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Key Developments in Asian Local Currency Markets

Thailand's economic performance was better than expected in the second quarter (Q2) of 2018 with gross domestic product expanding 4.6% year-on-year (y-o-y), which was a slight deceleration from first quarter (Q1) growth of 4.9% y-o-y. The growth was supported by rising private consumption, investment, and exports on the demand side, and the accelerated expansion of the agricultural sector to 10.4% y-o-y in Q2 2018 from 6.5% y-o-y in Q1 2018. For the first half of 2018, Thailand's economy expanded 4.8% y-o-y, exceeding the higher end of the 4.2%–4.7% forecast range for 2018.

➤ The manufacturing output of Singapore rose 6.0% y-o-y in July, easing from 8.0% y-o-y growth in June due to the decline in general manufacturing industries and a slowdown in the growth of transport engineering biomedical manufacturing and precision engineering.

➤ Consumer price inflation in Japan inched up to 0.9% y-o-y in July from 0.7% y-o-y in June as the acceleration of food prices was dampened by declines and slower price increases of other major commodities. Consumer price inflation in Malaysia ticked up marginally to 0.9% y-o-y in July after posting a 3-year low of 0.8% y-o-y in June, following the government's removal of the goods and services tax. Meanwhile, consumer price inflation in Singapore was unchanged at 0.6% y-o-y in July, as surging inflation in the cost of electricity and gas (from 3.7% y-o-y to 12.7% y-o-y) was offset by the decline in the cost of private transport. Consumer price inflation in Hong Kong, China was steady at 2.4% y-o-y in July, driven by the sustained rise in prices for food and utilities.

➤ The Philippines' cumulative balance of payment deficit for January through July widened to USD3.7 billion from USD1.4 billion in January–July 2017 due to the large merchandise trade deficit during the first half of 2018, spurred by increased imports of raw materials. This came after the balance of payments posted its seventh consecutive monthly deficit in 2018, with the July deficit amounting to USD455 million.

➤ Expenditures of the Government of the Philippines exceeded revenues in July, producing a budget deficit of PHP86.4 billion, up from PHP50.5 billion posted in July 2017, as spending surged 34.0% y-o-y to PHP328.1 billion, offsetting the 24.0% y-o-y increase in revenues amounting to PHP241.7 billion.

Asia Bond Monitor June 2018

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10-Year Selected LCY Government Security Yields Close of 24 August 2018 basis point change from

Markets	Latest Closing	Previous Day*	Previous Week*	1-Jan-18*
US	2.81	-1.63	-5.07	40.44
EU	0.35	0.60		-8.20
Japan	0.10	0.10	0.30	5.30
PRC	3.71	1.00	1.00	-31.00
Hong Kong, China	2.20	0.00	-1.00	36.70
India	7.87	-0.60	1.20	53.60
Indonesia	7.94	4.00	-4.10	162.10
Korea, Rep. of	2.38	-1.80	-5.00	-9.00
Malaysia	4.03	0.80	-2.10	11.60
Philippines	6.73	32.50	-4.46	102.64
Singapore	2.38	-0.47	-4.29	37.74
Thailand	2.75	0.20		42.60
Viet Nam	5.20	3.70		-0.40

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

➤ Last week, Bank Indonesia reduced the minimum transaction limit for foreign exchange hedging through swaps to USD2 million from USD10 million. With the reduced floor for hedging transactions, Bank Indonesia expects the volume of hedging transactions to increase.

➤ Last week, local currency bond yields declined for most tenors in Indonesia, the Republic of Korea, Malaysia and Singapore; and rose for most tenors in Hong Kong, China; Thailand; and Viet Nam. Yield movements were mixed in the People's Republic of China, and the Philippines. Meanwhile, yield spreads between 2-year and 10-year tenors narrowed for most markets except the Republic of Korea, Malaysia, and Viet Nam.

Summary Text of News Articles

Thailand's Economy Expands More Than Expected in Q2 2018

Thailand's economic performance was better than expected in the second quarter (Q2) 2018 with its gross domestic product expanding 4.6% year-on-year (y-o-y). The growth logged in the quarter, however, was lower than in the first quarter (Q1) of 2018 at 4.9% y-o-y. On the expenditure side, the expansion was underpinned by growth in private consumption (4.5% y-o-y), investment (3.6% y-o-y), and exports (6.4% y-o-y), while government consumption growth slowed to 1.4% y-o-y. On the production side, gross domestic product growth was supported by the expansion of the agricultural sector at a rate of 10.4% y-o-y in Q2 2018, up from 6.5% y-o-y in Q1 2018, while growth in the manufacturing and services sectors moderated. On a quarter-on-quarter seasonally adjusted basis, the economy grew 1.0%. For the first half of 2018, Thailand's economy expanded 4.8% y-o-y. According to the National Economic and Social Development Board, the Thai economy is forecast to grow between 4.2% and 4.7% in 2018, supported by an improvement in the global economy and a favorable expansion in domestic consumption and investment.

