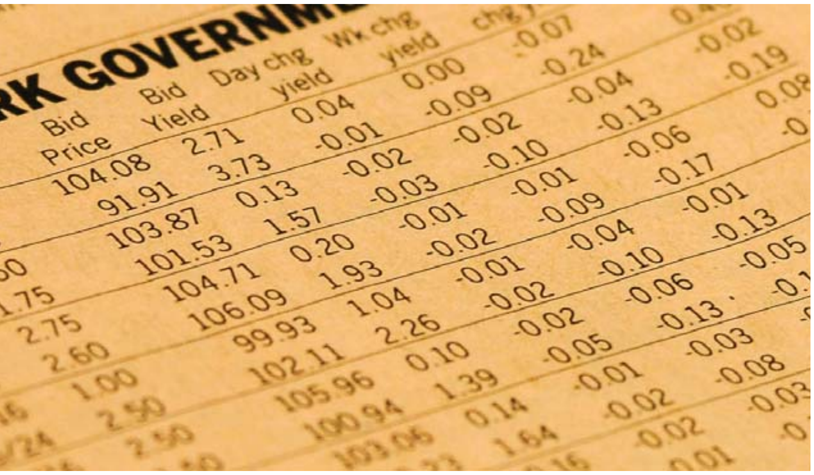

ASIA BOND MONITOR
NOVEMBER 2015

ASIAN DEVELOPMENT BANK

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Contents

Emerging East Asian Local Currency Bond Markets: A Regional Update

Emerging East Asian Local Currency Bond Markets: A Regional Update

Highlights

Bond Market Outlook

Yields for emerging East Asian bonds have declined as investor sentiments have improved.[1] Financial markets have been calmer in recent months with the United States (US) Federal Reserve holding back from raising interest rates and the People's Republic of China (PRC) undertaking monetary stimulus. With inflation in the US remaining low and economic growth tepid, the much-anticipated US interest rate hike has been pushed back to December at the earliest. With inflationary pressures remaining muted, bond yields in advanced economies have eased. Subdued growth and weaker oil prices have put further downward pressure on inflation.

Yields for 10-year local currency (LCY) government bonds in emerging East Asia were mostly down between 1 September and 31 October. Investor confidence was buoyed as financial markets in the region stabilized and stock markets staged a recovery. The Philippines had the largest drop in 10-year bond yields in the region with a decline of 64 basis points (bps). The PRC; Hong Kong, China; and Singapore all saw 10-year bond yields decline by more than 30 bps. Only Indonesia experienced an increase of a marginal 7 bps.

Over the same period, most emerging East Asian currencies gained against the US dollar, reflecting improved investor sentiments. The Indonesian rupiah and Korean won appreciated the most against the US dollar among the region's currencies, rising by 2.9% and 2.7%, respectively. Meanwhile, the Malaysian ringgit retreated against the US dollar, depreciating by 3.3%.

The risks to emerging East Asian bond markets are easing. The Federal Reserve looks likely to raise interest rates in December, which could result in outflows from the region's bond markets. That said, the region is better prepared to deal with the effects of a rate rise this time around, even if low levels of liquidity in the bond market could exacerbate the impact of an outflow of funds. There are concerns that liquidity is tightening because banks are cutting back on their bond inventories. Limited liquidity in the region's bond markets could mean there are few buyers at a time when investors are looking to sell their bonds, resulting in large price swings that could make the bond market look riskier and induce greater outflows. Slowing economic growth in emerging East Asia could lead to weaker fiscal conditions for governments, while corporates would likely see their profits reduced. These factors could lead to ratings downgrades for some of the region's bonds. Increased risk perception could also push up yields and make it harder for corporates to raise funds through the bond market.

LCY Bond Market Growth in Emerging East Asia

Emerging East Asia's LCY bond market grew 5.8% quarter-on-quarter (q-o-q) and 14.7% year-on-year (y-o-y) in 3Q15 to level off at US$8,782 billion at the end of September. Both q-o-q and y-o-y growth rates were higher than in 2Q15. Six out of nine emerging East Asian markets experienced positive growth in 3Q15—the PRC; Hong Kong, China; Indonesia; the Republic of Korea; the Philippines; and Thailand—while three markets recorded negative growth—Malaysia, Singapore, and Viet Nam.

The PRC remained the largest LCY bond market in the region with an outstanding bond stock of US$5,891 billion at the end of September. It was also the fastest growing market in the region in 3Q15. The Republic of Korea and Thailand were the second and third largest markets in the region, respectively.

As a share of gross domestic product (GDP), emerging East Asia's LCY bond market stood at 60.9% at the end of September, up from its end-June level of 59.4%. The Republic of Korea posted the highest ratio of LCY bonds outstanding to GDP among all emerging East Asian markets at 125.1%.

Emerging East Asian LCY bond issuance expanded to US$1,589 billion in 3Q15 from US$1,423 billion in 2Q15 and US$1,129 billion in 3Q14, led by relatively strong issuance growth in the PRC and Hong Kong, China.

[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.

Structural Developments in Emerging East Asia's LCY Bond Markets

Foreign investors' shares of the LCY government bond markets in Indonesia and Malaysia fell in 3Q15 from the previous quarter amid mounting concerns over a possible rate hike by the Federal Reserve in the run-up to its Federal Open Market Committee meeting in September, and the unexpected Chinese renminbi devaluation in August. Foreign investors' shares of government bond markets were also down in the Republic of Korea and Thailand in 2Q15, the latest quarter for which data for these markets are available. Foreign investor participation in LCY corporate bond markets in Indonesia and the Republic of Korea remained weak.

All four emerging East Asian bond markets for which capital flows data are available—Indonesia, the Republic of Korea, Malaysia, and Thailand—showed net capital outflows in August and September.

LCY Bond Yields

LCY government bond yields generally fell in most emerging East Asian markets. Weak economic growth in the region, especially in the PRC, coupled with low oil and commodity prices, has kept inflation contained, driving yields down in all markets except Indonesia and the Philippines. Yield spreads between the 2-year and 10-year tenors narrowed in all emerging East Asian markets except Malaysia and Viet Nam.

Credit spreads between AAA-rated corporate bonds and government bonds generally rose in those emerging East Asian markets for which data are available—the PRC, the Republic of Korea, and Malaysia—with the rise in spreads mostly due to increased credit concerns amid a weak growth outlook. In addition, credit spreads between lower-rated corporate bonds and AAA-rated bonds were roughly unchanged.

Special Section: *AsianBondsOnline* Bond Market Liquidity Survey

AsianBondsOnline undertakes a bond market liquidity survey annually to assess liquidity conditions in emerging East Asian LCY bond markets. Survey participants include, among others, fixed-income traders and dealers, brokers, portfolio and asset managers, bond market researchers and strategists, and bond pricing associations and regulatory agencies. *AsianBondsOnline* conducted the 2015 survey mostly through face-to-face interviews and meetings, and via email correspondence, in September and October.

Overall, liquidity conditions in the region's LCY bond markets appear to have tightened in 2015 compared with 2014. Survey results reveal that average bid–ask spreads for both LCY government and corporate bonds are higher in most emerging East Asian markets in 2015 compared with the previous year. The region's LCY government bond markets continue to be more liquid than LCY corporate bond markets.

Survey results also show that greater investor diversity remained the most important structural issue in boosting the liquidity of the region's LCY government and corporate bond markets. This implies that there are a few dominant investor groups in the region's LCY bond markets.

Global and Regional Market Developments

Yields for emerging East Asian bonds have declined as investor sentiments have improved.[2] Financial markets have been calmer in recent months with the United States (US) Federal Reserve holding back from raising interest rates and the People's Republic of China (PRC) undertaking monetary stimulus. With inflation in the US remaining low and economic growth tepid, the much-anticipated US interest rate hike has been pushed back to December at the earliest. With inflationary pressures remaining muted, bond yields in advanced economies have eased. Subdued growth and weaker oil prices have put further downward pressure on inflation.

The US economy moderated in 3Q15, growing by an annual rate of 1.5%, based on advance estimates, down from 3.9% in 2Q15. A drawdown of inventories combined with a drop in private investment contributed to the slower growth. The slowing US economy might give reason for the Federal Reserve to postpone its rate hike until next year. However, some of the drag on the economy, such as the inventory rundown, is temporary and consumer spending has remained strong, easing only slightly, which could give the Federal Reserve an opening to raise interest rates in December.

Similarly, the eurozone's economic recovery remains tepid with quarterly gross domestic product growth of just 0.3% in 3Q15 down from 0.4% in the previous quarter. Faced with a weakening growth outlook, the European Central Bank has signaled that it is ready to pursue more aggressive monetary expansion to counter deflationary pressures. Slowing growth in Asia also contributed to Japan's economy entering into a technical recession in 3Q15 contracting by an annualized rate of 0.8%, after falling by 0.7% in 2Q15.

Yields for 10-year local currency (LCY) government bonds in emerging East Asia were mostly down between 1 September and 31 October **(Table A)**. Investor confidence was buoyed as financial markets in the region stabilized and stock markets staged a recovery. The Philippines had the largest drop in 10-year bond yields in the region with a decline of 64 basis points (bps). The PRC; Hong Kong, China; and Singapore all saw 10-year bond yields decline by more than 30 bps. Only Indonesia experienced an increase of a marginal 7 bps.

Over the same period, most emerging East Asian currencies gained against the US dollar, reflecting improved investor sentiments. The Indonesian rupiah and Korean won appreciated the most against the US dollar, rising by 2.9% and 2.7%, respectively. Meanwhile, the Malaysian ringgit retreated against the US dollar, depreciating by 3.3%.

Credit default swap (CDS) spreads across emerging East Asia have been declining after peaking in September. **(Figure A)**. The initial rise in CDS spreads reflected concerns about slowing growth in the region.However, CDS spreads started falling as PRC growth concerns diminished due to stimulus measures taken by the central bank. CDS spreads in Indonesia, Malaysia, Thailand, and Viet Nam all declined substantially. In Europe, CDS spreads in Ireland, Italy, Portugal, and Spain have remained relatively stable **(Figure B)**. Financial market conditions have also improved in the US and the volatility index has dropped sharply after spiking in August. In line with calmer market conditions, emerging market spreads, which had been on a rising trend, pulled back toward the end of October. **(Figure C)**.

In the eurozone, bond yields have been easing with growth sluggish and the economy in deflationary territory. In September, consumer prices fell 0.1% year-on-year (y-o-y), prompting the European Central Bank to signal that it will consider further expansionary measures in December **(Figure D)**. Japanese and US bond yields have also been on a downward trend. In emerging East Asia, risk premiums have been falling. The delay in the Federal Reserve's interest rate hike and prospects of further monetary easing in Europe have helped buoy the market **(Figure E)**.

Foreign holdings of Indonesian LCY government bonds as a share of total bonds outstanding declined in 3Q15, dipping to 37.6% at the end of September from 39.6% in the previous quarter. Foreign holdings of LCY government bonds in Malaysia declined to 30.5% at the end of

[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	2	(1)	...	8.6	0.0
United Kingdom	(6)	(1)	(2)	5.0	(0.8)
Japan	(0.2)	(5)	5	5.2	(1.0)
Germany	(10)	(28)	(0.5)	8.3	2.7
Emerging East Asia					
China, People's Rep. of	5	(32)	(17)	6.8	0.7
Hong Kong, China	(14)	(32)	...	6.9	(0.006)
Indonesia	26	7	(26)	1.0	2.9
Korea, Rep. of	(3)	(19)	(11)	6.0	2.7
Malaysia	(31)	(12)	12	3.5	(3.3)
Philippines	(25)	(64)	(19)	0.7	(0.3)
Singapore	17	(37)	...	4.0	0.8
Thailand	(4)	(15)	(20)	2.4	0.3
Viet Nam	(5)	0	6	8.0	0.7
Select European Markets					
Greece	89	(134)	(426)	12.8	2.7
Ireland	(11)	(30)	(5)	2.7	2.7
Italy	(19)	(49)	(14)	4.6	2.7
Portugal	5	(14)	(2)	6.7	2.7
Spain	(14)	(44)	(13)	3.7	2.7

... = data not available, ( ) = negative, bps = basis points, FX = foreign exchange.
Notes:
1. Data reflect changes between 1 September and 31 October 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).

September from 32.4% at the end of June **(Figure F)**. Slower economic growth and weakening currencies have made these bonds less attractive.

The risks to the region's bond markets are easing.

The Federal Reserve looks likely to raise interest rates in December, which could result in outflows from the region's bond markets. The Federal Reserve is expected to hike interest rates in December, which could reduce the attractiveness of the region's bonds and prompt an outflow of funds. That said, the region is better prepared to deal with the effects of a rate rise this time around. The region's bond markets have had plenty of time to prepare for the impending rise and investors may already have gradually reallocated their portfolio. When the rate hike occurs, it could be welcomed as an end to the uncertainty. A gradual withdrawal of funds is not likely to have a major adverse impact on the region's bond markets.

Low levels of liquidity in the region's bond markets could exacerbate the impact of an outflow of funds. The smooth functioning of a bond market requires sufficient liquidity to enable investors to buy and sell bonds at minimal cost. However, there are concerns that liquidity is tightening in the region's markets because banks are cutting back on their bond inventories. While investors' sentiments have improved in recent months, there remains the risk of large destabilizing outflows of funds from the region's bond markets. Limited liquidity could mean there are few buyers at a time when investors are looking to sell their bonds, resulting in large price swings that could make bond markets look riskier and induce greater outflows.

Slowing economic growth in emerging East Asia could lead to bond rating downgrades. After a strong expansion over the past few years, growth in the region's economies has been trending downward lately. The more difficult economic environment could lead to weaker fiscal conditions for governments, while corporates will likely see their profits reduced. These factors could lead to a ratings downgrade for some of the region's bonds. The increased risk perception could also push up yields and make it harder for corporates to raise funds through the bond market.

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

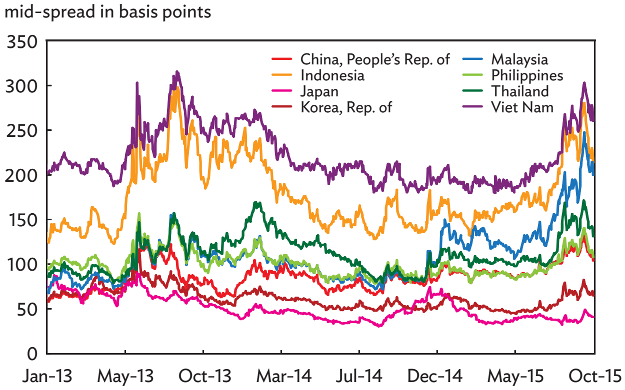


Figure B: Credit Default Swap Spreads for Select European Markets[a, b] (senior 5-year)

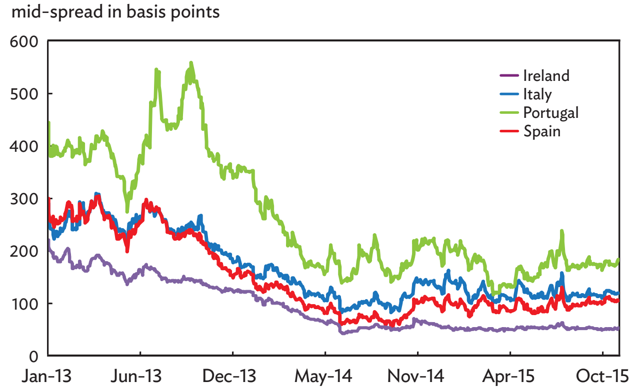


Figure C: US Equity Volatility and Emerging Market Sovereign Bond Spreads[b]

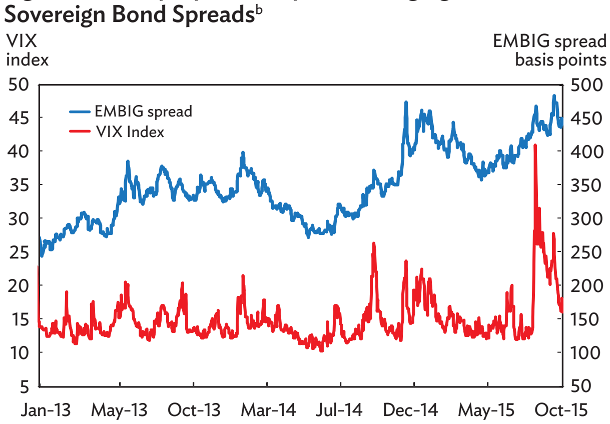


Figure D: 10-Year Government Bond Yields[b] (% per annum)

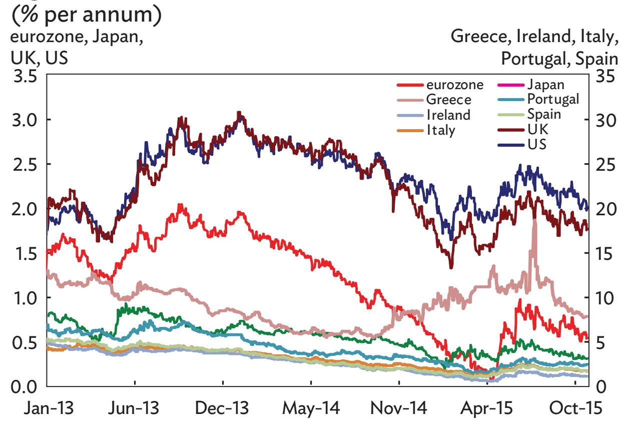


Figure E: JPMorgan EMBI Sovereign Stripped Spreads[a, b]

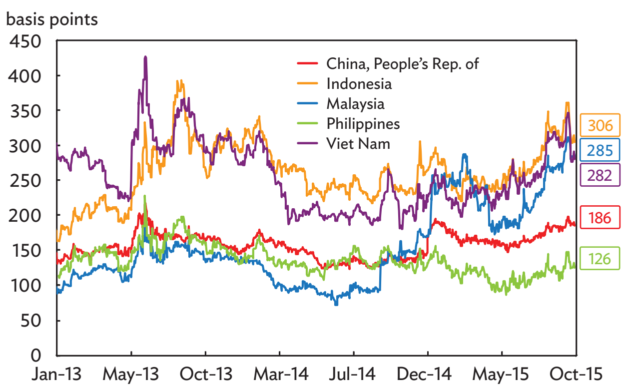
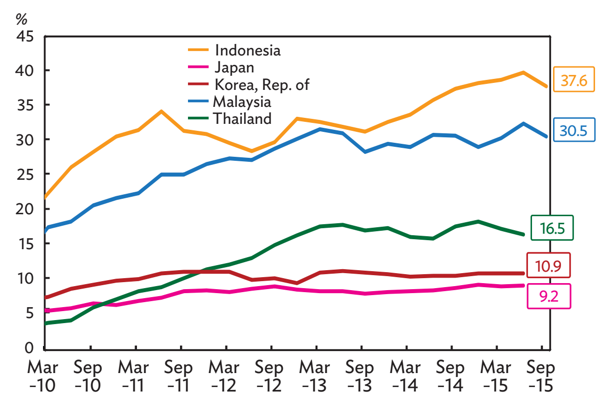


Figure F: Foreign Holdings of LCY Government Bonds in Select Asian Economies[c] (% of total)



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 15 October 2015.

[c] Data as of end-June 2015 except for Indonesia and Malaysia (end-September 2015).

Sources: *AsianBondsOnline* and Bloomberg LP.

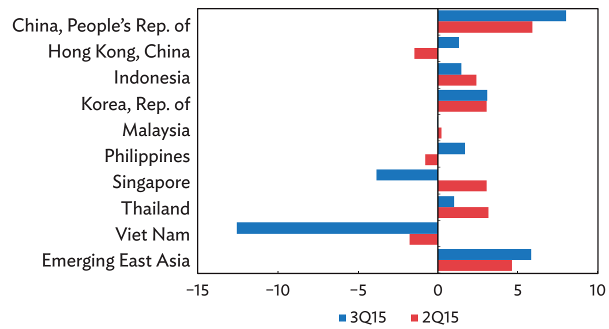
Bond Market Developments in the Third Quarter of 2015

Size and Composition

Emerging East Asia's local currency bond market expanded to a size of US$8,782 billion at the end of September.[3]

Emerging East Asia's local currency (LCY) bond market continued to expand in 3Q15 to reach a size of US$8,782 billion at the end of September. The overall growth of the region's LCY bond market accelerated at a much faster pace of 5.8% quarter-on-quarter (q-o-q) in 3Q15 against 4.6% q-o-q in 2Q15 **(Figure 1a)**. Growth was driven by the People's Republic of China (PRC) (8.0% q-o-q) and the Republic of Korea (3.1% q-o-q), which are the region's two largest markets. All other markets reported q-o-q growth rates of between 1.0% and 1.7%, except for Malaysia, Singapore, and Viet Nam, which experienced contractions during the review period.

Figure 1a: Growth of LCY Bond Markets in 2Q15 and 3Q15 (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 September 2015 currency exchange rates and do not include currency effects.
4. For Hong Kong, China, 3Q15 corporate bonds outstanding based on *AsianBondsOnline* estimate. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Thailand, 3Q15 government and corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Japan, 3Q15 government and corporate bonds outstanding carried over from August 2015.

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*, Ministry of Strategy and Finance, 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 PRC's bond market remained the largest in emerging East Asia at US$5,891 billion at the end of September. Its share of the region's aggregate bond stock climbed to 67.1% in 3Q15 from 64.8% in 2Q15. The PRC was also the fastest growing market on a q-o-q basis, posting growth of 8.0% in 3Q15, up from 5.9% in 2Q15. The strong q-o-q growth in 3Q15 came about from increases in its stocks of government bonds (9.9%) and corporate bonds (4.7%), supported by easing monetary policy as the People's Bank of China (PBOC) reduced policy rates and reserve requirement ratios.

Growth in the PRC's government bond market was boosted by increases in local government bonds resulting from a large amount of maturing debt this year. Corporate bond market growth in the PRC was supported by a rise in commercial paper. On the other hand, the stock of central bank bonds continued to decline due to the absence of issuance by the PBOC since December 2013. The PBOC is using other means to adjust liquidity such as repurchase agreements, adjustments to reserve requirement ratios, and the standing lending facility.

The Republic of Korea remained the second largest bond market in the region and also recorded the second fastest q-o-q growth rate in 3Q15. The total outstanding LCY bond stock in the Republic of Korea reached US$1,703 billion at the end of September on 3.1% q-o-q growth. Growth was largely driven by increases in the stock of government bonds, particularly Treasury bonds and industrial finance debentures. The Republic of Korea's corporate bond sector recorded modest growth of 2.9% q-o-q in 3Q15 on the back of increases in the stock of special public bonds, financial debentures, and private corporate bonds. In contrast, central bank bonds declined in 3Q15 due to falling issuance.

At the end of September, Thailand's outstanding bond stock stood at US$267 billion on growth of 1.0% q-o-q. Growth in 3Q15 was largely driven by an increase in the stock of corporate bonds, while the stock of government bonds contracted.

[3] 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.

The LCY bond market in Malaysia contracted a marginal 0.01% q-o-q in 3Q15 to US$245 billion at the end of September. Increases in the stock of central bank bills, *Sukuk Perumahaan Kerajaan*, and corporate bonds were more than offset by a decline in the stock of central government bonds.[4] In 3Q15, there was less issuance of Government Investment Issues. Combined with maturing debt, this resulted in an overall decline in the stock of central government bonds. On the other hand, Bank Negara Malaysia resumed issuance of monetary notes in August after it had ceased issuance at the start of the year.

At the end of September, about 53% of Malaysia's LCY bond market comprised *sukuk* (Islamic bonds). (Malaysia maintained its position as the region's largest *sukuk* market in 3Q15.) *Sukuk* accounted for about 72% of Malaysia's LCY corporate bond stock and about 39% of the government bond stock at the end of September.

In Singapore, the LCY bond market contracted to a size of US$224 billion at the end of September, posting a 3.9% q-o-q decline. Government bonds contracted in 3Q15 as the stocks of Singapore Government Securities bills and bonds, and Monetary Authority of Singapore bills declined during the review period. The corporate bond market saw weak growth in 3Q15 on fewer new corporate debt issues.

The LCY bond market of Hong Kong, China reached a size of US$199 billion at the end of September on growth of 1.3% q-o-q. Growth was led mainly by government bonds, specifically Exchange Fund Bills and Hong Kong Special Administrative Region bonds. The Hong Kong Monetary Authority increased its issuance of Exchange Fund Bills in 3Q15 to mop up liquidity as some investors shifted their preference from renminbi deposits to Hong Kong dollar-denominated assets after the unexpected depreciation of the renminbi in August.

In Indonesia, LCY bonds outstanding climbed to US$115 billion at the end of September on 1.5% q-o-q growth that was driven by increases in the stocks of central government bonds and corporate bonds. In contrast, the stock of central bank bills declined as Bank Indonesia focused on other monetary policy tools to siphon excess liquidity from the market. Bank Indonesia only resumed issuance of conventional *Sertifikat* Bank Indonesia (SBI) in August after it had limited issuance to *shari'ah*-compliant SBI between April and July.

At the end of September, the LCY bond market in the Philippines stood at US$101 billion, expanding 1.7% q-o-q in 3Q15. The outstanding stock of government bonds climbed 1.1% q-o-q, buoyed by a bond swap in September. New issuance of corporate bonds also contributed to the growth.

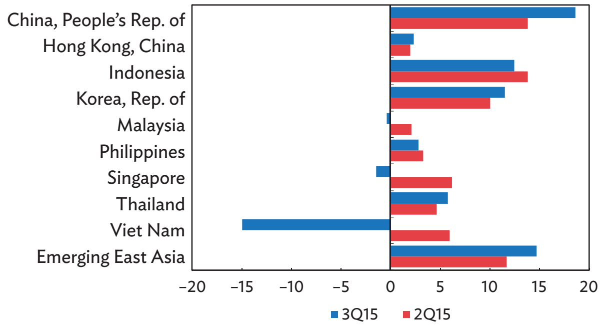
The LCY bond market in Viet Nam declined to US$37 billion at the end of September, contracting 12.6% q-o-q in 3Q15. Both Treasury bonds and central bank bonds declined during the review period, while only state-owned enterprise bonds experienced growth in 3Q15. Investors have sought higher yields at government auctions, resulting in most auctions falling short of target. Furthermore, banks, who are the largest holder of government bonds in Viet Nam, opted to channel most of their funds toward lending activities in 3Q15.

On a year-on-year (y-o-y) basis, emerging East Asia's LCY bond market expanded 14.7% in 3Q15 following 11.6% y-o-y growth in 2Q15 **(Figure 1b)**. The PRC (18.6%), Indonesia (12.4%), and the Republic of Korea (11.5%) were the fastest growing bond markets on a y-o-y basis. All other emerging East Asian markets posted y-o-y growth rates of between 2.4% and 5.8%, with the exception of Malaysia, Singapore, and Viet Nam, which all saw a y-o-y decline in their respective bond markets.

Government bonds continued to dominate emerging East Asia's LCY bond market, increasing as a share of the region's total outstanding bonds from 60.2% in 2Q15 to 61.1% in 3Q15 **(Table 1)**. At the end of September, total government bonds stood at US$5,366 billion on growth of 7.2% q-o-q and 16.7% y-o-y. The largest government bond markets in the region were those of the PRC (US$3,862 billion), the Republic of Korea (US$703 billion), and Thailand (US$200 billion). The PRC's government bond market accounted for 72.0% of emerging East Asia's total government bond stock at the end of September. The government bond market exceeds the corporate bond market in size in all emerging East Asian economies except the Republic of Korea, where the corporate bond market comprised 58.7% of its aggregate bond stock at the end of September.

[4] *Sukuk Perumahan Kerajaan* are Islamic bonds issued by the government to refinance housing loans to government employees and to extend new housing loans.

Figure 1b: Growth of LCY Bond Markets in 2Q15 and 3Q15 (y-o-y, %)



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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*, Ministry of Strategy and Finance, 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).

Emerging East Asia's corporate bond stock stood at US$3,416 billion at the end of September, up 3.7% q-o-q and 11.6% y-o-y. The PRC (US$2,029 billion) and the Republic of Korea (US$1,000 billion) were home to the largest corporate bond markets in the region, representing shares of 59.4% and 29.3% of the region's total, respectively. The remaining emerging East Asian markets accounted for a cumulative share of 11.3% of the region's total corporate bond stock.

As a share of gross domestic product (GDP), the size of emerging East Asia's LCY bond market climbed to 60.9% in 3Q15 from 59.4% in 2Q15 **(Table 2)**. The ratio of government bonds to GDP rose to 37.2% in 3Q15 from 35.8% in 2Q15, while the ratio of corporate bonds to GDP was largely unchanged at 23.7% in 3Q15 from 23.6% in 2Q15. As a share of GDP, the largest bond market was that of the Republic of Korea with a bond-to-GDP ratio of 125.1%. The next highest bond-to-GDP ratios were those of Malaysia (81.8%) and Singapore (76.4%).

Foreign investors cut their holdings of LCY governments bonds in Emerging East Asia.

Foreign investors' holdings of emerging East Asia's LCY government bonds declined in 3Q15 as markets were rattled by mounting concerns of a possible rate hike by the United States (US) Federal Reserve in the run-up to its Federal Open Market Committee meeting in September, and the unexpected devaluation of the Chinese renminbi in August. Foreign investors moved out of emerging market assets as they positioned themselves ahead of the expected US rate hike. While the Federal Reserve did not raise rates in September, concerns over an eventual rate hike resulted in a decline in foreign holdings of LCY government bonds for most emerging East Asian markets in 3Q15.

The largest declines were noted in Indonesia and Malaysia, where the holdings of foreign investors slipped about 2 percentage points each in 3Q15. More than 30% of LCY government bonds are held by foreign investors in both Indonesia and Malaysia, exposing their markets to the risk of capital flight in times of market stress. The currencies of Indonesia and Malaysia have also weakened the most versus the US dollar year-to-date among all emerging East Asian economies.

Foreign holdings of Indonesian LCY government bonds declined to 37.6% of the total in 3Q15 from 39.6% in 2Q15 **(Figure 2)**. While foreign ownership of Indonesian government bonds has declined, it is still high compared with other markets in the region for which data are available. Foreign investors continued to be attracted to Indonesian government bonds by yields that are the highest in the region. Market participants in the 2015 *AsianBondsOnline* Liquidity Survey cited Indonesia's long-term macro fundamentals as another driver of investment in Indonesian government bonds. Some sovereign wealth funds and central banks have accumulated Indonesian government bonds as part of their reserve diversification strategy.

Foreign investors reduced their holdings of Malaysian government bonds to a share of 30.5% in 3Q15 from 32.4% in 2Q15. Despite the ringgit's depreciation in 2015, most investors are holding onto MYR-denominated bonds because of Malaysia's long-term economic fundamentals.

Table 1: Size and Composition of LCY Bond Markets

	3Q14		2Q15		3Q15		Growth Rate (LCY-base %)				Growth Rate (US$-base %)			
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	3Q14		3Q15		3Q14		3Q15	
							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	5,143	100.0	5,590	100.0	5,891	100.0	3.7	13.4	8.0	18.6	4.7	13.0	5.4	14.5
Government	3,315	64.5	3,603	64.5	3,862	65.6	3.7	12.3	9.9	20.6	4.8	12.0	7.2	16.5
Corporate	1,828	35.5	1,987	35.5	2,029	34.4	3.6	15.3	4.7	14.9	4.7	14.9	2.1	11.0
Hong Kong, China														
Total	194	100.0	196	100.0	199	100.0	0.9	0.7	1.3	2.4	0.7	0.6	1.3	2.6
Government	110	56.8	109	55.5	113	56.8	0.8	2.2	3.6	2.4	0.6	2.0	3.7	2.6
Corporate	84	43.2	87	44.5	86	43.2	1.1	(1.1)	(1.6)	2.4	0.9	(1.2)	(1.6)	2.6
Indonesia														
Total	124	100.0	125	100.0	115	100.0	2.7	22.7	1.5	12.4	0.1	14.9	(7.6)	(6.5)
Government	105	85.4	107	85.7	98	85.3	2.9	27.1	0.9	12.3	0.3	18.9	(8.1)	(6.6)
Corporate	18	14.6	18	14.3	17	14.7	1.3	2.5	4.4	13.4	(1.3)	(4.1)	(4.9)	(5.7)
Korea, Rep. of														
Total	1,715	100.0	1,756	100.0	1,703	100.0	1.7	7.7	3.1	11.5	(2.5)	9.7	(3.0)	(0.7)
Government	674	39.3	722	41.1	703	41.3	1.6	10.3	3.4	17.0	(2.6)	12.3	(2.7)	4.2
Corporate	1,041	60.7	1,033	58.9	1,000	58.7	1.8	6.1	2.9	7.9	(2.4)	8.0	(3.2)	(3.9)
Malaysia														
Total	329	100.0	285	100.0	245	100.0	2.5	8.7	(0.01)	(0.3)	0.3	8.0	(14.2)	(25.6)
Government	193	58.6	161	56.5	137	55.9	3.4	8.4	(1.0)	(4.9)	1.2	7.7	(15.0)	(29.0)
Corporate	136	41.4	124	43.5	108	44.1	1.1	9.0	1.3	6.1	(1.0)	8.3	(13.1)	(20.8)
Philippines														
Total	102	100.0	103	100.0	101	100.0	2.2	6.7	1.7	2.8	(0.8)	3.1	(1.8)	(1.1)
Government	86	83.7	86	83.9	84	83.4	0.7	2.2	1.1	2.4	(2.2)	(1.2)	(2.4)	(1.4)
Corporate	17	16.3	17	16.1	17	16.6	10.4	37.5	4.7	4.8	7.2	33.0	1.1	0.8
Singapore														
Total	253	100.0	246	100.0	224	100.0	3.5	6.4	(3.9)	(1.4)	1.2	4.8	(8.9)	(11.6)
Government	153	60.3	147	59.7	132	59.0	2.8	4.2	(5.0)	(3.6)	0.4	2.5	(10.0)	(13.6)
Corporate	100	39.7	99	40.3	92	41.0	4.7	10.1	(2.2)	2.0	2.3	8.3	(7.4)	(8.5)
Thailand														
Total	283	100.0	284	100.0	267	100.0	(0.1)	2.7	1.0	5.8	(0.1)	(1.1)	(6.1)	(5.7)
Government	213	75.4	216	76.0	200	75.1	(1.3)	(1.3)	(0.1)	5.4	(1.3)	(4.9)	(7.2)	(6.0)
Corporate	70	24.6	68	24.0	66	24.9	3.8	17.1	4.6	7.0	3.9	12.8	(2.8)	(4.6)
Viet Nam														
Total	46	100.0	44	100.0	37	100.0	8.8	54.8	(12.6)	(14.9)	9.3	53.9	(15.0)	(19.6)
Government	45	98.6	43	98.7	37	98.7	9.0	56.3	(12.5)	(14.7)	9.5	55.5	(15.0)	(19.4)
Corporate	0.7	1.4	0.6	1.3	0.5	1.3	(2.8)	(8.6)	(16.0)	(25.9)	(2.3)	(9.1)	(18.4)	(30.0)
Emerging East Asia														
Total	8,189	100.0	8,629	100.0	8,782	100.0	3.0	11.3	5.8	14.7	2.5	11.0	1.8	7.2
Government	4,895	59.8	5,195	60.2	5,366	61.1	3.1	11.1	7.2	16.7	2.9	10.6	3.3	9.6
Corporate	3,294	40.2	3,434	39.8	3,416	38.9	2.9	11.5	3.7	11.6	1.9	11.6	(0.5)	3.7
Japan														
Total	9,736	100.0	8,877	100.0	9,209	100.0	0.4	2.6	1.5	3.4	(7.2)	(8.1)	3.7	(5.4)
Government	8,993	92.4	8,224	92.6	8,544	92.8	0.5	2.9	1.7	3.9	(7.2)	(7.8)	3.9	(5.0)
Corporate	743	7.6	653	7.4	665	7.2	(0.4)	(1.6)	(0.3)	(2.2)	(7.9)	(11.8)	1.8	(10.5)

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

Notes:

1. For Hong Kong, China, 3Q15 corporate bonds outstanding based on *AsianBondsOnline* estimate. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Thailand, 3Q15 government and corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Japan, 3Q15 government and corporate bonds outstanding carried over from August 2015.
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 September 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*, Ministry of Strategy and Finance, 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).

