a period of 3 years.

JCR Revises Indonesia's Sovereign Rating Outlook to Positive

On 7 March, Japan Credit Rating Agency (JCR) revised Indonesia's sovereign rating outlook to positive from stable and affirmed its BBB– issuer credit rating. In making its decision, JCR noted two drivers of the change in the sovereign rating outlook: (i) an improved investment climate and (ii) contained private external debt.

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-17*
US	0.74	1.52	4.57	24.40
EU	-0.84	-1.10	-16.60	6.10
Japan	-0.38	1.20	1.90	0.90
PRC	2.74	1.00	8.00	1.00
Hong Kong, China	0.33	0.00	0.00	0.00
India	8.31	0.00	0.00	0.00
Korea, Rep. of	1.32	0.00	3.50	-0.10
Malaysia	3.04	0.70	1.40	1.70
Philippines	2.23	-0.55	-9.46	14.97
Singapore	0.82	0.00	2.20	-24.00
Thailand	1.35	0.00	0.00	0.00

Close of 10 March 2017

10-Year Selected LCY Government Bond Yields

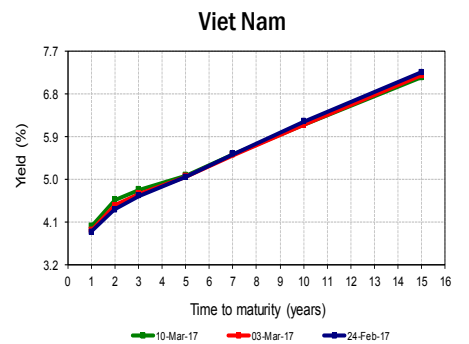
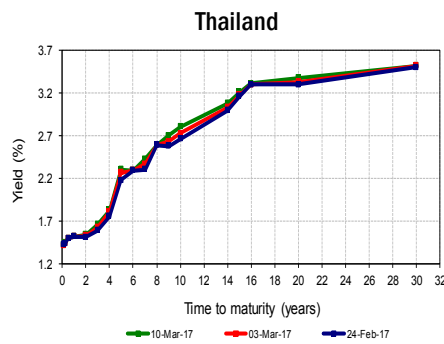
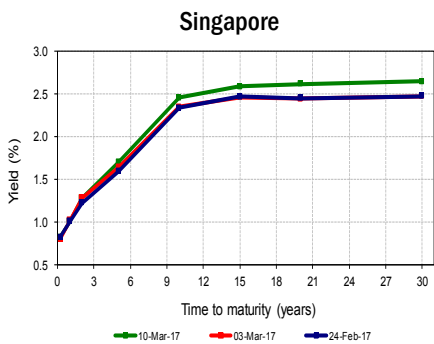
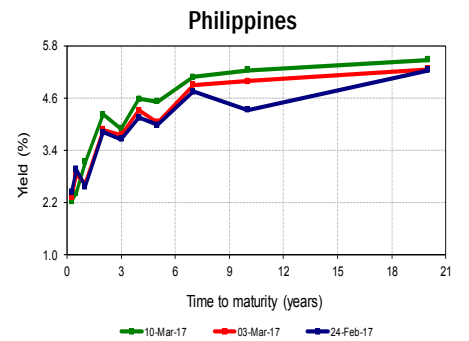
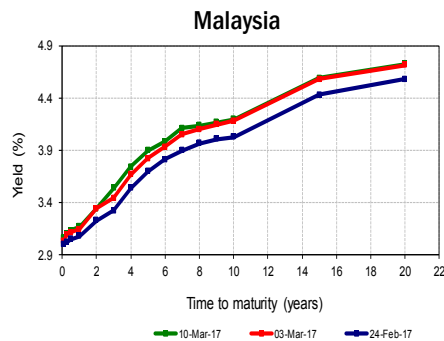
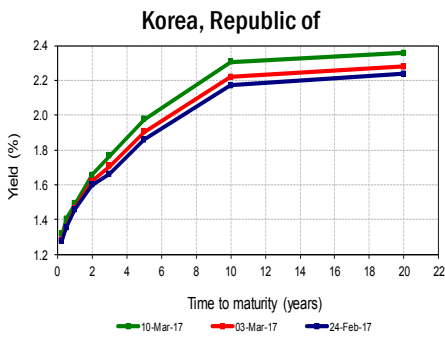
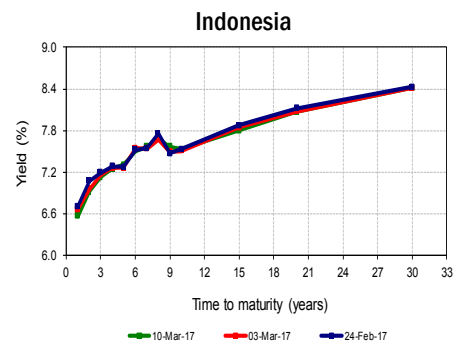
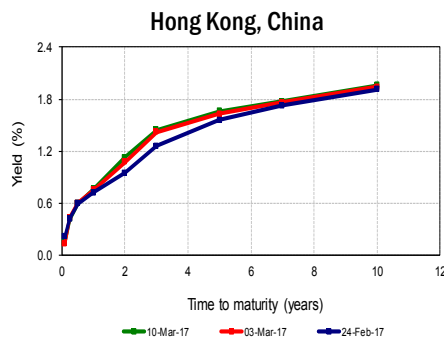
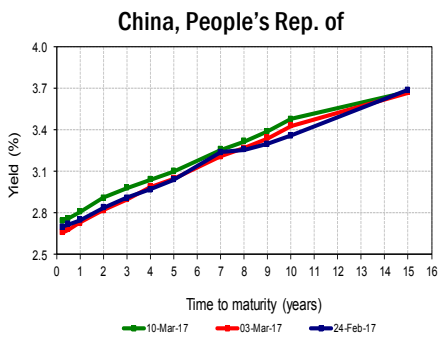
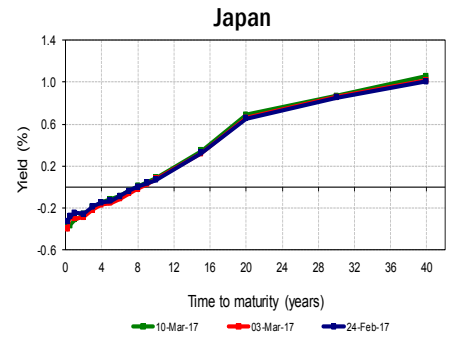
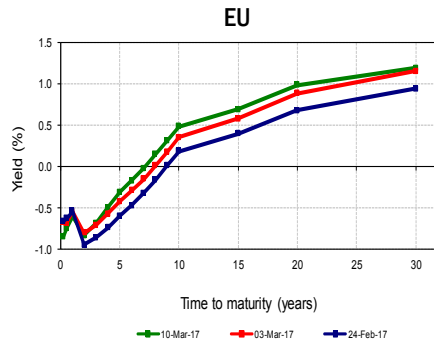
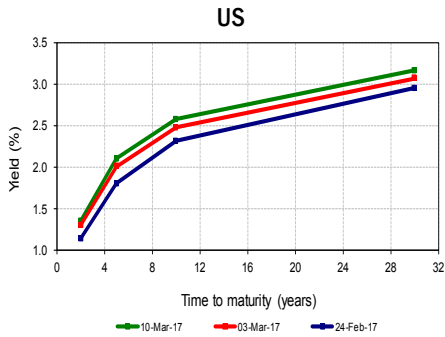
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India	6.90	4.30	12.00	38.90
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Malaysia	4.19	1.40	1.40	-3.40
Philippines	5.24	29.32	25.89	60.94
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Thailand	2.81	-1.80	7.50	15.70
Viet Nam	6.16	-1.80	0.70	-21.80