Singapore's Manufacturing Output Growth Eases in July

The manufacturing output of Singapore rose 6.0% y-o-y in July, down from the 8.0% y-o-y growth reported in June. Production in the general manufacturing industries cluster decreased 0.6% y-o-y due to the decline in the output of the printing industry. Growth of the transport engineering cluster eased to 9.6% y-o-y from 14.3% y-o-y due to the sharp drop in the growth of the marine and offshore engineering sector. The slowdown in growth was recorded for the biomedical manufacturing and precision engineering clusters, owing to the slower growth of the pharmaceuticals industry and the decline in precision modules and components, respectively. On a seasonally adjusted month-on-month (m-o-m) basis, manufacturing output declined 1.7%, reversing the growth of 4.4% posted in the previous month.

Consumer Price Inflation Rises in Japan and Malaysia, Remains Unchanged in Singapore and Hong Kong, China in July

Consumer price inflation in Japan inched up to 0.9% y-o-y in July from 0.7% y-o-y in June. Food prices accelerated in July, up 1.4% y-o-y from a 0.4% y-o-y increase in June. Most other commodity groups posted slower annual price increases in July compared with the previous month including utilities, entertainment, and miscellaneous items. Housing prices and household goods prices continue to contract in July. On a seasonally adjusted m-o-m basis, consumer prices in Japan increased 0.3% in July.

Consumer price inflation rose in Malaysia to 0.9% y-o-y in July after posting a 3-year low of 0.8% y-o-y in June. Malaysia's low inflation can be traced to the tax holidays following the government's removal of the goods and services tax. The July inflation was largely driven by higher transport prices, which increased 6.7% y-o-y in July from 5.5% y-o-y in June on the back of costlier fuel. Other components of the Consumer Price Index that registered positive (yet subdued) growth were housing, water, electricity, gas, and other fuels (2.0% y-o-y); education (1.0% y-o-y); food and nonalcoholic beverages (0.7% y-o-y); and restaurants and hotels (1.0% y-o-y). Price declines were observed in other Consumer Price Index components while that of health was unchanged. Core inflation in July declined 0.2% y-o-y after an increase of 0.1% y-o-y in June. On a monthly basis, prices increased 0.2%.

Consumer price inflation in Singapore rose to 0.6% y-o-y in July, maintaining the previous month's pace. The cost of electricity and gas surged 12.7% y-o-y, higher than the 3.7% y-o-y growth in the previous month, due to higher tariffs on electricity. However, this was offset by the decline of 0.2% y-o-y in the cost of private transport, a reversal of the 0.4% y-o-y increase in June, due to lower automobile prices and certificate of entitlement premiums. On a m-o-m basis, Singapore's inflation declined 0.1%, reversing the growth of 0.1% posted in June.

Consumer price inflation in Hong Kong, China was steady at 2.4% y-o-y in July. By category, the fastest rise came from utilities prices, which rose 4.2% y-o-y, followed by food prices, which rose 3.6% y-o-y. Net of the impact of subsidies, consumer price inflation was at 2.7% y-o-y in July, the same rate as in June. The government said that while inflation remains steady, inflation for the second half of 2018 is expected to be higher overall due to a rise in global prices as well as the impact of previous increases in housing rental rates.

For the historical trend of Japan's inflation rate, refer to this link:

<https://asianbondsonline.adb.org/market-watch/#policy-rate-and-inflation-trends-jpn>

Summary Text of News Articles

Consumer Price Inflation Rises in Japan and Malaysia, Remains Unchanged in Singapore and Hong Kong, China in July (cont...)

For the historical trend of Malaysia's inflation rate, refer to this link:

<https://asianbondsonline.adb.org/market-watch/#policy-rate-and-inflation-trends-mal>

For the historical trend of Hong Kong, China's inflation rate, refer to this link:

<https://asianbondsonline.adb.org/market-watch/#policy-rate-and-inflation-trends-hkg>

The Philippines' January–July Balance of Payments Deficit Totals USD3.7 Billion

For the January–July period, the cumulative balance of payments deficit stood at USD3.7 billion, higher than the USD1.4 billion deficit recorded during the same period in 2017. The widening of the deficit was due to the large merchandise trade deficit during the first half of 2018, spurred by the increased raw material imports needed to support the country's economic growth. This comes after the balance of payments posted its seventh consecutive monthly deficit in 2018, with the July deficit amounting to USD455 million.

The Philippines' Budget Deficit Widens in July

Expenditures of the Government of the Philippines exceeded revenues in July, resulting in a budget deficit of PHP86.4 billion, higher than the deficit of PHP50.5 billion posted in July 2017. Government spending surged to PHP328.1 billion on an increase of 34.0% y-o-y, offsetting revenues amounting to PHP241.7 billion, which increased 24.0% y-o-y. Of the total expenditures, PHP283.3 billion constituted primary spending, which grew 41.0% y-o-y. Interest payments accounted for the remaining PHP44.8 billion, a marginal increase from interest payments made in July 2017. From January to July, the total budget deficit stood at PHP279.4 billion.