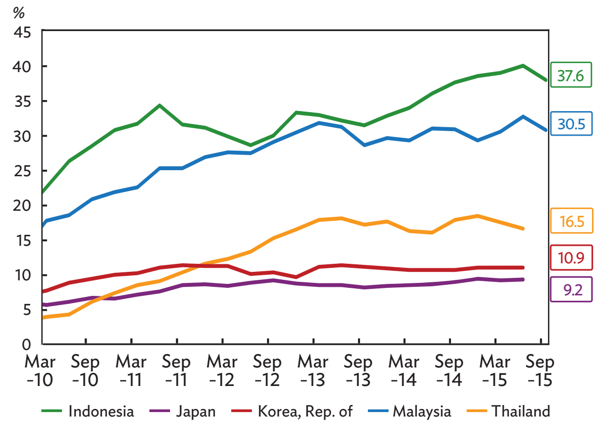
Table 2: Size and Composition of LCY Bond Markets (% of GDP)

	3Q14	2Q15	3Q15
China, People's Rep. of			
Total	50.6	52.8	56.2
Government	32.6	34.0	36.8
Corporate	18.0	18.8	19.3
Hong Kong, China			
Total	67.6	65.6	66.5
Government	38.4	36.4	37.8
Corporate	29.2	29.2	28.7
Indonesia			
Total	14.6	15.1	14.0
Government	12.4	13.0	11.9
Corporate	2.1	2.2	2.1
Korea, Rep. of			
Total	122.9	128.9	125.1
Government	48.3	53.0	51.6
Corporate	74.6	75.9	73.5
Malaysia			
Total	98.9	95.3	81.8
Government	58.0	53.9	45.8
Corporate	40.9	41.5	36.0
Philippines			
Total	37.3	35.8	35.2
Government	31.2	30.1	29.3
Corporate	6.1	5.8	5.8
Singapore			
Total	83.0	83.9	76.4
Government	50.1	50.0	45.0
Corporate	32.9	33.8	31.3
Thailand			
Total	70.1	72.3	67.8
Government	52.9	54.9	51.0
Corporate	17.3	17.4	16.9
Viet Nam			
Total	25.5	23.5	20.2
Government	25.1	23.2	20.0
Corporate	0.4	0.3	0.3
Emerging East Asia			
Total	57.7	59.4	60.9
Government	34.5	35.8	37.2
Corporate	23.2	23.6	23.7
Japan			
Total	219.7	220.3	228.6
Government	203.0	204.1	212.0
Corporate	16.8	16.2	16.5

GDP = gross domestic product, LCY = local currency.
Notes:
1. Data for GDP is from CEIC. 3Q15 GDP figures carried over from 2Q15 except for the People's Republic of China and Viet Nam.
2. For Hong Kong, China, 3Q15 corporate bonds outstanding based on *AsianBondsOnline* estimate. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Thailand, 3Q15 government and corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Japan, 3Q15 government and corporate bonds outstanding data carried over from August 2015.

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*, Ministry of Strategy and Finance, 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 Indonesia and Malaysia (end-September 2015).
Source: *AsianBondsOnline*.

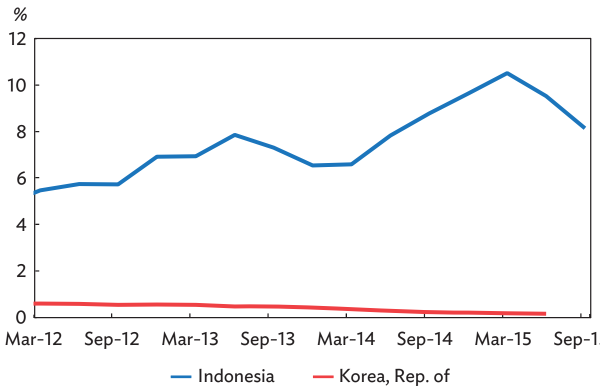
In Thailand, foreign holders' share slipped from 17.3% in 1Q15 to 16.5% in 2Q15, the latest quarter for which data are available, over concerns of weakening economic growth. In the Republic of Korea, the holdings of foreign investors held steady between 1Q15 and 2Q15, the latest quarter for which data are available, at a share of 10.9% of the total market.

Foreign investor interest in the region's corporate bonds remained weak. Foreign holdings account for a significantly lower share in the corporate bond market than in the government bond market in Indonesia and the Republic of Korea. This may be due to the illiquid nature of most corporate bonds. At the end of September, foreign holdings of Indonesian LCY corporate bonds stood at 8.1%, down from 9.5% at the end of June. In the Republic of Korea, foreign holdings of corporate bonds remained negligible at a share of only 0.2% of the total corporate bond stock **(Figure 3)**.

August and September saw net foreign capital outflows from the region's LCY bond markets.

All four emerging East Asian markets for which data are available showed net capital outflows from their bond markets in August and September **(Figure 4)**. The net capital outflows were driven by risk aversion ahead of the September meeting of the Federal Reserve, which was widely expected to be the earliest point at which it

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 2 October 2015. For the Republic of Korea, data as of end-June 2015.
Source: Based on data from Otoritas Jasa Keuangan and the Bank of Korea.

would raise policy rates. In addition, the devaluation of the renminbi in August resulting from the PBOC adjusting the exchange-rate-fixing mechanism led to most emerging East Asian currencies depreciating against the US dollar.

In August, the largest outflows were recorded in Malaysia and Indonesia. In Malaysia, net capital outflows reached US$1.6 billion, driven by the depreciation of the currency and continued low oil prices. Indonesia reported net foreign bond outflows of US$0.6 billion as the depreciation of the rupiah renewed concerns over the current account deficit.

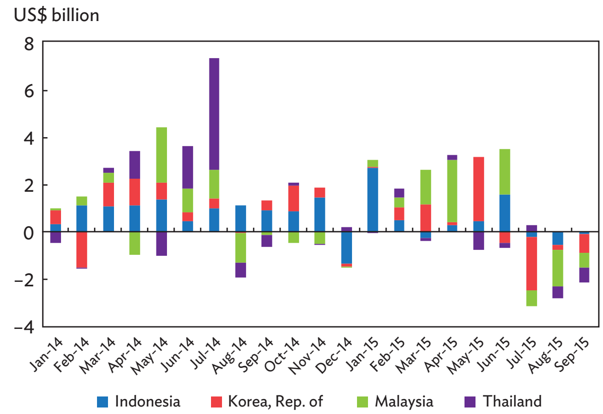
Thailand experienced net bond outflows of US$0.5 billion in August, while the Republic of Korea had outflows of $0.2 billion.

In September, all four markets reported net bond outflows, though outflows slowed from Indonesia to US$0.08 billion and from Malaysia to US$0.7 billion after the Federal Reserve delayed its rate hike. On the other hand, net bond outflows accelerated in September from the Republic of Korea to US$0.8 billion and from Thailand to US$0.6 billion.

Emerging East Asian LCY bond issuance expands in 3Q15.

Emerging East Asian LCY bond issuance grew to US$1,589 billion in 3Q15 from US$1,423 billion in 2Q15 and US$1,129 billion in 3Q14, led by growth in the PRC and Hong Kong, China **(Table 3)**.

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



Notes:
1. The Republic of Korea and Thailand provides data on bond flows. For Indonesia and Malaysia, month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.
2. Data provided as of end-September 2015.
3. Figures were computed based on 30 September 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.

LCY bond issuance in the PRC climbed to CNY4,283 billion (US$674 billion) in 3Q15 on the back of double-digit growth in Treasury bond and other government bond issues. New issuance was driven mostly by the refinancing requirements of local governments seeking to reduce interest costs. Local government bond issuance climbed 82.5% q-o-q in 3Q15. Issuance of corporate bonds in the PRC also contributed to growth in overall bond issuance, largely due to the refinancing of short-term commercial paper.

Hong Kong, China's LCY bond sales exhibited double-digit growth in 3Q15 to reach HKD4,651 billion (US$600 billion). Government bond issuance posted double-digit growth in 3Q15, while the Hong Kong Monetary Authority issued a large amount of Exchange Fund Bills to mop up excess liquidity resulting from increased demand for Hong Kong dollar assets among offshore investors following the renminbi's depreciation in August.

In the Republic of Korea, LCY bond issuance stood at KRW185,082 billion (US$156 billion) in 3Q15, down 17.6%

Table 3: LCY-Denominated Bond Issuance (gross)

	3Q14		2Q15		3Q15		Growth Rate (LCY-base %)		Growth Rate (US$-base %)	
							3Q15		3Q15	
	Amount (US$ 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	432	100.0	601	100.0	674	100.0	14.8	61.6	12.0	56.1
Government	212	49.2	370	61.6	432	64.2	19.7	110.8	16.8	103.7
Central Bank	0	0.0	0	0.0	0	0.0	0.0	0.0	0.0	0.0
Treasury and Other Govt.	212	49.2	370	61.6	432	64.2	19.7	110.8	16.8	103.7
Corporate	219	50.8	231	38.4	241	35.8	7.1	14.0	4.5	10.1
Hong Kong, China										
Total	309	100.0	441	100.0	600	100.0	36.1	93.8	36.2	94.2
Government	300	97.2	434	98.6	594	98.9	36.7	97.3	36.7	97.7
Central Bank	298	96.5	434	98.4	592	98.7	36.6	98.2	36.6	98.6
Treasury and Other Govt.	2.1	0.7	0.6	0.1	1.4	0.2	125.5	(35.8)	125.6	(35.6)
Corporate	9	2.8	6	1.4	6	1.1	0.0	(26.8)	0.0	(26.6)
Indonesia										
Total	10	100.0	9	100.0	8	100.0	(3.8)	(13.4)	(12.5)	(28.0)
Government	10	94.7	7	79.4	6	85.4	3.4	(21.9)	(5.9)	(35.0)
Central Bank	2	19.6	0.2	1.9	1	18.9	843.1	(16.3)	758.5	(30.4)
Treasury and Other Govt.	8	75.0	7	77.5	5	66.5	(17.6)	(23.3)	(25.0)	(36.2)
Corporate	0.6	5.3	2	20.6	1	14.6	(31.7)	136.7	(37.8)	96.9
Korea, Rep. of										
Total	168	100.0	201	100.0	156	100.0	(17.6)	4.5	(22.5)	(7.0)
Government	79	47.0	79	39.3	71	45.7	(4.3)	1.6	(10.0)	(9.6)
Central Bank	47	27.9	46	23.1	36	23.2	(17.2)	(13.3)	(22.1)	(22.8)
Treasury and Other Govt.	32	19.0	33	16.3	35	22.5	14.0	23.4	7.3	9.8
Corporate	89	53.0	122	60.7	85	54.3	(26.2)	7.0	(30.6)	(4.7)
Malaysia										
Total	42	100.0	16	100.0	15	100.0	5.0	(52.8)	(9.9)	(64.8)
Government	32	76.8	8	51.8	9	62.5	26.7	(61.6)	8.8	(71.4)
Central Bank	25	59.6	0	0.0	3	20.9	–	(83.4)	–	(87.6)
Treasury and Other Govt.	7	17.3	8	51.8	6	41.6	(15.7)	13.4	(27.7)	(15.3)
Corporate	10	23.2	8	48.2	6	37.5	(18.4)	(23.6)	(29.9)	(43.0)
Philippines										
Total	7	100.0	2	100.0	10	100.0	298.5	38.3	284.7	33.1
Government	6	79.5	2	80.6	9	90.8	349.3	58.0	333.7	52.0
Central Bank	0	0.0	0	0.0	0	0.0	0.0	0.0	0.0	0.0
Treasury and Other Govt.	6	79.5	2	100.0	9	90.8	349.3	58.0	333.7	52.0
Corporate	1	20.5	0.5	19.4	1	9.2	88.0	(38.1)	81.5	(40.4)
Singapore										
Total	86	100.0	77	100.0	63	100.0	(13.2)	(17.7)	(17.8)	(26.2)
Government	81	94.6	73	94.6	61	95.9	(12.0)	(16.6)	(16.6)	(25.2)
Central Bank	76	88.4	66	85.6	58	91.6	(7.1)	(14.8)	(12.0)	(23.6)
Treasury and Other Govt.	5	6.2	7	9.0	3	4.3	(58.1)	(42.6)	(60.3)	(48.6)
Corporate	5	5.4	4	5.4	3	4.1	(34.9)	(37.5)	(38.3)	(43.9)
Thailand										
Total	61	100.0	66	100.0	49	100.0	(19.5)	(10.1)	(25.2)	(19.9)
Government	48	79.0	54	81.6	38	77.6	(23.4)	(11.7)	(28.8)	(21.2)
Central Bank	35	57.6	41	62.8	28	57.5	(26.4)	(10.4)	(31.6)	(20.1)
Treasury and Other Govt.	13	21.4	12	18.8	10	20.2	(13.5)	(15.2)	(19.6)	(24.4)
Corporate	13	21.0	12	18.4	11	22.4	(2.1)	(4.3)	(9.0)	(14.7)

continued on next page

Table 3 *continued*

	3Q14		2Q15		3Q15		Growth Rate (LCY-base %)		Growth Rate (US$-base %)	
							3Q15		3Q15	
	Amount (US$ 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	14	100.0	10	100.0	15	100.0	53.2	8.7	48.8	2.6
Government	14	100.0	10	100.0	15	100.0	53.2	8.7	48.8	2.6
Central Bank	12	83.1	8	85.1	14	93.6	68.4	22.3	63.6	15.5
Treasury and Other Govt.	2	16.9	1	14.9	0.9	6.4	(33.9)	(58.5)	(35.8)	(60.8)
Corporate	0	0.0	0	0.0	0	0.0	0.0	0.0	0.0	0.0
Emerging East Asia										
Total	1,129	100.0	1,423	100.0	1,589	100.0	14.7	48.8	11.6	40.7
Government	783	69.3	1,037	72.9	1,235	77.7	21.8	66.2	19.1	57.7
Central Bank	495	43.8	596	41.9	733	46.1	25.0	55.4	23.0	48.0
Treasury and Other Govt.	288	25.5	441	31.0	502	31.6	17.5	84.8	13.8	74.4
Corporate	346	30.7	386	27.1	354	22.3	(4.6)	9.0	(8.4)	2.2
Japan										
Total	464	100.0	404	100.0	422	100.0	2.3	(0.5)	4.5	(9.0)
Government	432	93.1	379	93.7	392	92.8	1.4	(0.9)	3.6	(9.3)
Central Bank	0	0.0	0	0.0	0	0.0	0.0	0.0	0.0	0.0
Treasury and Other Govt.	432	93.1	379	93.7	392	92.8	1.4	(0.9)	3.6	(9.3)
Corporate	32	6.9	26	6.3	30	7.2	16.4	4.4	18.9	(4.6)

( ) = 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. For Hong Kong, China, 3Q15 corporate bond issuance carried over from 2Q15. For Thailand, 3Q15 government and corporate bond issuance based on *AsianBondsOnline* estimates. For Japan, 3Q15 government and corporate bond issuance carried over from August 2015.
3. Bloomberg LP end-of-period LCY—US$ rates are used.
4. For LCY base, emerging East Asia growth figures are based on 30 September 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*, Ministry of Strategy and Finance, 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).

from the previous quarter due to lower bond sales from the Bank of Korea and the corporate sector. However, issuance was up 4.5% y-o-y due to increased issuance by the central government and corporates.

Cumulative LCY bond issuance in the six member economies of the Association of Southeast Asian Nations (ASEAN)—Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam—amounted to US$159 billion in 3Q15, down from US$180 billion in 2Q15 and US$221 billion in 3Q14.

Indonesian bond issuance in 3Q15 fell 3.8% q-o-q and 13.4% y-o-y to IDR110,419 billion (US$8 billion). The quarterly drop was caused by lower Treasury bond and corporate bond sales. On the other hand, central bank bill issuance rose significantly in 3Q15 as Bank Indonesia resumed issuance of conventional SBI in August after a hiatus between April and July. On a y-o-y basis, the drop in issuance was ascribed to a reduction in government bond issues.

In Malaysia, LCY bonds sold reached MYR65 billion (US$15 billion) in 3Q15, registering a 5.0% q-o-q increase on the back of central bank bond sales as Bank Negara Malaysia resumed issuance of monetary notes in August. Issuance in 3Q15 was down more than half on a y-o-y basis due to declines in both central bank notes and corporate bond issues.

In 3Q15, the Philippines posted PHP447 billion (US$10 billion) in LCY bond issuance on growth of 298.5% q-o-q and 38.3% y-o-y, led by an increase in Treasury bonds from a successful bond swap conducted in September.

Bond issuance in Singapore fell 13.2% q-o-q and 17.7% y-o-y in 3Q15 to SGD90 billion (US$63 billion) due to less issuance of Singapore Government Securities bills and bonds, Monetary Authority of Singapore bills, and corporate bonds.

Thailand's bond issuance in 3Q15 was down 19.5% q-o-q and 10.1% y-o-y to level off at THB1,785 billion (US$49 billion) as a result of less issuance of Bank of Thailand bills and bonds, central government bonds, and corporate debentures.

Viet Nam's LCY bond sales of VND329,004 billion (US$15 billion) in 3Q15 saw gains of 53.2% q-o-q and 8.7% y-o-y, driven by increased issuance of central bank bills to mop up excess liquidity in the market. The issuance of central bank bills helped offset the 33.9% q-o-q decline in central government issuance as the Ministry of Finance had difficulty meeting investor demand for higher yields. There was no corporate issuance in Viet Nam in 3Q15, with firms preferring to raise funds through loans and private placements.

Intra-emerging East Asian bond issuance reached US$3.5 billion in 3Q15, up 3.3% q-o-q. Issuers from the PRC sold US$328 million worth of bonds denominated in Hong Kong dollars, Korean won, and Malaysian ringgit. Hong Kong, China-based entities issued US$651 million worth of renminbi- and Singapore dollar-denominated bonds. In the Republic of Korea, seven domestic banks raised US$1.6 billion from issuing bonds denominated in renminbi, Singapore dollars, and Thai baht.

Six firms from ASEAN economies raised a combined US$900 million in 3Q15 from selling bonds denominated in currencies other than their respective home currencies. Malaysia-based Cagamas, CIMB Bank, Maybank, and Nam Cheong sold a combined US$625 million worth of bonds denominated in renminbi and Singapore dollars. Singapore-based BOC Aviation issued a CNY300 million 7-year bond in July on a 4.7% coupon. Krung Thai Bank, a domestic bank in Thailand, sold a MYR1 billion 10-year bond carrying a 5.1% coupon in Malaysia.

The Asian Development Bank is promoting cross-border bond issuance through the ASEAN+3 Multicurrency Bond Issuance Framework. The first bond under this program was issued by Japan-based Mizuho Bank, which sold a THB3 billion 3-year bond in September carrying a coupon rate of 2.33%.

Emerging East Asia's G3 currency bond issuance totaled US$141 billion in January–September.[5]

Emerging East Asia's G3 currency bond issuance amounted to US$140.8 billion in January–September, equaling about 71% of the full-year 2014 total as G3 issuance fell 1.9% in 2015 compared with the first 9 months of the previous year **(Table 4)**. In 3Q15, G3 currency bond issuance stood at US$32.1 billion, down 48.7% q-o-q and 17.9% y-o-y.

The US dollar remained the dominant G3 currency in terms of issuance, accounting for 89.5% of the regional total, followed by the euro and the Japanese yen at 8.7% and 1.8%, respectively.

The PRC continued to be the largest source of G3 currency bonds in the region, totaling US$80 billion in the first 9 months of the year. Financial institutions were again the largest issuer group during the review period. Sinopec was the largest PRC-based issuer of G3 currency bonds, raising US$6.5 billion from a multiple-tranche bond sale in April. In 3Q15, the largest G3 currency bond issued from the PRC was a Bank of Communication US$2.5 billion perpetual bond carrying a 5% coupon.

The Republic of Korea was the next largest source of G3 currency bonds in the first 9 months of the year with a total of US$16.1 billion. Financial institutions, including Korea Eximbank and Korea Development Bank, comprised the largest issuer group. Korea Development Bank sold the largest G3 currency bond in the Republic of Korea in 3Q15: a US$750 million 10-year bond on a 3.375% coupon.

Hong Kong, China was the region's third largest G3 issuer in January–September at US$14.2 billion. While most issues came from financial institutions, the government also sold a US$1 billion 5-year *sukuk* in June on a 1.894% coupon.

ASEAN member economies' G3 currency bond issuance amounted to US$30.5 billion in the first 9 months of the year, or 90% of 2014's total. Indonesia's US$11.6 billion of G3 currency issuance was largely the result of three US$-denominated government bonds totaling US$8.2 billion, three JPY-denominated bonds, and one

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

Table 4: G3 Currency Bond Issuance

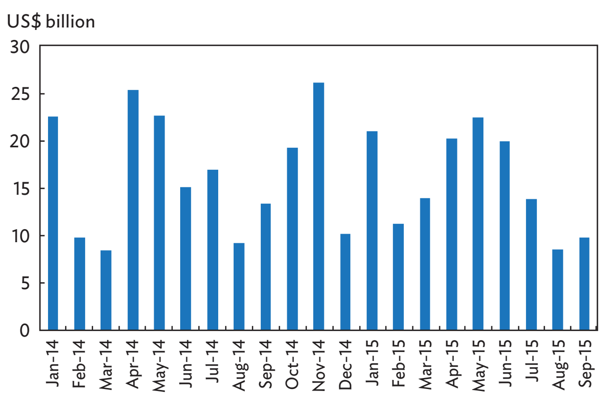
2014			1 January–30 September 2015		
Issuer	Amount (US$ million)	Issue Date	Issuer	Amount (US$ million)	Issue Date
China, People's Rep. of	**98,227**		**China, People's Rep. of**	**80,009**	
Bank of China 5% 2024	3,000	13-Nov-14	Sinopec 2.5% 2020	2,500	28-Apr-15
ICBC 6% Perpetual	2,940	10-Dec-14	Bank 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	ICBC 4.875% 2025	2,000	21-Sep-15
Tencent Holdings 3.375% 2019	2,000	29-Apr-14	China Cinda Finance (2015) 4.25% 2025	1,700	23-Apr-15
Sinopec 1.0136% 2017	1,800	10-Apr-14	Sinopec 3.25% 2025	1,500	28-Apr-15
State Grid Overseas Investment 4.125% 2024	1,600	7-May-14	CNOOC Finance 2.625% 2020	1,500	5-May-15
Others	80,137		Others	64,359	
Hong Kong, China	**34,530**		**Hong Kong, China**	**14,183**	
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	12,083	
Indonesia	**11,423**		**Indonesia**	**11,614**	
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	Perusahaan Penerbit SBSN 4.325% 2025	2,000	28-May-15
Indonesia (Sovereign) 4.35% 2024	1,350	10-Sep-14	Indonesia (Sovereign) 3.375% 2025	1,397	30-Jul-15
Perusahaan Gas Negara (PGN) 5.125% 2024	1,350	16-May-14	Pelabuhan Indonesia 4.25% 2025	1,100	5-May-15
Others	3,223		Others	3,117	
Korea, Rep. of	**31,714**		**Korea, Rep. of**	**16,070**	
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	Korea Development Bank 3.375% 2025	750	16-Sep-15
Others	28,766		Others	13,070	
Malaysia	**3,567**		**Malaysia**	**7,968**	
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	3,718	
Philippines	**2,675**		**Philippines**	**3,936**	
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	Royal Capital BV 5.5% Perpetual	450	26-Aug-15
SMC Global Power 7.5% Perpetual	350	7-May-14	Vista Land & Landscapes 7.375% 2022	300	18-Jun-15
Others	475		Others	1,186	
Singapore	**11,661**		**Singapore**	**6,816**	
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	DBS Bank 1.625% 2018	1,000	6-Aug-15
Avago Technologies 2% 2021	1,000	6-May-14	BOC Aviation 3% 2020	750	30-Mar-15
Others	8,661		Others	4,066	
Thailand	**3,565**		**Thailand**	**176**	
Viet Nam	**1,000**		**Viet Nam**	**0**	
Emerging East Asia Total	**198,362**		**Emerging East Asia Total**	**140,773**	
Memo Items:			**Memo Items:**		
India	**18,323**		**India**	**10,323**	
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	8,323	
Sri Lanka	**2,165**		**Sri Lanka**	**1,872**	

Note: Data exclude certificates of deposit.
Source: *AsianBondsOnline* calculations based on data from Bloomberg LP.

EUR-denominated bond. Malaysia's US$8 billion of G3 currency issuance came from both the government and corporate sectors, with the largest issuer being Petronas via its US$5 billion multitranche bond sale in March. G3 currency bond sales from the Philippines totaled US$3.9 billion, with the government selling a US$2 billion 25-year bond carrying a 3.95% coupon in January. Financial institutions accounted for 73% of Singapore's G3 currency bond issuance of US$6.8 billion. Two Thai banks sold US$-denominated bonds totaling US$176 million in January–September.

On a monthly basis, emerging East Asian G3 currency bond issuance fell from US$13.8 billion in July to US$8.5 billion in August before rising to US$9.7 billion in September. The downturn was partly induced by market expectations of an eventual interest rate hike in the US **(Figure 5)**.

Figure 5: G3 Currency Bond Issuance



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

Government bond yields fell for most tenors in most markets, after the Federal Reserve held off raising interest rates and as growth and inflation continued to fall.

During its 17 September meeting, the Federal Reserve left its monetary policy unchanged, which was in contrast with earlier expectations that September would mark the first increase in the Fed funds rate since 2006. In September, the Federal Reserve held rates steady while seeking greater clarity on the direction of the US economy and as continued low oil and commodity prices dampened the inflation outlook for 2015. The possibility that the slowdown in emerging market economies, notably the PRC, could pose a drag on the US economy was also a concern. More recently, the Federal Reserve left monetary policy unchanged in October, but no longer seems to be concerned with the PRC's slowdown, suggesting a rate hike in December. Also, the October jobs report came in strong at 271,000 jobs, bolstering the case for a rate hike.

Government bond yields in emerging East Asia generally fell in most markets following the Federal Reserve's September announcement. Yields on 2-year bonds were mostly stable or fell through the middle of October **(Figures 6a, 6b)**. The exceptions included Indonesia and Singapore, where 2-year yields showed a slight spike before drifting lower. In addition, the PRC's 2-year bond yield rose, mostly due to liquidity concerns as local governments continued issuing bonds to refinance maturing obligations.

Movements for 10-year yields were similar, with yields in Singapore and Indonesia showing an initial spike following the Federal Reserve decision in September before drifting lower **(Figures 7a, 7b)**. The PRC's 10-year yield declined between 1 September and 31 October in line with trends in other markets.

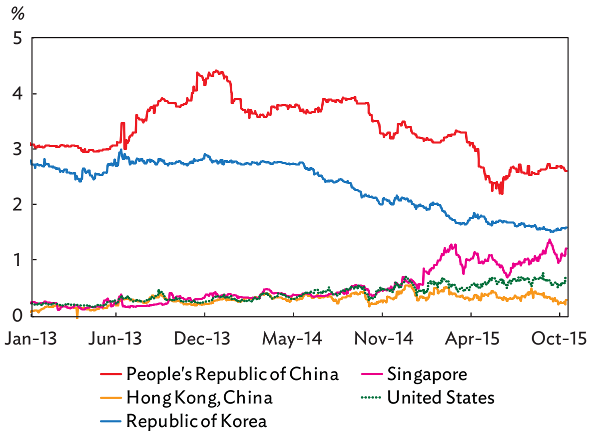
Weak economic growth in emerging East Asia, particularly the PRC, coupled with low oil and commodity prices, have kept inflation contained and drove down yield curves in all markets except the Philippines and Indonesia between 1 September and 31 October **(Figure 8)**.

Inflation has eased in Malaysia on continued low oil prices **(Figure 9a)**. As a result, the entire yield curve shifted downward with the exception of the 3-year tenor, which rose 17 basis points (bps).

In Indonesia, inflation softened due to lower food prices **(Figure 9b)**. However, Indonesia's yield curve shifted upward for most tenors between 1 September and 31 October, as the market believes the central bank has no room to cut policy rates.

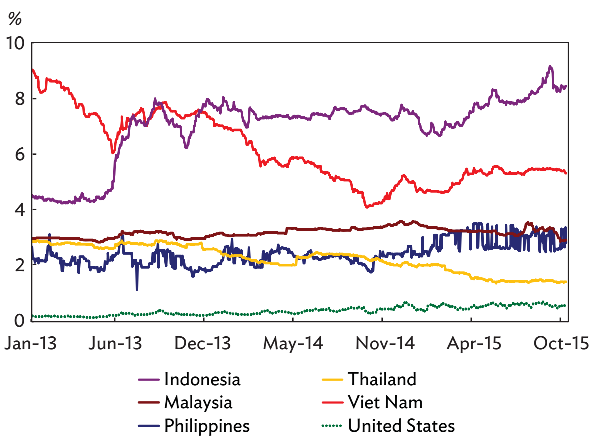
In addition to low oil prices, inflationary pressures are being contained by slowing economic growth in the region. In the PRC, GDP growth of 6.9% q-o-q was recorded in 3Q15, down from 2Q15's 7.0% q-o-q and 2014's 7.4% q-o-q growth. In Singapore, GDP growth was weak, with 3Q15's GDP rising only 0.1% q-o-q, narrowly missing a technical recession. Among the region's

Figure 6a: 2-Year LCY Government Bond Yields



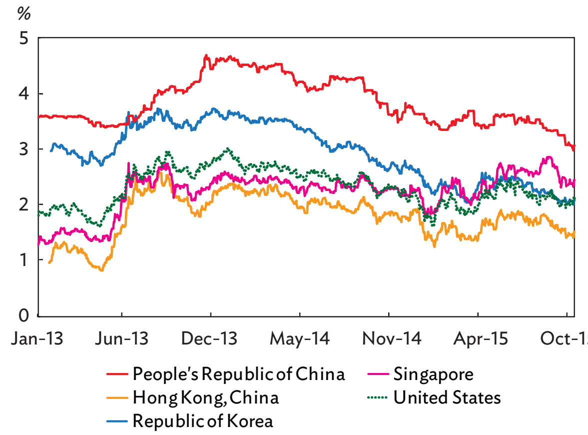
LCY = local currency.
Note: Data as of 31 October 2015.
Source: Based on data from Bloomberg LP.

Figure 6b: 2-Year LCY Government Bond Yields



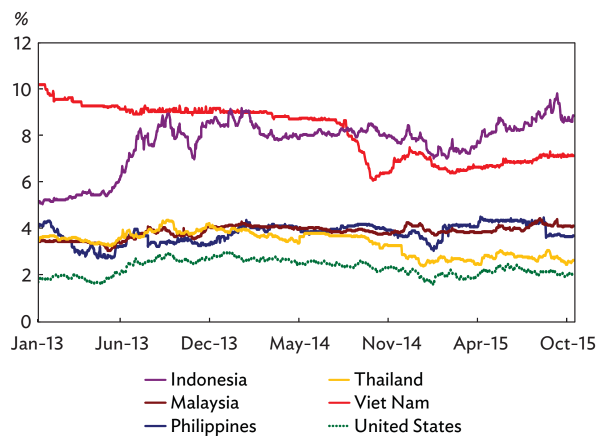
LCY = local currency.
Note: Data as of31 October 2015.
Source: Based on data from Bloomberg LP.

Figure 7a: 10-Year LCY Government Bond Yields



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

Figure 7b: 10-Year LCY Government Bond Yields



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

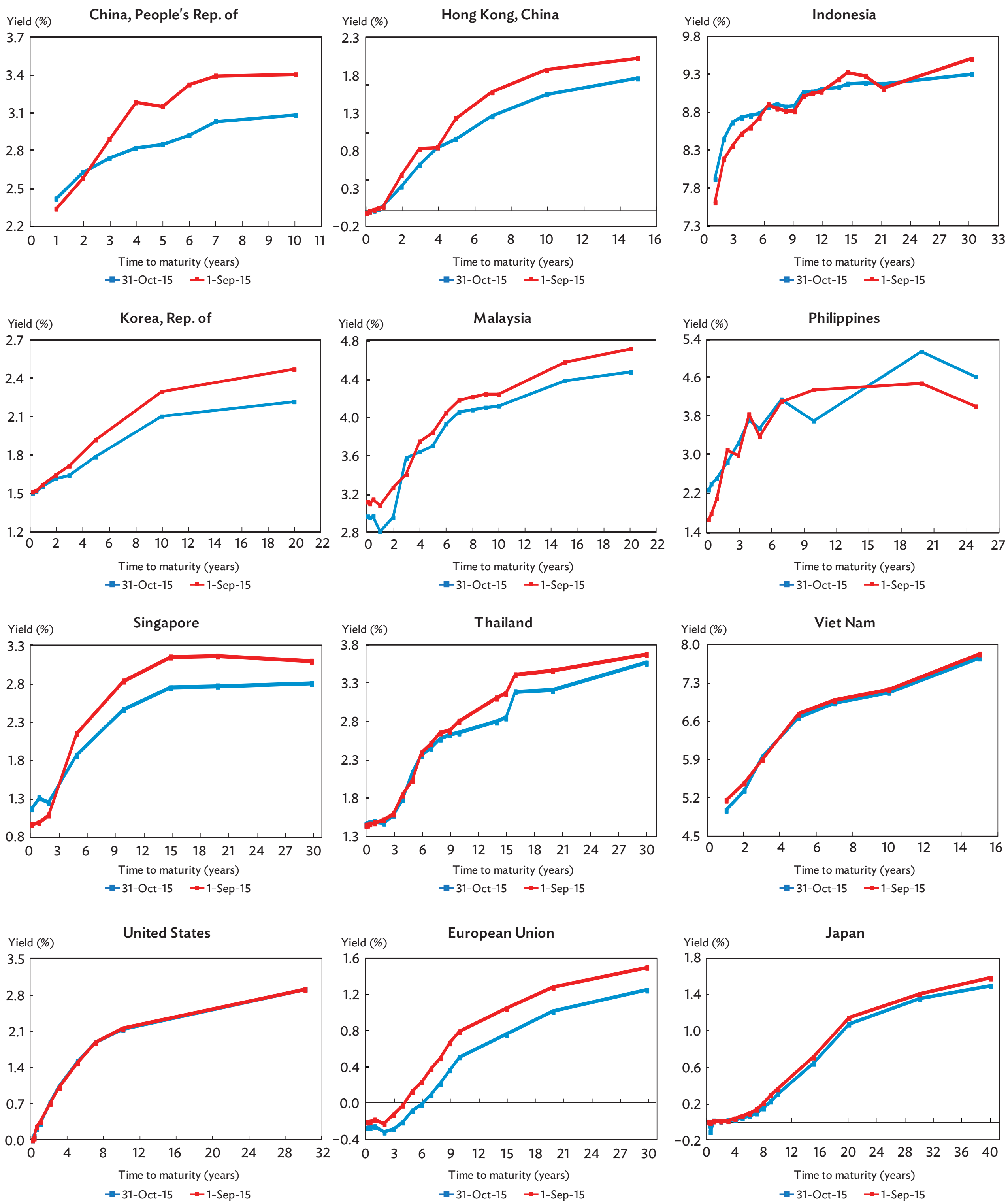
economies that reported GDP growth in 3Q15, only the Republic of Korea and Viet Nam showed improvement.

Due to lowered growth expectations, most central banks maintained their prior accommodative stances and kept monetary policy rates stable **(Figure 10a)**. In the Republic of Korea, GDP growth improved in 3Q15 and the entire yield curve shifted downward. The Bank of Korea has noted that while the domestic economy has improved, concerns remain regarding international financial market volatility and soft growth in emerging markets.

The PRC has engaged in additional monetary stimulus to boost the economy, lowering its policy rates 25 bps in both August and October, taking the 1-year rate to 4.35% and the 1-year deposit rate to 1.50% **(Figure 10b)**. In addition, the PRC removed the ceiling on deposit rates, allowing rates to move more freely, and reduced the reserve requirement ratio for financial institutions. These measures resulted in the PRC's yield curve shifting downward at the long-end, with yields falling an average of 32 bps for tenors of 3 years or longer. At the short-end, liquidity concerns pushed yields upward as local governments continued to issue bonds to refinance maturing obligations.

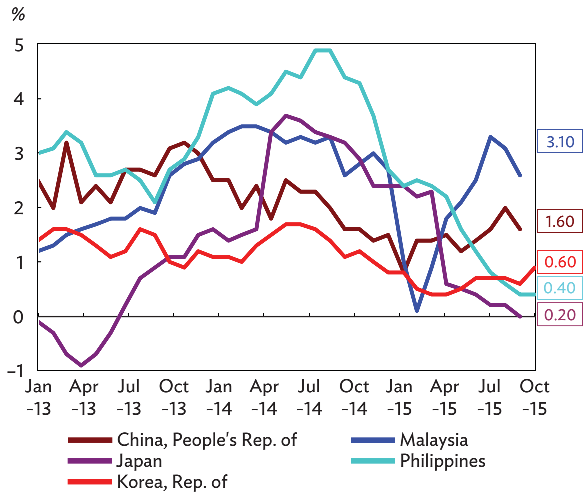
As Singapore has no monetary policy rate, the Monetary Authority of Singapore slightly reduced the slope of the

Figure 8: Benchmark Yield Curves—LCY Government Bonds



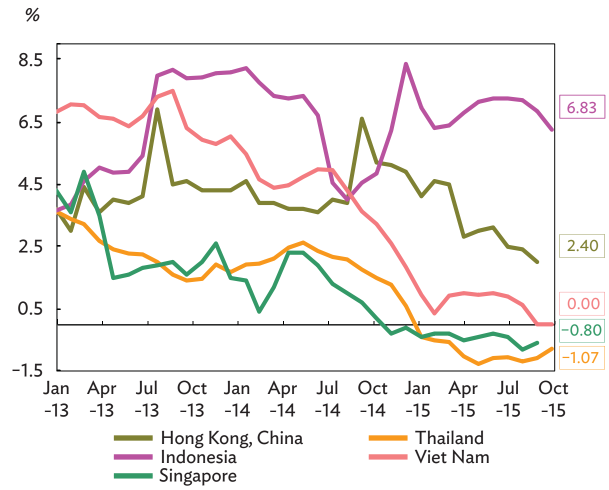
LCY = local currency.
Source: Based on data from Bloomberg LP.