Close of 10 March 2017

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

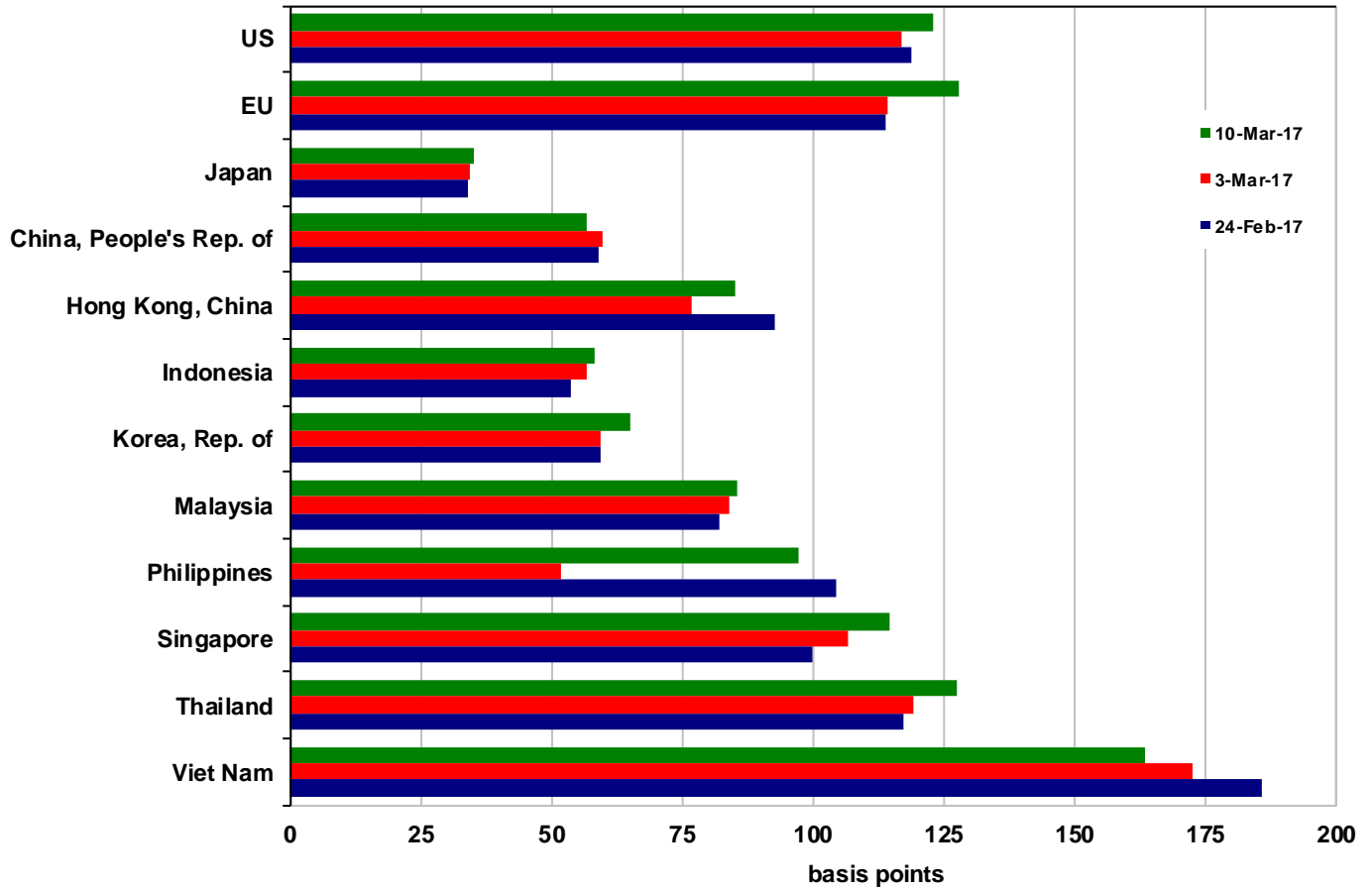
Tip: Zoom-in on the table using the Acrobat zoom tool



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

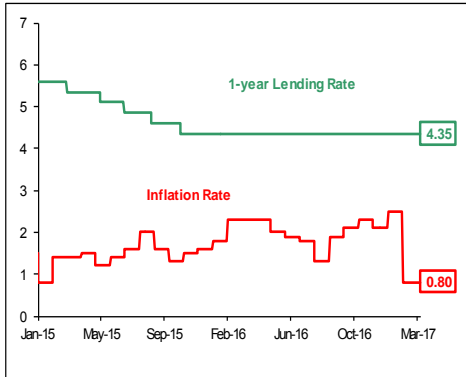


EU = European Union, US = United States.
Source: Based on data from Bloomberg LP.