Bank Indonesia Lowers the Minimum Transaction Limit for Foreign Exchange Swaps to USD2 Million

Last week, Bank Indonesia reduced the minimum transaction limit for foreign exchange hedging through swaps to USD2 million from USD10 million, previously. With the reduced floor for hedging transactions, Bank Indonesia expects the volume of hedging transactions to increase. The hedging facility is available for transactions in US dollars, Japanese yen, euros, and Chinese renminbi. The central bank is also planning to relax documentary requirements for tapping into the facility.

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			1-Jan-18*
		Previous Day*	Previous Week*		
US	2.09	1.25	5.39		71.07
EU	-0.55	-0.40	-1.10		19.60
Japan	-0.16	-0.62	-0.61		0.08
PRC	2.60	-2.00	5.00		-123.00
Hong Kong, China	0.33	0.00	0.00		0.00
India	8.31	0.00	0.00		0.00
Korea, Rep. of	1.56	0.00	0.00		4.70
Malaysia	3.25	0.00	-0.20		29.60
Philippines	3.65	54.19	49.26		121.84
Singapore	1.66	0.00	-4.10		-13.20
Thailand	1.22	0.00	0.00		0.00

Close of 24 August 2018

10-Year Selected LCY Government Bond Yields

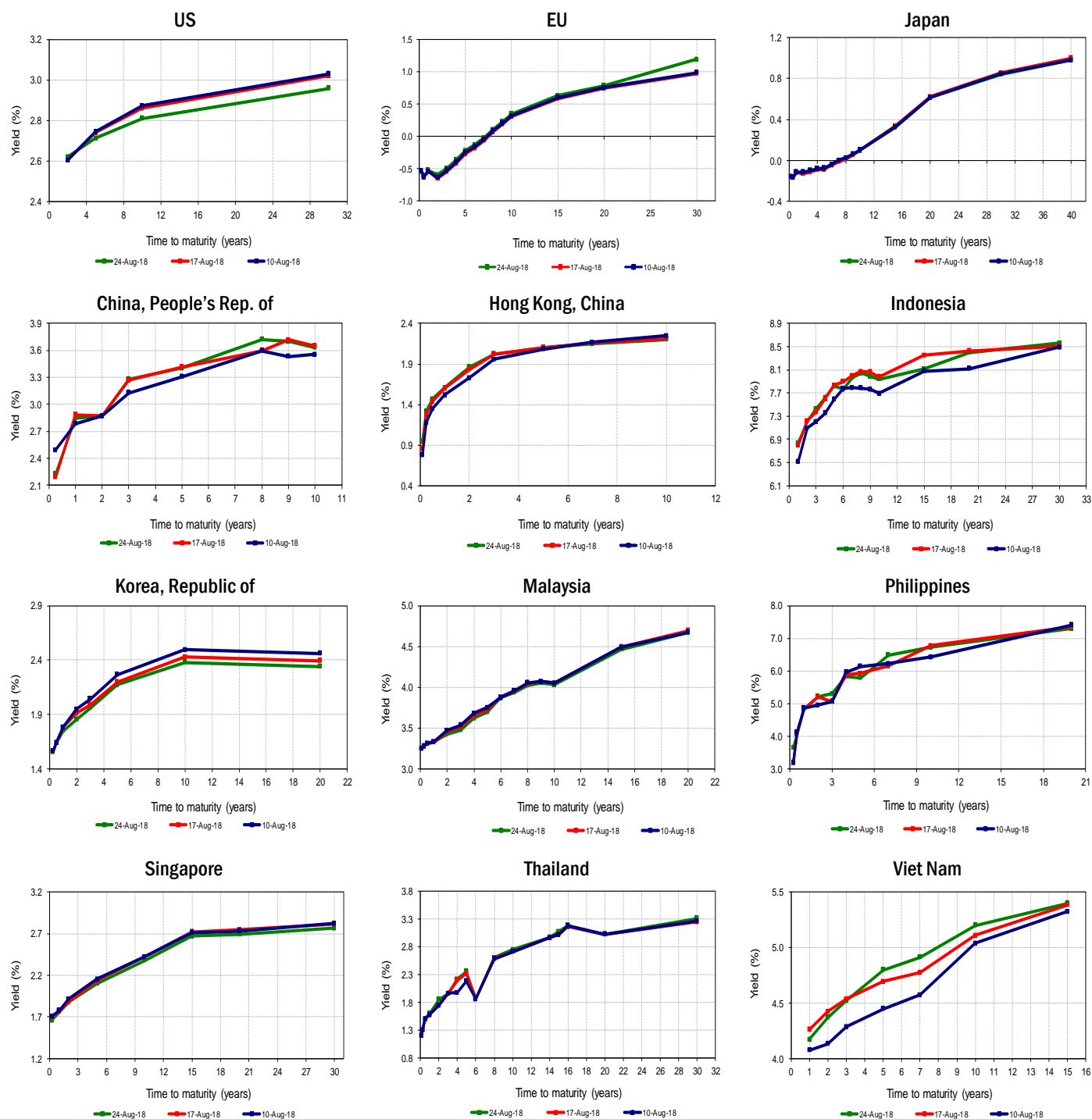
Markets	Latest Closing	basis point change from			1-Jan-18*
		Previous Day*	Previous Week*		
US	2.81	-1.63	-5.07		40.44
EU	0.35	0.60	4.00		-8.20
Japan	0.10	0.10	0.30		5.30
PRC	3.71	1.00	1.00		-31.00
Hong Kong, China	2.20	0.00	-1.00		36.70
India	7.87	-0.60	1.20		53.60
Indonesia	7.94	4.00	-4.10		162.10
Korea, Rep. of	2.38	-1.80	-5.00		-9.00
Malaysia	4.03	0.80	-2.10		11.60
Philippines	6.73	32.50	-4.46		102.64
Singapore	2.38	-0.47	-4.29		37.74
Thailand	2.75	0.20	3.40		42.60
Viet Nam	5.20	3.70	8.70		-0.40