Figure 9a: Headline Inflation Rates



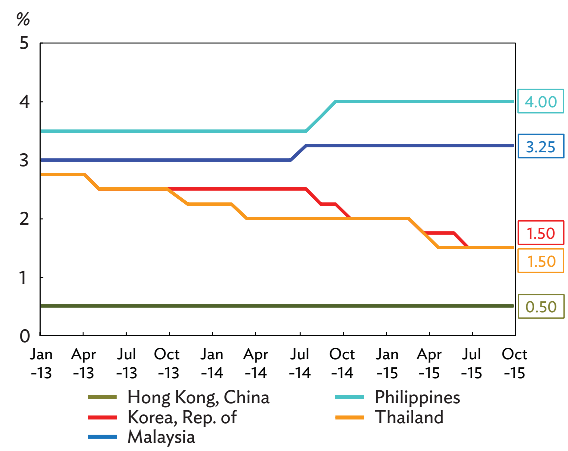
Note: Data as of end-September 2015 except for the Republic of Korea and the Philippines (end-October 2015).
Source: Based on data from Bloomberg LP.

Figure 9b: Headline Inflation Rates



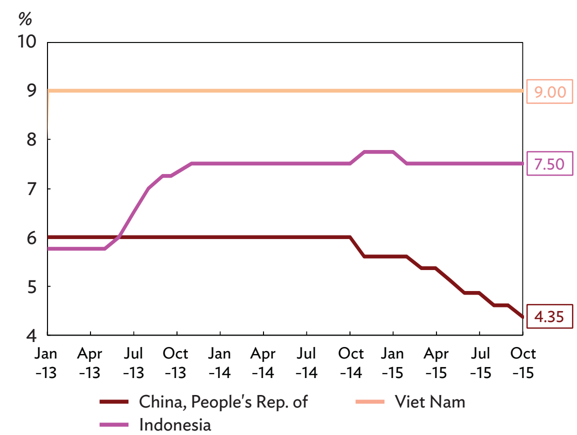
Note: Data as of end-October 2015 except for Hong Kong, China and Singapore (end-September 2015).
Source: Based on data from Bloomberg LP.

Figure 10a: Policy Rates



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

Figure 10b: Policy Rates



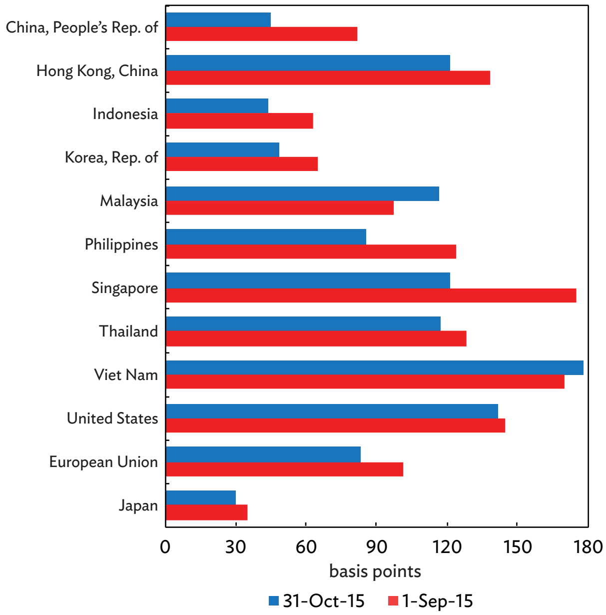
Notes:
1. Data as of end-October 2015.
2. For Viet Nam base interest rate was used.
Source: Based on data from Bloomberg LP.

Singapore dollar nominal effective exchange rate policy band to provide additional stimulus. In response, yields fell an average of 35 bps for tenor of 5 years or longer.

The Philippines' yields rose for all tenors except the 2-year, 4-year, and 10-year. Yield movements in the Philippines were mostly driven by investors' risk aversion given uncertainty over the timing of the Federal Reserve's eventual rate hike. In addition, traders expect interest rates to rise next year due to electoral spending.

Between 1 September and 31 October, the spread between the 2-year and 10-year maturities narrowed for all markets in emerging East Asia except Malaysia and Viet Nam as the delay in the US rate hike allowed for a correction in bond yields **(Figure 11)**.

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



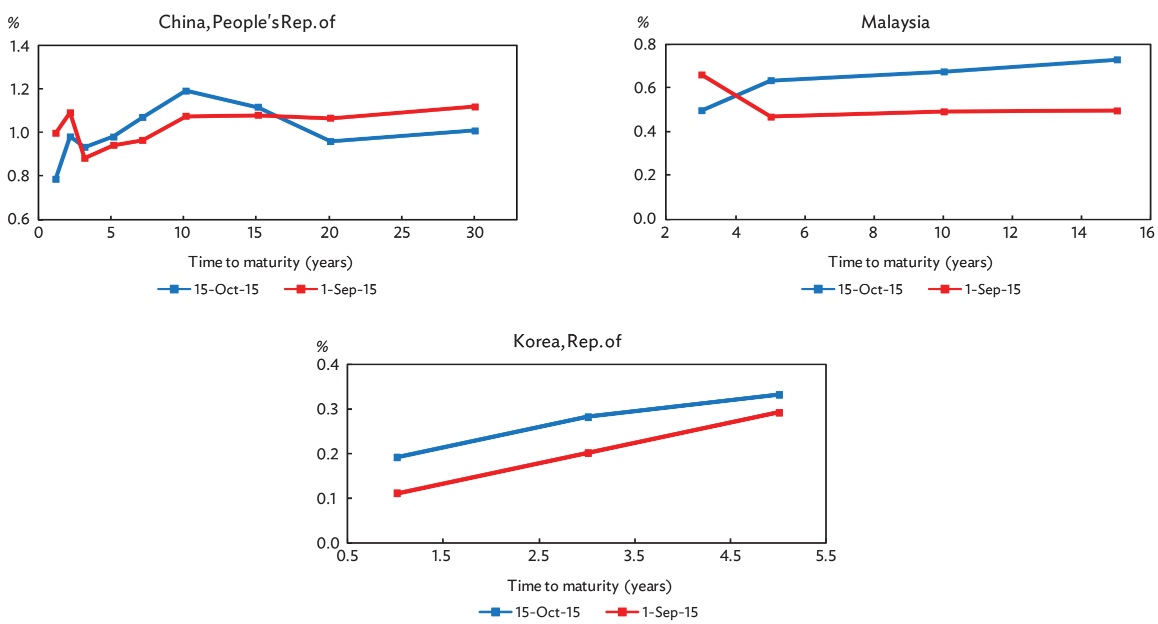
Source: Based on data from Bloomberg LP.

Spreads between AAA-rated corporate yields and government yields widened in Malaysia and the Republic of Korea.

Credit spreads between AAA-rated corporate bonds and government bonds rose for all tenors in the Republic of Korea and Malaysia, and for most tenors in the PRC, between 1 September and 15 October. The rise in credit spreads was mostly due to increased credit concerns amid a weak growth outlook for the world economy **(Figure 12a)**.

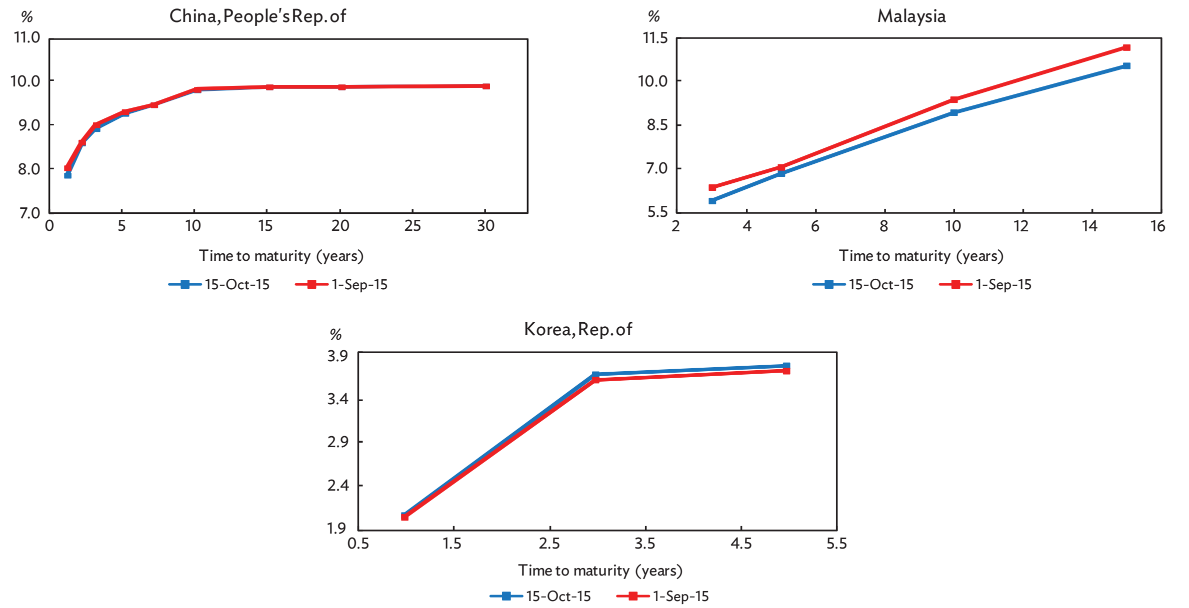
Between 1 September and 15 October, credit spreads between lower-rated corporate bonds and AAA-rated bonds were roughly unchanged in all three markets for which data are available **(Figure 12b)**.

Figure 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 28 August 2015 and 13 October 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 28 August 2015 and 13 October 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

Restrictions Eased on Overseas Funding

On 16 September, the National Development and Reform Commission eased restrictions on corporations seeking funding overseas. The new guidelines streamline the process by which corporations apply for a foreign currency loan and issue offshore renminbi bonds. The previous process required approval on a per deal basis, but the new regulations only require corporations to register with the National Development and Reform Commission.

PBOC Reduces Reserve Requirement Ratios

On 18 October, the People's Bank of China (PBOC) lowered the reserve requirement ratios of financial institutions by 50 basis points. For large banks, the changes resulted in a reserve requirement ratio of 17.5%, while for medium-sized banks the ratio was reduced to 15.5%. Select financial institutions involved in lending to the agricultural sector or to small and medium-sized enterprises will qualify for an additional reduction of 50 basis points.

Hong Kong, China

Hong Kong, China Issues Fifth iBond Series

On 7 August, the Government of the Special Administrative Region of Hong Kong, China issued HKD10 billion worth of inflation-linked bonds (iBonds), marking the government's fifth issuance of iBonds. Total tenders reached HKD35.7 billion.

Indonesia

Bank Indonesia Announces Additional Rupiah Exchange Rate Stabilization Measures

On 30 September, Bank Indonesia announced additional policy measures to stabilize the rupiah exchange rate. In addition to maintaining rupiah exchange rate stability, the new policy package strengthens rupiah liquidity management. The new measures include Bank Indonesia's intervention in the forward market and the offering of 3-month Bank Indonesia certificates of deposit and 2-week reverse repurchase tradable government securities. Policy measures were also announced to help manage the supply and demand of foreign exchange, including, among others, issuing foreign-currency-denominated Bank Indonesia certificates, reducing the holding period for *Sertifikat* Bank Indonesia to 1 week, and tax incentives on term deposits for exporters depositing their foreign exchange earnings with Indonesian banks or converting proceeds into rupiah.

Republic of Korea

Korea Exchange Is Designated as a Trade Repository

The Financial Services Commission (FSC) announced in August that the Korea Exchange has been designated as a trade repository that will compile, manage, and analyze data on over-the counter derivatives transactions. The FSC stated that this will strengthen the credibility and international competitiveness of the Republic of Korea's financial market infrastructure.

FSC to Improve Competitiveness of Financial Investment Business Entities

The FSC announced in October that it will introduce measures to enhance the competitiveness of financial investment business entities in the Republic of Korea. The planned measures are aimed at improving the corporate financing functions of brokerage firms, widening the scope of business activities of securities companies, and easing regulatory restrictions in order to diversify certain types of financial services. Among the FSC's plans are to allow companies with total assets worth less than KRW2 trillion to issue private placements of securities, and to revise regulations to allow the investment banking departments of securities companies to engage in certain brokerage activities such as buying and selling short-term bonds.

Malaysia

Prime Minister Announces 2016 Federal Budget

On 23 October, the prime minister announced the release of Malaysia's 2016 federal budget, which totals MYR267.2 billion, up from the 2015 revised budget total of MYR260.7 billion. Federal government revenue is estimated to be MYR225.7 billion in 2016, MYR3.2 billion higher than the 2015 target. The government also announced a fiscal deficit target of 3.1% of gross domestic product in 2016, down slightly from 3.2% in 2015. The economy is expected to grow between 4.0% and 5.0% in 2016, and annual inflation is expected to be between 2.0% and 3.0%. The government also announced plans for both tax relief and higher income tax rates of 26% (from 25%) for those with an income of MYR0.6 million–MYR1 million and 28% (from 25%) for those with income of more than MYR1 million. The goods and services tax is expected to contribute to the MYR39 billion increase in revenue in 2016, although certain basic goods and medicines shall be exempted from this tax. A small reduction in subsidy allocations from MYR 26.2 billion to MYR26.1 billion is also expected in 2016.

Philippines

BSP to Implement Interest Rate Corridor System by 2Q16

In September, the Bangko Sentral ng Pilipinas (BSP) announced its plan to implement an interest rate corridor system by 2Q16. The system will include the implementation of a deposit facility and a lending facility that will form a corridor around the BSP's policy rate. These facilities shall be conducted via weekly auctions of term deposits. The interest rate corridor system is expected to support the development of the capital market by encouraging more active liquidity management and increased trading by financial institutions. The new system also aims to reduce reliance on the reserve requirement for the market's liquidity management.

BSP Releases New Regulations on Treasury Activities

In October, the BSP released new regulations on treasury activities conducted by BSP-supervised financial institutions, particularly the management of operational risk. The new regulations highlight the responsibility of firms' board of directors and senior management in establishing standards of good behavior and compliance with market conduct rules. The regulations also require BSP-supervised financial institutions to differentiate among the various functions of treasury units to separate possibly conflicting duties such as risk-taking and recording, and reconciliation and settlement. The BSP expects the control units of the financial institutions it supervises—risk management, compliance, and audit—to regularly monitor treasury activities.

Singapore

Singapore Sells its First Singapore Saving Bonds

In September, the Monetary Authority of Singapore (MAS) accepted a total of SGD413 million in applications for its first offering of Singapore Savings Bonds. However, the issue was met with weak demand that fell short of the SGD1.2 billion target. The savings bond program is aimed at providing individual investors with a long-term savings alternative with safe returns. The Singapore Savings Bonds carry a maturity of 10 years and are fully backed by the government. The bonds will be issued monthly for at least 5 years. Up to SGD4 billion worth of Singapore Savings Bonds could be issued in 2015, depending on demand.

MAS and the PRC to Promote Cross-Border Renminbi Transactions

On 13 October, Singapore and the People's Republic of China (PRC) agreed to undertake new initiatives to promote renminbi transactions in Singapore. The existing cross-border renminbi transactions covering Suzhou Industrial Park and the Singapore–Sino Tianjin Eco City will be expanded to cover the cities of Suzhou and Tianjin. The new initiatives will allow banking institutions in Singapore to provide renminbi lending to corporates in Suzhou and Tianjin. Corporates in Suzhou and Tianjin will also be allowed to issue renminbi bonds in Singapore.

Thailand

Cabinet Approves Growth Measures

The cabinet approved five policy measures in October to improve the Thai economy, enhance business sentiment, and develop the government's venture capital program. These measures, proposed by the Ministry of Finance, include (i) reducing the corporate income tax rate to 20% from 23%, (ii) providing corporate income and dividend tax exemptions for government venture capital funds over a span of 10 years, (iii) lowering real estate transfer and mortgage fees, (iv) providing a THB10 billion 1-year budget to the Government Housing Bank, and (v) allowing taxable income deductions over 5 years for first-home buyers of up to 20% of the home's value.

Viet Nam

SBV Reduces Dollar Interest Rates

In September, the State Bank of Viet Nam (SBV) reduced interest rates on US dollar deposits as part of efforts to stabilize the Vietnamese dong. Effective 28 September, the interest rate ceiling was reduced to zero from 0.25% for the US dollar deposits of corporates, and to 0.25% from 0.75% for the US dollar deposits of individuals. The move aims to discourage hoarding of foreign currency and to aid in the implementation of monetary policy and banking activities.

National Assembly Approves Proposal to Resume Issuance of Treasury Bonds with Maturities of Less Than 5 Years

In October, the National Assembly approved a Ministry of Finance proposal to issue government bonds with maturities of 5 years or less beginning in November. Regulations passed in November 2014 limited issuance of Treasury bonds in 2015 to those with maturities of 5 years or more. However, sluggish demand for longer-dated bonds (5 years and up) has made it difficult for the government to fulfill its issuance target. The Ministry of Finance has proposed the issuance of 1-year, 2-year, and 3-year bonds beginning in November.

National Assembly Approves Government Plan to Sell US$3 Billion Worth of International Bonds

In October, the National Assembly approved the government's plan to raise US$3 billion through the issuance of bonds in order to fund debt maturing in 2015 and 2016. The National Assembly's Committee for Budget and Finance, however, noted that borrowing costs for the offshore issuance should not exceed domestic borrowing costs.

AsianBondsOnline Annual Bond Market Liquidity Survey

Introduction

AsianBondsOnline undertakes a bond market liquidity survey annually to assess liquidity conditions in emerging East Asian local currency (LCY) bond markets.[6] The survey aims to provide market participants and policy makers with a comprehensive perspective on the state of liquidity in individual markets in the region. Survey participants include, among others, fixed-income traders and dealers, brokers, portfolio and asset managers, bond market researchers and strategists, bond pricing associations, and regulatory agencies. *AsianBondsOnline* conducted the 2015 survey mostly through face-to-face interviews and meetings, and via email correspondence, in September and October. The survey was conducted after the September Federal Open Market Committee (FOMC) meeting of the United States (US) Federal Reserve to be able to better analyze the impact of its monetary policy decision on the region's LCY bond markets.

The survey comprises two sections. The first part relates to quantitative issues: market participants were asked to provide information on bid–ask spreads, transaction sizes, and trading volume. The second part covered qualitative issues: survey respondents were asked to rank in terms of importance structural issues and their contribution to deepening liquidity in the bond market.

The views of most market participants were mixed when asked whether liquidity conditions had improved over the last year. Some participants noted an improvement in liquidity, citing increased volume of transactions, higher turnover ratios, and larger bond issuance sizes. In the People's Republic of China (PRC), survey respondents noted an overall improvement in liquidity conditions due to bullish sentiments amid falling yields and easing monetary policy. Participants in markets such as Hong Kong, China and the Republic of Korea noted that liquidity has been stable this year as their markets are already fairly well-developed. In Indonesia, a good number of survey respondents mentioned that structural reforms helped to support liquidity conditions. Participants in some markets said there were no improvements or that liquidity had worsened. Overall, liquidity tends to decline during periods of market stress. In Malaysia, for example, liquidity tightened due to the sharp depreciation of the Malaysian ringgit versus the US dollar.

While a number of survey respondents cited that the long-awaited shift in the Federal Reserve's monetary policy had already been priced in by the market, uncertainty over the timing of the interest rate hike has led to volatility and selloffs in most markets in the region. In addition, the devaluation of the Chinese renminbi in August caught most markets off guard. Most of the region's currencies subsequently weakened versus the US dollar, contributing to negative sentiments in the region's bond market.

Negative sentiments reduced liquidity in LCY bond markets such as Indonesia, Malaysia, and the Philippines. In both Malaysia and Indonesia, foreign investors comprise a significant portion of the market, making them sensitive to capital outflows.

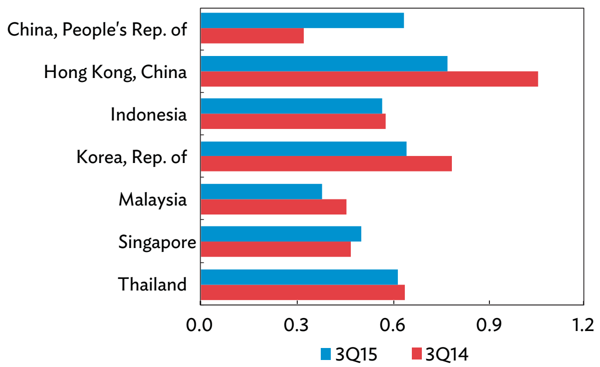
Government Bond Market Survey Results

Bond market liquidity can be measured using various indicators such as trading volume, turnover ratio, bid–ask spread, and transaction size. Trading volume is defined as the amount of bonds traded in the secondary market. The turnover ratio provides a better gauge of market liquidity, especially when the stock of outstanding bonds is rising rapidly. *AsianBondsOnline* computes turnover ratio by dividing the aggregate trading volume for a particular quarter with the average outstanding bond stock for the current and prior quarters. The higher the turnover ratio, the more liquid a market.

Government bond market turnover ratios for emerging East Asia are provided in **Figure 13**. Most markets in the region reported lower turnover ratios in 3Q15 compared with the same period in the prior year. Only in the PRC and Singapore were government bond turnover ratios higher in 3Q15 than in 3Q14. Liquidity in most bond markets was dragged down by negative sentiments driven by external

[6] 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.

Figure 13: LCY Government Bond Turnover Ratios



LCY = local currency.
Notes:
1. Turnover ratios are calculated as LCY trading volume (sales amount only) divided by average LCY value of outstanding bonds during each 3-month period.
2. 3Q15 turnover ratios for the Republic of Korea and Thailand are based on *AsianBondsOnline* estimates.

Sources: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange); Republic of Korea (EDAILY *Bondweb* and the Bank of Korea); Malaysia (Bank Negara Malaysia); Singapore (Monetary Authority of Singapore and Singapore Government Securities); and Thailand (Bank of Thailand and Thai Bond Market Association).

developments, including the September FOMC meeting in which it was anticipated that a rate hike would be announced, overall weakness in the region's currencies following the Chinese renminbi devaluation, and spillover effects from the slowdown in the PRC's economy.

Another liquidity indicator is the bid–ask spread, or bid–offer spread, which measures the cost of executing a trade. Bid–ask spreads are only valid for market-accepted transaction sizes and for a limited time only. **Table 5** presents the average bid–ask spreads for Treasury bonds in emerging East Asia. For this year's survey, the average bid–ask spread for on-the-run government securities rose to 5.0 basis points (bps) from 3.9 bps in the 2014 survey.

Bid–ask spreads widened in 2015 in all markets except the Republic of Korea, Singapore, and Thailand. The lowest bid–ask spreads for on-the-run government securities were recorded in the Republic of Korea (0.5 bps), Thailand (1.5 bps), Singapore (2.0) bps, and Malaysia (2.4 bps). All other markets in emerging East Asia reported bid–ask spreads higher than 3.4 bps. The widest spreads were recorded in Indonesia (9.2 bps) and Viet Nam (15.0 bps).

The regional average bid–ask spread for off-the-run government instruments was broadly stable at 7.8 bps in this year's survey compared with 7.1 bps in 2014. Only in Hong Kong, China (7.3 bps); Indonesia (13.5 bps); Malaysia (6.3 bps); and Viet Nam (15.0 bps) was the off-the-run bid–ask spread higher in 2015. All other markets showed a decline in the off-the-run bid–ask spread.

Table 5: LCY Government Bond Markets Quantitative Indicators

		PRC	HKG	INO	KOR	MAL	PHI	SIN	THA	VIE	Regional
Typical Bid–Ask Spread On-the-Run	Average (bps)	5.3	5.6	9.2	0.5	2.4	3.4	2.0	1.5	15.0	5.0
	SD	3.2	2.7	3.6	0.4	1.0	1.9	–	0.5	7.1	4.6
	CV	0.6	0.5	0.4	0.7	0.4	0.6	–	0.3	0.5	0.9
Typical Bid–Ask Spread Off-the-Run	Average (bps)	7.5	7.3	13.5	0.9	6.3	8.5	...	3.3	15.0	7.8
	SD	–	3.2	5.9	4.0	3.2	2.4	...	1.2	7.1	4.7
	CV	–	0.4	0.4	0.4	0.5	0.3	...	0.3	0.5	0.6
Accepted LCY Bond Transaction Size On-the-Run	Average (US$ million)	6.8	6.6	0.9	8.4	4.1	1.1	3.5	1.9	2.2	4.0
	SD	0.9	3.8	0.4	0.0	1.7	0.0	–	2.0	0.0	2.7
	CV	0.1	0.6	0.4	0.0	0.4	0.0	–	1.0	0.0	0.7
Accepted LCY Bond Transaction Size Off-the-Run	Average (US$ million)	6.8	5.6	0.8	8.4	2.7	1.1	...	1.2	2.2	3.6
	SD	0.9	4.9	0.5	0.0	0.7	0.0	...	0.9	–	2.9
	CV	0.1	0.9	0.6	0.0	0.2	0.0	...	0.7	–	0.8

... = data not available, – = not applicable, bps = basis points; CV = coefficient of variation; HKG = Hong Kong, China; INO = Indonesia; KOR = Republic of Korea; LCY = local currency; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; SD = standard deviation; SIN = Singapore; THA = Thailand; VIE = Viet Nam.
Note: The bid–ask spreads for Indonesian Treasury bonds presented above are expressed in terms of yields or basis points to make them comparable with bid–ask spreads in other emerging East Asian markets. Bid–ask spreads for government bonds are most often expressed in terms of "cents" in the Indonesian market. In our 2015 survey, the average Treasury bond bid–ask spread was 54 cents.
Source: *AsianBondsOnline* 2015 LCY Bond Market Liquidity Survey.

The region's average accepted bond transaction size for on-the-run government bonds stood at US$4.0 million in this year's survey, down from US$5.0 million in 2014. This suggests that large volume transactions had become more difficult to execute this year. The lowest average bond transaction sizes were noted in Indonesia (US$0.9 million) and the Philippines (US$1.1 million). The Republic of Korea again had the largest average bond transaction size among all markets in the region at US$8.4 million.

Characteristics of Individual Government Bond Markets

People's Republic of China

Overall, bid–ask spreads for the PRC were relatively unchanged in 2015, with the exception of Treasury bonds, which rose slightly by almost 2 bps, supported by easing monetary policy **(Table 6)**.

In terms of overall trading volumes, activity increased in 2015 versus 2014, owing to bullish sentiments as yields continued to fall. Liquidity also received a boost from monetary easing measures taken by the central bank in 2015, including reducing policy rates and reserve requirement ratios.

Among government bonds, policy bank bonds continued to be the most liquid as evidenced by the lowest bid–ask spreads. Treasury bills and bonds were not as liquid due to their inconsistent issuance as the government's healthy finances have reduced the need for the PRC to regularly tap the bond market. Among government bonds, there was a slight widening in Treasury bond bid–ask spreads.

Table 6: LCY Government Bond Survey Results—People's Republic of China

	Treasury Bills	Treasury Bonds	Policy Bank Bonds
On-the-Run			
Bid–Ask Spread (bps)	4.0	5.3	3.0
Average Trading Size (CNY million)	63.3	43.3	43.3
Off-the-Run			
Bid–Ask Spread (bps)	3.3	7.5	4.0
Average Trading Size (CNY million)	63.3	43.3	43.3

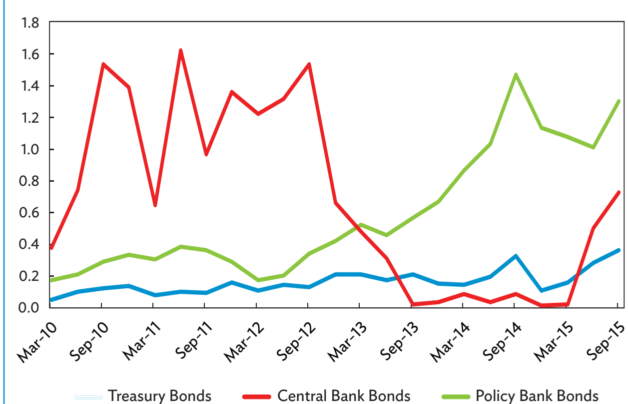
bps = basis points, LCY = local currency.
Source: *AsianBondsOnline* 2015 LCY Bond Market Liquidity Survey.

Average trading sizes declined in 2015 from 2014 levels. The average trading size for Treasury bonds fell to CNY43.3 million from CNY61.7 million, consistent with the widening spread for Treasury bonds. Policy bank bonds' average trading size fell to CNY43.3 million from CNY61.7 million.

One reason for the lower trading volumes and slight rise in bid–ask spreads for Treasury bonds is that market participants were concerned with the large supply of local government bonds being issued. Issuance of local government bonds increased 82.5% quarter-on-quarter in 3Q15, putting pressure on liquidity, while activity was higher due to the bullish sentiments over bond prices.

Consistent with the fall in bond yields, trading volumes continued to rise in 2015 **(Figure 14)**. As the turnover ratios indicate, policy bank bonds remained more actively traded than Treasury bonds.

Figure 14: Turnover Ratios for the Spot Market in the People's Republic of China



Source: *ChinaBond*.

Hong Kong, China

Survey results from Hong Kong, China showed that Exchange Fund Bills (EFBs) remained the most liquid government bond **(Table 7)**. In 2015, the bid–ask spread for EFBs was narrower by 2.1 bps than the spread for Exchange Fund Notes (EFNs). The least liquid government instrument was the Hong Kong Special Administrative Region (HKSAR) bond, which had a bid–ask spread 6.0 bps higher than EFBs.

Table 7: LCY Government Bond Survey Results—Hong Kong, China

	Exchange Fund Bills	Exchange Fund Notes	HKSAR Bonds
On-the-Run			
Bid–Ask Spread (bps)	3.5	5.6	9.5
Average Trading Size (HKD million)	490.0	51.3	18.0
Off-the-Run			
Bid–Ask Spread (bps)	4.8	7.3	14.2
Average Trading Size (HKD million)	487.5	43.5	13.9

bps = basis points, HKSAR = Hong Kong Special Administrative Region, LCY = local currency.
Source: *AsianBondsOnline* 2015 LCY Bond Market Liquidity Survey.

Trading volume in the secondary market tends to be significantly larger for EFBs on an absolute basis than for EFNs and HKSAR bonds. The outstanding amount of EFBs is also significantly larger.

According to market participants, liquidity in the government bond market has not changed significantly from the prior year. Of the three government bond types, HKSAR bonds are the least liquid and the government has sought to improve their liquidity by phasing out issuances of EFNs with tenors longer than 2 years. In addition, a repurchase facility was added for HKSAR bonds.

These measures have improved the liquidity of HKSAR bonds somewhat, though not significantly. One reason for this is that HKSAR bonds cannot be shorted, making it more difficult to make a market for this bond type.

Indonesia

The liquidity survey results for Indonesia showed that bid–ask spreads widened for Treasury bills and bonds in 2015, while spreads for *Sertifikat* Bank Indonesia (SBI) narrowed. Average trading size was also down for Treasury bills and bonds in 2015 as market activity has been relatively thin.

The bid–ask spread for Treasury bonds widened to 9.2 bps in this year's survey from 6.0 bps in the 2014 survey **(Table 8)**. The wider spread was driven by bearish investor sentiments as a number of negative external events weighed on Indonesia's bond market and drove yields significantly higher, particularly in 3Q15. In addition, the rise in yields also led to a notable decline in trading activity in 2015. **Figure 15** shows the quarterly

Table 8: LCY Government Bond Survey Results—Indonesia

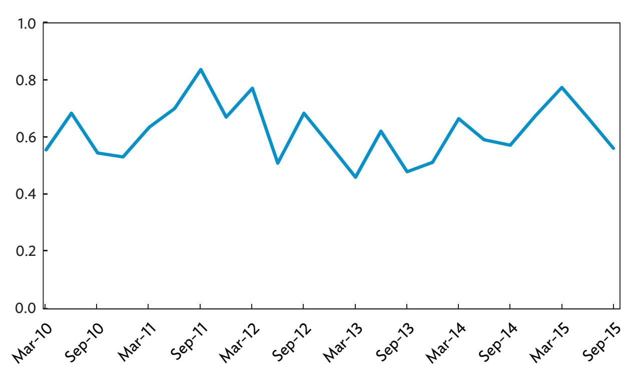
	Treasury Bills	Treasury Bonds	SBI
On-the-Run			
Bid–Ask Spread (bps)	27.9	9.2	8.3
Average Trading Size (IDR billion)	31.7	13.3	61.7
Off-the-Run			
Bid–Ask Spread (bps)	24.0	13.5	15.0
Average Trading Size (IDR billion)	30.0	12.1	55.0

bps = basis points, LCY = local currency, SBI = *Sertifikat* Bank Indonesia.
Note: The bid–ask spreads for Indonesian Treasury bonds presented above are expressed in terms of yields or basis points to make them comparable with bid–ask spreads in other emerging East Asian markets. Bid–ask spreads for government bonds are most often expressed in terms of "cents" in the Indonesian market. In the 2015 survey, the average Treasury bond bid–ask was 54 cents. The Indonesian market quotes bid–ask spread for Treasury bills and SBI in terms of yields or basis points.
Source: *AsianBondsOnline* 2015 LCY Bond Market Liquidity Survey.

turnover ratio for Indonesia's government bonds. Bearish sentiments stemmed largely from uncertainties over the timing of the Federal Reserve's interest rate hike. Among emerging markets, the unexpected devaluation of the Chinese renminbi also weighed on investors, as many of the region's currencies depreciated in response. These factors caused a selloff in Indonesia's bond market, leading to foreign fund outflows in 3Q15. Indonesia's market is quite sensitive to capital outflows as foreign investors are the largest investor group, holding about 37% of the total LCY government bond stock.

Nonetheless, most survey participants indicated that while liquidity in the LCY government bond market was hampered due to risk aversion among investors, liquidity was helped in part due to a number of structural reforms

Figure 15: Quarterly Government Bond Turnover Ratio in Indonesia



Sources: Indonesia Stock Exchange and *AsianBondsOnline*.

initiated by the government. The Directorate General of Budget Financing and Risk Management of the Ministry of Finance extended the life of benchmark bond series for a period of 2 years, which resulted in larger outstanding volumes for each bond series. Increased issuance volumes and more transparent auctions, buybacks, and debt switch calendars also contributed to better liquidity conditions in 2015.

The most liquid government bond instruments were the fixed-rate benchmark bonds. In both 2014 and 2015, these comprised FR0069, FR0070, FR0071, and FR0068. The government has already issued the new series of benchmark bonds for next year and, together with the 2015 benchmark series, these were the most traded. For nonbenchmark bonds, maturities of 5 years or less were also attracting liquidity.

Some market participants noted an improvement in liquidity for *sukuk* (Islamic bonds), mostly for short-dated maturities (tenors of 5 year or less) such as retail *sukuk.* This may have been driven by the increased supply of *sukuk* as issuance has been more regular in 2015, with most auctions fully awarded unlike in previous years.

To help improve bond market liquidity, the government initiated regular meetings with market participants, particularly primary dealers, to improve information flows and calm market concerns. The government and Bank Indonesia have also been intervening in the foreign exchange and bond markets to reduce market volatility, especially in recent months.

In this year's survey, most market participants noted there was no longer much interest in SBI. At the end of September, SBI were held solely by banking institutions. The outstanding volume of SBI has also dwindled significantly as Bank Indonesia is using other policy tools to manage liquidity.

Most market participants believed that Indonesia's bond market will remain under pressure until the Federal Reserve finally decides to raise interest rates. Although a rate hike has long been priced in by the market, the period leading up to the next FOMC meeting is seeing market concern. Investors continue to be cautious over uncertainties associated with the impact of the Federal Reserve's policy decision and the PRC's weak growth spilling over into emerging markets. On the other hand, domestic macro conditions are beginning to improve as inflation in 2015 is expected to fall within Bank Indonesia's target corridor and the current account deficit is projected to be lower than earlier estimated. While the rupiah has slightly recovered from its 3Q15 lows, it still remains under pressure as the delay in the rate hike by the Federal Reserve is only temporary.

Bank Indonesia is widely expected to maintain its current tight monetary policy stance. Most market participants expect the benchmark interest rate to be kept at 7.5% for the rest of the year. While there may be some room for a rate adjustment, most survey participants expect it to come after the Federal Reserve's monetary policy action.

Republic of Korea

Korea Treasury Bonds (KTBs) and Monetary Stabilization Bonds (MSBs) remained the most liquid Korean government bond instruments in 2015, with average on-the-run bid–ask spreads of 0.5 bps and 0.6 bps, respectively **(Table 9)**. Central bank bills and Treasury bills recorded bid–ask spreads of 1.8 bps and 1.3 bps, respectively. This year's survey results showed that on-the-run KTBs and MSBs had lower bid–ask spreads than their off-the-run counterparts, while their average trading sizes were the same at KRW10 billion. Compared with the previous year's survey results, this year's bid–ask spreads for on-the-run debt instruments were lower for KTBs, unchanged for MSBs, and higher for central bank bills and Treasury bills. In contrast, this year's bid–ask spreads for most off-the-run debt instruments—specifically, central bank bills, central bank bonds, and Treasury bills—were higher than in the previous year, while the 2015 spread was lower for KTBs.