Policy Rate versus Inflation Rate

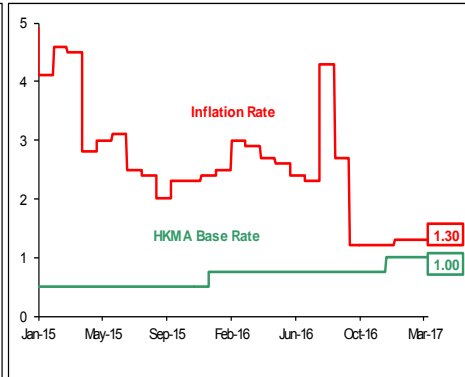
Tip: Zoom-in on the table using the Acrobat zoom tool

China, People's Rep. of



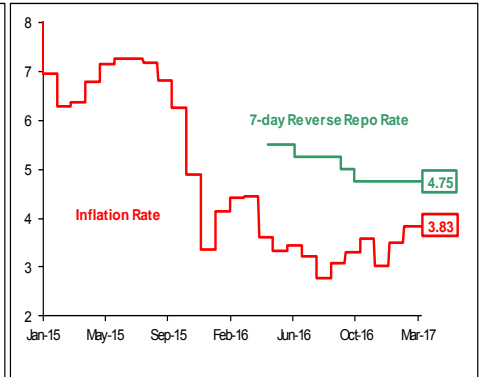
The PRC uses the 1-year lending rate as one of its policy rates.
Source: Bloomberg LP.

Hong Kong, China



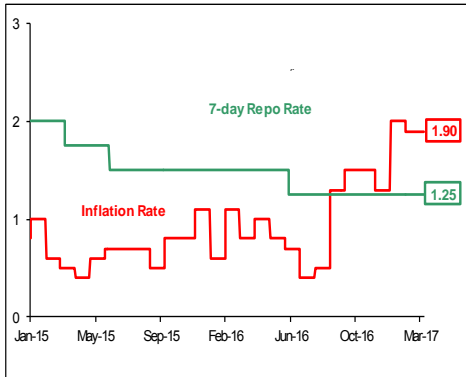
The Hong Kong Monetary Authority maintains a Discount Window Base Rate.
Source: Bloomberg LP.

Indonesia



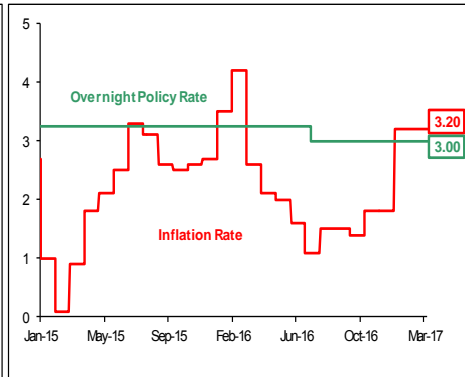
Bank Indonesia shifted its policy rate to the 7-day reverse repo rate effective 19 August 2016.
Source: Bloomberg LP.

Korea, Republic of



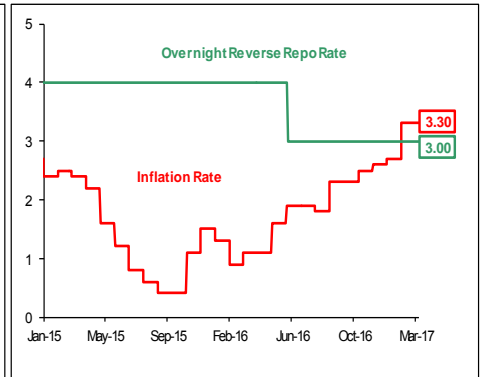
The Bank of Korea shifted its policy rate from the overnight repurchase (repo) rate to the 7-day repo rate in March 2008.
Source: Bloomberg LP.

Malaysia



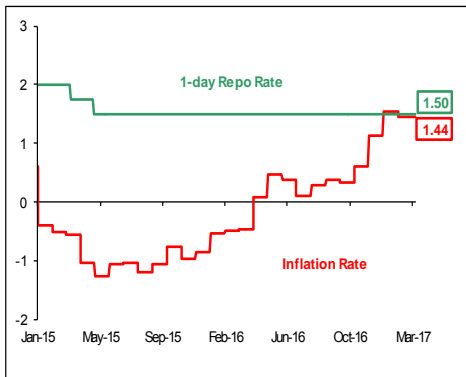
Bank Negara Malaysia uses the overnight policy rate (OPR) as its policy rate.
Source: Bloomberg LP.