Close of 24 August 2018

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

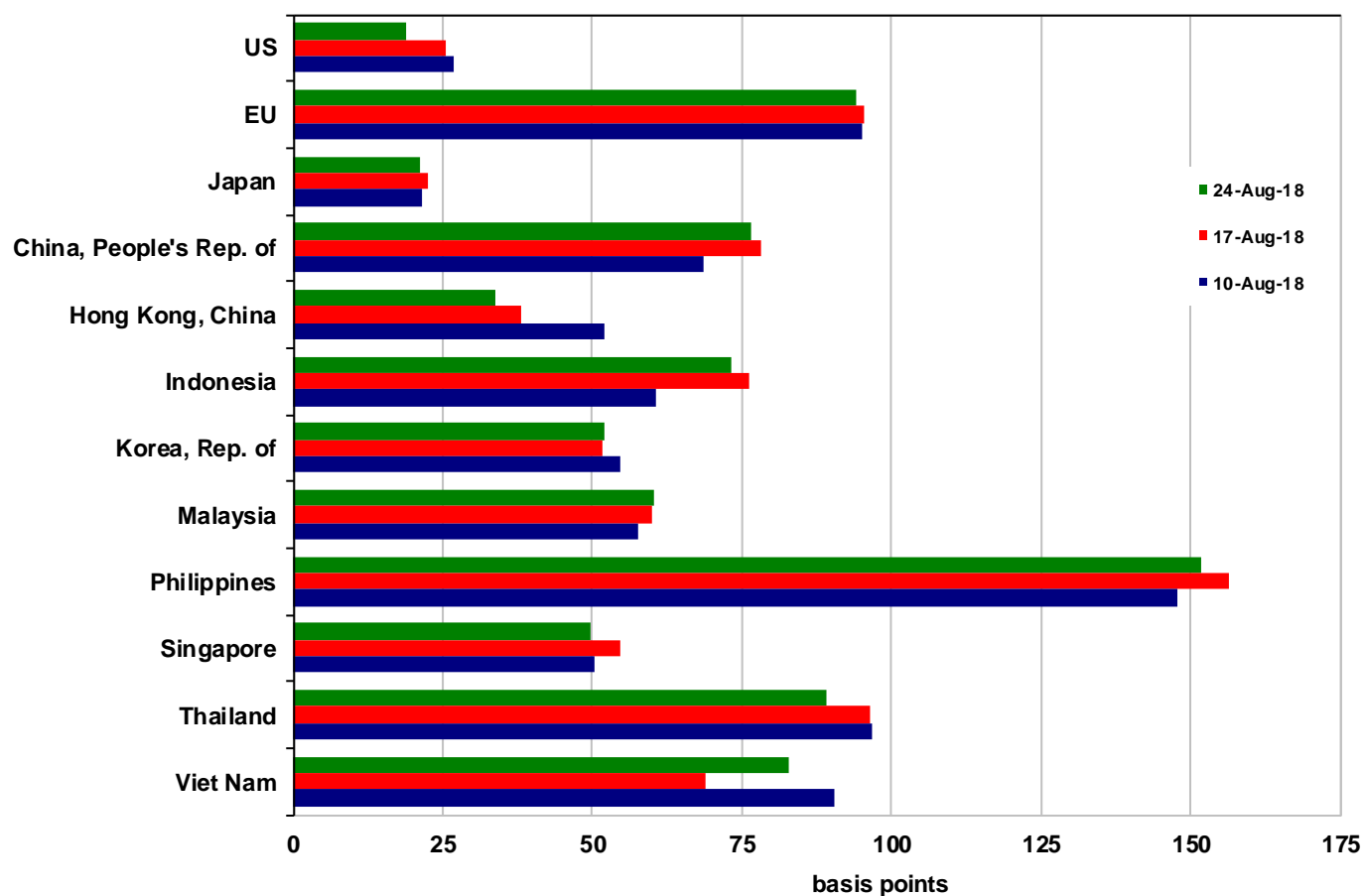


EU = European Union, LCY = local currency US = United States.