Table 9: LCY Government Bond Survey Results—Republic of Korea

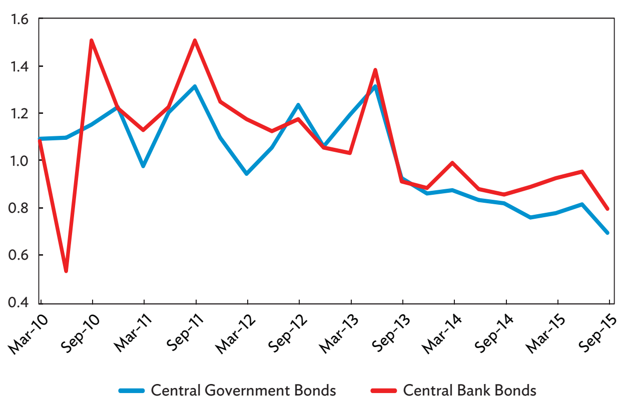
	Treasury Bonds	Treasury Bills	Central Bank Bonds	Central Bank Bills
On-the-Run				
Bid–Ask Spread (bps)	0.5	1.3	0.6	1.8
Average Trading Size (KRW billion)	10.0	10.0	10.0	10.0
Off-the-Run				
Bid–Ask Spread (bps)	0.9	1.4	0.9	1.9
Average Trading Size (KRW billion)	10.0	10.0	10.0	10.0

bps = basis points, LCY = local currency.
Source: *AsianBondsOnline* 2015 LCY Bond Market Liquidity Survey.

Some survey respondents revealed that liquidity in the Korean LCY government bond market improved in 2015, with liquidity being most evident in the KTB market. Respondents perceived that US monetary policy decisions have a strong impact on Korean bond market liquidity. They also acknowledged that the recent devaluation of the renminbi and the slowdown in the PRC's economy were important liquidity factors. Most respondents forecast the policy interest rate in the Republic of Korea to remain unchanged through the end of 2015.

Quarterly turnover ratios for Korean central government and central bank bonds have been on a downward trend since 3Q14, leveling off in 3Q15 at 0.7 and 0.8, respectively **(Figure 16)**.

Figure 16: Quarterly Government Bond Turnover Ratios in the Republic of Korea



Note: For the Republic of Korea, central government bonds include Treasury bonds and National Housing bonds.
Source: The Bank of Korea.

Malaysia

The liquidity survey for Malaysia indicated market liquidity in 2015 to be at par, if not worse, when compared with the previous year due to both domestic and external factors. The average bid–ask spread for Malaysia Government Securities (MGS) slightly widened to 2.4 bps in 2015 from 1.7 bps in 2014 **(Table 10)**. The same trend can be observed for other government securities–Government Investment Issues (GII), Bank Negara Malaysia Bills, and Treasury Bills.

The market remained cautious as participants continued to monitor economic developments in the US that might signal the start of an interest rate hike by the Federal Reserve. The devaluation of the Chinese renminbi in August further contributed to volatility in the market. Survey respondents noted that this prompted the steep decline of the Malaysian ringgit versus the US dollar and reduced demand for LCY government bonds. On the domestic front, survey participants noted that the government's fiscal consolidation efforts were being closely monitored by foreign credit rating agencies. They also cited declining oil prices as a major risk to the government meeting its fiscal targets.

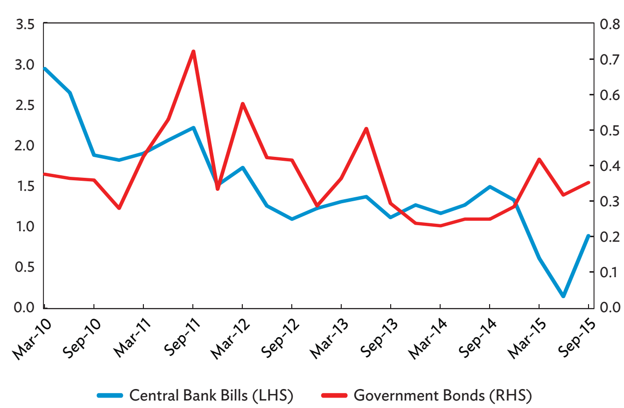
Survey participants noted that despite the volatility, there continues to be support from domestic market players. This can be observed in the quarterly turnover ratios for central government bonds, which pointed to a pick-up in market activity in 2015 compared with 2014 **(Figure 17)**. Central bank bills, on the other hand, showed a sharp

Table 10: LCY Government Bond Survey Results—Malaysia

	MGS	GII	BNM Bills	Treasury Bills
On-the-Run				
Bid–Ask Spread (bps)	2.4	5.3	5.2	4.5
Average Trading Size (MYR million)	18.0	16.0	15.0	22.5
Off-the-Run				
Bid–Ask Spread (bps)	6.3	10.1	2.7	5.7
Average Trading Size (MYR million)	11.7	11.7	...	15.0

... = data not available, BNM = Bank Negara Malaysia, bps = basis points, GII = Government Investment Issues, LCY = local currency, MGS = Malaysian Government Securities.
Source: *AsianBondsOnline* 2015 LCY Bond Market Liquidity Survey.

Figure 17: Quarterly Government Bond Turnover Ratios in Malaysia



LHS = left-hand side, RHS = right-hand side.
Source: Bank Negara Malaysia.

decline in turnover ratios due to both lower trading volumes and a declining stock of bills outstanding as Bank Negara Malaysia ceased issuance at the start of the year. In August, the central bank resumed issuance of bills, albeit at a lower volume than in 2014, which resulted in an uptick in their turnover ratio in 3Q15.

In the near-term, market participants still expect volatility in government bonds as the Federal Reserve decided to leave its policy rates unchanged in its September FOMC meeting. With Bank Negara Malaysia expected to hold its policy rate steady, given manageable inflation and to support economic growth, the market will look to the Federal Reserve for direction. However, survey respondents maintained that in the event of a sell-off by foreign investors, demand from domestic institutional investors is expected to support the LCY bond market.

Philippines

The liquidity survey for the Philippines indicated market liquidity to be worse in 2015 compared with the previous year, mostly due to external uncertainties rather than domestic factors. The average bid–ask spread for Philippine Treasury bonds slightly increased to 3.4 bps from 3.3 bps. The average bid–ask spread for on-the-run Treasury bills fell to 4.7 bps from 7.4 bps **(Table 11)**. This reflects the continued preference of the market for the short-end of the curve as uncertainties over the timing of the impending rate hike by the Federal Reserve and the slowdown in the PRC has kept market participants risk averse.

Participants in the liquidity survey also noted less trading activity in 2015 compared with 2014, with the average trading size of on-the-run Treasury bonds declining to PHP50 million from PHP71 million. The average trading size of Treasury bills was unchanged at PHP50 million. The Philippine Dealing and Exchange Corporation's data on total trading volume of government securities also showed minimal growth in trading activity this year. The total trading volume for the first 3 quarters of 2015 of PHP3 billion was only 3.5% higher than the PHP2.9 billion recorded in the same period in 2014 **(Figure 18)**.

On the domestic front, the Philippines' macroeconomic indicators have been generally stable, which may have helped cap the rise in bid–ask spreads arising from recent volatility. Inflation has been on a downward trend as well, with September inflation at 0.4% year-on-year (y-o-y), which has allowed Bangko Sentral ng Pilipinas (BSP) to maintain its policy rates. The Philippine economy has exhibited strong economic growth supported by domestic demand. Gross domestic product growth in 2Q15 was 5.6% y-o-y, up from 5.0% y-o-y growth posted in 1Q15. In September, Fitch Ratings revised its outlook on the Philippines' issuer default ratings to positive from stable.

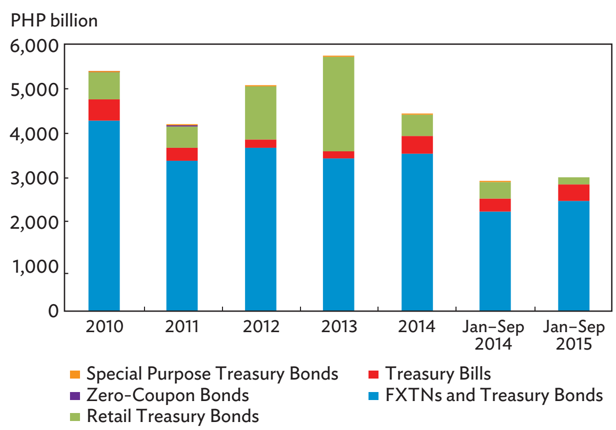
The most recent bond swap conducted by the Bureau of the Treasury in September was part of the government's efforts to deepen liquidity in the LCY bond market. The BSP also announced in September its plans to implement an interest rate corridor system by 2Q16 (see the Policy, Institutional, and Regulatory Developments section for more detail). The interest rate corridor system is expected to improve the liquidity management of financial

Table 11: LCY Government Bond Survey Results—Philippines

	Treasury Bonds	Treasury Bills
On-the-Run		
Bid–Ask Spread (bps)	3.4	4.7
Average Trading Size (PHP million)	50.0	50.0
Off-the-Run		
Bid–Ask Spread (bps)	8.5	9.3
Average Trading Size (PHP million)	50.0	50.0

bps = basis points, LCY = local currency.
Source: *AsianBondsOnline* 2015 LCY Bond Market Liquidity Survey.

Figure 18: PDEx Trading Volume Trends—Government Securities in the Philippines



FXTNs = Fixed-Rate Treasury Notes.
Note: PDEx reports one side of the trade only.
Source: Philippine Dealing and Exchange Corporation (PDEx).

institutions by serving as an alternative for borrowing and lending activities, and is deemed to be beneficial to market liquidity as a whole.

Singapore

Bond market liquidity survey results for Singapore showed a narrowing in the bid–ask spread for Singapore Government Securities (SGS) bonds to 2.0 bps in 2015 from 2.3 bps a year earlier **(Table 12)**. Under normal market conditions, the most liquid debt instruments are the 5-year and 10-year SGS bonds. Currently, however, the most liquid are the longer tenors, particularly the 30-year SGS bond.

Market participants noted that trading has been mostly concentrated in SGS bonds as there has not been much trading in SGS bills in 2015. In 3Q15, the turnover ratio for SGS bills had fallen to 0.01 from 0.11 in 3Q14 **(Figure 19)**. The turnover ratio for SGS bonds, while higher, also recorded a decline in 2015.

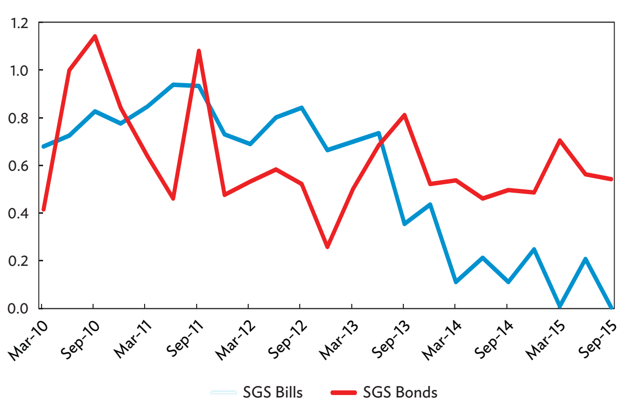
The Monetary Authority of Singapore (MAS) has shifted most of its short-term issuance in 2015 to MAS bills.

Table 12: LCY Government Bond Survey Results—Singapore

	SGS Bonds
On-the-Run	
Bid–Ask Spread (bps)	2.0
Average Trading Size (SGD million)	5.0

bps = basis points, LCY = local currency, SGS = Singapore Government Securities.
Source: *AsianBondsOnline* 2015 LCY Bond Market Liquidity Survey.

Figure 19: Quarterly Government Bond Turnover Ratios in Singapore



SGS = Singapore Government Securities.
Source: Monetary Authority of Singapore (MAS), Singapore Government Securities (SGS), and *AsianBondsOnline*.

There were only two auctions of SGS bills scheduled for the whole year, while MAS bills are being auctioned every week.

Thailand

On-the-run central government and central bank bonds had the same average bid–ask spread (1.5 bps) in 2015 as in 2014, while central bank bills and Treasury bills had a slightly higher bid–ask spread of 1.7 bps each **(Table 13)**. Bid–ask spreads for on-the-run debt instruments were lower than their off-the-run counterparts. Average trading sizes were relatively high for short-term debt instruments, specifically central bank bills and Treasury bills. Comparing the 2015 survey results to the previous year, the bid–ask spreads for central government bonds and central bank bonds were lower, while bid–ask spreads were higher in the case of central bank bills and Treasury bills.

Table 13: LCY Government Bond Survey Results—Thailand

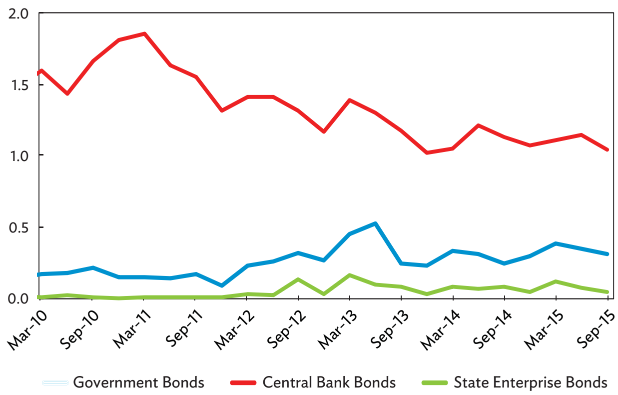
	Government Bonds	Treasury Bills	BOT Bonds	BOT Bills
On-the-Run				
Bid–Ask Spread (bps)	1.5	1.7	1.5	1.7
Average Trading Size (THB million)	70.0	286.7	170.0	286.7
Off-the-Run				
Bid–Ask Spread (bps)	3.3	1.8	2.5	1.8
Average Trading Size (THB million)	45.0	286.7	103.3	286.7

BOT = Bank of Thailand, bps = basis points, LCY = local currency.
Source: *AsianBondsOnline* 2015 LCY Bond Market Liquidity Survey.

Market participants identified Bank of Thailand bonds and central government bonds as the most liquid type of government debt securities in Thailand in 2015. Most respondents identified the bid–ask spread as the best liquidity indicator in the Thai bond market. A majority also stated that US monetary policy decisions had the biggest impact on Thai bond market liquidity among all domestic and external factors, and that they expect the policy interest rate in Thailand to remain steady.

Quarterly turnover ratios for the three types of Thai government bonds—central bank bonds, central government bonds, and state-owned enterprise bonds—show that central bank bonds were the most liquid as

Figure 20: Quarterly Government Bond Turnover Ratios in Thailand



Source: Bank of Thailand and ThaiBMA.

evidenced by the highest turnover ratio in 3Q15 at 1.0 **(Figure 20)**.

Viet Nam

Liquidity survey results from Viet Nam indicated wider average bid–ask spreads in 2015 compared with the previous year. The average bid–ask spread for Viet Nam's Treasury bonds rose to 15.0 bps from 11.0 bps a year earlier **(Table 14)**. Liquidity in the bond market was largely affected by a new regulation effective in 2015 limiting issuance of government bonds to those with maturities of 5 years or more. Most investors deemed longer-dated bonds more risky, thus demanding higher returns. On the other hand, the government wanted to lower borrowing costs in 2015, resulting in failed auctions and making it difficult for the government to raise funds to support its budget. More recently, however, regulations allowing for the issuance of bonds with maturities of less than 5 years have been passed and are expected to improve liquidity in the government bond market.

Table 14: LCY Government Bond Survey Results—Viet Nam

	Treasury Bonds	Treasury Bills
On-the-Run		
Bid–Ask Spread (bps)	15.0	11.3
Average Trading Size (VND billion)	50.0	50.0
Off-the-Run		
Bid–Ask Spread (bps)	15.0	12.5
Average Trading Size (VND billion)	50.0	50.0

bps = basis points, LCY = local currency.
Source: *AsianBondsOnline* 2015 LCY Bond Market Liquidity Survey.

Qualitative Indicators for Government Bond Markets

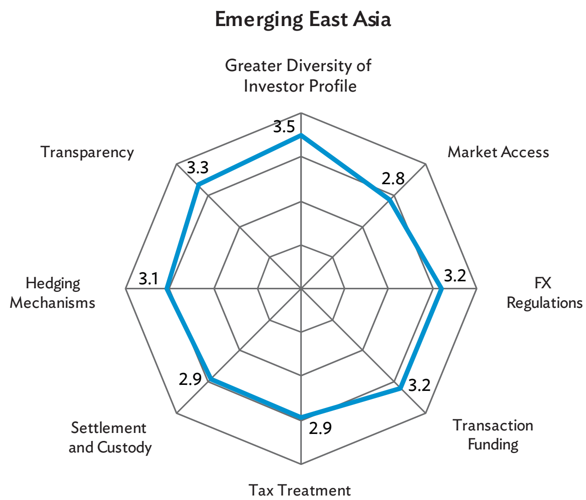
The 2015 *AsianBondsOnline* Liquidity Survey also examines qualitative indicators in emerging East Asian LCY bond market liquidity and assesses the degree of importance of select market structural issues in improving the liquidity of LCY bond markets in the region. The level of importance is based on the views of market participants. A brief description of each of the eight structural issues is shown below.

i. **Greater Diversity of Investor Profile:** the need to widen the investor base for LCY bonds.
ii. **Market Access:** the degree of ease or difficulty for investors to enter the LCY bond market, taking into account investor registration and investment quotas.
iii. **Foreign Exchange Regulations:** the extent of liberal or restrictive foreign exchange, capital investment, and repatriation policies.
iv. **Transaction Funding:** the need for funding availability through active and developed money and repurchase markets.
v. **Tax Treatment:** the significance of reducing withholding taxes on LCY bonds.
vi. **Settlement and Custody:** the importance of straight-through clearing processes, timely bond trade settlements, and a global custodian or accredited custodian(s).
vii. **Hedging Mechanisms:** the need to have a more active and efficient derivatives market.
viii. **Transparency:** the importance of having transparency in bond market activity, available bond prices, and ratings on bonds provided by credit rating agencies.

Each of the structural issues was rated by the survey respondents based on degree of importance, with numerical values being assigned four levels of importance: 1–Not Important, 2–Somewhat Important, 3–Important, and 4–Very Important.

The results show that market participants believed that greater diversity of investors was the most important factor, with a regional average of 3.5 **(Figure 21)**. Most markets ranked this issue as the most important among

Figure 21: Regional Averages—LCY Government Bond Market Structural Issues



FX = foreign exchange, LCY = local currency.
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* 2015 LCY Bond Market Liquidity Survey.

all structural issues as most government bonds are largely held and dominated by only one or two major investor groups. These are banking institutions in the markets of the PRC and the Philippines, and foreign investors in Indonesia and Malaysia.

The next most important issue was transparency, with an average of 3.3. Foreign exchange regulations and transaction funding scored a rating of 3.2, while hedging mechanisms scored 3.1. The lowest rated structural issues were market access at 2.8, followed by tax treatment and settlement and custody at 2.9 each.

Among the region's markets, the Philippines rated greater investor diversity the highest at a score of 4.0 **(Figure 22)**. This reflects the Philippines narrow investor base for government bonds. Banks own 35.8% of all outstanding government bonds and contractual savings institutions own 29.5%. Liquidity in the Philippine bond market is driven mostly by banks, as the contractual savings institutions tend to be buy-and-hold investors.

The Philippines also rated market access the highest among all markets at 3.5. This was because relative to other markets, the Philippines has a low share of foreign investors. In contrast, foreign investors in Indonesia comprise a 37.6% share, while Malaysia has a 30.5% share. One reason for this is that the Philippine central bank requires a number of documents for the registration of foreign investment.

For foreign exchange regulations, the PRC rated the highest among its peers with a score of 3.8. In the PRC, access to the domestic market is subject to registration and quotas. Repatriation and outward investment of portfolio funds are also regulated. The PRC also rated transaction funding the highest among its peers with a rating of 3.9. The importance placed on transaction funding reflects market perception due to past events, such as the Shanghai Interbank Offered Rate shock that occurred in 2013, and the fact that liquidity is sometimes strained by large initial public offerings that compete with bond investments. A summary of regulations on cross-border portfolio investments in emerging East Asian markets is provided in **Table 15**.

The Philippines rated taxation the highest in the region at 3.5, the result of the market's relatively high withholding tax rate of at least 20%. In Indonesia, taxation was ranked the lowest in the region as yields proved to be attractive despite the withholding tax, but survey participants also suggested that tax treaties for foreign investors should be made more equitable due to varying rates in the tax treaties. **Table 16** presents a summary of tax treatment in emerging East Asian bond markets.

The Philippines also rated settlement and custody at 3.7 and transparency at 3.9, both were the highest in the region. Transparency is an important factor in the Philippines as some government bond information, such as investor profile and trading volume, is not publicly available.

Viet Nam rated hedging mechanisms the highest at 3.5. Viet Nam currently lacks a derivatives market in which investors can hedge their risk. However, new regulations were passed in 2015 to allow the creation of a derivatives market. Indonesia also scored hedging mechanisms relatively high at 3.3 as market participants mentioned that the Indonesia Stock Exchange is set to launch a government bond futures market in December.

Figure 22: Structural Issues for Individual LCY Government Bond Markets

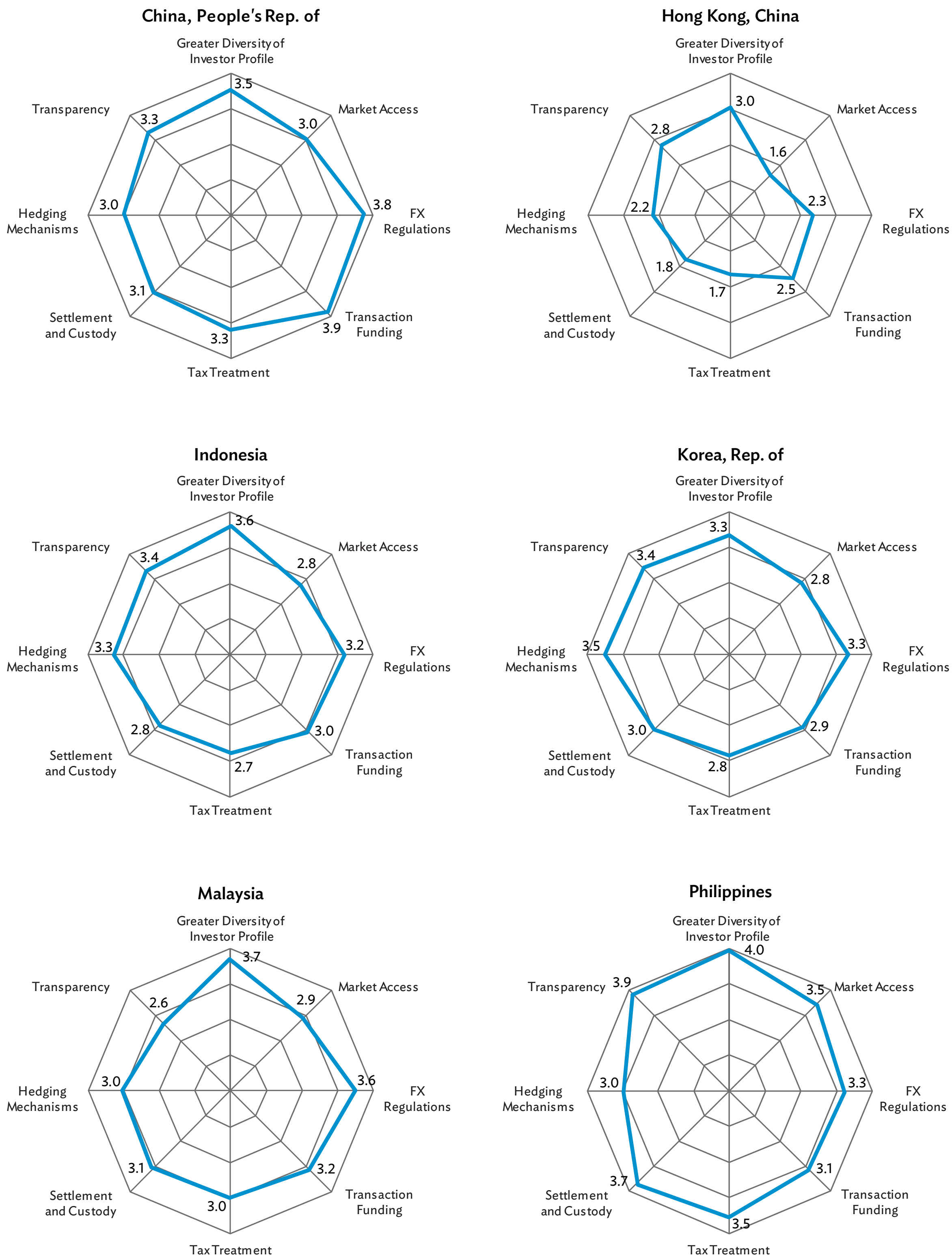


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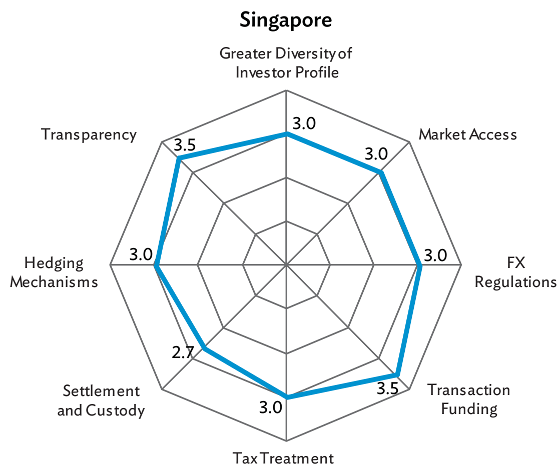
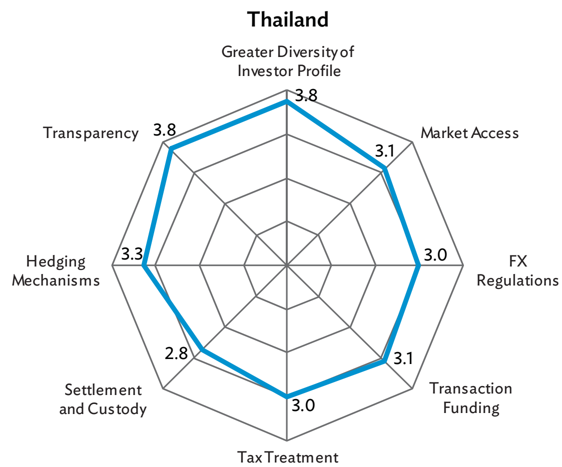
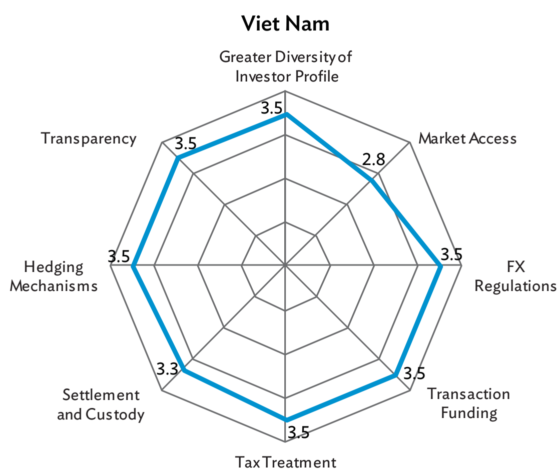
Figure 21 *continued*







FX = foreign exchange, LCY = local currency.
Source: *AsianBondsOnline* 2015 LCY Bond Market Liquidity Survey.

Table 15: Cross-Border Portfolio Investment Regulation in Select Emerging East Asian Markets

Market	Capital Inflow			Capital Outflow	
	Money Market Instruments	Bond Market Instruments	Equity Instruments	Resident Investors	Nonresident Investors
China, People's Republic of	Qualified Foreign Instituional Investors (QFII) may purchase money market funds, subject to a lockup period.	Qualified Foreign Institutional Investors (QFII) are allowed to invest in exchange-traded and interbank-traded bonds subject to quotas. Renminbi Qualified Foreign Institutional Investors (RQFII) are allowed to invest in exchange-traded and interbank-traded bonds subject to quotas. Eligible financial institutions may invest in the interbank bond market subject to limits. Eligible institutions include foreign central banks engaged in cross-border renminbi settlement; Hong Kong, China's and Macau, China's central banks; and other monetary authorities seeking renminbi to diversify financial reserves.	QFIIs are allowed to invest in A-shares subject to quotas. No single QFII may hold more than 10% of a listed company. Foreign investors may not own more than 30% of a single company. Foreign investors may also make strategic investments in A-shares of listed companies subject to certain criteria and restrictions. Renminbi Qualified Foreign Institutional Investors (RQFII) are allowed to invest in listed equities subject to quotas. RQFIIs are allowed to fund investments using renminbi sourced abroad.	Qualified Domestic Institutional Investors (QDII) are allowed to buy and hold offshore securities subject to certain quotas.	QFII pension and insurance funds, mutual funds, charitable foundations, endowment funds, government investment management companies, and open-end funds have a principal lock-up of 3-months. Other QFIIs are required to keep their investments in the People's Republc of China (PRC) for 1 year. For RQFIIs, there is no holding period. Repatriation of foreign exchange requires the approval of the State Administration for Foreign Exchange.
Hong Kong, China	There are no specific restrictions on portfolio investments and foreign investors may place funds directly in money market instruments.	Nonresidents are free to purchase debt instruments.	Nonresidents are free to purchase equity securities. Investment in banks require Hong Kong Monetary Authority (HKMA) approval.	Residents are generally free to invest abroad. Overseas investment by institutional investors (e.g., insurance companies, banks) must be within certain limits and may require HKMA approval.	No restrictions on repatriation of capital and profits.
Indonesia	Foreign investors are allowed to purchase money market instruments in the secondary market. For Bank Indonesia Certificates, the minimum holding period is one week.	Foreign investors are allowed to purchase debt securities without limit except for retail bonds for which they are only allowed to purchase in the secondary market.	Foreign investors are allowed to purchase shares without limit with the exception of shares in finance company joint ventures.	Pension funds are not allowed to invest in securities abroad. Certain restrictions apply to investments by mutual funds, protected mutual funds, guaranteed mutual funds, insurance and reinsurance companies with regard to investments abroad.	No restrictions apply to repatriation of capital, remittance of dividends, and profits.
Japan	Nonresidents are free to purchase money market securities.	Nonresidents are free to purchase debt securities.	Controls will only apply if the purchase of equity instruments is affected by inward direct investment laws.	Residents are allowed to purchase capital instruments issued abroad.	No restrictions on repatriation of capital, profits, dividends, and interest.

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Table 15 *continued*

Market	Capital Inflow			Capital Outflow	
	Money Market Instruments	Bond Market Instruments	Equity Instruments	Resident Investors	Nonresident Investors
Korea, Republic of	Nonresidents are allowed to invest in domestic money market instruments. The sale of FCY-denominated money market instruments abroad requires notification to a designated foreign exchange bank. Sale of FCY-denominated money market instruments exceeding US$30 million or LCY-denominated money market instruments by residents abroad requires notification to the Ministry of Strategy and Finance (MOSF).	Nonresidents are allowed to buy bonds and other debt securities sold by residents, but notification to a foreign exchange bank or the Bank of Korea is required if the purchase is not made through an account exclusively for investment.	Nonresidents are freely allowed to invest in shares of local companies, but notification to a foreign exchange bank or the Bank of Korea is required if the purchase is not made through an account exclusively for investment. The purchase of listed shares issued by resident public sector utilities in the process of privatization is subject to controls.	Residents are allowed to buy bonds issued abroad, but notification to the Bank of Korea is required if the purchase is not made through an account exclusively for investment.	Effective December 9, 2015, proceeds from capital transactions in excess of US$500,000 or its equivalent must be repatriated within 3 years of the settlement date.
Malaysia	Nonresidents are allowed to purchase money market instruments without any restrictions.	Nonresidents are allowed to purchase bond market instruments without any restrictions.	Nonresidents are allowed to purchase equity instruments without any restrictions.	Residents with domestic borrowing, and has funded the investment through conversion of ringgit into foreign currency, may invest abroad but subject to certain limits.	Nonresidents are free to repatriate funds from divestment of LCY-denominated assets or profits and dividents arising from investments.
Philippines	Registration of money market instruments purchased by nonresidents is required only if the foreign exchange needed for capital repatriation and remittance of profits and earnings will be purchased from BSP's Authorized Agent Banks (AABs) and AAB-forex corporations.	Registration of bonds purchased by nonresidents is required only if the foreign exchange needed for capital repatriation and remittance of profits and earnings will be purchased from AABs and AAB-forex corporations.	Registration of equity instruments purchased by nonresidents is required only if the foreign exchange needed for capital repatriation and remittance of profits and earnings will be purchased from AABs and AAB-forex corporations.	A resident's investments abroad in excess of US$60 million a year requires prior regulatory approval.	No restrictions on repatriation of capital, profits, dividends, and interest.
Singapore	No restrictions for nonresidents to purchase money market instruments.	No restrictions for nonresidents to purchase bond market instruments.	No restrictions for nonresidents to purchase equity instruments.	No restrictions on investments by residents abroad.	Nonresident financial entities must convert Singapore dollar proceeds, from Singapore dollar loans (exceeding SGD5 million), equity listings, and bond issuances into foreign currency before using such funds to finance activities outside Singapore.

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Table 15 *continued*

Market	Capital Inflow			Capital Outflow	
	Money Market Instruments	Bond Market Instruments	Equity Instruments	Resident Investors	Nonresident Investors
Thailand	Nonresidents can invest in THB-denominated money market instruments. Investment of a nonresident group in THB-denominated money market instruments issued by a domestic financial institution is subject to the overall outstanding THB-denominated borrowing limit of THB10 million.	Nonresidents can invest in THB-denominated debt securities. Investment of a nonresident group in THB-denominated debt securities issued by a domestic financial institution is subject to an overall outstanding THB-denominated borrowing limit of THB10 million.	Nonresidents can invest in equities, but foreign equity participation may be limited if a company is subject to the provisions of the Foreign Business Act or other related laws. Financial institutions' foreign equity participation is limited to 25% of total shares in locally-incorporated banks, credit finance companies, and finance companies. Nonresidents can invest up to 100% of the shares of an asset management company or a securities company. For most other Thai corporations, foreign equity participation is up to 49%.	Institutional investors—the Government Pension Fund, Social Security Fund, companies listed on the Stock Exchange of Thailand (SET), insurance companies, mutual funds, provident funds, securities companies, specialized financial institutions, and Thai companies with asset size of at least THB5 billion—may invest freely in foreign securities issued abroad, up to a certain limit imposed by the directors, management, or supervisory authority of the institutional investors. In September 2014, Bank of Thailand authorized the Securities and Exchange Commission to allocate foreign investments within an overall limit of US$75 billion.	Proceeds of up to US$50,000 or its equivalent can be retained abroad, while proceeds exceeding the threshold must be repatriated on receipt and within 360 days of the transaction date.
Viet Nam	Foreign investors are allowed to purchase money market instruments locally. These transactions must be executed in VND through an account at a licensed back in Viet Nam.	Foreign investors are required to open a VND-denominated securities trading account to sell or purchase debt securities. These transactions must be executed in VND through an account at a licensed back in Viet Nam.	Foreign investors are required to open a VND-denominated securities trading account to sell or purchase listed securities on the stock exchange. Foreign investors are allowed to hold up to 49% of a company's current shares, except in the banking sector, which has a limit of 30%.	Residents may invest in shares and bonds abroad subject to regulation set by State Bank of Viet Nam (SBV). Institutional investors, upon acquiring a license for indirect investment abroad, must open an account to transfer capital overseas and transfer legal capital, profits, and earnings from offshore indirect investment to Viet Nam under the SBV regulations.	There is no provision for timeline on repatriation of profits. However, profits from foreign indirect investment must be repatriated via foreign exchange accounts at authorized credit institutions.

Sources: International Monetary Fund's *Annual Report on Exchange Arrangements and Exchange Restrictions 2015,* and local market sources.

Table 16: Tax Treatments in Emerging East Asian Markets

Market	Withholding Tax on Interest Income	
	Government	Corporate
China, People's Rep. of	Exempt from tax	Nonresident investors are subject to a 10% withholding tax, which is subject to reduction based on applicable treaties.
Hong Kong, China	Exempt from tax	Individuals are exempt from tax. Corporations are subject to a 16.5% tax on profits.
Indonesia	Residents and permanent establishments are subject to a 15% tax on bonds and a 20% tax on *Sertifikat* Bank Indonesia. Nonresidents are subject to a 20% tax, which is subject to reduction based on applicable treaties. For mutual funds registered with Otoritas Jasa Keuangan, the tax rate is 5% until 2020 and 10% thereafter.	Residents and permanent establishments are subject to a 15% tax. Nonresidents are subject to a 20% tax, which is subject to reduction based on applicable treaties. For mutual funds registered with Otoritas Jasa Keuangan, the tax rate is 5% until 2020 and 10% thereafter.
Korea, Republic of	Resident and nonresident investors are subject to a 15.4% tax. For nonresidents, the tax is subject to reductions based on applicable treaties.	Resident and nonresident investors are subject to a 15.4% tax. For nonresidents, the tax is subject to reduction based on applicable treaties.
Malaysia	Residents and nonresidents are exempt from tax.	Nonresidents are exempt from tax on interest payments on bonds issued by banks and financial institutions.
Philippines	Subject to a 20% tax withheld at source. Foreign corporations are subject to a 30% tax on the gross amount of income derived within the Philippines. Nonresident individuals not engaged in trade or business are subject to a 25% tax on the gross amount of income derived in the Philippines.	Subject to a 20% tax withheld at source. Foreign corporations are subject to a 30% tax on the gross amount of income derived within the Philippines. Nonresident individuals not engaged in trade or business are subject to a 25% tax on the gross amount of income derived in the Philippines.
Singapore	Exempt from tax except for resident institutional investors who are subject to a 10% tax.	Individual investors are tax exempt. Resident and nonresident institutional investors are exempt from withholding tax, subject to qualifying conditions.
Thailand	Individual resident investors are subject to a 15% withholding tax. Institutional resident investors are subject to a 1% withholding tax. Nonresident investors are exempt from tax.	Individual resident investors are subject to a 15% withholding tax. Institutional resident investors are subject to a 1% withholding tax. Nonresident investors are subject to a 15% withholding tax.
Viet Nam	Residents are exempt from tax. Nonresidents are subject to a 5% withholding tax, which is subject to reduction based on applicable treaties.	Subject to a 5% withholding tax.