Philippines



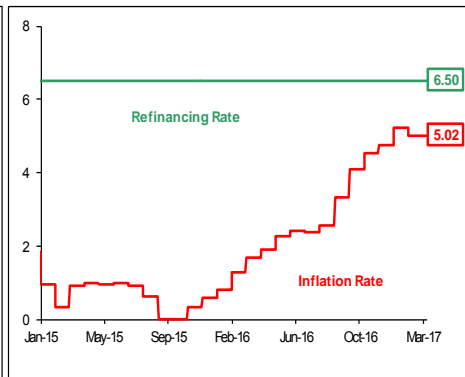
Bangko Sentral uses the Philippine overnight reverse repurchase agreement rate as one of its policy instruments.
Source: Bloomberg LP.

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

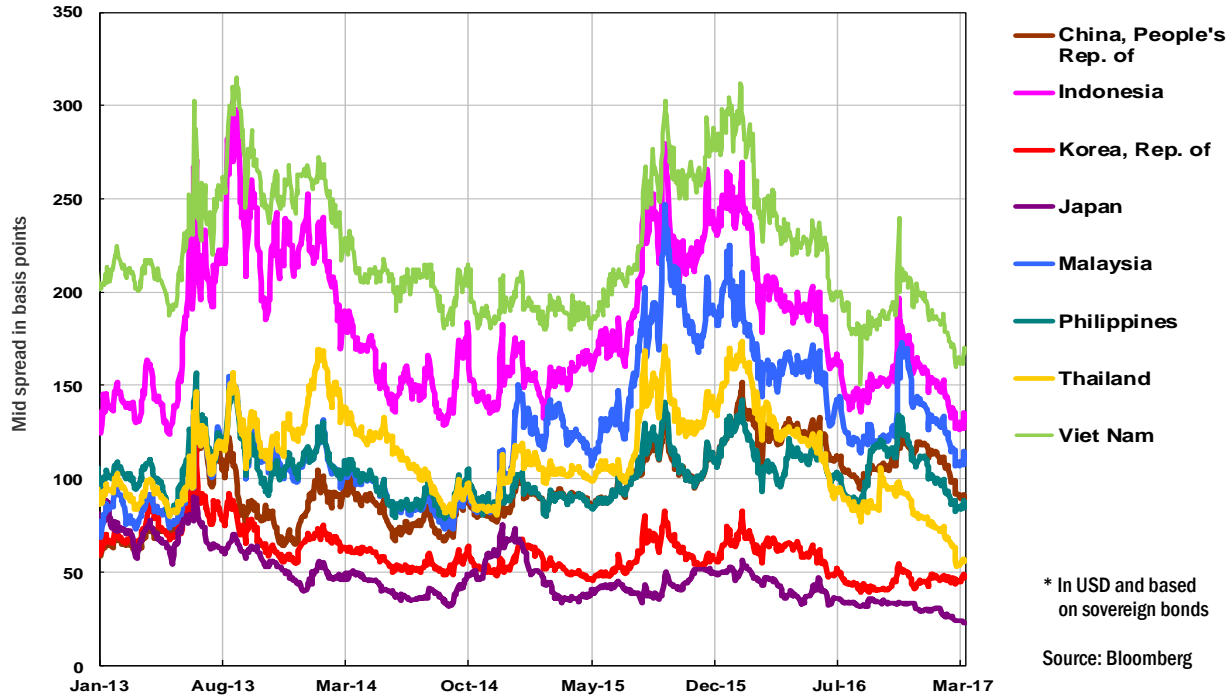


The State Bank of Viet Nam uses a benchmark prime lending rate as its policy rate.
Source: Bloomberg LP.