Source: Based on data from Bloomberg.

2- versus 10- Year Yield Spread Chart

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



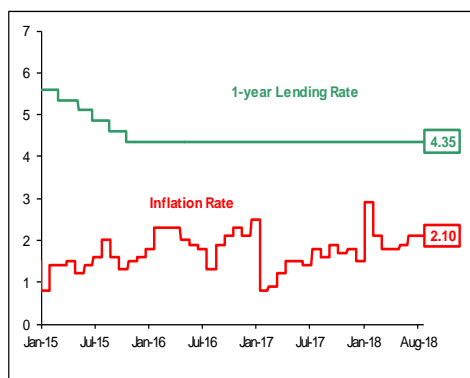
EU = European Union, US = United States.

Source: Based on data from Bloomberg LP.

Policy Rate versus Inflation Rate

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

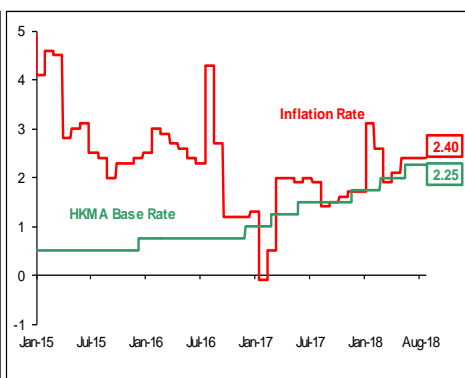
China, People's Rep. of



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

Source: Bloomberg LP.

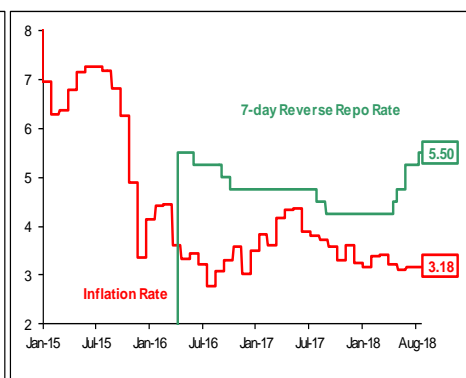
Hong Kong, China



The Hong Kong Monetary Authority maintains a Discount Window Base Rate.

Source: Bloomberg LP.

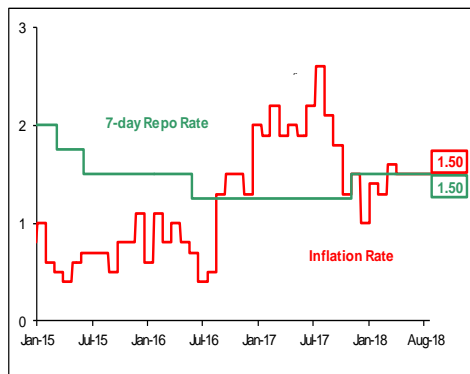
Indonesia



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

Source: Bloomberg LP.

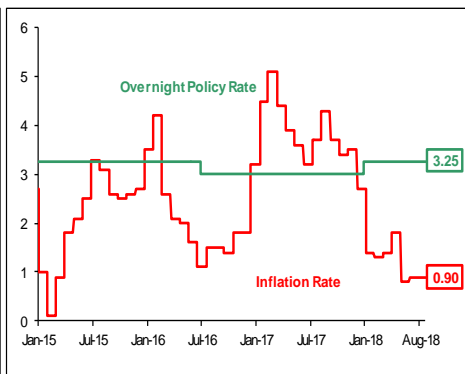
Korea, Republic of



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.

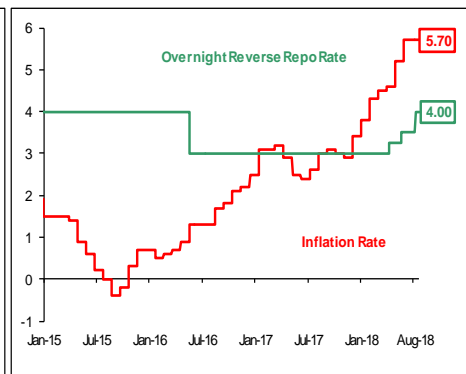
Malaysia



Bank Negara Malaysia uses the overnight policy rate (OPR) as its policy rate.

Source: Bloomberg LP.

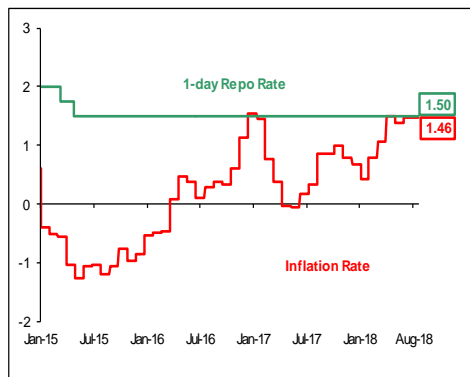
Philippines



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

Source: Bloomberg LP.