Source: Local market sources.

Qualitative Indicators for Corporate Bond Markets

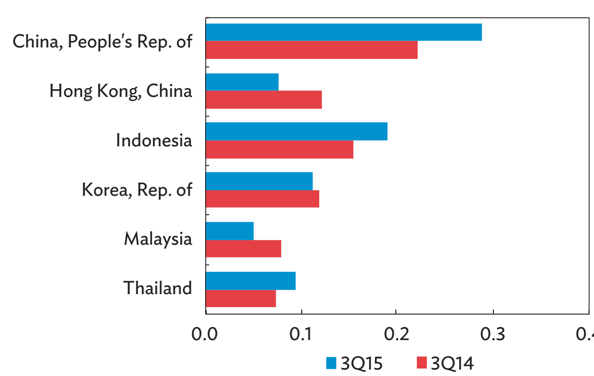
Corporate bonds in general are less liquid compared with government bonds as most investors are typically the buy-and-hold type. Meaningful liquidity for a new corporate bond issue normally concludes within a few weeks to 2 months. For corporate bonds, the name of the corporate issuer holds value as large corporates with an established reputation, a record of previous bond issuance, and high credit ratings attract the most liquidity.

Figure 23 shows the quarterly turnover ratios for LCY corporate bonds in emerging East Asia. Data are unavailable for the Philippines, Singapore, and Viet Nam. In 3Q15, the corporate bond turnover ratio was the highest in the PRC, while it was the lowest in Malaysia. Quarterly turnover ratios were higher in 3Q15 than in 3Q14 for the PRC, Indonesia, and Thailand.

Market participants were asked similar questions as those asked in the government bond market survey. The only difference was that bid–ask spreads in the corporate survey referred to spreads for a new corporate bond issue since liquidity for corporate bonds only extends for a limited time.

The quantitative survey results on the liquidity of LCY corporate bond markets in emerging East Asia are presented in **Table 17**. Bid–ask spreads for new LCY

Figure 23: LCY Corporate Bond Turnover Ratios



LCY = local currency.
Note: Turnover ratios are calculated as LCY trading volume (sales amount only) divided by average LCY value of outstanding bonds during each 3-month period.
Sources: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange); Republic of Korea (EDAILY *Bondweb* and the Bank of Korea); Malaysia (Bank Negara Malaysia); and Thailand (Bank of Thailand and Thai Bond Market Association).

Table 17: LCY Corporate Bond Markets–Quantitative Indicators

		PRC	HKG	INO	KOR	MAL	PHI	SIN	THA	VIE	Regional
Typical Issue Size of Corporate Bonds	Average (US$ million)	216.1	35.7	41.3	110.9	7.7	106.7	99.5	43.7	...	82.7
Typical Bid–Ask Spread for New Corporate Issues	Average (bps)	5.5	13.3	29.5	3.6	8.5	22.5	6.0	4.2	...	11.8
	SD	1.8	2.9	4.8	3.6	3.4	53.0	–	0.8	...	9.6
	CV	0.3	0.2	0.2	1.0	0.4	2.4	–	0.2	...	0.8
Typical Transaction Size of LCY Corporate Bonds	Average (US$ million)	5.8	1.6	0.3	8.4	2.4	0.4	...	1.0	13.3	3.7
	SD	0.9	1.4	0.1	0.0	1.7	0.5	...	0.7	–	4.6
	CV	0.2	0.8	0.2	0.0	0.7	1.1	...	0.7	–	1.2

... = data not available, – = not applicable, bps = basis points; CV = coefficient of variation; HKG = Hong Kong, China; INO = Indonesia; KOR = Republic of Korea; LCY = local currency; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; SD = standard deviation; SIN = Singapore; THA = Thailand; VIE = Viet Nam.
Source: *AsianBondsOnline* 2015 LCY Bond Market Liquidity Survey.

corporate bond issues showed an average of 11.8 bps for the region as a whole. The lowest bid–ask spread was recorded in the Republic of Korea at 3.6 bps, while the economy's average transaction size was also the biggest at US$8.4 million, indicating that its corporate bond market is relatively more liquid compared with other emerging East Asian markets. This may be due to the size of its corporate bond market, which accounted for a higher share at 58.7% of its total LCY bond stock.

In contrast, Indonesia's LCY corporate bond market was the relatively least liquid in the region as its average bid–ask spread ranked the highest at 29.5 bps, while its average transaction size was the smallest at US$0.3 million. The average issue size of LCY corporate bonds varied across emerging East Asian markets, with the largest being in the PRC (US$216.1 million) and the smallest being in Malaysia (US$7.7 million).

Compared with the previous year's survey, average bid–ask spreads were up for most emerging East Asian corporate bond markets, the average transaction size showed mixed results, and the average issue size was lower for most markets in the region.

Characteristics of Individual Corporate Bond Markets

People's Republic of China

Market participants said that state-owned corporate bonds, commercial paper, and medium-term notes remained the most liquid corporate bonds. Bid–ask spreads for these types of bonds remained the lowest in this year's survey **(Table 18)**. Overall corporate bond turnover ratios have remained relatively stable in 2015 **(Figure 24)**.

The liquidity of medium-term notes and commercial paper was due to the fact that these instruments are traded on the interbank market, which is the most liquid market in the PRC.

Indonesia

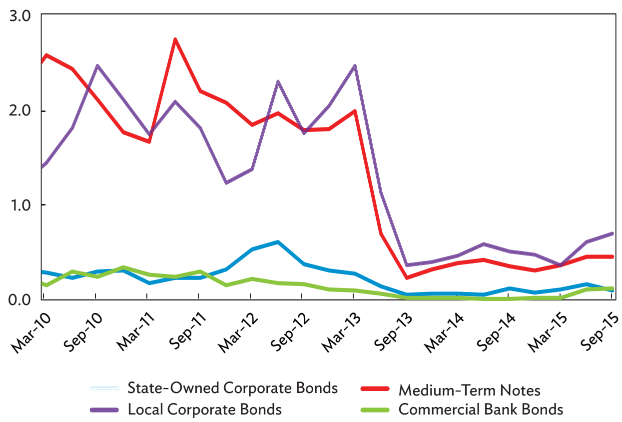
Indonesia's corporate bond market is still deemed highly illiquid and limited mostly to buy-and-hold type of investors. Liquidity survey results for the corporate bond market indicated a wider bid–ask spread for newly

Table 18: LCY Corporate Bond Survey Results—People's Republic of China

	SOE Bonds	Local Corporate Bonds	MTNs	Commercial Bank Bonds	Commercial Paper
Average Issue Size (CNY million)	4,000.0	1,032.0	1,373.8	2,593.6	1,246.5
Bid–Ask Spread (bps)	5.8	8.8	5.5	41.3	8.3
Average Trading Size (CNY million)	40.0	33.3	36.7	57.5	43.3

bps = basis points, LCY = local currency, MTNs = medium-term notes, SOE = state-owned enterprise.
Source: *AsianBondsOnline* 2015 LCY Bond Market Liquidity Survey.

Figure 24: LCY Corporate Bond Turnover Ratios in the People's Republic of China



LCY = local currency
Source: *ChinaBond*.

issued corporate bonds this year compared with last year's survey. Market participants noted that liquidity for corporate bonds was largely dependent on the names of the corporate issuer. Corporate firms with established names and an extensive track record for issuing bonds attracted more liquidity, as well as firms from the banking and financial sectors, and state-owned corporations. Higher-rated bonds, particularly those rated AA and above, attracted the most liquidity.

Some market participants have suggested several factors to help improve liquidity in corporate bonds, including a more efficient and streamlined corporate bond issuance process, tax incentives for corporate bond issuers and investors, and active corporate bond transaction surveillance.

Republic of Korea

The 2015 survey results for the Korean LCY corporate bond market showed that special public bonds and financial debentures posted average bid–ask spreads of 1.6 bps each, emphasizing that both were relatively liquid **(Table 19)**. The average issue size for financial debentures was the biggest, followed by special public bonds and private corporate bonds. The average trading size was the same across all three types of Korean corporate bonds. In comparison with the previous year's survey results, the average bid–ask spread was lower this year for special

Table 19: LCY Corporate Bond Survey Results—Republic of Korea

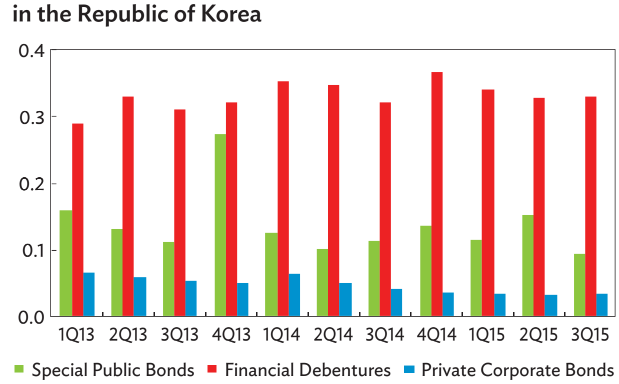
	Special Public Bonds	Financial Debentures	Private Corporate Bonds
Average Issue Size (KRW billion)	147.6	178.8	68.0
Bid–Ask Spread (bps)	1.6	1.6	7.5
Average Trading Size (KRW billion)	10.0	10.0	10.0

bps = basis points, LCY = local currency.
Note: Special public bonds are bonds issued by state-owned enterprises, financial debentures are issued mostly by banks and financing companies, and private corporate bonds are issued mostly by securities companies and by private nonfinancial corporates.
Source: *AsianBondsOnline* 2015 LCY Bond Market Liquidity Survey.

public bonds and higher for financial debentures and private corporate bonds. Moreover, the average issue size was higher this year compared with last year for all three corporate bonds, while the average trading size remained the same for all.

Financial debentures continued to have the highest turnover ratio, bolstering their relatively liquid profile. Financial debentures' turnover ratio stood at 0.33 in 3Q15, the same as in 2Q15 and 1Q15 **(Figure 25)**. The turnover ratios for special public bonds and private corporate bonds were 0.09 and 0.03, respectively, in 3Q15. In the first three 3 quarters of the year, the turnover ratio for special public bonds exhibited fluctuating movements, rising from 0.11 in 1Q15 to 0.15 in 2Q15, then slipping to 0.09 in 3Q15. In contrast, the turnover ratio for private corporate bonds stayed at 0.03 throughout the first 3 quarters of the year.

Figure 25: Turnover Ratios for Special Public Bonds, Financial Debentures, and Private Corporate Bonds in the Republic of Korea



Source: EDAILY *BondWeb*.

Malaysia

The average bid–ask spread for Malaysian corporate bonds inched up to 8.5 bps in the 2015 survey compared with 7.5 bps in 2014 **(Table 20)**. The quarterly turnover ratio fell to 0.05 in 3Q15 from 0.08 in the same period in 2014. This reflected uncertainties brought about by the impending rate hike by the Federal Reserve.

Table 20: LCY Corporate Bond Survey Results—Malaysia

	Corporate Bonds
Average Issue Size (MYR million)	34.0
Bid–Ask Spread (bps)	8.5
Average Trading Size (MYR million)	10.5

bps = basis points, LCY = local currency.
Source: *AsianBondsOnline* 2015 LCY Bond Market Liquidity Survey.

Participants in the survey noted that market liquidity of a corporate bond in Malaysia is highly dependent on the issuer's credit rating and the issue size. The market's preference, particularly this year as the local bond market continues to experience volatility, still remains on high-rated companies. For AAA-rated companies and government-guaranteed bonds, liquidity was healthy. Large corporate bond issues see more trading activity post-issuance.

Philippines

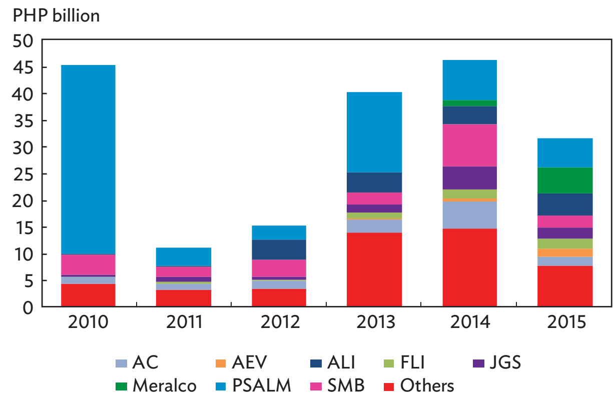
The average bid–ask spread for Philippine corporate bonds rose to 23 bps in the 2015 survey from 17 bps in 2014, while the average trading size slightly fell to PHP20.8 million from PHP21.6 million in 2014. Liquidity in the Philippine corporate bond market in terms of trading is still considered low; and it remains a buy-and-hold market, with most investors tending to hold corporate bonds up to maturity.

Trading volume data are not available for the Philippine corporate bond market. However, the Philippine Dealing and Exchange Corporation maintains a database on the secondary trading of corporate bonds listed on its platform. At the end of 3Q15, there were 36 Philippine companies that had their bonds listed with the exchange. This included bonds issued by the National Home Mortgage Finance Corporation (Bahay Bonds 2) and the Power Sector Assets and Liabilities Management Corporation (PSALM). *AsianBondsOnline* classifies the issuances of these two companies under government securities, since they are government-owned and -controlled corporations.

The secondary trading volume of corporate bonds remained negligible compared with that of government securities, accounting for 1% of total bonds (government and corporate) traded in January-September. Trading volume of corporate bonds for the first 9 months of 2015 amounted to PHP31.5 billion, 20% lower compared with the same period in 2014.

In 2010, trading volume was centered on PSALM bonds, comprising almost 78% of total trades that year. From 2011 to 2014, the trading volume of PSALM bonds declined to levels more comparable with those of the leading private sector issuers. The three other companies with the highest traded volumes in 2015 were (i) Meralco (PHP4.9 billion), (ii) Ayala Land (PHP4.1 billion), and (iii) San Miguel Brewery (PHP2.2 billion) **(Figure 26)**.

Figure 26: PDEx Trading Volume Trends—Corporate Bonds in the Philippines



AC = Ayala Corporation; AEV = Aboitiz Equity Ventures; ALI = Ayala Land, Inc.; FLI = Filinvest Land, Inc.; JGS = JG Summit Holdings; PSALM = Power Sector Assets and Liabilities Management Corp.; SMB = San Miguel Brewery, Inc.
Note: PDEx reports one side of the trade only.
Source: Philippine Dealing and Exchange Corporation (PDEx).

Singapore

For the 2015 survey, market participants quoted an average bid–ask spread of 6.0 bps for a new corporate issue **(Table 21)**. This was broadly comparable with a bid–ask spread of 6.3 bps in the 2014 survey. Average issue size, however, declined to SGD141.5 billion in 2015 from SGD188.3 million a year earlier.

Table 21: LCY Corporate Bond Survey Results—Singapore

	Corporate Bonds
Average Issue Size (SGD million)	141.5
Bid–Ask Spread (bps)	6.0

bps = basis points, LCY = local currency.
Source: *AsianBondsOnline* 2015 LCY Bond Market Liquidity Survey.

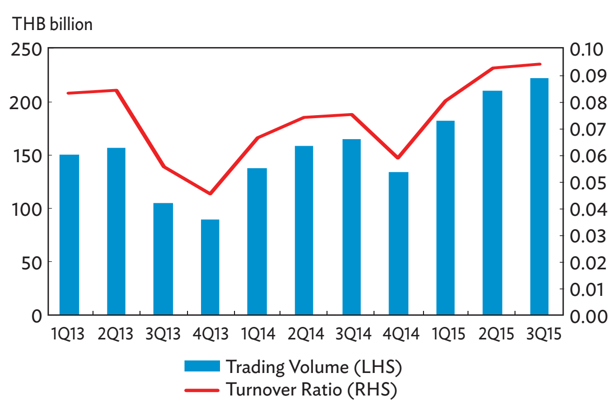
Typical of most corporate bond markets in emerging East Asia, Singapore's corporate bond market is viewed as illiquid by most market participants. In general, liquidity disappears immediately after issue except for a few high-grade issues. The market is largely dominated by buy-and-hold investors.

Thailand

Market respondents in this year's liquidity survey for Thailand LCY corporate bond market gave average results of 4.2 bps and THB36.0 million for the bid–ask spread and trading size of Thai LCY corporate bonds, respectively. The bid–ask spread was lower in 2015 than in the previous year, while the trading size was higher. Both results suggest that the Thai LCY corporate bond market was more liquid in 2015 than in 2014.

The survey results have been confirmed by the upward trend in the trading volume and turnover ratios for Thai LCY corporate bonds in the first 3 quarters of 2015 **(Figure 27)**. After posting a relatively low trading volume of THB133.3 billion in 4Q14, trading volume climbed to THB181.1 billion in 1Q15, THB208.7 billion in 2Q15, and THB220.7 billion in 3Q15. The turnover ratio for Thai LCY corporate bonds inched up from 0.06 in 4Q14 to 0.08 in 1Q15 and to 0.09 in 2Q15, where it held steady in 3Q15.

Figure 27: Trading Volume and Turnover Ratio for LCY Corporate Bonds in Thailand



LCY = local currency, LHS = left-hand side, RHS = right-hand side.
Source: Bank of Thailand and the Thai Bond Market Association (ThaiBMA).

Viet Nam

Viet Nam's bond market lacks liquidity due to the limited size of its corporate bond market, which accounts for only a 1.3% share of the LCY bond stock. Survey respondents had no quotes for bid–ask spreads for corporate bonds as most transactions are privately negotiated. Market participants also noted the absence of liquidity even for newly issued LCY corporate bonds, as investors were largely the buy-and-hold type.

To help improve liquidity, market participants cited a number of policy recommendations, including, among others, the need for more transparent information for issuing corporate bonds and the need for rating agencies.

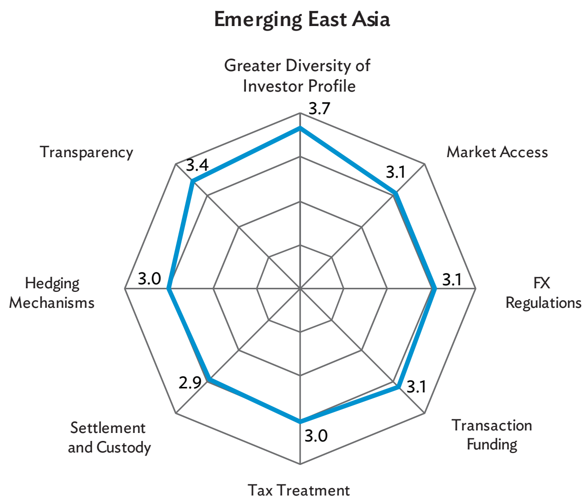
Qualitative Indicators for Corporate Bond Markets

Greater diversity of investor profile continues to be the most important structural issue for emerging East Asian LCY corporate bond market liquidity, according to the 2015 *AsianBondsOnline* liquidity survey results. At the regional level, it garnered a score of 3.7, the highest among the eight structural issues **(Figure 28)**. At the individual economy level, greater diversity of investor profile was the most important structural issue for the liquidity of corporate bond markets in Hong Kong, China; Indonesia; the Republic of Korea; and Singapore.

The second most important structural issue for the liquidity of the region's corporate bond markets was transparency, which received an overall score of 3.4. The importance of transparency highlights the fact that as corporate bonds carry credit risk, due diligence becomes increasingly more important. Transparency was found to be as equally important as investor diversity in Singapore, and was the second-most important structural issue in the PRC and Hong Kong, China. In contrast, this was the least important issue in Malaysia.

Four other structural issues—foreign exchange regulations, market access, and transaction funding—all received the third highest score of 3.1 at the regional level. This was followed by tax treatment (3.0), hedging instruments (3.0), and settlement and custody (2.9).

Figure 28: Regional Averages—LCY Corporate Bond Market Structural Issues



FX = foreign exchange, LCY = local currency.
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* 2015 LCY Bond Market Liquidity Survey.

In the PRC, transaction funding was the most important compared with all the other structural issues receiving the highest score of 4.0, which means it was deemed a "very important" structural issue in deepening liquidity in the PRC's corporate bond market **(Figure 29)**. Meanwhile, market access was found to be more important than foreign exchange regulations, hedging instruments, and tax treatment, with the latter three receiving the same scores. The least important issue in the PRC was settlement and custody.

In Hong Kong, China, transaction funding was the third most important structural issue next to investor diversity and transparency. They were followed by hedging instruments (2.7), settlement and custody (2.4), foreign exchange regulations (2.3), tax treatment (2.0), and market access (1.8). The lower ranking for these structural issues reflected the developed market status of Hong Kong, China.

In Indonesia, market access and transparency were tied with the second highest score of 3.3 each after investor diversity. Tax treatment came in next at 3.1, followed by hedging mechanisms and transaction funding with 3.0 apiece. Foreign exchange regulations and settlement and custody were perceived to be relatively less important in Indonesia.

In the Republic of Korea, market access and transparency each got the second highest score of 3.2, while foreign exchange regulations and hedging mechanisms followed suit at 3.0 each. Tax treatment was the least important issue, transaction funding was the next least important.

In Malaysia, the most important structural issue was foreign exchange regulations with a score of 3.7. This was closely followed by investor diversity with 3.6. The rest of the structural issues ranged from 2.8 to 3.3.

For Philippine corporate bond market participants, tax treatment was found to be a very important structural issue in relation to market liquidity. Similar to government bonds, corporate bonds are subject to a 20% withholding tax. Tax treatment was followed by investor diversity, market access, and transparency, with all three posting the same score of 3.8. Settlement and custody received 3.5, while foreign exchange regulations, hedging mechanisms, and transaction funding were given scores of between 2.0 and 3.0.

Singapore's two most important structural issues were investor diversity and transparency, while the least important was settlement and custody. In Thailand, the highest score was 3.5 and five structural issues were given this same score: foreign exchange regulations, investor diversity, market access, tax treatment, and transparency. Similarly, in Viet Nam, three structural issues received scores of 3.5: foreign exchange regulations, investor diversity, and transparency.

Figure 29: Structural Issues for Individual LCY Corporate Bond Markets

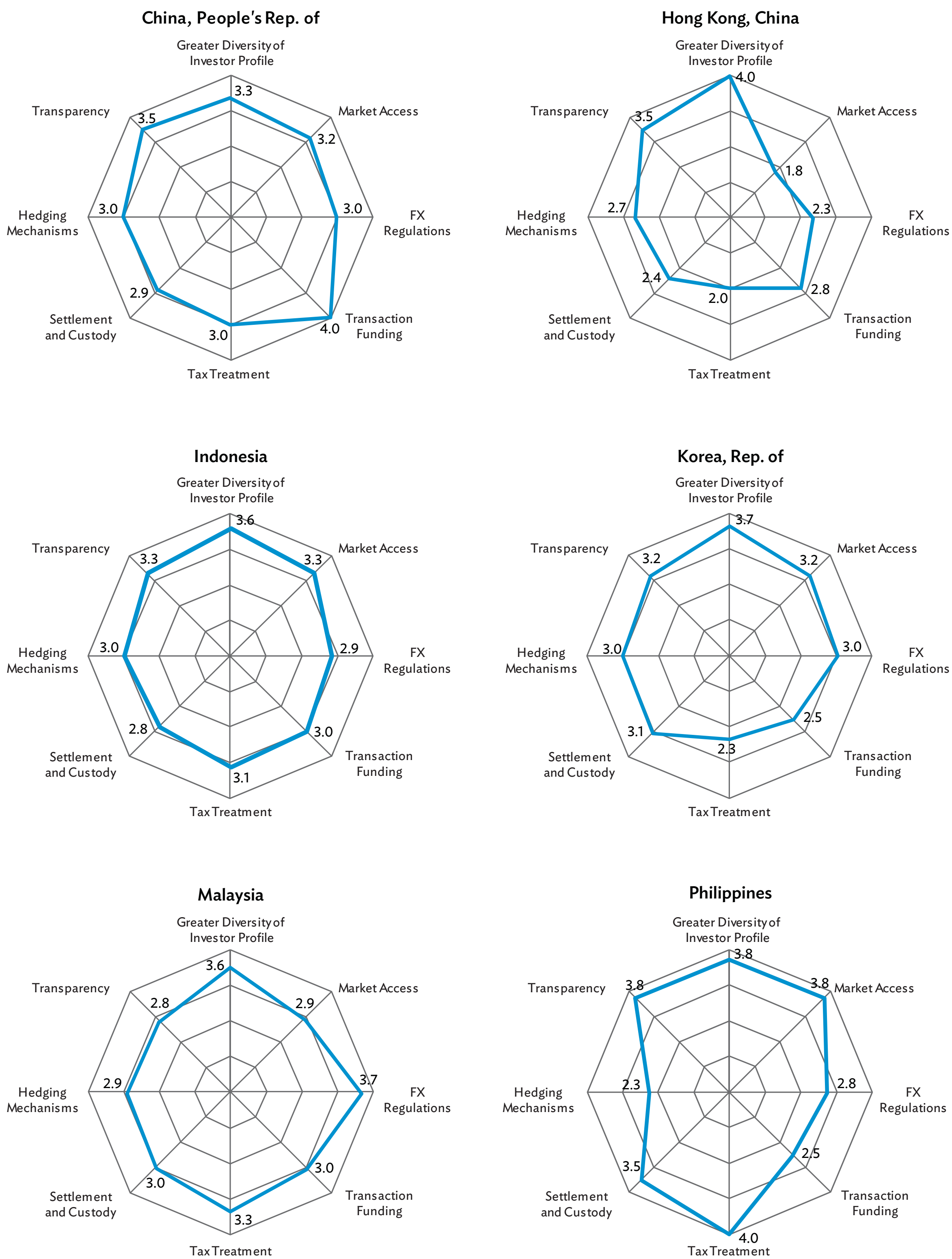


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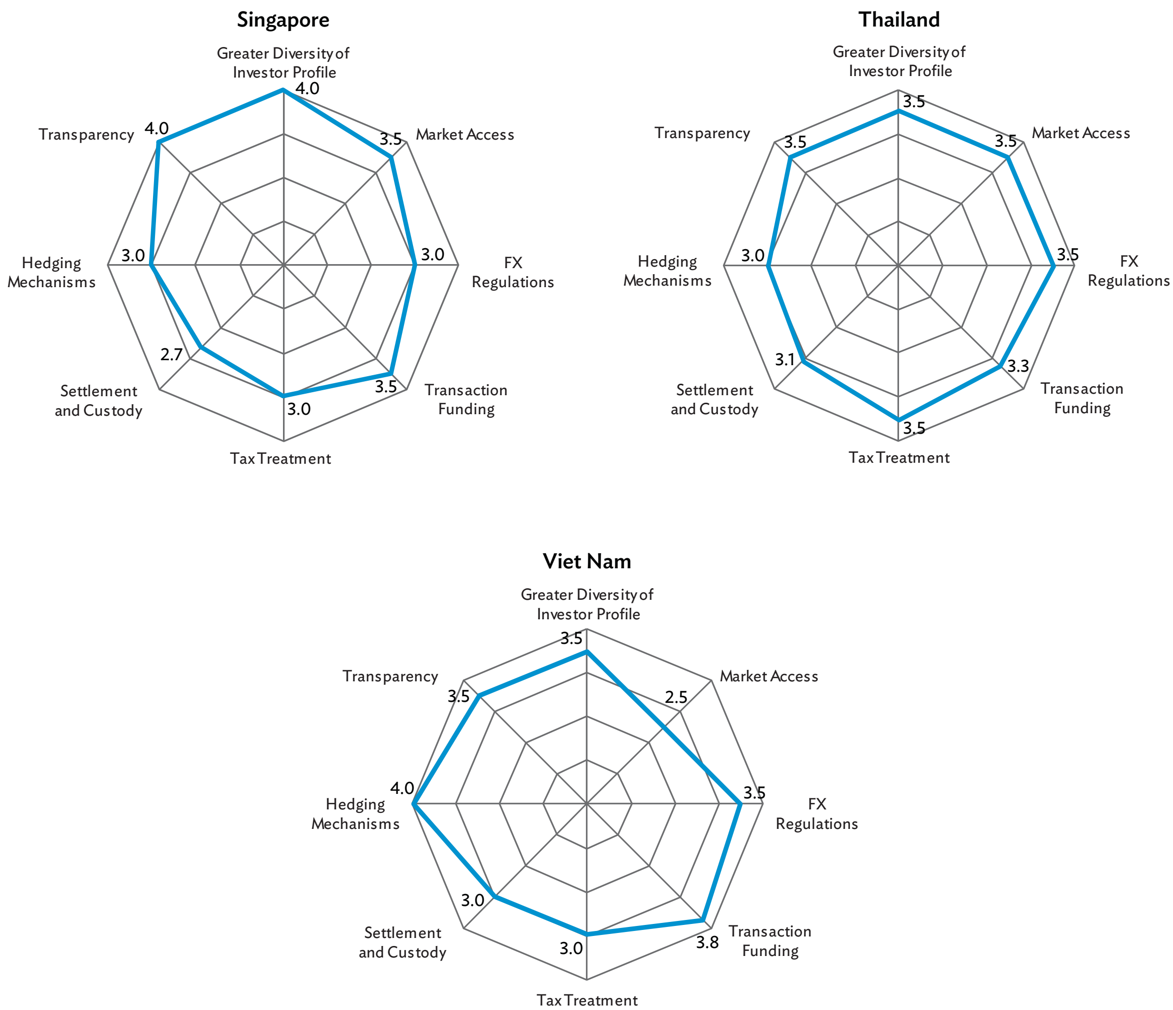
Figure 29 *continued*



FX = foreign exchange, LCY = local currency.
Source: *AsianBondsOnline* 2015 LCY Bond Market Liquidity Survey.

Market Summaries

People's Republic of China

Yield Movements

From 1 September to 15 October, the local currency (LCY) government bond yield curve in the People's Republic of China (PRC) fell between 5 basis points (bps) and 31 bps for all tenors of 3 years or longer **(Figure 1)**. On the other hand, yields for the 1-year and 2-year tenors rose 9 bps and 13 bps, respectively. The 2-year versus 10-year yield spread fell to 38 bps from 82 bps as a result.

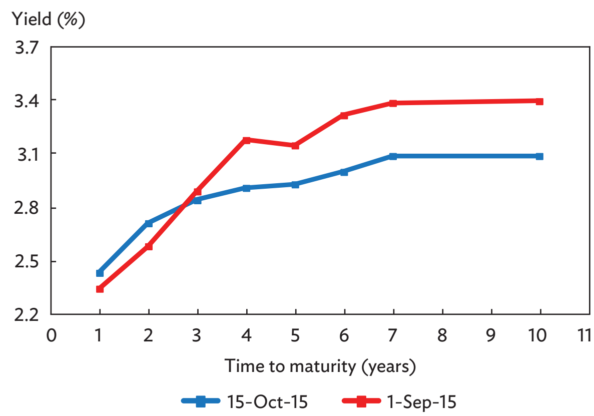
The PRC's yield curve shifted downward at the long-end due to weaker economic growth. Gross domestic product growth fell to 6.9% year-on-year (y-o-y) in 3Q15, compared with growth of 7.0% y-o-y in 2Q15 and 7.4% in full-year 2014. Profits among large industries fell 0.1% y-o-y in September. Investor sentiment has also been affected by the weakening economy, with the growth of private investment in fixed assets falling to 10.3% y-o-y in January–September from 10.9% in January–August.

External demand continues to remain weak. Exports fell 3.7% y-o-y in September after declining 5.5% y-o-y in August. Imports also remain weak, falling 20.4% y-o-y in September after dipping 13.8% y-o-y in August.

Continued weak demand has led the People's Bank of China (PBOC) to implement additional easing measures. In October, the PBOC reduced policy rates by 25 bps, taking the 1-year lending rate to 4.35% and the 1-year deposit rate to 1.50%. The PBOC has also sought to liberalize interest rates by removing the ceiling on deposit rates. In addition, the PBOC reduced the reserve requirement ratios of financial institutions by 50 bps to 17.5% for large banks (See Policy, Institutional, and Regulatory Developments at the end of this Market Summary for more details.)

In contrast to declining yields at the long-end of the curve, yields for the 1-year and 2-year tenors rose on tightened liquidity resulting from large issuances by local government seeking to refinance existing debt obligations.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The amount of outstanding LCY bonds in the PRC reached CNY37.4 trillion (US$5.9 trillion) at the end of September, an increase of 8.0% quarter-on-quarter (q-o-q) and 18.6% y-o-y, largely driven by growth in Treasury bonds and local corporate bonds **(Table 1)**.

Government Bonds. LCY government bonds outstanding grew 9.9% q-o-q and 20.6% y-o-y in 3Q15, driven by growth in Treasury bonds, which have grown rapidly in 2015 on account of the fundraising requirements of local governments. Local government bonds outstanding have risen 84.4% q-o-q in 3Q15, driven by refinancing requirements due to maturing debt. The weaker economy has negatively impacted revenue collection, putting additional strain on local government funding. Initiatives to increase debt transparency and ease the debt burden of local governments also contributed to rising issuance in 3Q15.

Last year, the central government barred local governments from raising debt through the use of

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

	Outstanding Amount (billion)						Growth Rates (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	CNY	US$	CNY	US$	CNY	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**31,578**	**5,143**	**34,666**	**5,590**	**37,444**	**5,891**	**3.7**	**13.4**	**8.0**	**18.6**
Government	20,354	3,315	22,344	3,603	24,547	3,862	3.7	12.3	9.9	20.6
Treasury Bonds	10,015	1,631	11,284	1,820	13,263	2,087	5.9	12.6	17.54	32.4
Central Bank Bonds	468	76	428	69	428	67	(4.3)	(17.0)	0.0	(8.5)
Policy Bank Bonds	9,870	1,608	10,632	1,715	10,855	1,708	2.0	14.0	2.1	10.0
Corporate	11,224	1,828	12,322	1,987	12,897	2,029	3.6	15.3	4.7	14.9
Policy Bank Bonds										
China Development Bank	6,240	1,016	6,538	1,054	6,610	1,040	0.4	9.9	1.1	5.9
Export–Import Bank of China	1,542	251	1,797	290	1,817	286	4.2	20.8	1.1	17.8
Agricultural Devt. Bank of China	2,088	340	2,297	370	2,429	382	5.6	22.6	5.7	16.3

( ) = 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

state-owned corporations. This year, the PRC launched a local government debt swap program to exchange local government debt for local government bonds.

The amount of central bank bonds was steady on a q-o-q basis in 3Q15, but fell on a y-o-y basis, as the PBOC continued using other tools to manage liquidity such as reverse repurchases. The PBOC has not issued central bank bonds since December 2013.

Corporate Bonds. Corporate bonds outstanding grew 4.7% q-o-q and 14.9% y-o-y in 3Q15 to reach CNY12.9 trillion **(Table 2)**. The types of bonds with strong q-o-q growth rates were those issued by banks and insurance companies (6.4%), and commercial paper (13.0%). Medium-term notes outstanding rose 2.9% q-o-q due to maturing debt and accounted for the largest issuances in 3Q15 among longer-term corporate bonds.

The rise in bonds issued by commercial banks and insurance companies was due to a resurgence in the issuance of subordinated debt that started in 2Q15 and continued in 3Q15 **(Figure 2)**.

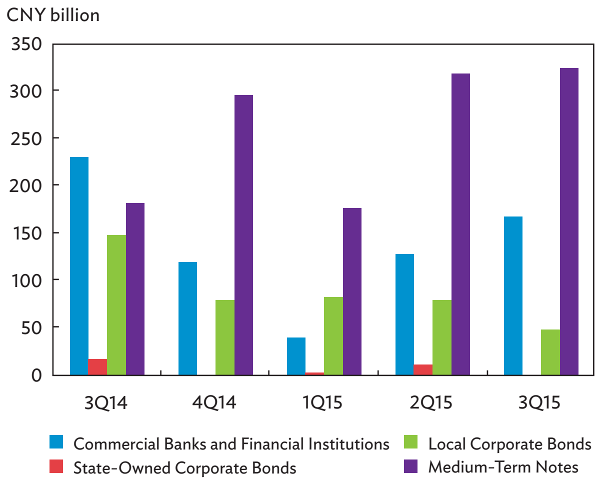
A relatively small number of issuers dominate the PRC's corporate bond market **(Table 3)**. At the end of 3Q15, the top 30 corporate bond issuers accounted for

Table 2: Corporate Bonds Outstanding in Key Categories

	Amount (CNY billion)				Growth Rate (%)				
					q-o-q				y-o-y
	4Q14	1Q15	2Q15	3Q15	4Q14	1Q15	2Q15	3Q15	3Q15
Commercial Bank Bonds and Tier 2 Notes	1,612	1,639	1,748	1,860	24.0	1.7	6.6	6.4	43.1
SOE Bonds	622	612	612	581	(3.9)	(1.5)	(0.1)	(5.0)	(10.2)
Local Corporate Bonds	2,306	2,377	2,456	2,492	41.9	3.1	3.3	1.5	53.3
Commercial Paper	1,738	1,866	2,038	2,302	18.0	7.3	9.2	13.0	56.3
Medium-Term Notes	4,179	4,227	4,342	4,470	12.3	1.2	2.7	2.9	20.1

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

Figure 2: Corporate Bond Issuance in Key Sectors



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

CNY5.1 trillion worth of corporate bonds outstanding, or about 40% of the market. The 10 largest issuers accounted for CNY3.4 trillion worth of bonds outstanding.