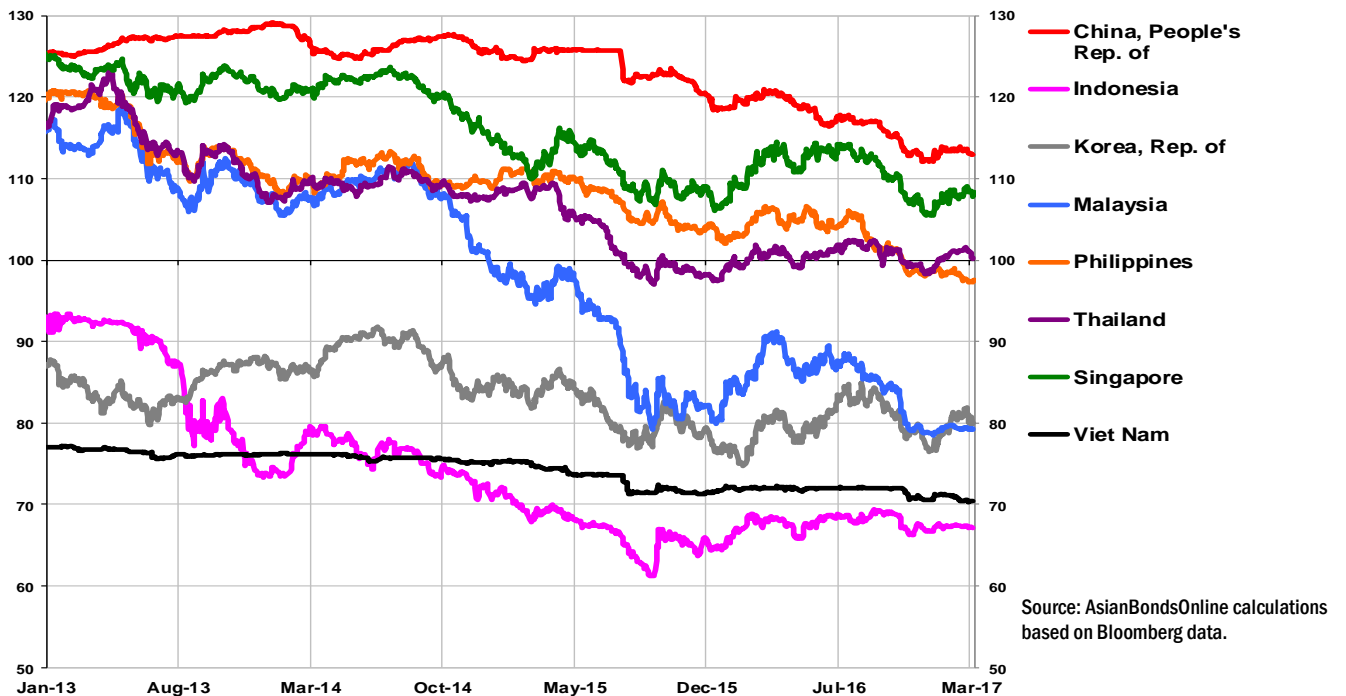
Credit Default Swap Spreads and Exchange Rate Indexes

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 (6 – 10 March 2017)

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	8-Mar	5-year Treasury Bonds	3.03	2.88	20.00	20.00
HK	7-Mar	91-day Exchange Fund Bills	0.45		39.89	39.89
		182-day Exchange Fund Bills	0.60		12.00	12.00
ID	7-Mar	6-month Islamic Treasury Bills	5.59			2,000.00
		2-year Project-Based <i>Sukuk</i>	7.15	6.25		1,690.00
		4-year Project-Based <i>Sukuk</i>	7.44	6.50	6,000.00	930.00
		6-year Project-Based <i>Sukuk</i>	7.79	8.75		1,070.00
		14-year Project-Based <i>Sukuk</i>	8.29	8.86		410.00
JP	7-Mar	30-year Japanese Government Bonds	0.82	0.80	800.00	848.90
	8-Mar	6-month Treasury Discount Bills	-0.36		3,200.00	3,199.98
	9-Mar	3-month Treasury Discount Bills	-0.45		4,400.00	4,389.98
		5-year Japanese Government Bonds	-0.12	0.10	2,400.00	2,399.30
KR	6-Mar	3-year Korea Treasury Bond	1.73	1.25	1,060.00	1,060.00
	7-Mar	30-year Korea Treasury Bond	2.37	2.13	1,190.00	1,190.00
MY	9-Mar	5-year Malaysian Government Securities	3.88	3.88	4.00	4.00
SG	7-Mar	28-day MAS Bills	0.30		1.20	1.20
		84-day MAS Bills	0.53		4.70	4.70
	9-Mar	168-day MAS Bills	0.75		2.50	2.50
TH	6-Mar	28-day Treasury Bills	1.41		20.00	20.00
		182-day Treasury Bills	1.50		15.73	15.73
	7-Mar	91-day Bank of Thailand Bills	1.45		40.00	40.00
		182-day Bank of Thailand Bills	1.50		40.00	40.00
	10-Mar	14-day Bank of Thailand Bills	1.41		40.00	40.00
VN	8-Mar	5-year Treasury Bonds	5.03		1,000.00	550.00
		7-year Treasury Bonds	5.39		2,000.00	1,560.00
		15-year Treasury Bonds	7.00		1,500.00	1,500.00
		30-year Treasury Bonds	7.96		1,500.00	1,500.00