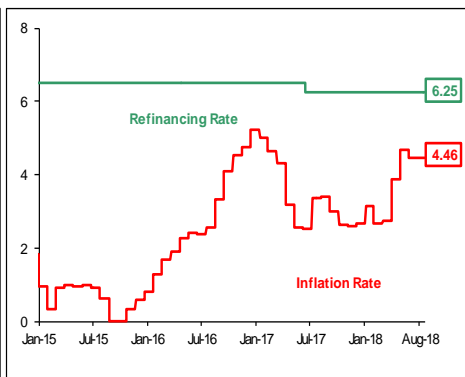
Thailand



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



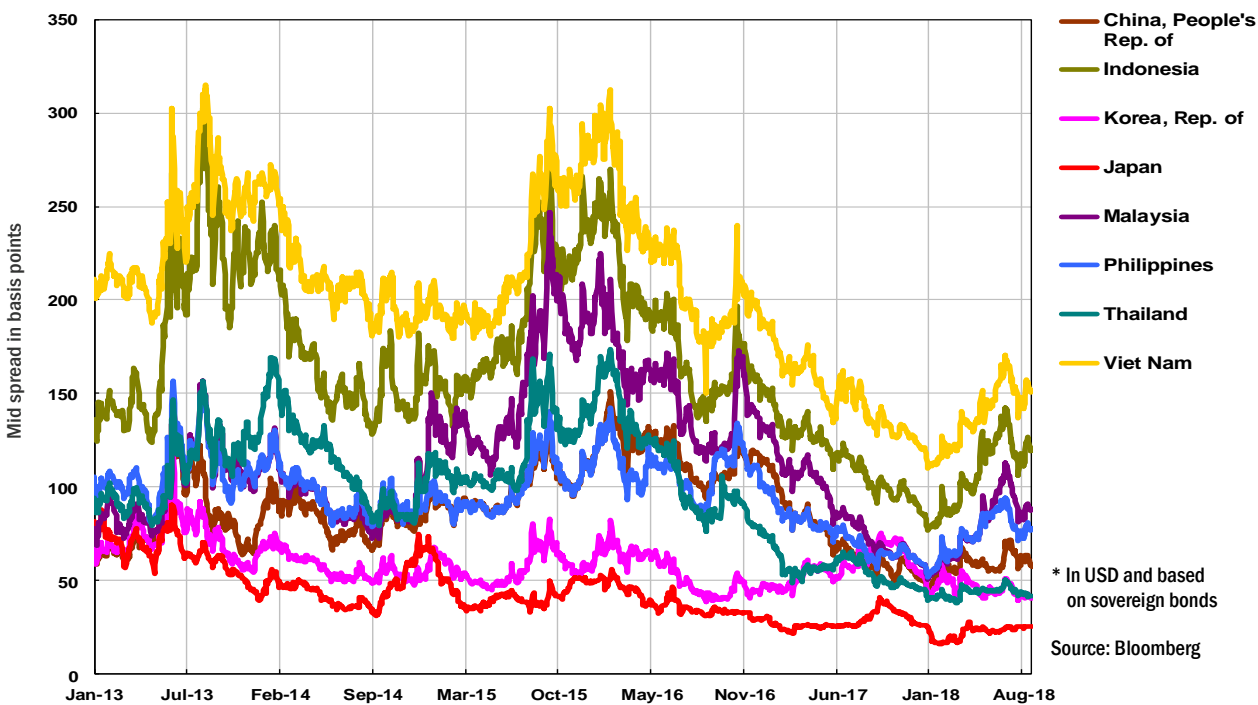
The State Bank of Viet Nam uses a benchmark prime lending rate as its policy rate.

Source: Bloomberg LP.