State-owned companies—defined as majority-owned by the government—continued to dominate the corporate bond market in 3Q15. Among the top 30 corporate issuers, 23 were state-owned. By industry, seven of the top 10 corporate issuers were banks, largely as a result of their capital-raising efforts this year.

Table 4 presents the most notable corporate bond issuances in 3Q15.

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 the end of September (73.3%) than in the same month a year earlier (76.2%) **(Figure 3)**.

Corporate Bonds. Banks were also the largest holders of corporate bonds at the end of 3Q15, albeit with a comparatively smaller share than their holdings of Treasury bonds and policy bank bonds. Banks' share of corporate bonds fell to 24.1% at the end of 3Q15 from 27.5% a year earlier **(Figure 4)**. The second largest holders of corporate bonds were funds institutions, with a 29.8% share at the end of September, up from a 22.8% share a year earlier.

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

Liquidity

Demand for liquidity increased in 3Q15, driven by local government bond issuances and stock market initial public offerings. As a result, the use of interest rate swaps also increased in 3Q15, with the total volume of swaps rising 16.3% q-o-q. The bulk of interest rate swaps involved the 7-day repurchase rate, which accounted for 92.6% 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 caused by the June 2013 Shanghai Interbank Offered Rate shock and a crackdown on illegal bond trades. However, 3Q15 saw a massive uptick in the trading for government bonds due to a continued decline in interest rates as the economy slowed.

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	1,183.5	186.20	Yes	No	Transportation
2.	State Grid Corporation of China	429.1	67.51	Yes	No	Public Utilities
3.	China National Petroleum	350.0	55.07	Yes	No	Energy
4.	Bank of China	298.9	47.02	Yes	Yes	Banking
5.	Agricultural Bank of China	260.0	40.91	Yes	Yes	Banking
6.	Industrial and Commercial Bank of China	238.0	37.44	Yes	Yes	Banking
7.	China Construction Bank	188.0	29.58	Yes	Yes	Banking
8.	Shanghai Pudong Development Bank	139.2	21.90	No	Yes	Banking
9.	China Minsheng Bank	136.5	21.48	No	Yes	Banking
10.	Industrial Bank	136.0	21.40	No	Yes	Banking
11.	Petrochina	131.0	20.61	Yes	Yes	Energy
12.	State Power Investment	128.4	20.21	Yes	No	Energy
13.	Bank of Communications	119.0	18.72	No	Yes	Banking
14.	Central Huijin Investment	109.0	17.15	Yes	No	Diversified Financial
15.	Senhua Group	104.0	16.36	Yes	No	Energy
16.	China Citic Bank	103.5	16.28	No	Yes	Banking
17.	China Petroleum and Chemical	98.5	15.50	Yes	Yes	Energy
18.	China Everbright Bank	88.9	13.99	Yes	Yes	Banking
19.	China Three Gorges Project	81.5	12.82	Yes	No	Public Utilities
20.	China Southern Power Grid	80.0	12.59	Yes	No	Public Utilities
21.	China Merchants Bank	79.0	12.43	No	Yes	Banking
22.	Shaanxi Coal and Chemical Industry Group	74.0	11.64	Yes	No	Energy
23.	Beijing State-Owned Assets Operation & Management Center	72.5	11.41	Yes	No	Diversified Financial
24.	China Datang	71.2	11.20	Yes	No	Energy
25.	China Guodian	71.1	11.18	Yes	No	Public Utilities
26.	Haitong Securities	71.0	11.17	No	Yes	Financial Services
27.	China Life	68.0	10.70	Yes	Yes	Insurance
28.	China Huarong Asset Management	67.0	10.54	Yes	Yes	Asset Management
29.	China Cinda Asset Management	66.0	10.38	Yes	Yes	Asset Management
30.	Tianjin Infrastructure Investment Group	64.9	10.21	Yes	No	Capital Goods
Total Top 30 LCY Corporate Issuers		**5,107.63**	**803.59**			
Total LCY Corporate Bonds		**12,896.91**	**2,029.09**			
Top 30 as % of Total LCY Corporate Bonds		**39.6%**	**39.6%**			

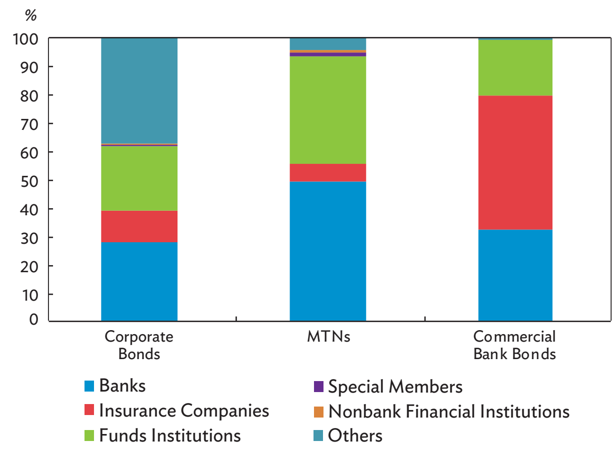
LCY = local currency.
Notes:
1. Data as of end-September 2015.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Table 4: Notable LCY Corporate Bond Issuance in 3Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (CNY billion)
China Huarong Asset Management		
3-year bond	4.01	17.50
5-year bond	4.21	17.50
China Railway Corp.		
1-year bond	3.10	10.00
10-year bond	4.32	15.00
10-year bond	4.23	10.00
Shanghai Pudong Development Bank		
10-year bond	4.50	30.00
Central Huijin Investment		
3-year bond	3.32	13.00
5-year bond	3.55	13.00
Postal Savings Bank		
10-year bond	4.50	25.00
Dalian Wanda Commercial Properties		
5-year bond	4.60	10.00

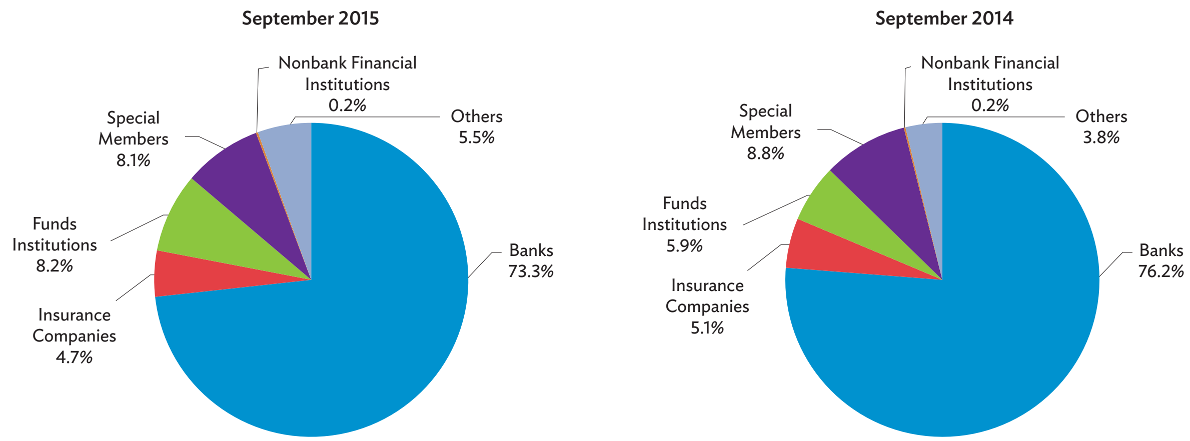
LCY = local currency.
Source: Bloomberg LP.

Figure 5: Investor Profile across Bond Categories



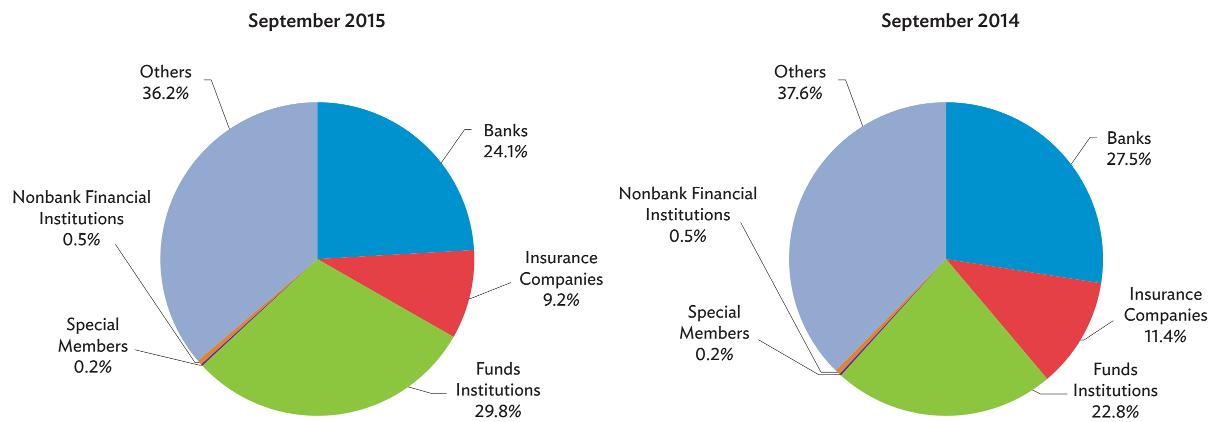
MTNs = medium-term notes.
Note: Data as of end-September 2015.
Source: *ChinaBond*.

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



LCY = local currency.
Source: *ChinaBond*.

Figure 4: LCY Corporate Bonds Investor Profile



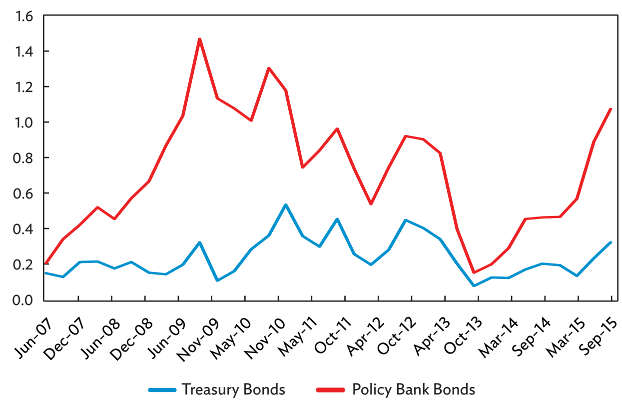
LCY = local currency.
Source: *ChinaBond*.

Table 5: Notional Values of the PRC's Interest Rate Swap Market in 3Q15

Interest Rate Swap Benchmarks	Notional Amount (CNY billion)	% of Total Notional Amount	Number of Transactions	Growth Rate (%) q-o-q
7-Day Repo Rate	2,088.9	92.6	15,488	20.92
Overnight SHIBOR	38.9	1.7	57	(37.20)
3-Month SHIBOR	120.5	5.3	737	(11.75)
1-Year Term Deposit Rate	3.0	0.1	29	(40.34)
LIBOR	0.0	0.0	0	0.00
1-Year Lending Rate	4.3	0.2	6	(48.30)
LPR1Y	0.0	0.0	3	0.00
3-Year Lending Rate	0.0	0.0	0	0.00
5-Year Lending Rate	0.0	0.0	0	0.00
Total	**2,255.7**	**100.00**	**16,320**	**16.31**

( ) = 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

Restrictions Eased on Overseas Funding

On 16 September, the National Development and Reform Commission eased restrictions on corporations seeking funding overseas. The new guidelines streamline the process by which corporations apply for a foreign currency loan and issue offshore renminbi bonds. The previous process required approval on a per deal basis, but the new regulations only require corporations to register with the National Development and Reform Commission.

PBOC Reduces Reserve Requirement Ratios

On 18 October, the PBOC lowered the reserve requirement ratios of financial institutions by 50 bps. For large banks, the changes resulted in a reserve requirement ratio of 17.5%, while for medium-sized banks the ratio was reduced to 15.5%. Select financial institutions involved in lending to the agricultural sector or to small and medium-sized enterprises will qualify for an additional reduction of 50 bps.

Hong Kong, China

Yield Movements

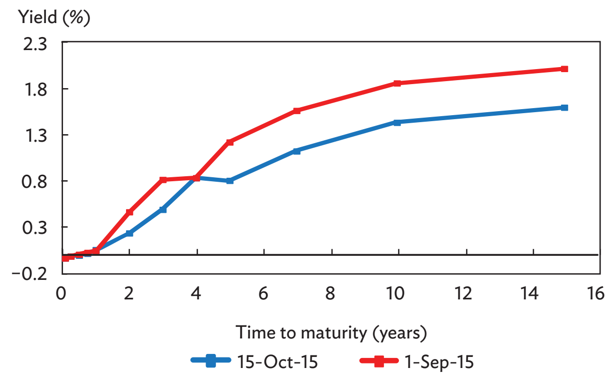
Hong Kong, China's yield curve movements between 1 September and 15 October mostly followed those of the United States (US) **(Figure 1)**. Yields fell for most tenors, particularly at the long-end of the curve, with yields from the 2-year tenor falling between 23 basis points (bps) and 44 bps, with the exception of the 4-year tenor, which remained unchanged. At the short-end, yields for the 6-month and 9-month tenor fell 1 bp each, while for tenors of 1 year it gained 1 bp.

The 2-year-versus-10-year spread fell to 119 bps on 15 October from 138 bps on 1 September.

Hong Kong, China's yield curve changes track those of the US due to Hong Kong, China's fixed exchange rate system. The US government bond yield curve fell for all tenors following the Federal Reserve's decision to hold interest rates during its September 17 meeting.

Yields were also partly dragged down by consumer prices as inflation remained subdued. Consumer price inflation slowed to 2.4% year-on-year (y-o-y) in August and fell further to 2.0% y-o-y in September. The government has indicated that it expects inflation to remain soft given low import prices and the lack of domestic price pressures.

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 rose 1.3% quarter-on-quarter (q-o-q) and 2.4% y-o-y to reach HKD1,543 billion (US$199 billion) at the end of September **(Table 1)**. The q-o-q growth was mostly driven by increases in Exchange Fund Bills (EFBs) and Hong Kong Special Administrative Region (HKSAR) bonds.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	HKD	US$	HKD	US$	HKD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,507**	**194**	**1,523**	**196**	**1,543**	**199**	**0.9**	**0.7**	**1.3**	**2.4**
Government	856	110	846	109	876	113	0.8	2.2	3.6	2.4
Exchange Fund Bills	684	88	689	89	712	92	(0.1)	0.2	3.2	4.1
Exchange Fund Notes	68	9	64	8	62	8	0.9	0.0	(3.4)	(9.9)
HKSAR Bonds	104	13	93	12	103	13	6.7	19.0	11.4	(0.3)
Corporate	651	84	677	87	666	86	1.1	(1.1)	(1.6)	2.4

( ) = 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.

EFBs outstanding rose 3.2% q-o-q, due to increased issuance in 3Q15 by the Hong Kong Monetary Authority (HKMA) in order to siphon off excess liquidity as investors converted offshore renminbi assets to Hong Kong dollar assets following the depreciation of the renminbi in August.

Exchange Fund Notes (EFNs) continued to decline, falling 3.4% q-o-q and 9.9% y-o-y, as the HKMA sought to align the EFB and EFN markets with HKSAR bonds by replacing issuances of EFNs with tenors of 3 years or more with HKSAR bonds.

In 3Q15, the amount of HKSAR bonds rose 11.4% q-o-q due to a HKD10 billion issuance of 3-year bonds under the Retail Bond Issuance Programme.

The five largest nonbank issuances in 3Q15 came from Tencent Holdings (HKD1.0 billion), Swire Pacific (HKD0.8 billion), The Link Finance (Cayman 2009) (HKD0.5 billion), Swire Properties (HKD0.2 billion), and Hong Kong Mortgage Corporation (HKD0.1 billion) **(Table 2)**.

Total corporate bonds outstanding fell 1.6% q-o-q in 3Q15 amid a lack of LCY corporate bond issuances given a lack of funding needs this year.

The top 30 nonbank issuers in Hong Kong, China had outstanding bonds amounting to HKD123.5 billion at the end of September, representing 18.5% of total outstanding corporate bonds. The top 30 list 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 HKD19.9 billion. Next was CLP Power Hong Kong Financing with HKD9.5 billion of bonds outstanding, followed by Sun Hung Kai Properties with HKD9.1 billion. Among the top 30, six were state-owned companies and 11 were Hong Kong Exchange-listed firms. Only one state-owned company, MTR Corporation, was listed on the Hong Kong Exchange.

Table 2: Notable LCY Corporate Bond Issuance in 3Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (HKD billion)
Tencent Holdings		
3-year bond	2.30	1.00
Swire Pacific		
7-year bond	2.85	0.61
10-year bond	3.35	0.15
The Link Finance (Cayman) 2009		
7-year bond	2.67	0.53
Swire Properties		
10-year bond	3.10	0.20
The Hong Kong Mortgage Corporation		
3-year bond	1.25	0.12

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

Policy, Institutional, and Regulatory Developments

Hong Kong, China Issues Fifth iBond Series

On 7 August, the Government of the Special Administrative Region of Hong Kong, China issued HKD10 billion worth of inflation-linked bonds (iBonds), marking the government's fifth issuance of iBonds. Total tenders reached HKD35.7 billion.

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	19.87	2.56	Yes	No	Finance
2.	CLP Power Hong Kong Financing	9.46	1.22	No	No	Electric
3.	Sun Hung Kai Properties (Capital Market)	9.11	1.18	No	No	Real Estate
4.	The Link Finance (Cayman) 2009	7.32	0.94	No	No	Finance
5.	Wharf Finance	7.22	0.93	No	No	Diversified
6.	Swire Pacific	6.68	0.86	No	Yes	Diversified
7.	HKCG (Finance)	6.42	0.83	No	No	Gas
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	2.60	0.34	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.	Swire Properties MTN Financing	2.20	0.28	No	No	Real Estate
19.	Tencent Holdings	2.20	0.28	No	Yes	Comunications
20.	Bohai International	2.00	0.26	No	No	Diversified
21.	China Energy Reserve and Chemicals Group Overseas	2.00	0.26	No	No	Oil
22.	Emperor International Holdings	1.95	0.25	No	Yes	Real Estate
23.	Hong Kong Science and Technology Parks	1.71	0.22	Yes	No	Real Estate
24.	Cathay Pacific MTN Financing	1.70	0.22	No	Yes	Airlines
25.	Cheung Kong Holdings	1.65	0.21	No	Yes	Real Estate
26.	Hysan (MTN)	1.40	0.18	No	Yes	Real Estate
27.	Nan Fung Treasury	1.31	0.17	No	No	Real Estate
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		**123.51**	**15.94**			
Total LCY Corporate Bonds		**666.42**	**85.99**			
Top 30 as % of Total LCY Corporate Bonds		**18.5%**	**18.5%**			

LCY = local currency.
Notes:
1. Data as of end-September 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 September and 15 October, local currency (LCY) government bond yields in Indonesia fell for all tenors except maturities of 3 years or less, which rose between 7 basis points (bps) and 11 bps **(Figure 1)**. Yields dropped the most at the very long-end of the curve, shedding between 8 bps and 29 bps for maturities of 15 years or more. As a result, the spread between the 2-year and 10-year tenors narrowed to 46 bps in mid-October from 63 bps in 1 September.

Investor sentiment in the Indonesian bond market turned positive after the United States (US) Federal Reserve delayed raising interest rates during its Federal Open Market Committee meeting in September. In addition, concerns arising from domestic issues—particularly inflation, the exchange rate, and economic growth—have moderated, resulting in an overall decline in yields.

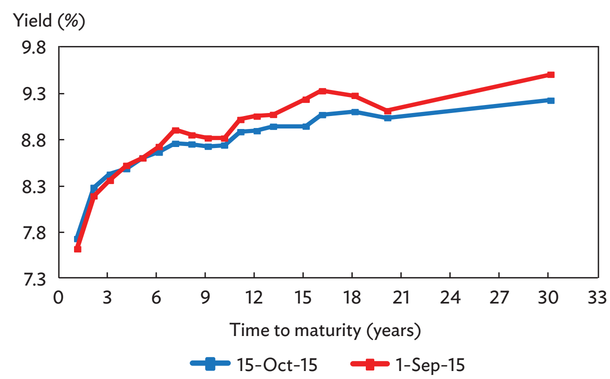
Inflationary pressures have also moderated in recent months on the back of lower food prices. Consumer prices were up 7.3% year-on-year (y-o-y) in July before easing to 7.2% y-o-y in August and 6.8% y-o-y in September. Bank Indonesia expects inflation for full-year 2015 to fall within its target range of 3.0%–5.0%.

A dovish monetary stance by the Federal Reserve has allowed the Indonesian rupiah to appreciate against the US dollar, with the exchange rate strengthening in October to below the IDR14,000 per US$1 level. The year-to-date depreciation of the Indonesian rupiah fell to 8.3% on 15 October from 18.3% at the end of September.

Bank Indonesia has maintained a tight bias in its monetary policy by keeping the benchmark interest rate at 7.5% since February. Bank Indonesia deems its policy to be supportive of stability in the economy and notes that full-year inflation will come in at the lower-end of its 2015 target level. The central bank also expects a smaller annual current account deficit than previously projected.

Economic growth in Indonesia rose marginally to 4.73% y-o-y in 3Q15 from 4.67% y-o-y growth in 2Q15. On an expenditure basis, the fastest rising component of gross domestic product was government spending, which rose 6.6% y-o-y. Domestic consumption rose 5.0% y-o-y and investments rose 4.6% y-o-y. By industry, the fastest growing sector was the information and communications sector, which grew 10.8% y-o-y, followed by financial services, which rose 10.4% y-o-y.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

Indonesia's LCY bond market continued to expand in 3Q15 to reach a size of IDR1,692.4 trillion (US$115 billion) at the end of September **(Table 1)**. However, growth moderated to 1.5% quarter-on-quarter (q-o-q) and 12.4% y-o-y in 3Q15. Conventional bonds continued to account for a dominant share of the market at 90.2% of the total bond stock at the end of September. *Sukuk* (Islamic bonds) accounted for the remaining 9.8% share.

Government Bonds. The outstanding stock of government bonds rose to IDR1,442.8 trillion at the end of September on growth rates of 0.9% q-o-q and 12.3% y-o-y. Growth came largely from an increase in the stock of central government bonds, which comprise Treasury bills and bonds issued by the Ministry of Finance. The outstanding stock of central bank bills, known as *Sertifikat* Bank Indonesia (SBI), continued to decline in 3Q15.

Central Government Bonds. Central government bonds reached a size of IDR1,392.4 trillion at the end of September on growth of 2.7% q-o-q and 16.1% y-o-y. Growth was driven mainly by increases in the stock of conventional fixed-rate bonds and Treasury bills. While

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	**1,505,261**	**124**	**1,668,177**	**125**	**1,692,373**	**115**	**2.7**	**22.7**	**1.5**	**12.4**
Government	1,285,060	105	1,429,181	107	1,442,758	98	2.9	27.1	0.9	12.3
Central Govt. Bonds	1,199,395	98	1,356,434	102	1,392,407	95	6.0	27.2	2.7	16.1
of which: *Sukuk*	109,444	9	156,209	12	150,433	10	8.0	24.8	(3.7)	37.5
Central Bank Bills	85,665	7	72,748	5	50,351	3	(26.6)	24.9	(30.8)	(41.2)
of which: *Sukuk*	6,490	0.5	8,458	0.6	7,720	0.5	(4.4)	79.8	(8.7)	19.0
Corporate	220,202	18	238,996	18	249,615	17	1.3	2.5	4.4	13.4
of which: *Sukuk*	6,958	0.6	7,944	0.6	8,444	0.6	0.0	(0.2)	6.3	21.4

( ) = 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* outstanding 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 at the end of September stood at IDR261.9 trillion.
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; Otoritas Jasa Keuangan; and Bloomberg LP.

the stock of Islamic Treasury bills and project-based *sukuk* declined 3.7% q-o-q, it expanded 37.5% y-o-y.

In 3Q15, a total of IDR73.4 trillion worth of Treasury bills and bonds were issued by the government through weekly auctions that comprised both conventional and Islamic bills and bonds. The central government's issuance volume was lower on both a q-o-q and y-o-y basis, with two of the auctions falling short of the target in 3Q15.

Central Bank Bills. The outstanding stock of central bank bills, or SBI, declined to IDR50.4 trillion at the end of September, down significantly on both a q-o-q and y-o-y basis. Bank Indonesia issues SBI as one of its monetary policy tools for liquidity management. Between April and July, Bank Indonesia opted to only issue *shari'ah*-compliant SBI carrying a 9-month maturity, choosing to use other monetary tools, such as *Sertifikat Deposito* Bank Indonesia and reverse repurchases, for its open market operations. Issuance of conventional SBI only resumed in August.

In 3Q15, issuance of SBI totaled IDR20.9 trillion, higher on a q-o-q basis but lower on a y-o-y basis. Beginning in August, Bank Indonesia started offering 12-month conventional and *shari'ah*–compliant SBI.

Corporate Bonds. The LCY corporate bond stock in Indonesia rose to IDR249.6 trillion at the end of September on growth rates of 4.4% q-o-q and 13.4% y-o-y. The corporate bond segment only accounted for 14.7% of the total LCY bond market at the end of September. Conventional corporate bonds dominated the corporate bond stock in 3Q15, accounting for a 96.6% share of the total, while the remaining 3.4% was accounted for by corporate *sukuk*.

The top 31 LCY corporate bond issuers in Indonesia had aggregate outstanding bonds of IDR190.0 trillion at the end of September **(Table 2)**. This accounted for a 76.1% share of the total LCY corporate bond stock. Nearly two-thirds of the firms on the list were from the banking and financial sectors. The rest were from capital-intensive industries such as energy, telecommunications, airline, property, real estate, and building construction. There were 12 state-owned firms on the top 31 list, of which five were ranked in the top 10.

At the end of September, the three largest corporate bond issuers in Indonesia were all state-owned firms. The largest corporate bond issuer was Indonesia Eximbank with outstanding bonds valued at IDR22.6 trillion. In the second spot was an energy firm, PLN, with an outstanding bond stock of IDR13.3 trillion. Bank Tabungan Negara moved up to the third spot (from the ninth spot in 2Q15) with an outstanding bond stock of IDR11.0 trillion at the end of September.

New issuance of corporate debt totaled IDR16.1 trillion in 3Q15, down from IDR23.6 trillion in 2Q15. A total of 10 firms raised capital in the bond market, of which eight were from the banking and financial sectors. A total of

Table 2: Top 31 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	22,638	1.54	Yes	No	Banking
2.	PLN	13,268	0.91	Yes	No	Energy
3.	Bank Tabungan Negara	10,950	0.75	Yes	Yes	Banking
4.	Indosat	10,742	0.73	No	Yes	Telecommunications
5.	Adira Dinamika Multifinance	10,631	0.73	No	Yes	Finance
6.	Astra Sedaya Finance	10,465	0.71	No	No	Finance
7.	Telekomunikasi Indonesia	8,995	0.61	Yes	Yes	Telecommunications
8.	Bank Internasional Indonesia	8,360	0.57	No	Yes	Banking
9.	Perum Pegadaian	7,959	0.54	Yes	No	Finance
10.	Bank CIMB Niaga	7,750	0.53	No	Yes	Banking
11.	Federal International Finance	6,935	0.47	No	No	Finance
12.	Bank Permata	6,482	0.44	No	Yes	Banking
13.	Bank Pan Indonesia	6,000	0.41	No	Yes	Banking
14.	Jasa Marga	5,900	0.40	Yes	Yes	Toll Roads
15.	Bank OCBC NISP	5,378	0.37	No	Yes	Banking
16.	Sarana Multigriya Finansial	4,738	0.32	Yes	No	Finance
17.	Agung Podomoro Land	4,575	0.31	No	Yes	Property, Real Estate, and Building Construction
18.	Indofood Sukses Makmur	4,000	0.27	No	Yes	Food and Beverages
19.	Bank Mandiri	3,500	0.24	Yes	Yes	Banking
20.	Medco-Energi International	3,500	0.24	No	Yes	Petroleum and Natural Gas
21.	Bank Tabungan Pensiunan Nasional	3,310	0.23	No	Yes	Banking
22.	Antam	3,000	0.20	Yes	Yes	Petroleum and Natural Gas
23.	Bank Rakyat Indonesiai	3,000	0.20	Yes	Yes	Banking
24.	Toyota Astra Financial Services	2,821	0.19	No	No	Finance
25.	Bumi Serpong Damai	2,665	0.18	No	Yes	Property, Real Estate, and Building Construction
26.	BCA Finance	2,425	0.17	No	No	Finance
27.	Wahana Ottomitra Multiartha	2,003	0.14	No	Yes	Finance
28.	Garuda Indonesia	2,000	0.14	Yes	Yes	Transportation
29.	Permodalan Nasional Madani	2,000	0.14	Yes	No	Finance
30.	Sumber Alfaria Trijaya	2,000	0.14	No	Yes	Retail
31.	Summarecon Agung	2,000	0.14	No	Yes	Property, Real Estate, and Building Construction
Total Top 31 LCY Corporate Issuers		**189,990**	**12.97**			
Total LCY Corporate Bonds		**249,615**	**17.04**			
Top 31 as % of Total LCY Corporate Bonds		**76.1%**	**76.1%**			

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

27 new bond series were issued in 3Q15, including two series of *sukuk mudharabah* (profit-sharing bonds). The largest corporate issuers in 3Q15 were Bank Rakyat Indonesia and Bank Tabungan Negara with each raising IDR3.0 trillion from a multitranche bond sale. The largest corporate bond issuances in 3Q15 are provided in **Table 3**.

In terms of maturity structure, 18 bond series carried maturities of more than 1 year to 3 years, six bond series had maturities of 5 years, one series carried maturities of 7 years, and two bond series carried maturities of 10 years.

Investor Profiles

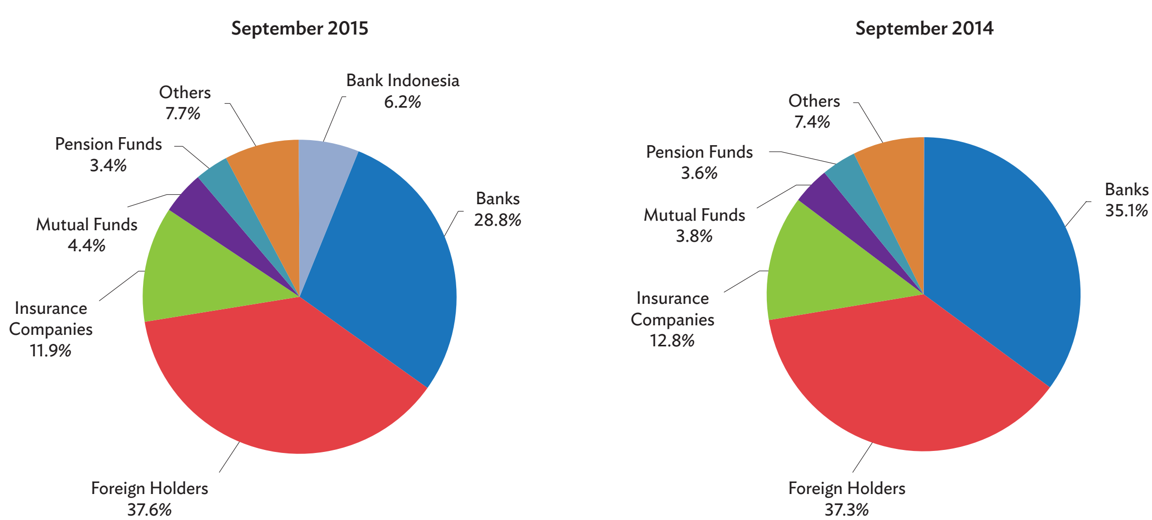
Central Government Bonds. At the end of September, foreign investors were still the largest holders of Indonesian LCY government bonds, representing a share of 37.6% of the total market **(Figure 2)**. This was broadly comparable to their share of 37.3% in the same period a year earlier, but lower compared with a share of 39.6% at the end of June. In absolute terms, foreign investors held a total of IDR523.4 trillion at the end of September. Investors continued to chase the high yields of Indonesian LCY bonds, which are the highest among emerging East Asian markets. A number of sovereign wealth funds and central banks are invested in Indonesian LCY bonds, representing a share of about 8% of the total government bond stock.

Table 3: Notable LCY Corporate Bond Issuance in 3Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Bank Rakyat Indonesia		
370-day bond	8.40	655
3-year bond	9.20	925
5-year bond	9.50	1,420
Bank Tabungan Negara		
3-year bond	9.625	900
5-year bond	9.875	500
7-year bond	10.00	800
10-year bond	10.50	800
Adira Dinamika Multifinance		
370-day *sukuk mudharabah*	8.75	441
370-day bond	8.75	492
3-year bond	9.50	741
3-year *sukuk mudharabah*	9.50	59
3-year bond	9.50	668
5-year bond	10.25	238
5-year bond	10.25	277
Indonesia Eximbank		
370-day bond	8.40	757
3-year bond	9.20	309
5-year bond	9.50	913
Astra Sedaya Finance		
370-day bond	8.50	750
3-year bond	9.25	825
Federal International Finance		
370-day bond	8.50	913
3-year bond	9.25	587

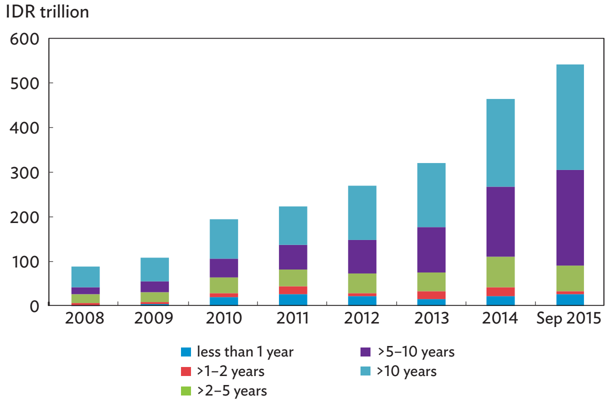
LCY = local currency.
Note: *Sukuk mudharabah* are Islamic bonds backed by a profit-sharing scheme from a business venture or partnership.
Source: Indonesia Stock Exchange.

Figure 2: LCY Central Government Bonds Investor Profile



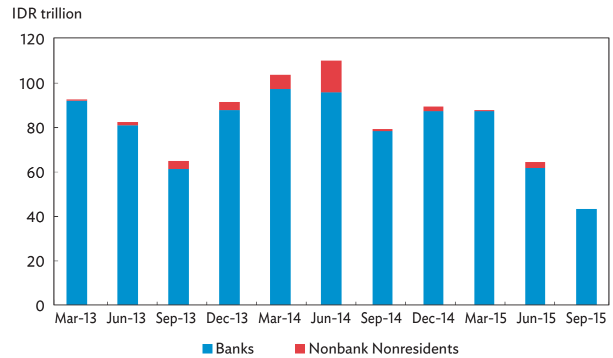
LCY = local currency.
Note: For September 2014, Bank Indonesia had no holdings of government bonds.
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

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



LCY = local currency.
Source: Directorate General of Debt Management Ministry of Finance.

Figure 4: LCY Central Bank Bills Investor Profile



LCY = local currency.
Note: In September 2015, nonbank nonresidents had no holdings of *Sertifikat* Bank Indonesia.
Source: Bank Indonesia.

Most foreign investors are positioned at the long-end of the curve, with about 44% of their holdings at the end of September in maturities of 10 years or more **(Figure 3)**. Foreign holdings of medium-dated tenors (maturities of 5 years to 10 years) accounted for 40% of their total holdings. On the other hand, foreign holdings of bonds with maturities of 5 years or less declined, except for those with a maturity of less than 1 year, whose share of the total remained at 5%.

Banking institutions were the second largest investor group in the Indonesian central government bond market in 3Q15, accounting for a 28.8% share. Banks' share declined from 35.1% in the same period a year earlier. Insurance companies and mutual funds also recorded declines in their respective shares of holdings of central government bonds between 3Q14 and 3Q15.

Bond holdings of other domestic investor groups mostly recorded marginal annual increases. The only significant increase was Bank Indonesia's holdings of central government bonds, which climbed to a share of 6.2% at the end of September from zero a year earlier as the result of active intervention in the market in recent months.

Central Bank Bills. At the end of September, the entire stock of central bank bills, or SBI, was held solely by banking institutions **(Figure 4)**.