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

Sources: Local market sources and Bloomberg, LP.

Selected Asia Data Releases (14 – 20 March 2017)

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

Economy and Variable	Release Date	Historical Data	Recent Trends
People's Republic of China Industrial Production—YTD y-o-y, % JAN	03/14	12/15: 6.1% 02/16: 5.4% 11/16: 6.0% 12/16: 6.0%	The People's Republic of China's (PRC) industrial production growth rose to 6.0% year-on-year (y-o-y) in 2016, down marginally from 6.1% y-o-y growth in 2015.
People's Republic of China Retail Sales—YTD y-o-y, % JAN	03/14	12/15: 10.7% 02/16: 10.2% 11/16: 10.4% 12/16: 10.4%	Retail sales in the PRC climbed 10.4% y-o-y in 2016 compared with 10.7% y-o-y growth in 2015.
Philippines Remittances y-o-y, % JAN	03/15	12/15: 4.9% 01/16: 3.6% 11/16: 18.5% 12/16: 3.6%	Growth in overseas Filipino remittances eased to 3.6% y-o-y in December from 18.5% y-o-y in November.
Indonesia 7-Day Reverse Repo Rate % 16 MAR	03/16	02/16: – 03/16: – 01/17: 4.75% 02/17: 4.75%	Bank Indonesia's Board of Governors held steady the 7-day reverse repurchase rate at 4.75% in its meeting held on 14–16 February.
Indonesia Exports y-o-y, % FEB	03/17	01/16: –20.9% 02/16: –7.1% 12/16: 16.0% 01/17: 27.7%	Exports from Indonesia rose 27.7% y-o-y in January following a 16.0% y-o-y hike in December.
Singapore NODX y-o-y, % FEB	03/17	01/16: –10.1% 02/16: 2.0% 12/16: –2.8% 01/17: 8.6%	Singapore's non-oil domestic exports expanded 8.6% y-o-y in January, reversing the 2.8% y-o-y dip in December.
Republic of Korea PPI y-o-y, % FEB	03/20	01/16: –3.3% 02/16: –3.4% 12/16: 1.8% 01/17: 3.7%	The Republic of Korea's producer price index rose 3.7% y-o-y in January following an increase of 1.8% y-o-y in December.
Philippines BOP Balance USD million FEB	03/20	01/16: –813 02/16: –251 12/16: –214 01/17: –9	The Philippines' balance of payments (BOP) deficit sharply narrowed down to USD9 million in January from USD214 million in December.

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)

GDP Growth in Japan Revised Upward to 0.3% q-o-q in the Fourth Quarter of 2016

- [Quarterly Estimates of GDP: Oct. - Dec. 2016 \(The 2nd Preliminary Estimates\)](#)
Cabinet Office, Government of Japan (8 March 2017)

The PRC's Consumer Price Inflation Falls and Producer Price Inflation Rises in February; Consumer Price Inflation in the Philippines Accelerates to 3.3% y-o-y in February

- [China's consumer inflation weakens on lower food prices](#)
Xinhua (9 March 2017)
- [China February producer inflation fastest in nearly nine years as commodities surge](#)
Reuters (9 March 2017)
- [Summary Inflation Report Consumer Price Index \(2006=100\): February 2017](#)
Philippine Statistics Authority (7 March 2017)
- [Inflation Rises to 3.3 Percent in February](#)
Bangko Sentral ng Pilipinas (7 March 2017)

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