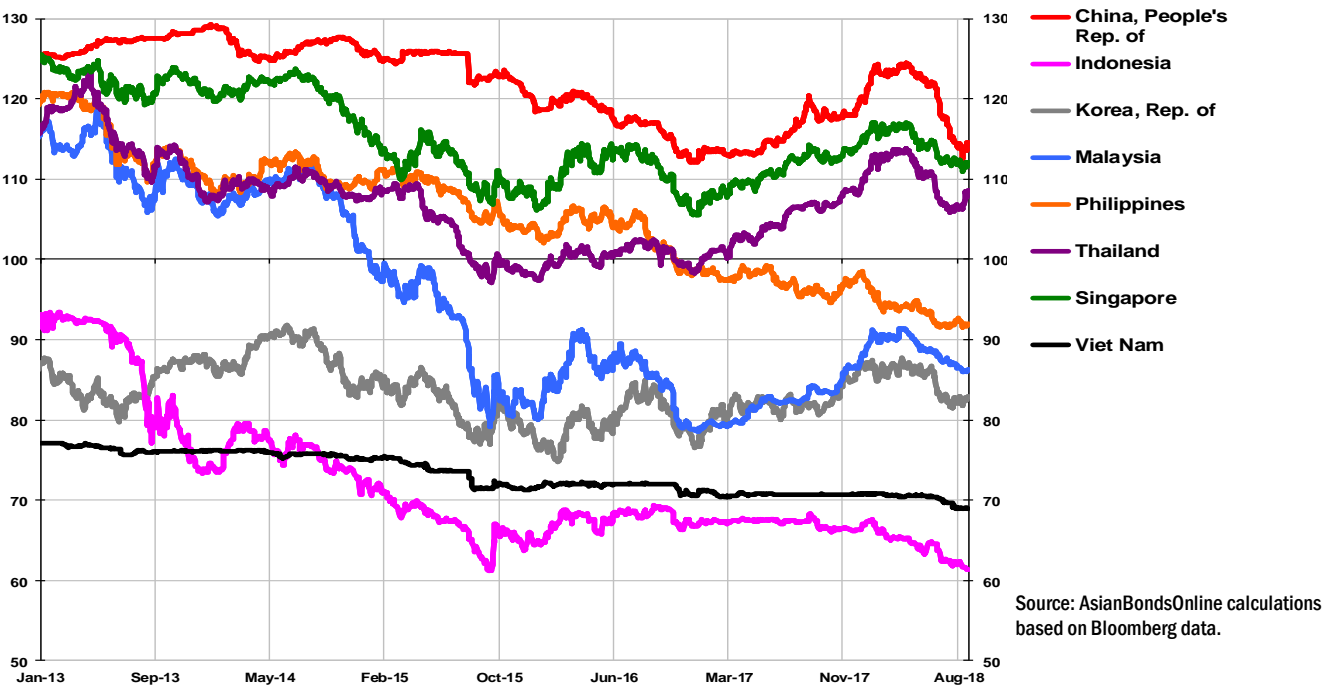
Credit Default Swap Spreads and Exchange Rate Indexes

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 (20 – 24 August 2018)

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	24-Aug	91-day Treasury Bills	2.14		10.00	10.03
HK	21-Aug	91-day Exchange Fund Bills	1.38		3.00	3.00
		182-day Exchange Fund Bills	1.66		14.00	14.00
		364-day Exchange Fund Bills	1.82		50.22	50.22
ID	21-Aug	6-month Islamic Treasury Bills	6.30			3,000.00
		9-month Islamic Treasury Bills	6.54			1,000.00
		2-year Project-Based Sukuk	7.52	6.25	4,000.00	1,120.00
		4-year Project-Based Sukuk	7.69	5.45		500.00
		7-year Project-Based Sukuk	8.25	6.13		135.00
		13-year Project-Based Sukuk	8.61	8.88		510.00
JP	21-Aug	20-year Japanese Government Bonds	0.61	0.50	1,000.00	1,120.70
KR	20-Aug	20-year Korea Treasury Bonds	2.39	2.25	350.00	350.00
		91-day Monetary Stabilization Bonds	1.58		900.00	900.00
PH	20-Aug	91-day Treasury Bills	3.20		4.00	4.00
		182-day Treasury Bills	4.06		5.00	5.00
		363-day Treasury Bills	4.87		6.00	6.00
SG	21-Aug	28-day MAS Bills	1.24		2.50	2.50
		84-day MAS Bills	1.23		5.60	5.60
	24-Aug	168-day MAS Bills	1.27		3.30	3.30
TH	21-Aug	91-day Bank of Thailand Bills	1.28		40.00	40.00
		182-day Bank of Thailand Bills	1.51		35.00	35.00
	22-Aug	13.85-year Treasury Bonds	3.10	3.78	14.00	15.40
	23-Aug	2-year Bank of Thailand Bonds	1.91	1.82	25.00	26.23
	24-Aug	14-day Bank of Thailand Bills	1.16		30.00	30.00
VN	22-Aug	10-year Treasury Bonds	4.60		2,000.00	1,500.00
		15-year Treasury Bonds	4.87		2,000.00	1,400.00

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

Sources: Local market sources and Bloomberg, LP.

Selected Asia Data Releases (28 August – 3 September 2018)