Policy, Institutional, and Regulatory Developments

Bank Indonesia Announces Additional Rupiah Exchange Rate Stabilization Measures

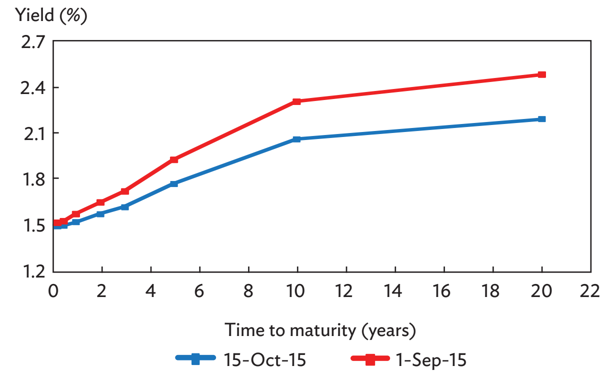
On 30 September, Bank Indonesia announced additional policy measures to stabilize the rupiah exchange rate. In addition to maintaining rupiah exchange rate stability, the new policy package strengthens rupiah liquidity management. The new measures include Bank Indonesia's intervention in the forward market and the offering of 3-month Bank Indonesia certificates of deposit and 2-week reverse repurchase tradable government securities. Policy measures were also announced to help manage the supply and demand of foreign exchange, including, among others, issuing foreign-currency-denominated Bank Indonesia certificates, reducing the holding period for SBI to 1 week, and tax incentives on term deposits for exporters depositing their foreign exchange earnings with Indonesian banks or converting proceeds into rupiah.

Republic of Korea

Yield Movements

Local currency (LCY) government bond yields in the Republic of Korea decreased for all tenors between 1 September and 15 October, with yields for longer-term tenors registering the largest declines **(Figure 1)**. The drop in yields was partly induced by market expectations of a low policy interest rate environment that aims to support the Korean economy. The yield curve flattened during the review period with the yield spread between 2-year and 10-year tenors falling 17 basis points (bps).

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



LCY = local currency.
Source: Bloomberg LP.

Real gross domestic product (GDP) growth in the Republic of Korea accelerated to 2.6% year-on-year (y-o-y) in 3Q15 from 2.2% y-o-y in 2Q15, according to advance estimates from the Bank of Korea, buoyed by improved growth in domestic demand and expansion in the construction, manufacturing, and utilities sectors. In 3Q15, y-o-y growth accelerated for private consumption, gross fixed capital formation, and imports of goods and services; and growth reversed from negative to positive for exports of goods and services. On the production side, y-o-y growth accelerated for manufacturing and utilities; shifted from negative to positive for construction; and contracted less rapidly for agriculture, forestry, and fishing. On a quarter-on-quarter (q-o-q) basis, real GDP growth accelerated to 1.2% in 3Q15 from 0.3% in 2Q15.

The Bank of Korea's Monetary Policy Board decided on 15 October to keep the base rate steady at 1.50%, marking the fourth consecutive month that the policy interest rate was kept unchanged. Inflationary pressures remained low throughout 3Q15 as consumer price inflation stood at 0.7% y-o-y in July and August, and 0.6% y-o-y in September. In October, consumer prices rose 0.9% y-o-y.

In October, the Bank of Korea revised downward its 2015 GDP growth forecast to 2.7% from a July estimate of 2.8%, and lowered the 2015 inflation forecast to 0.7% from 0.9%.

Size and Composition

The size of the local currency (LCY) bond market in the Republic of Korea grew 3.1% q-o-q and 11.5% y-o-y in 3Q15, reaching KRW2,018.6 trillion at the end of September **(Table 1)**. The existing stock of LCY

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	KRW	US$	KRW	US$	KRW	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,810,149**	**1,715**	**1,958,273**	**1,756**	**2,018,573**	**1,703**	**1.7**	**7.7**	**3.1**	**11.5**
Government	711,726	674	805,593	722	832,855	703	1.6	10.3	3.4	17.0
Central Bank Bonds	180,580	171	188,310	169	186,350	157	3.8	9.5	(1.0)	3.2
Central Government Bonds	488,180	463	527,583	473	552,452	466	0.5	9.8	4.7	13.2
Industrial Finance Debentures	42,967	41	89,700	80	94,053	79	5.6	19.8	4.9	118.9
Corporate	1,098,423	1,041	1,152,680	1,033	1,185,718	1,000	1.8	6.1	2.9	7.9

( ) = 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.
5. 3Q15 data for central government bonds and industrial finance debentures are *AsianBondsOnline* estimates.
Sources: EDAILY *BondWeb* and the Bank of Korea.

government bonds, which comprise about 41% of total LCY bonds, climbed 3.4% q-o-q and 17.0% y-o-y in 3Q15. Quarterly growth was buoyed by an increase in the stocks of central government bonds and industrial finance debentures, while annual growth was driven by central government and central bank bonds, as well as industrial finance debentures.

LCY government bond issuance fell 4.3% q-o-q in 3Q15, mainly due to a drop in central bank bonds issued, which more than offset the q-o-q hikes in the issuance of central government bonds and industrial finance debentures. On the other hand, LCY government bond issuance was up 1.6% y-o-y in 3Q15, led by double-digit growth in the issuance of central government bonds and industrial finance debentures that eclipsed the decline in central bank bond issues.

LCY corporate bonds outstanding climbed 2.9% q-o-q and 7.9% y-o-y in 3Q15. The q-o-q growth stemmed from increases in special public bonds, financial debentures, and private corporate bonds, while the y-o-y uptick was driven by financial debentures and private corporate bonds. LCY corporate bond issuance dropped 26.2% q-o-q but was up 7.0% y-o-y.

The combined LCY bonds outstanding of the top 30 corporate issuers in the Republic of Korea were valued at KRW757.0 trillion at the end of September, representing 63.8% of the total LCY corporate bond stock **(Table 2)**. Korea Housing Finance Corporation remained the largest corporate issuer of LCY bonds. Overall LCY corporate bond issuance exhibited a mixed performance in 3Q15, decreasing 26.2% q-o-q but rising 7.0% y-o-y. Of the five most notable LCY corporate bonds issued in 3Q15, two came from special public agencies, two from banks, and one from a department store **(Table 3)**.

Investor Profile

Insurance companies and pension funds held 32.3% of LCY government bonds in the Republic of Korea at the end of June, remaining the largest investor group in the LCY government bond market **(Figure 2)**. Compared with a year earlier, the share of insurance companies and pension funds rose 2.5 percentage points, the largest hike across all investor groups during the review period. The biggest drop between 2Q14 and 2Q15 was in the share of banks at 3.2 percentage points.

Insurance companies and pension funds also remained the largest investor group in the LCY corporate bond market at the end of June with a 35.5% share **(Figure 3)**. In contrast, foreign investors were the smallest investor group with a share of 0.2%. The share of insurance companies and pension funds rose 2.3 percentage points y-o-y at end-June, the biggest increase among all investor groups. In contrast, banks posted the largest y-o-y drop at 2.1 percentage points.

Foreign investor net LCY bond sales in the Republic of Korea totaled KRW3,771 billion in 3Q15, a reversal from 2Q15's foreign net bond investment of KRW2,779 billion. On a monthly basis, foreign investor net LCY bond sales stood at KRW937 billion in September, the fourth consecutive month of foreign capital outflows from the Korean LCY bond market amid expectations of an eventual interest rate hike in the United States **(Figure 4)**.

Ratings Update

In September, Standard & Poor's (S&P) raised its long-term foreign currency (FCY) sovereign rating for the Republic of Korea to AA− from A+, and its short-term FCY rating to A-1+ from A-1. S&P also affirmed its short- and long-term LCY ratings at A-1+ and AA−, respectively. The credit rating agency stated that the rating upgrades were due to its assessment that the Republic of Korea's economic growth would outpace most developed economies for the next 3–5 years; its fiscal position is sound; and risks to external financing have moderated, buoyed by a reduction in Korean banks' external debt.

Policy, Institutional, and Regulatory Developments

Korea Exchange Is Designated as a Trade Repository

The Financial Services Commission (FSC) announced in August that the Korea Exchange has been designated as a trade repository that will compile, manage, and analyze data on over-the counter derivatives transactions. The FSC stated that this will strengthen the credibility and international competitiveness of the Republic of Korea's financial market infrastructure.

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.	90,350	76.2	Yes	No	No	Finance
2.	NH Investment & Securities	55,542	46.9	Yes	Yes	Yes	Securities
3.	Korea Land & Housing Corp.	55,042	46.4	Yes	No	No	Real Estate
4.	KDB Daewoo Securities	51,760	43.7	Yes	Yes	No	Securities
5.	Korea Investment and Securities	47,087	39.7	No	No	No	Securities
6.	Industrial Bank of Korea	37,323	31.5	Yes	Yes	No	Banking
7.	Mirae Asset Securities	35,770	30.2	No	Yes	No	Securities
8.	Hana Financial Investment	35,182	29.7	No	No	No	Securities
9.	Korea Deposit Insurance Corp.	33,610	28.4	Yes	No	No	Insurance
10.	Korea Electric Power Corp.	27,010	22.8	Yes	Yes	No	Utilities
11.	Hyundai Securities	23,145	19.5	No	Yes	No	Securities
12.	Korea Expressway	22,350	18.9	Yes	No	No	Infrastructure
13.	Kookmin Bank	19,158	16.2	No	No	No	Banking
14.	Korea Rail Network Authority	18,320	15.5	Yes	No	No	Infrastructure
15.	Shinhan Bank	18,063	15.2	No	No	No	Banking
16.	Woori Bank	17,795	15.0	Yes	No	No	Banking
17.	Samsung Securities	16,668	14.1	No	Yes	No	Securities
18.	Daishin Securities	15,953	13.5	No	Yes	No	Securities
19.	Korea Gas Corp.	15,499	13.1	Yes	Yes	No	Utilities
20.	Small & Medium Business Corp.	14,380	12.1	Yes	No	No	Finance
21.	Standard Chartered First Bank Korea	11,730	9.9	No	No	No	Banking
22.	Korea Student Aid Foundation	11,580	9.8	Yes	No	No	Finance
23.	Shinhan Investment Corp.	11,387	9.6	No	No	No	Securities
24.	Korea Eximbank	10,980	9.3	Yes	No	No	Banking
25.	Korea Water Resources Corp.	10,509	8.9	Yes	Yes	No	Utilities
26.	Hana Bank	10,300	8.7	No	No	No	Banking
27.	Korea Railroad Corp.	10,270	8.7	Yes	No	No	Infrastructure
28.	Hyundai Capital Services	10,174	8.6	No	No	No	Finance
29.	Shinyoung Securities	10,114	8.5	No	Yes	Yes	Securities
30.	Shinhan Card	9,906	8.4	No	No	No	Finance
Total Top 30 LCY Corporate Issuers		**756,957.6**	**638.6**				
Total LCY Corporate Bonds		**1,185,718.0**	**1,000.3**				
Top 30 as % of Total LCY Corporate Bonds		**63.8%**	**63.8%**				

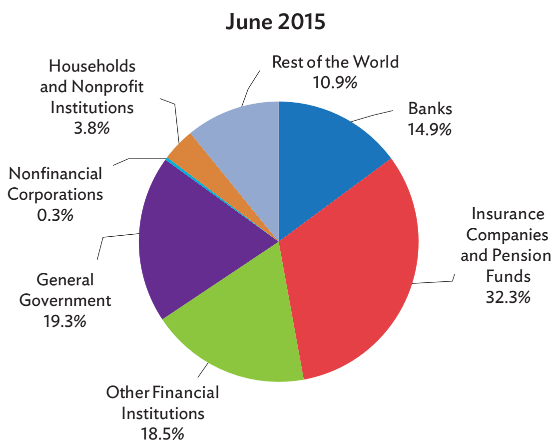
KOSDAQ = Korean Securities Dealers Automated Quotations, KOSPI = Korea Composite Stock Price Index, LCY = local currency.
Notes:
1. Data as of end-September 2015.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Sources: *AsianBondsOnline* calculations based on Bloomberg and EDAILY *BondWeb* data.

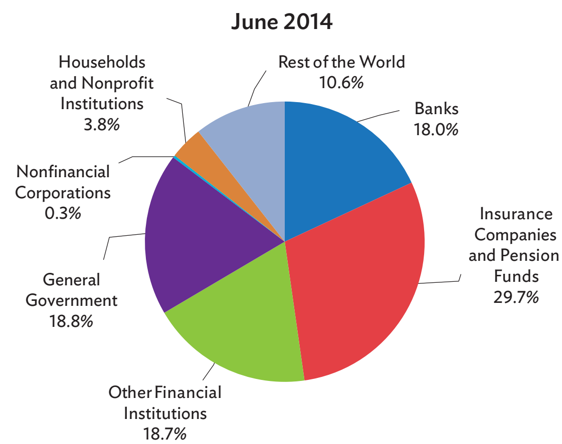
Table 3: Notable LCY Corporate Bond Issuance in 3Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (KRW billion)
Industrial Bank of Korea		
10-year bond	2.55	400
Hyundai Department Store		
3-year bond	1.94	300
KEB Hana Bank		
10-year bond	2.78	300
Korea Land & Housing Corporation		
30-year bond	2.66	280
Korea Deposit Insurance Corporation		
3-year bond	1.79	270

LCY = local currency.
Source: Bloomberg LP.

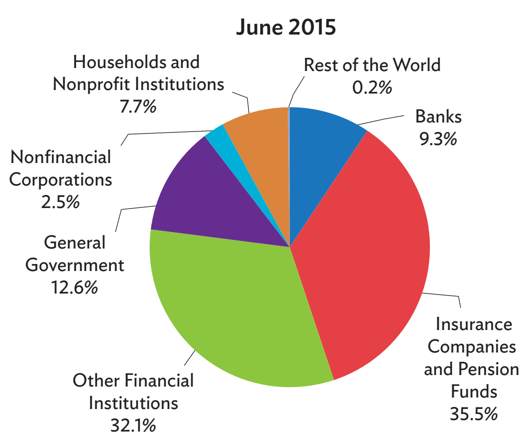
Figure 2: LCY Government Bonds Investor Profile

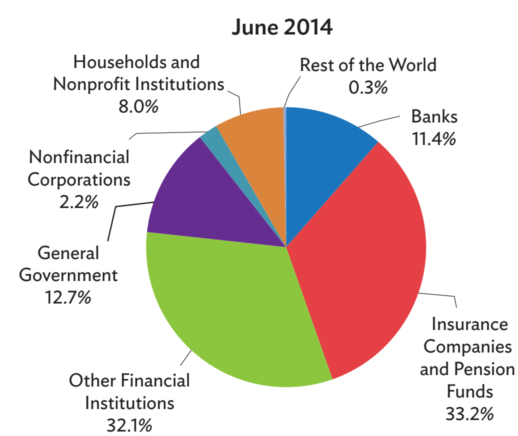




LCY = local currency.
Sources: The Bank of Korea.

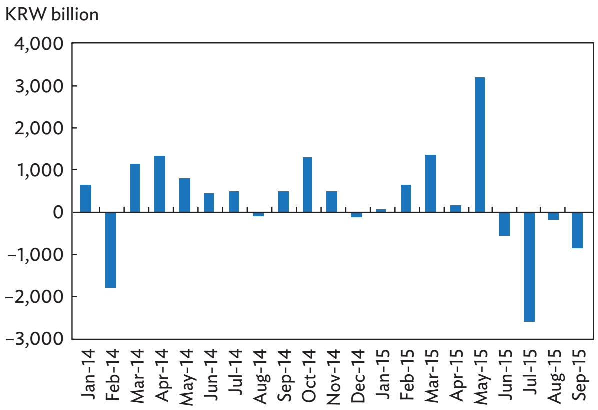
Figure 3: LCY Corporate Bonds Investor Profile





LCY = local currency.
Sources: The Bank of Korea.

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



LCY = local currency.
Source: Financial Supervisory Service.

FSC to Improve Competitiveness of Financial Investment Business Entities

The FSC announced in October that it will introduce measures to enhance the competitiveness of financial investment business entities in the Republic of Korea. The planned measures are aimed at improving the corporate financing functions of brokerage firms, widening the scope of business activities of securities companies, and easing regulatory restrictions in order to diversify certain types of financial services. Among the FSC's plans are to allow companies with total assets worth less than KRW2 trillion to issue private placements of securities, and to revise regulations to allow the investment banking departments of securities companies to engage in certain brokerage activities such as buying and selling short-term bonds.

Malaysia

Yield Movements

Between 1 September and 15 October, Malaysian local currency (LCY) government bond yields fell for all tenors except the 3-year tenor, which rose 20 basis points (bps) **(Figure 1)**. Yields for all remaining tenors fell between 8 bps and 25 bps.

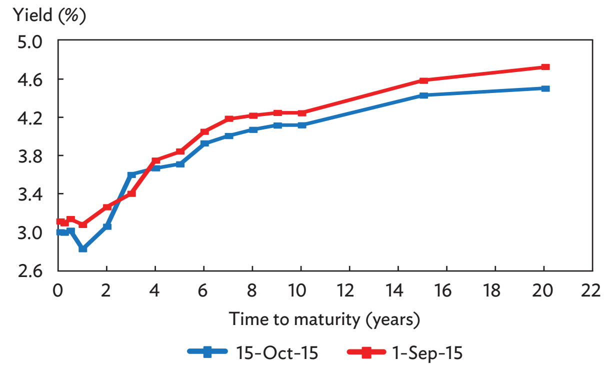
The fall in yields was due to a correction in the market after a selloff in LCY government bonds in the months preceding October amid concerns over a possibile rate hike by the United States (US) Federal Reserve in September, the slowdown in People's Republic of China, and the continued depreciation of the Malaysian ringgit. There likely were also foreign outflows toward the end of September due to the maturation of benchmark government securities. However, the decision by the Federal Reserve in September to leave its policy rates unchanged resulted in the local government bond market rebounding in October.

The Malaysian ringgit depreciated 17.9% year-to-date through 15 October, reaching a low of MYR4.5 to US$1 on 29 September before reboudning modestly to MYR4.1 in mid-October. Near-term risks to the Malaysian bond market and the ringgit include potential foreign outflows in response to an impending rate hike by the Federal Reserve and declining oil prices. The latter would also constrain the government's ability to achieve its fiscal targets.

Inflation trended downward in 3Q15, falling to 2.6% year-on-year (y-o-y) in September from 3.1% y-o-y in August and 3.3% y-o-y in July, primarily due to the continued contraction in the transportation index as a result of lower domestic fuel prices. Easing inflation allowed Bank Negara Malaysia (BNM) to maintain its overnight policy rate at 3.25% in its 11 September policy meeting.

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 consumption and fixed capital formation, and a contraction in exports. Lower inflation and a slowdown in the domestic economy have prompted expectations that the BNM will maintain its policy rate for the rest of the year to support economic growth.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The Malaysian LCY bond market barely moved in 3Q15, with only a slight decline of 0.01% quarter-on-quarter (q-o-q) to MYR1,076 billion (US$245 billion) at end-September **(Table 1)**. Increases in the stock of outstanding corporate bonds, central bank bills, and *Sukuk Perumahan Kerajaan* were offset by a decline in the outstanding stock of central government bonds, due to scheduled maturities of Malaysian Government Securities (MGS) and Government Investment Issues (GII). On a y-o-y basis, the LCY bond market declined 0.3% in 3Q15. Government bonds outstanding totaled MYR602 billion at end-September, while corporate bonds summed to MYR474 billion. *Sukuk* (Islamic bonds) continued to comprise the majority of the LCY bond market, with a share of 53% of total bonds outstanding at end-September.

Government Bonds. LCY government bonds outstanding decreased 1.0% q-o-q and 4.9% y-o-y to close at MYR602 billion at end-September. This was due to a sizable number of scheduled maturities among MGS and GII in 3Q15 relative to new issuances. Meanwhile, BNM resumed issuance of central bank bills in August, albeit at a lower volume than in 2014.

Total government bond issuance increased 26.7% q-o-q to MYR41 billion in 3Q15, led by central bank bills and

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	MYR	US$	MYR	US$	MYR	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,079**	**329**	**1,076**	**285**	**1,076**	**245**	**2.5**	**8.7**	**(0.01)**	**(0.3)**
Government	633	193	608	161	602	137	3.4	8.4	(1.0)	(4.9)
Central Government Bonds	508	155	557	148	549	125	0.02	8.7	(1.5)	8.0
of which: *sukuk*	185	56	207	55	203	46	(1.9)	12.8	(1.9)	10.0
Central Bank Bills	108	33	23	6	25	6	22.0	0.6	6.4	(77.0)
of which: *sukuk*	42	13	4	1	2	0.4	19.8	3.8	(59.5)	(96.0)
Sukuk Perumahan Kerajaan	17	5	28	7	28	6	9.7	91.0	1.8	67.1
Corporate	446	136	468	124	474	108	1.1	9.0	1.3	6.1
of which: *sukuk*	314	96	337	89	340	77	4.0	14.5	1.0	8.5

( ) = 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.

Treasury bills. Meanwhile, there was a lesser amount of GIIs issued in 3Q15.

Corporate Bonds. LCY corporate bonds slightly increased 1.3% q-o-q in 3Q15, bringing total outstanding bonds to MYR474 billion at end-September. Many corporate bond issuers opted to wait on new issuances as anticipation of a Federal Reserve rate hike in September caused an uptick in yields. The ratio of corporate *sukuk* to total corporate bonds outstanding slightly fell to 71.9% at end-September from 72.1% at end-June.

Corporate bond issuance fell 18.4% q-o-q to MYR24 billion in 3Q15 (on a total of 49 new issues) from MYR30 billion in 2Q15. *Sukuk* accounted for 60.5% of total issuance, while conventional bonds registered a share of 39.5%. By type of instrument, conventional commercial paper had the highest share of total issuance at 39.3%, followed by Islamic medium-term notes with a share of 28.7%. **Table 2** lists notable corporate bond issuances in 3Q15.

The largest corporate issuers in 3Q15 were from the casino, financial, and utilities sectors, led by GENM Capital, Pengurusan Air, and Sarawak Energy. GENM Capital, a casino operator, issued dual-tranche medium-term notes comprising a MYR1.1 billion 5-year tranche and a MYR1.3 billion 10-year tranche with coupon rates of 4.5% and 4.9%, respectively. Pengurusan Air SPV, a water services company wholly owned by the Ministry of Finance, issued *sukuk* comprising a MYR700 million 5-year tranche and a MYR800 million 10-year tranche with coupon rates of 4.28% and 4.63%, respectively.

Table 3 provides a breakdown of the top 30 LCY corporate bond issuers in Malaysia, whose total LCY bonds outstanding stood at MYR253.8 billion at end-September, representing 53.6% of the LCY corporate bond market. Financial firms, including banks, comprised 15 of the 30 largest corporate bond issuers, with bonds outstanding worth MYR132.2 billion. Highway operator Project Lebuhraya Usahasama remained the largest issuer with outstanding bonds valued at MYR30.6 billion.

Investor Profile

At the end of June, foreign investors were the largest holder of government bonds at a share of 32.4%, supplanting financial institutions—including banks, development financial institutions, and nonbank financial institutions—whose share declined to 30.9% from 32.4% at end-June 2014 **(Figure 2)**. Social security institutions remained the third largest holders of government bonds with a share of 26.6%, slightly higher than their share of 26.0% a year earlier. The share of insurance companies' government bond holdings fell to 5.4% from 6.2% a year earlier.

The largest investor groups in LCY corporate bonds at the end of June remained domestic and foreign banks

Table 2: Notable LCY Corporate Bond Issuance in 3Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
GENM Capital		
5-year MTN	4.50	1,100
10-year MTN	4.90	1,300
Pengurusan Air SPV		
5-year Islamic MTN	4.28	700
10-year Islamic MTN	4.63	800
Sarawak Energy		
10-year Islamic MTN	4.75	700
20-year Islamic MTN	5.28	800
Kuala Lumpur Kepong		
10-year Islamic MTN	4.58	1,100
Krung Thai Bank Public Company		
10-year bond	5.10	1,000
Putrajaya Holdings		
4-year Islamic MTN	4.03	150
6-year Islamic MTN	4.23	200
7-year Islamic MTN	4.31	150
8-year Islamic MTN	4.41	150
9-year Islamic MTN	4.48	250

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

(commercial and Islamic) with shares of 47.5% and 5.8%, respectively **(Figure 3)**. Compared with the same period in 2014, the share of domestic banks increased 1.2 percentage points, while that of foreign banks decreased 1 percentage point. Life insurance companies remained the second largest holders of LCY corporate bonds with a share of 31.7%, slightly higher than the 31.2% share a year earlier. The share of investment banks remained unchanged at 4.9%.

Policy, Institutional, and Regulatory Developments

Prime Minister Announces 2016 Federal Budget

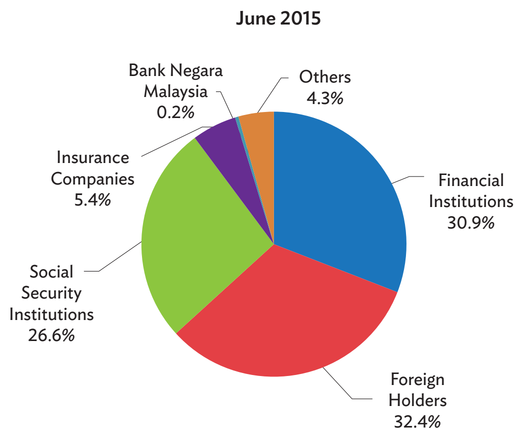
On 23 October, the prime minister announced the release of Malaysia's 2016 federal budget, which totals MYR267.2 billion, up from the 2015 revised budget total of MYR260.7 billion. Federal government revenue is estimated to be MYR225.7 billion in 2016, MYR3.2 billion higher than the 2015 target. The government also announced a fiscal deficit target of 3.1% of gross domestic product in 2016, down slightly from 3.2% in 2015. The economy is expected to grow between 4.0% and 5.0% in 2016, and annual inflation is expected to be between 2.0% and 3.0%. The government also announced plans for both tax relief and higher income tax rates of 26% (from 25%) for those with an income of MYR0.6 million–MYR1 million and 28% (from 25%) for those with income of more than MYR1 million. The goods and services tax is expected to contribute to the MYR39 billion increase in revenue in 2016, although certain basic goods and medicines shall be exempted from this tax. A small reduction in subsidy allocations from MYR 26.2 billion to MYR26.1 billion is also expected in 2016.

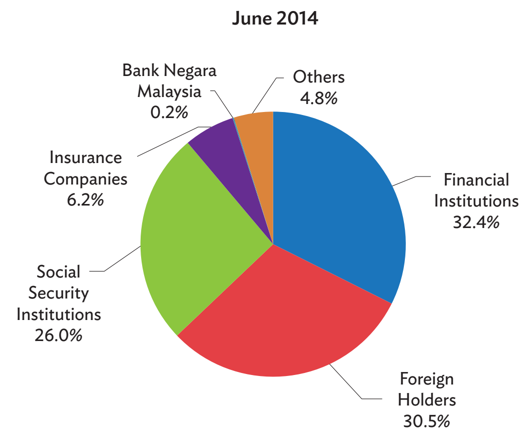
Table 3: Top 30 Issuers of LCY Corporate Bonds in Malaysia

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (MYR billion)	LCY Bonds (US$ billion)			
1.	Project Lebuhraya Usahasama	30.6	7.0	No	No	Transport, Storage, and Communications
2.	Cagamas	21.1	4.8	Yes	No	Finance
3.	Khazanah	20.0	4.6	Yes	No	Finance
4.	Danainfra Nasional	17.6	4.0	Yes	No	Finance
5.	Prasarana	15.6	3.6	Yes	No	Transport, Storage, and Communications
6.	Pengurusan Air	13.5	3.1	Yes	No	Energy, Gas, and Water
7.	Maybank	11.4	2.6	No	Yes	Banking
8.	Perbadanan Tabung Pendidikan Tinggi Nasional	11.0	2.5	Yes	No	Finance
9.	Sarawak Energy	8.5	1.9	Yes	No	Energy, Gas, and Water
10.	CIMB Bank	8.1	1.8	No	No	Banking
11.	Public Bank	7.6	1.7	No	No	Banking
12.	Aman Sukuk	6.6	1.5	Yes	No	Construction
13.	BGSM Management	6.0	1.4	No	No	Transport, Storage, and Communications
14.	RHB Bank	5.4	1.2	No	No	Banking
15.	Turus Pesawat	5.3	1.2	Yes	No	Transport, Storage, and Communications
16.	Putrajaya Holdings	5.1	1.2	Yes	No	Property and Real Estate
17.	1Malaysia Development	5.0	1.1	Yes	No	Finance
18.	Malakoff Power	4.9	1.1	No	No	Energy, Gas, and Water
19.	Manjung Island Energy	4.9	1.1	No	No	Energy, Gas, and Water
20.	YTL Power International	4.8	1.1	No	Yes	Energy, Gas, and Water
21.	AM Bank	4.5	1.0	No	Yes	Banking
22.	Cagamas MBS	4.5	1.0	Yes	No	Finance
23.	Celcom Networks	4.5	1.0	No	No	Transport, Storage, and Communications
24.	Bank Pembangunan Malaysia	4.4	1.0	Yes	No	Banking
25.	Tanjung Bin Power	4.0	0.9	No	No	Energy, Gas, and Water
26.	Danga Capital	4.0	0.9	Yes	No	Finance
27.	Hong Leong Bank	4.0	0.9	No	Yes	Banking
28.	Telekom Malaysia	3.7	0.8	No	Yes	Transport, Storage, and Communications
29.	TNB Western Energy	3.7	0.8	Yes	No	Energy, Gas, and Water
30.	CIMB Group Holdings	3.6	0.8	Yes	No	Finance
Total Top 30 LCY Corporate Issuers		**253.8**	**57.8**			
Total LCY Corporate Bonds		**473.8**	**107.8**			
Top 30 as % of Total LCY Corporate Bonds		**53.6%**	**53.6%**			

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

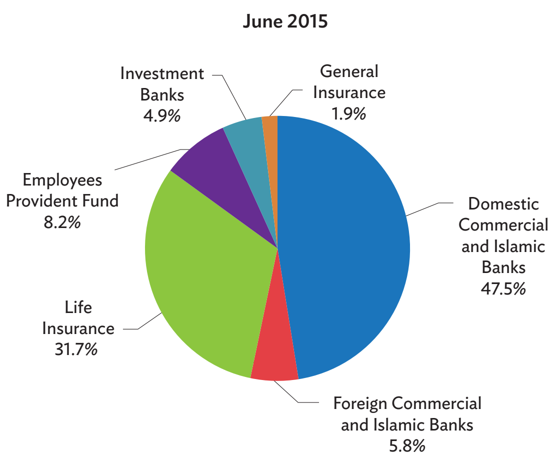
Figure 2: LCY Government Bonds Investor Profile

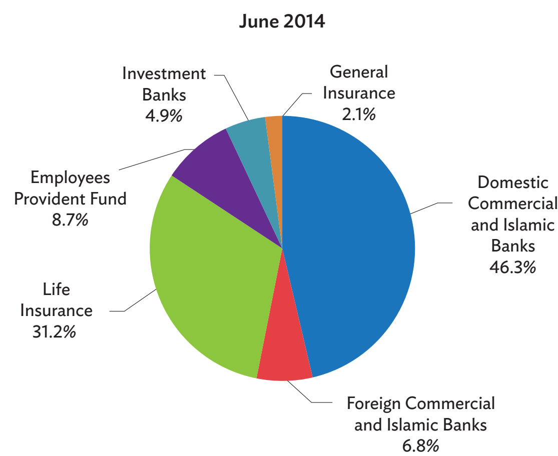




LCY = local currency.
Source: Bank Negara Malaysia.

Figure 3: LCY Corporate Bonds Investor Profile





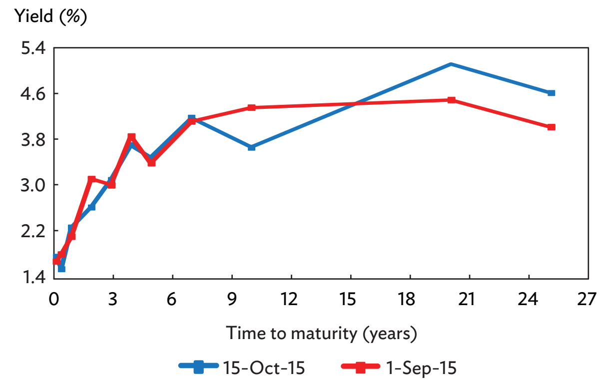
LCY = local currency.
Note: The Employees Provident Fund's (EPF) bond holdings data is as of end-December 2014, as data is based on the EPF's annual report.
Source: Bank Negara Malaysia.

Philippines

Yield Movements

Between 1 September and 15 October, yield movements for Philippine local currency (LCY) government bond yields were mixed **(Figure 1)**. At the short-end of the curve, yields for the 3-month and 1-year tenors rose 8 basis points (bps) and 16 bps, respectively, while the yield for the 6-month tenor fell 25 bps. Yields mostly rose for maturities of between 3 years and 25 years, excluding the 4-year and 10-year tenors. The rise in yields was most evident at the long-end of the curve, with the 20-year and 25-year tenors rising 62 bps and 59 bps, respectively. This was reflective of investors' risk aversion due to uncertainties over the timing of an impending rate hike by the United States Federal Reserve.

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



LCY = local currency.
Source: Bloomberg LP.

Inflation decelerated in 3Q15 to 0.4% year-on-year (y-o-y) in September from 0.6% y-o-y in August and 0.8% y-o-y in July. A sufficient supply of food items, downward adjustments in utility rates, and lower fuel prices contributed to lower inflation, while also providing room for the Bangko Sentral ng Pilipinas (BSP) to maintain its policy rates.

At its 24 September monetary policy meeting, the BSP decided to keep its policy rates—the overnight borrowing rate and the overnight lending rate—unchanged at 4.0% and 6.0%, respectively. The BSP stated that inflation is expected to rise gradually in line with its targets for 2016 to 2017, while noting that upward price pressures remain due to pending adjustments in utilities rates and higher food prices resulting from El Niño.

The Philippines' economy grew 5.6% y-o-y in 2Q15, up from 5.0% y-o-y growth in 1Q15, supported by sustained growth in both private and public consumption, as well as a boost in capital formation.

Size and Composition

The Philippine LCY bond market grew 1.7% quarter-on-quarter (q-o-q) to PHP4,723 billion (US$101 billion) at end-September **(Table 1)**. Government securities accounted for the majority of bonds outstanding, totaling PHP3,939 billion, while corporate bonds summed to PHP784 billion. On a y-o-y basis, the LCY bond market grew 2.8% in 3Q15.

Government Bonds. Outstanding fixed-income instruments issued by the Philippine government and government-controlled companies rose 1.1% q-o-q to PHP3,939 billion at end-September. The rise was most notable in the outstanding stock of Treasury bonds, primarily due to the new funds raised from the most recent bond swap conducted by the Bureau of the Treasury (BTr). In September, the BTr accepted total exchange offers of eligible bonds worth PHP237 billion and new subscription offers of PHP9.6 billion. As a result, the BTr raised PHP121 billion worth of new 10-year benchmark bonds and PHP142 billion worth of new 15-year benchmark bonds, which were priced at 3.625% and 4.625%, respectively.

As a result, government bond issuance rose significantly in 3Q15 to PHP406 billion from PHP90.4 billion in 2Q15. The government's bond auction results were also more successful in 3Q15 than in 2Q15, with the total volume awarded rising to PHP107 billion from PHP90.4 billion.

The government has programmed borrowing of PHP135 billion through its regular LCY bond auction schedule in 4Q15. The auction schedule comprises PHP60 billion of Treasury bills with 91-, 182-, and

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	PHP	US$	PHP	US$	PHP	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**4,594**	**102**	**4,645**	**103**	**4,723**	**101**	**2.2**	**6.7**	**1.7**	**2.8**
Government	3,846	86	3,896	86	3,939	84	0.7	2.2	1.1	2.4
Treasury Bills	285	6	275	6	282	6	(1.2)	(8.0)	2.6	(0.9)
Treasury Bonds	3,445	77	3,541	79	3,577	77	0.9	3.2	1.0	3.8
Others	116	3	80	2	80	2	–	2.1	–	(30.9)
Corporate	748	17	749	17	784	17	10.4	37.5	4.7	4.8

( ) = 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 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 multicurrency Retail Treasury Bonds (RTBs) are not included. As of end-September 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.

364-day tenors; and PHP75 billion of Treasury bonds with 3- and 5-year tenors.

Corporate Bonds. Total outstanding LCY corporate bonds rose 4.7% q-o-q to PHP784 billion at the end of September. Three companies tapped the domestic bond market in 3Q15. 8990 Holdings, a mass housing developer, raised PHP8.99 billion via a triple-tranche bond issuance comprising a PHP8.4 billion 5-year tranche, PHP220 million 7-year tranche, and PHP380 million 10-year tranche with coupon rates of 6.208%, 6.131%, and 6.867%, respectively. Aboitiz Equity Ventures also had a triple-tranche issue comprising 5-year, 7-year, and 12-year bonds with an aggregate issuance volume of PHP24 billion **(Table 2)**.

Table 2: Notable LCY Corporate Bond Issuance in 3Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (PHP billion)
Aboitiz Equity Ventures		
5-year bond	4.47	10.46
7-year bond	5.01	8.47
12-year bond	6.02	5.07
8990 Holdings		
5-year bond	6.21	8.40
7-year bond	6.13	0.38
10-year bond	6.87	0.22
Filinvest Land		
7-year bond	5.36	7.00
10-year bond	5.71	1.00

LCY = local currency.
Source: Bloomberg LP.

Only 51 companies are actively tapping the bond market in the Philippines. The top 30 issuers accounted for 89.9% of total LCY corporate bonds outstanding at end-September **(Table 3)**. The majority of the top 30 issuers are listed on the Philippine Stock Exchange, with eight firms having privately held shares. Ayala Land remained the largest corporate issuer in the Philippines with PHP64.9 billion of outstanding bonds at end-September. Metrobank was the next largest borrower with PHP46.8 billion of outstanding bonds. Ayala Corporation was in the third spot with PHP40 billion.