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

Economy and Variable	Release Date	Historical Data	Recent Trends
Korea, Republic of Industrial Production y-o-y, % JUL	08/31	6/17: 1.7% 7/17: 2.3% 5/18: 1.2% 6/18: 0.4%	The Republic of Korea's industrial production growth slowed to 0.4% year-on-year (y-o-y) in June from 1.2% y-o-y in June.
Japan Industrial Production y-o-y, % JUL	08/31	6/17: 4.5% 7/17: 5.0% 5/18: 4.2% 6/18: -0.9%	Japan's industrial production contracted 0.9% y-o-y in June, a reversal from the 4.2% y-o-y growth in May.
China, People's Republic of Manufacturing PMI index AUG	08/31	7/17: 51.4 8/17: 51.7 6/18: 51.5 7/18: 51.2	The People's Republic of China's (PRC) manufacturing Purchasing Managers Index (PMI) fell to 51.2 in July from 51.5 in June.
China, People's Republic of Non-Manufacturing PMI index AUG	08/31	7/17: 54.5 8/17: 53.4 6/18: 55.0 7/18: 54.0	The PRC's nonmanufacturing PMI fell to 54.0 in July from 55.0 in June.
Thailand Exports y-o-y, % JUL	08/31	6/17: 8.0% 7/17: 16.5% 5/18: 13.1% 6/18: 10.0%	Thailand's exports grew 10.0% y-o-y in June, down from 13.1% y-o-y growth in May.
Thailand Imports y-o-y, % JUL	08/31	6/17: 17.7% 7/17: 13.7% 5/18: 12.7% 6/18: 12.9%	Thailand's imports grew slightly faster at 12.9% y-o-y in June versus 12.7% y-o-y in May.
Thailand Trade Balance USD million JUL	08/31	6/17: 1,448 7/17: 3,618 5/18: 2,695 6/18: 2,875	Thailand's trade surplus widened to USD2.9 billion in June from USD2.7 billion in May despite higher import growth than export growth.
Thailand Current Account Balance USD million JUL	08/31	6/17: 2,932 7/17: 5,007 5/18: 958 6/18: 4,084	Thailand's current surplus jumped to USD4.1 billion in June from USD958 million in May.
Korea, Republic of 7-Day Repo Rate % 31 AUG	08/31	7/17: 1.25% 8/17: 1.25% 6/18: 1.50% 7/18: 1.50%	In its monetary policy meeting on 12 July, the Bank of Korea decided to leave its base rate unchanged.
Korea, Republic of Exports y-o-y, % AUG	09/01	7/17: 19.5% 8/17: 17.4% 6/18: -0.2% 7/18: 6.2%	The Republic of Korea's exports rose 6.2% y-o-y in July, following a 0.2% y-o-y contraction in June.
Korea, Republic of Imports y-o-y, % AUG	09/01	7/17: 15.5% 8/17: 14.2% 6/18: 10.8% 7/18: 16.2%	The Republic of Korea's imports rose 10.2% y-o-y in July, faster than the 10.8% y-o-y increase posted in June.
Korea, Republic of Trade Balance USD million AUG	09/03	7/17: 10,223 8/17: 6,556 6/18: 6,141 7/18: 6,912	The Republic of Korea's trade surplus widened to USD6.9 billion in July from USD6.1 billion in June.
Thailand CPI y-o-y, % AUG	09/03	7/17: 0.2% 8/17: 0.3% 6/18: 1.4% 7/18: 1.5%	Thailand's consumer price inflation climbed to 1.5% y-o-y in July from 1.4% y-o-y in June.
Indonesia CPI y-o-y, % AUG	09/03	7/17: 3.9% 8/17: 3.8% 6/18: 3.1% 7/18: 3.2%	Consumer price inflation in Indonesia inched up to 3.2% y-o-y in July from 3.1% y-o-y in June.

Sources: 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)

Thailand's Economy Expanded More Than Expected in Q2 2018

- [Gross Domestic Product: Q2/2018](#)
National Economic and Social Development Board (20 August 2018)
- [Thai Economic Performance in Q2 and Outlook for 2018](#)
National Economic and Social Development Board (20 August 2018)

Singapore's Manufacturing Output Growth Eases 6.0% in July

- [Monthly Manufacturing Performance July 2018](#)
Singapore Economic Development Board (24 August 2018)
- [Monthly Manufacturing Performance – July 2018](#)
Singapore Economic Development Board (24 August 2018)

Consumer Price Inflation Rises in Japan and Malaysia; Remains Unchanged in Singapore and Hong Kong, China in July

- [Consumer Price Index \(2015-base\) \(July 2018, Japan\)](#)
Statistics Japan (24 August 2018)
- [Consumer Price Index Malaysia July 2018](#)
Department of Statistics Malaysia (24 August 2018)
- [Consumer Price Developments in July 2018](#)
Ministry of Trade and Industry (23 August 2018)
- [Singapore Consumer Price Index \(2014 = 100\)](#)
Department of Statistics (23 August 2018)
- [Consumer Price Indices for July 2018](#)
Census and Statistics Department (21 August 2018)

The Philippines' January to July Balance of Payments Deficit Totals USD3.7 Billion

- [Overall BOP Position Posts a Lower Deficit of US\\$455 Million in July 2018](#)
Bangko Sentral ng Pilipinas (20 August 2018)
- [Philippines: Balance of Payments Position](#)
Bangko Sentral ng Pilipinas (20 August 2018)

The Philippines' Budget Deficit Widens in July

- [NG Fiscal Deficit for July 2018 Widens to P86.4 billion](#)
Bureau of the Treasury (22 August 2018)

Bank Indonesia Lowers the Minimum Transaction Limit for Foreign Exchange Swaps to USD2 Million

- [Bank Indonesia Lowers Forex Swap Hedging Floor to \\$2m to Encourage Wider Use](#)
Jakarta Globe (22 August 2018)
- [BI to Lower Hedging Cost via Swap Transaction](#)
The Insider Stories (21 August 2018)

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