The diversity of LCY corporate bond issuers in 3Q15 was comparable with that in 3Q14 **(Figure 2)**. Banks and other financial institutions, including investment houses, remained the leading issuers of debt in 3Q15 with 30.4% of the total, up from a share of 26.6% in 3Q14. Real estate companies were second with a share of 22.8% of the total, compared with a 20.5% share in 3Q14. Meanwhile, the share of holding companies declined to 19.6% in 3Q15 from 21.2% in 3Q14. Firms from industries as diverse as electricity generation and distribution, telecommunications, and thoroughfares and tollways continued to have single-digit shares of total corporate bonds outstanding.

Investor Profile

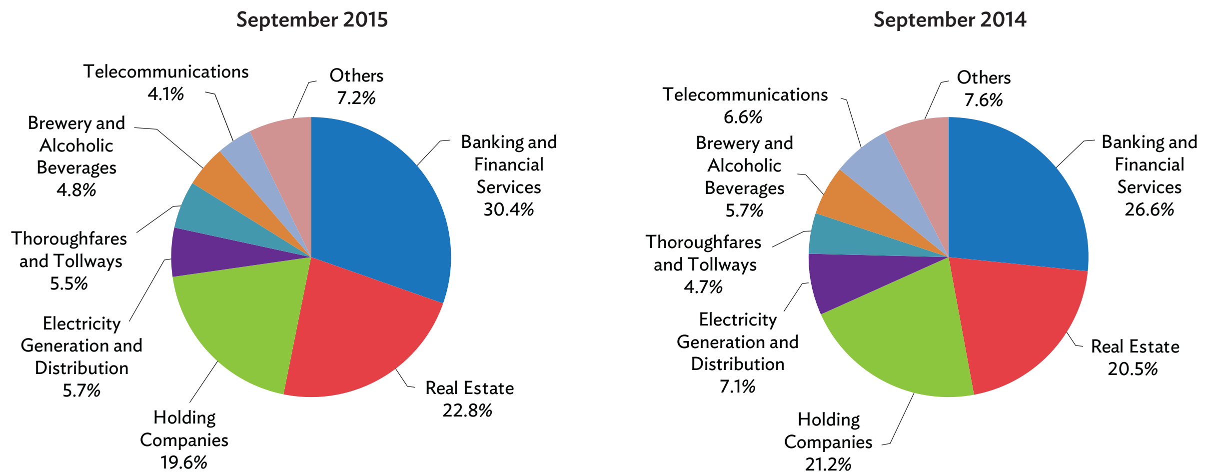
The largest grouping of investors in government securities at the end of September comprised banks and financial institutions with a 35.8% share of the total

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	0.7	No	Yes	Banking
7.	Aboitiz Equity Ventures	32.0	0.7	No	Yes	Diversified Operations
8.	Filinvest Land	32.0	0.7	No	Yes	Real Estate
9.	JG Summit Holdings	30.0	0.6	No	Yes	Diversified Operations
10.	SM Investments	28.3	0.6	No	Yes	Diversified Operations
11.	RCBC	27.1	0.6	No	Yes	Banking
12.	SM Prime	25.0	0.5	No	Yes	Real Estate
13.	Meralco	23.5	0.5	No	Yes	Electricity Distribution
14.	Security Bank	23.0	0.5	No	Yes	Banking
15.	GT Capital Holdings	22.0	0.5	No	Yes	Investment Companies
16.	South Luzon Tollway	18.3	0.4	No	No	Transport Services
17.	Globe Telecom	17.0	0.4	No	Yes	Telecommunications
18.	East West Bank	16.8	0.4	No	Yes	Banking
19.	Maynilad Water Services	16.4	0.4	No	No	Water
20.	MCE Leisure Philippines	15.0	0.3	No	No	Casino Services
21.	Philippine Long Distance Telephone	15.0	0.3	No	Yes	Telecommunications
22.	Union Bank of the Philippines	14.0	0.3	No	Yes	Banking
23.	Manila North Tollways	13.0	0.3	No	No	Transport Services
24.	First Metro Investment	12.0	0.3	No	No	Investment Banking
25.	Robinsons Land	12.0	0.3	No	Yes	Real Estate
26.	MTD Manila Expressway	11.5	0.2	No	No	Transport Services
27.	Aboitiz Power	10.5	0.2	No	Yes	Electricity Generation
28.	Energy Development	10.5	0.2	No	Yes	Electricity Generation
29.	United Coconut Planters Bank	9.5	0.2	No	No	Banking
30	8990 Holdings	9.0	0.2	No	Yes	Real Estate
Total Top 30 LCY Corporate Issuers		**704.9**	**15.1**			
Total LCY Corporate Bonds		**784.2**	**16.8**			
Top 30 as % of Total LCY Corporate Bonds		**89.9%**	**89.9%**			

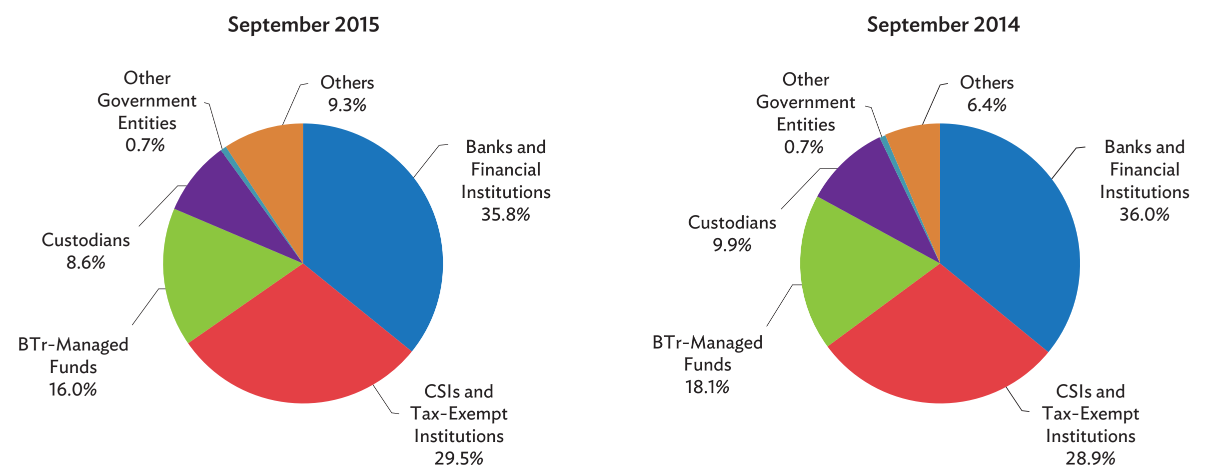
LCY = local currency.
Notes:
1. Data as of end-September 2015.
2. Petron has PHP20 billion of Global Peso Bonds outstanding that were not included in this table.
3. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations 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.

(Figure 3), down slightly from a 36.0% share a year earlier. Contractual savings institutions—including the Social Security System, Government Service Insurance System, Pag-IBIG, and life insurance companies—and tax-exempt institutions—including trusts and other tax-exempt entities—accounted for 29.5% of the total at the end of September, up from 28.9% a year earlier. Over the same period, the holdings of government securities among custodians fell to 8.6% from 9.9%, and funds managed by the BTr declined to 16.0% from 18.1%.

Ratings Update

In September, Fitch Ratings affirmed the Philippines' long-term foreign currency issuer default rating and long-term local currency issuer default rating at BBB– and BBB, respectively. The outlook on both ratings was revised to positive from stable. Fitch cited the Philippines' stable economic growth and strong external finances as reasons for its ratings decision.

Policy, Institutional, and Regulatory Developments

BSP to Implement Interest Rate Corridor System by 2Q16

In September, the BSP announced its plan to implement an interest rate corridor system by 2Q16. The system will include the implementation of a deposit facility and a lending facility that will form a corridor around the BSP's policy rate. These facilities shall be conducted via weekly auctions of term deposits. The interest rate corridor system is expected to support the development of the capital market by encouraging more active liquidity management and increased trading by financial institutions. The new system also aims to reduce reliance on the reserve requirement for the market's liquidity management.

BSP Releases New Regulations on Treasury Activities

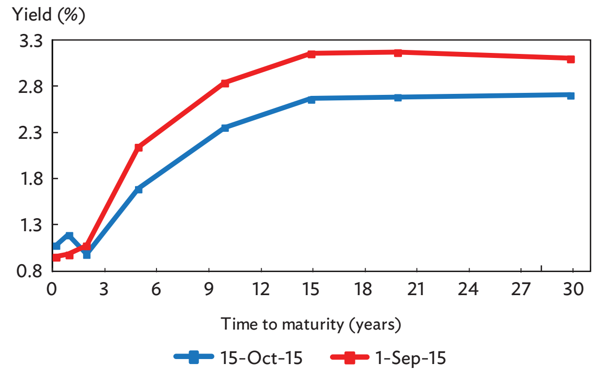
In October, the BSP released new regulations on treasury activities conducted by BSP-supervised financial institutions, particularly the management of operational risk. The new regulations highlight the responsibility of firms' board of directors and senior management in establishing standards of good behavior and compliance with market conduct rules. The regulations also require BSP-supervised financial institutions to differentiate among the various functions of treasury units to separate possibly conflicting duties such as risk-taking and recording, and reconciliation and settlement. The BSP expects the control units of the financial institutions it supervises—risk management, compliance, and audit—to regularly monitor treasury activities.

Singapore

Yield Movements

Between 1 September and 15 October, local currency (LCY) government bond yields in Singapore fell for all tenors, largely tracking the movement of United States (US) Treasuries, except at the very short-end of the curve (maturities of 3 months and 12 months), where yields rose **(Figure 1)**. Yields on Singapore Government Securities (SGS) bonds fell most sharply for maturities of between 5 years and 20 years, shedding 45–49 basis points (bps), while yields at the very long-end of the curve dipped 39 bps. On the other hand, yields for SGS bills gained 12 bps and 21 bps for the 3-month and 12-month maturities, respectively. As a result, the yield spread between the 2-year and 10-year tenors narrowed to 137 bps in mid-October from 175 bps at end-September.

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



LCY = local currency.
Source: Bloomberg LP.

Declining yields reflected market expectations of monetary easing by the Monetary Authority of Singapore (MAS) given weak economic growth and the persistence of deflation.

In its monetary policy statement on 14 October, MAS announced it would maintain its policy of modest and gradual appreciation of the Singapore dollar nominal effective exchange rate (S$NEER) policy band and held constant the width and level at which the S$NEER policy band is centered. MAS will also slightly reduce the rate of appreciation, signaling a slight easing in its monetary policy stance.

Based on advance estimates released by the Ministry of Trade and Industry, economic growth eased to 1.4% year-on-year (y-o-y) in 3Q15 from 2.0% y-o-y in 1Q15. The slowdown was due largely to a continued slump in the manufacturing sector amid weakness in the electronics, biomedical manufacturing, and transport engineering clusters. On a seasonally adjusted quarterly basis, the economy grew 0.1% in 3Q15 after contracting 2.5% in 2Q15, narrowly missing a technical recession, which is defined as 2 consecutive months of contraction. MAS expects economic growth to moderate earlier than initially projected, but kept its 2015 gross domestic product growth forecast at 2.0%–2.5%.

Singapore recorded deflation for the 10th consecutive month in August as consumer prices declined 0.8% y-o-y, following a 0.4% y-o-y drop in July, largely on account of lower private road transport costs. Accommodation costs also declined due to a soft housing rental market. MAS expects full-year inflation in 2015 to come in at between –0.5% and 0.5%.

Size and Composition

Singapore's LCY bond market contracted 3.9% quarter-on-quarter (q-o-q) in 3Q15 to SGD318 billion (US$224 billion) at end-September **(Table 1)**. On a y-o-y basis, the LCY bond market declined at a pace of 1.4% in 3Q15.

Government Bonds. The stock of LCY government bonds fell 5.0% q-o-q in 3Q15 to SGD188 billion at end-September, as SGS bills and bonds and MAS bills all recorded declines during the quarter in review. SGS bills and bonds slipped 2.3% q-o-q in 3Q15, but were up 1.7% on a y-o-y basis at end-September. Redemption of SGS bonds outpaced new issuance in 3Q15, resulting in a decline in the stock of SGS. New issuance of SGS bills and bonds in 3Q15, which declined 58.1% q-o-q and 42.6% y-o-y to SGD3.9 billion, comprised a SGD2.8 billion 5-year SGS bond and a SGD1.1 billion reopening of a 15-year SGS bond. There were no new issues of SGS bills during the quarter in review.

The outstanding amount of MAS bills declined to SGD85 billion at end-September, falling 8.0% q-o-q

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	SGD	US$	SGD	US$	SGD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**323**	**253**	**331**	**246**	**318**	**224**	**3.5**	**6.4**	**(3.9)**	**(1.4)**
Government	195	153	197	147	188	132	2.8	4.2	(5.0)	(3.6)
SGS Bills and Bonds	101	79	105	78	103	72	1.0	(20.9)	(2.3)	1.7
MAS Bills	94	73	92	68	85	60	4.8	58.5	(8.0)	(9.4)
Corporate	128	100	134	99	131	92	4.7	10.1	(2.2)	2.0

( ) = 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.

and 9.4% y-o-y. New issuance of MAS bills totaled SGD82.3 billion in 3Q15, a decline of 7.1% q-o-q and 14.8% y-o-y.

Corporate Bonds. The outstanding stock of LCY corporate bonds stood at SGD131 billion at end-September, according to *AsianBondsOnline* estimates, which was down 2.2% q-o-q but up 2.0% y-o-y.

At end-September, the 30 largest LCY corporate bond issuers had combined outstanding bonds valued at SGD66.5 billion, representing 50.9% of the total corporate bond stock **(Table 2)**. State agency Housing Development Board topped the list with outstanding bonds valued at SGD20.0 billion. The second spot was taken by United Overseas Bank with bonds worth SGD4.1 billion. Another state-owned firm, Land Transport Authority, took the third spot, up from 12th at end-June, with total bonds outstanding of SGD4.0 billion.

The top 30 corporate issuers in Singapore comprise a diverse set of industries including banking, finance, real estate, transportation, and utilities. Only three state-owned firms were on the list of the top 30 issuers in Singapore, although all three were among the top 10.

In 3Q15, new issuance of LCY corporate debt totaled SGD3.7 billion, lower on both a q-o-q and y-o-y basis. Ten firms raised funds from the corporate bond market and issued a total of 13 new bond series. Of these new bond series, nine carried maturities of less than 10 years, and there was one bond series each of 10-year, 12-year, 15-year, and perpetual bonds.

The largest corporate debt issuance during the quarter was Land Transport Authority's four-tranche bond issue totaling SGD2.5 billion. It was followed by Oversea-Chinese Banking Corporation with a perpetual bond issue worth SGD500 million. All other new corporate bonds issues had a size of SGD150 million or less. The largest corporate bond issues in 3Q15 are shown in **Table 3**.

Policy, Institutional, and Regulatory Developments

Singapore Sells its First Singapore Saving Bonds

In September, MAS accepted a total of SGD413 million in applications for its first offering of Singapore Savings Bonds. However, the issue was met with weak demand that fell short of the SGD1.2 billion target. The savings bond program is aimed at providing individual investors with a long-term savings alternative with safe returns. The Singapore Savings Bonds carry a maturity of 10 years and are fully backed by the government. The bonds will be issued monthly for at least 5 years. Up to SGD4 billion worth of Singapore Savings Bonds could be issued in 2015, depending on demand.

MAS and the PRC to Promote Cross-Border Renminbi Transactions

On 13 October, Singapore and the People's Republic of China (PRC) agreed to undertake new initiatives to promote renminbi transactions in Singapore. The existing cross-border renminbi transactions covering Suzhou Industrial Park and the Singapore–Sino Tianjin Eco City

Table 2: Top 30 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	14.1	Yes	No	Real Estate
2.	United Overseas Bank	4.05	2.8	No	Yes	Banking
3.	Land Transport Authority	3.98	2.8	Yes	No	Transportation
4.	Temasek Financial I	3.60	2.5	No	No	Finance
5.	DBS Bank	3.30	2.3	No	Yes	Banking
6.	Capitaland	2.97	2.1	No	Yes	Real Estate
7.	FCL Treasury	2.13	1.5	No	No	Real Estate
8.	SP PowerAssets	1.88	1.3	No	No	Utilities
9.	Public Utilities Board	1.75	1.2	Yes	No	Utilities
10.	Olam International	1.72	1.2	No	Yes	Consumer Goods
11.	Keppel Corp	1.50	1.1	No	Yes	Diversified
12.	Oversea-Chinese Banking	1.50	1.1	No	Yes	Banking
13.	GLL IHT	1.47	1.0	No	No	Finance
14.	Hyflux	1.30	0.9	No	Yes	Utilities
15.	Neptune Orient Lines	1.28	0.9	No	Yes	Logistics
16.	City Developments	1.24	0.9	No	Yes	Real Estate
17.	Capitaland Treasury	1.15	0.8	No	No	Finance
18.	Singtel Group Treasury	1.15	0.8	No	Yes	Telecommunications
19.	Keppel Land	1.03	0.7	No	Yes	Real Estate
20.	CapitaMalls Asia Treasury	1.00	0.7	No	No	Finance
21.	Singapore Airlines	1.00	0.7	No	No	Transportation
22.	Sembcorp Financial Services	0.95	0.7	No	No	Finance
23.	Mapletree Treasury Service	0.94	0.7	No	No	Finance
24.	National University of Singapore	0.90	0.6	No	Yes	Education
25.	DBS Group	0.81	0.6	No	Yes	Banking
26.	CMT MTN	0.80	0.6	No	No	Finance
27.	Overseas Union Enterprise	0.80	0.6	No	Yes	Real Estate
28.	Sembcorp Industries	0.80	0.6	No	Yes	Shipbuilding
29.	Global Logistic Properties	0.75	0.5	No	Yes	Real Estate
30.	SMRT Capital	0.75	0.5	No	No	Transportation
Total Top 30 LCY Corporate Issuers		**66.51**	**46.8**			
Total LCY Corporate Bonds		**130.6**	**91.8**			
Top 30 as % of Total LCY Corporate Bonds		**50.9%**	**50.9%**			

LCY = local currency.
Notes:
1. Data as of end-September 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 3Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Land Transport Authority		
5-year bond	2.73	650
7-year bond	2.57	600
12-year bond	3.09	600
15-year bond	3.51	650
Oversea-Chinese Banking		
Perpetual bond	3.80	500
Aspial Treasury		
5-year bond	5.25	150
Ezion Holdings		
5-year bond	3.65	120
Ascendas REIT		
5-year bond	2.95	100
CCT MTN		
6-year bond	2.96	100

LCY = local currency.
Source: Bloomberg LP.

will be expanded to cover the cities of Suzhou and Tianjin. The new initiatives will allow banking institutions in Singapore to provide renminbi lending to corporates in Suzhou and Tianjin. Corporates in Suzhou and Tianjin will also be allowed to issue renminbi bonds in Singapore.

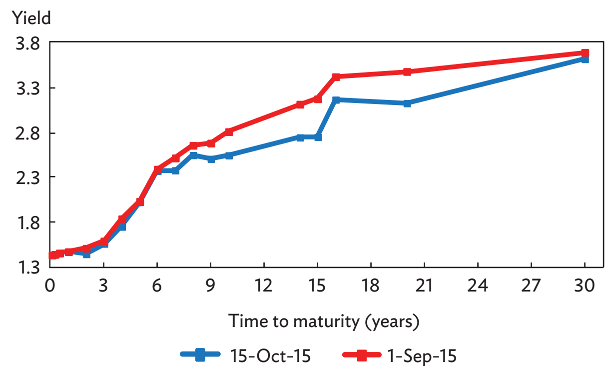
Thailand

Yield Movements

Local currency (LCY) government bond yields in Thailand declined for most tenors between 1 September and 15 October amid market expectations of domestic interest rates remaining low **(Figure 1)**. The yield spread between the 2-year and 10-year tenors narrowed 20 basis points (bps).

The Bank of Thailand's Monetary Policy Committee decided on 16 September to keep the 1-day repurchase rate steady at 1.50%, marking the third consecutive time that the Thai central bank has maintained the policy interest rate. The committee stated that the Thai economy recovered gradually in 2Q15, and that inflationary pressures have weakened. Thailand's overall consumer prices fell 0.8% year-on-year (y-o-y) in October, the tenth consecutive month of decline amid falling energy prices.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The LCY bond market of Thailand continued to expand in 3Q15 as the outstanding stock grew 1.0% quarter-on-quarter (q-o-q) and 5.8% y-o-y, leveling off at THB9,702 billion (US$267 billion) at the end of September **(Table 1)**. The government bond market posted 5.4% y-o-y growth, buoyed by increases in the stock of central bank bonds, central government bonds, and Treasury bills. On a q-o-q basis, total government bonds outstanding slipped 0.1%. Issuance of LCY government bonds in 3Q15 totaled THB1,385 billion, down 23.4% q-o-q and 11.7% y-o-y, due to lower volumes of central government and central bank bond issues.

The outstanding size of Thai LCY corporate bonds was estimated at THB2,413 billion at end-September, posting growth rates of 4.6% q-o-q and 7.0% y-o-y. Issuance of corporate bonds in 3Q15 was estimated at THB399 billion, down 2.1% from the previous quarter and 4.3% from 3Q14.

The top 30 Thai corporate issuers had combined LCY bonds outstanding of THB1,406.9 billion at the end of September, representing 58.3% of total LCY corporate bonds in Thailand **(Table 2)**. The three largest corporate bond issuers were CP All, PTT, and Siam Cement. Of the

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	THB	US$	THB	US$	THB	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**9,172**	**283**	**9,606**	**284**	**9,702**	**267**	**(0.1)**	**2.7**	**1.0**	**5.8**
Government	6,916	213	7,299	216	7,289	200	(1.3)	(1.3)	(0.1)	5.4
Government Bonds and Treasury Bills	3,454	106	3,602	107	3,678	101	0.8	2.5	2.1	6.5
Central Bank Bonds	2,700	83	2,910	86	2,862	79	(4.4)	(7.6)	(1.6)	6.0
State-Owned Enterprise and Other Bonds	763	24	787	23	749	21	0.5	7.1	(4.8)	(1.8)
Corporate	2,256	70	2,307	68	2,413	66	3.8	17.1	4.6	7.0

( ) = 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.

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.	CP All	173.0	4.8	No	Yes	Commerce
2.	PTT	171.3	4.7	Yes	Yes	Energy and Utilities
3.	The Siam Cement	166.5	4.6	Yes	Yes	Construction Materials
4.	Charoen Pokphand Foods	80.0	2.2	No	Yes	Food and Beverage
5.	Thai Airways International	56.6	1.6	Yes	Yes	Transportation and Logistics
6.	Bank of Ayudhya	50.8	1.4	No	Yes	Banking
7.	Indorama Ventures	42.6	1.2	No	Yes	Petrochemicals and Chemicals
8.	The Siam Commercial Bank	40.0	1.1	No	Yes	Banking
9.	Mitr Phol Sugar	38.4	1.1	No	No	Food and Beverage
10.	Banpu	37.9	1.0	No	Yes	Energy and Utilities
11.	True Corporation	36.5	1.0	No	Yes	Communications
12.	Kasikorn Bank	36.0	1.0	No	Yes	Banking
13.	Toyota Leasing Thailand	34.5	0.9	No	No	Finance and Securities
14.	Thanachart Bank	32.5	0.9	No	No	Banking
15.	PTT Exploration and Production Company	32.1	0.9	Yes	Yes	Energy and Utilities
16.	Phatra Securities	31.7	0.9	No	No	Finance and Securities
17.	TPI Polene	29.6	0.8	No	Yes	Property and Construction
18.	Tisco Bank	28.1	0.8	No	No	Banking
19.	Thai Oil	28.1	0.8	Yes	Yes	Energy and Utilities
20.	Land & Houses	26.5	0.7	No	Yes	Property and Construction
21.	TMB Bank	25.4	0.7	No	Yes	Banking
22.	Krung Thai Card	25.1	0.7	Yes	Yes	Finance and Securities
23.	Quality Houses	24.9	0.7	No	Yes	Property and Construction
24.	Krung Thai Bank	23.8	0.7	Yes	Yes	Banking
25.	CH. Karnchang	23.5	0.6	No	Yes	Property and Construction
26.	IRPC	22.6	0.6	Yes	Yes	Energy and Utilities
27.	DAD SPV	22.5	0.6	Yes	No	Finance and Securities
28.	Minor International	22.3	0.6	No	Yes	Food and Beverage
29.	ICBC Thai Leasing	22.1	0.6	No	No	Finance and Securities
30.	Pruksa Real Estate	22.0	0.6	No	Yes	Property and Construction
Total Top 30 LCY Corporate Issuers		**1,406.9**	**38.7**			
Total LCY Corporate Bonds		**2,413.0**	**66.3**			
Top 30 as % of Total LCY Corporate Bonds		**58.3%**	**58.3%**			

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

top five LCY bond corporate issues in Thailand in 3Q15, three were from (two) telecommunication companies and two were from a domestic bank **(Table 3)**.

Investor Profile

Contractual savings funds continued to be the largest investor group in Thailand's LCY government bond market, holding 27.9% of the total at the end of June **(Figure 2)**. They were followed by insurance companies with 25.8%. Across investor groups, commercial banks had the largest y-o-y increase in bond holdings share, while individual resident investors posted the biggest y-o-y drop.

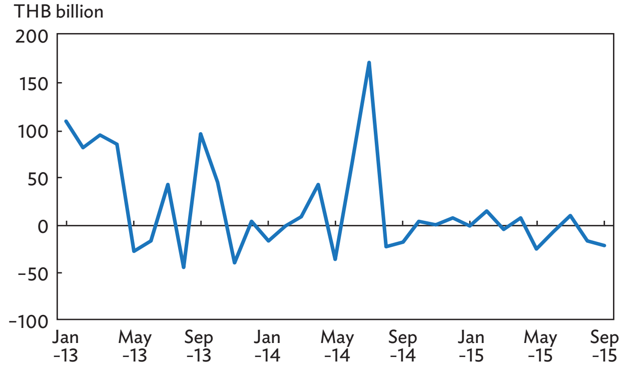
Foreign investors' net bond sales stood at THB29.9 billion in 3Q15—up from 2Q15's THB26.4 billion— with August and September recording relatively large bond sales amid market expectations of an interest rate hike in the United States as well as domestic political concerns **(Figure 3)**.

Table 3: Notable LCY Corporate Bond Issuance in 3Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (THB billion)
True Move H Universal Corporation		
3-year bond	4.20	10.00
3-year bond	4.20	8.40
Bank Ayudhya		
2-year bond	2.00	8.00
3-year bond	2.25	7.00
DTAC Trinet Company		
10-year bond	3.98	6.00

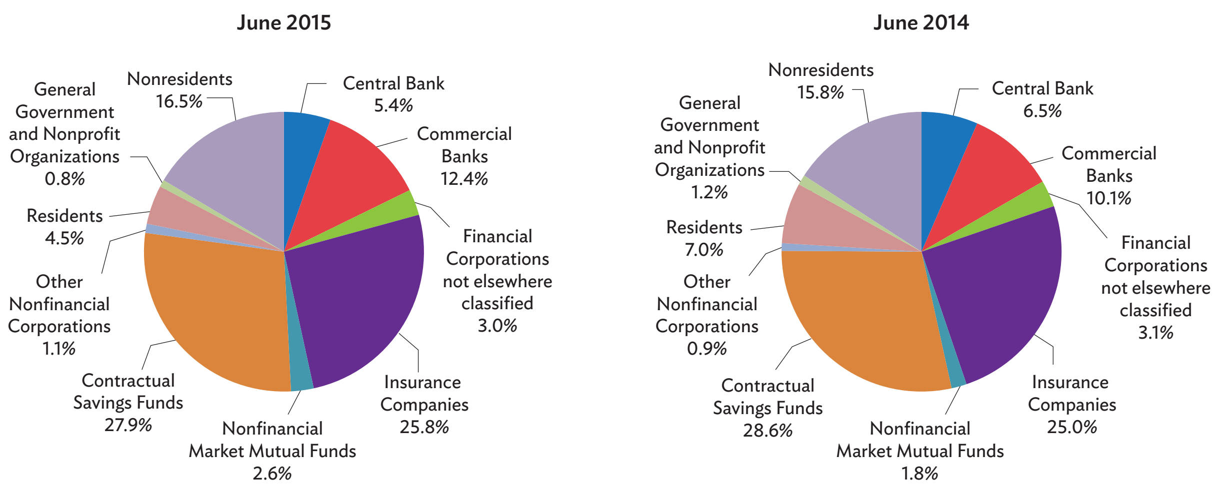
LCY = local currency.
Source: Bloomberg LP.

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



LCY = local currency.
Source: ThaiBMA.

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.

Policy, Institutional, and Regulatory Developments

Cabinet Approves Growth Measures

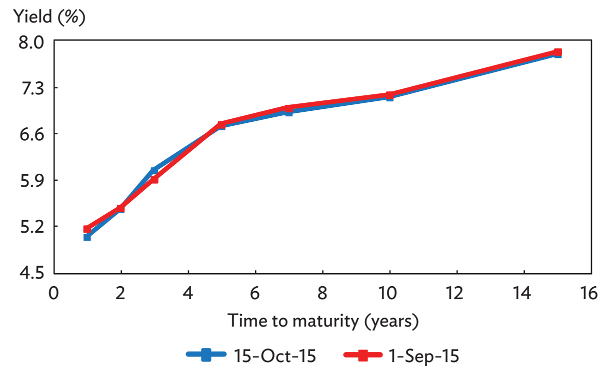
The cabinet approved five policy measures in October to improve the Thai economy, enhance business sentiment, and develop the government's venture capital program. These measures, proposed by the Ministry of Finance, include (i) reducing the corporate income tax rate to 20% from 23%, (ii) providing corporate income and dividend tax exemptions for government venture capital funds over a span of 10 years, (iii) lowering real estate transfer and mortgage fees, (iv) providing a THB10 billion 1-year budget to the Government Housing Bank, and (v) allowing taxable income deductions over 5 years for first-home buyers of up to 20% of the home's value.

Viet Nam

Yield Movements

Between 1 September and 15 October, local currency (LCY) government bond yields in Viet Nam fell for most tenors **(Figure 1)**. The only exception was the 3-year maturity, which gained 14 basis points (bps) during the review period. Bond yields declined the most for the 1-year maturity, shedding 13 bps, while yields slipped 2–7 bps for maturities of between 2 years and 5 years or more. The yield spread between the 2-year and 10-year tenors narrowed to 168 bps on 15 October from 170 bps on 1 September.

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



LCY = local currency.
Source: Bloomberg LP.

Renewed confidence in the LCY bond market has helped keep yields at bay after the United States (US) Federal Reserve refrained from raising interest rate at its mid-September Federal Open Market Committee meeting, which eased concerns of further depreciation of the Vietnamese dong versus the US dollar. A commitment by the State Bank of Viet Nam (SBV) to keep the exchange rate steady for the rest of the year has also contributed to the overall decline in yields.

While bond yields have fallen, the government is still seeking to lower its borrowing costs to ease the public debt burden. Investors have sought higher yields during auctions, making it difficult for the government to fund its budget. Banks' risk preference has veered toward short-dated tenors, deeming long-term bonds more risky. Banks, which are the largest holder of government bonds, continued to channel most of their funds toward lending activities.

Liquidity in the LCY bond market is expected to improve, further easing pressure on long-term yields. The National Assembly has approved the proposal of the Ministry of Finance to issue Treasury bonds with maturities of 5 years or less (see Policy, Institutional, and Regulatory Developments for more detail). However, an upside risk remains as the lead-up to the next Federal Open Market Committee meeting in December may once again put pressure on the currency exchange rate and the yield curve.

Inflation has remained benign so far in 2015, averaging less than 1.0% from January through September. Consumer prices climbed 0.9% year-on-year (y-o-y) in July, gained 0.6% y-o-y in August, and were unchanged in September. Gross domestic product growth climbed to 6.5% y-o-y in the first 9 months of the year, compared with 5.5% y-o-y over the same 9-month period in 2014. By sector, industry and construction expanded 9.6% y-o-y in January–September, while services grew 6.2% y-o-y. Meanwhile, agriculture, forestry, and fishing grew at a much slower pace of 2.1% y-o-y.

Size and Composition

The outstanding size of Viet Nam's LCY bond market reached VND831.9 trillion (US$37 billion) at end-September, declining 12.6% quarter-on-quarter (q-o-q) and 14.9% y-o-y **(Table 1)**. Growth was mainly driven by state-owned enterprise bonds. Treasury bonds, central bank bonds, and corporate bonds contracted during the review period. At end-September, government bonds continued to dominate the market, accounting for a 98.7% share of the total bond stock; corporate bonds accounted for the remaining 1.3% of the total.

Government Bonds. The outstanding stock of government bonds reached VND821.5 trillion at end-September on declines of 12.5% q-o-q and 14.7% y-o-y. Treasury bonds contracted 2.1% q-o-q, while central bank bonds slipped at a much faster pace of 54.9% q-o-q.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	VND	US$	VND	US$	VND	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**976,992**	**46**	**951,431**	**44**	**831,890**	**37**	**8.8**	**54.8**	**(12.6)**	**(14.9)**
Government	962,960	45	939,049	43	821,488	37	9.0	56.3	(12.5)	(14.7)
Treasury Bonds	528,885	25	546,192	25	534,576	24	3.6	44.0	(2.1)	1.1
Central Bank Bonds	223,003	11	200,308	9	90,279	4	37.5	380.6	(54.9)	(59.5)
State-Owned Enterprise Bonds	211,072	10	192,549	9	196,633	9	0.1	4.4	2.1	(6.8)
Corporate	14,032	0.7	12,382	0.6	10,402	0.5	(2.8)	(8.6)	(16.0)	(25.9)

( ) = 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.

Growth came solely from state-owned enterprise bonds, which grew 2.1% q-o-q.

In 3Q15, central government bond issuance totaled VND0.9 billion, lower on both a q-o-q and y-o-y basis. The issuance of Treasury bonds dropped sharply as most auctions fell short of target. Through end-September, the Treasury issuance had only reached about 50% of its planned issuance target for the year. The government is now looking at issuing in foreign currency to help fund its fiscal shortfall, with the National Assembly approving issuance of US$3 billion worth of sovereign bonds to fund debt maturing in 2015 and 2016.

On the other hand, issuance of SBV bills in 3Q15 rose 68.4% q-o-q and 22.3% y-o-y, as the central bank issued more bills to mop up excess liquidity in the system and prevent further speculation on the currency.

Corporate Bonds. The outstanding stock of corporate bonds reached VND10.4 trillion at end-September, down 16.0% q-o-q and 25.9% y-o-y. The decline in corporate bonds was due largely to the absence of new issues since the start of the year. Most corporates chose to take out loans instead of raising funds from the bond market. However, some corporates issued debt through a private placement to institutional investors. (*AsianBondsOnline* excludes private placement in its computation of bonds outstanding.)

Viet Nam's entire corporate bond market comprised seven firms at end-September **(Table 2)**. Sharing the

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	0.13	No	Yes	Banking
2.	Techcom Bank	3,000.00	0.13	No	No	Banking
3.	Masan Consumer Holdings	2,100.00	0.09	No	No	Diversified Operations
4.	Ho Chi Minh City Infrastructure	1,081.85	0.05	No	Yes	Infrastructure
5.	Ocean Group	980.00	0.04	No	Yes	Consulting Services
6.	Tan Tao Investment	130.00	0.01	No	No	Real Estate
7.	Ho Chi Minh City Securities	110.00	0.00	No	No	Finance
Total LCY Corporate Issuers		**10,401.8**	**0.46**			

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

top post were Asia Commercial Joint Stock Bank and Techcom Bank, with an outstanding bond stock of VND3.0 trillion each. The next largest issuer was Masan Consumer Holdings with outstanding bonds worth VND2.1 trillion.

Policy, Institutional, and Regulatory Developments

SBV Reduces Dollar Interest Rates

In September, the SBV reduced interest rates on US dollar deposits as part of efforts to stabilize the Vietnamese dong. Effective 28 September, the interest rate ceiling was reduced to zero from 0.25% for the US dollar deposits of corporates, and to 0.25% from 0.75% for the US dollar deposits of individuals. The move aims to discourage hoarding of foreign currency and to aid in the implementation of monetary policy and banking activities.

National Assembly Approves Proposal to Resume Issuance of Treasury Bonds with Maturities of Less Than 5 Years

In October, the National Assembly approved a Ministry of Finance proposal to issue government bonds with maturities of 5 years or less beginning in November. Regulations passed in November 2014 limited issuance of Treasury bonds in 2015 to those with maturities of 5 years or more. However, sluggish demand for longer-dated bonds (5 years and up) has made it difficult for the government to fulfill its issuance target. The Ministry of Finance has proposed the issuance of 1-year, 2-year, and 3-year bonds beginning in November.

National Assembly Approves Government Plan to Sell US$3 Billion Worth of International Bonds

In October, the National Assembly approved the government's plan to raise US$3 billion through the issuance of bonds in order to fund debt maturing in 2015 and 2016. The National Assembly's Committee for Budget and Finance, however, noted that borrowing costs for the offshore issuance should not exceed domestic borrowing costs.

Asia Bond Monitor
November 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.

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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.

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