

**Key Developments in Asian Local Currency Markets**

Last week saw a number of important foreign currency (FCY) bond sales from the Philippines, Indonesia, and the Republic of Korea. The Philippine government sold USD750 million worth of bonds due in January 2020. Indonesia sold JPY35 billion (USD374 million) worth of 10-year samurai bonds. Korea Electric Power Corp (KEPCO) sold USD500 million worth of 5-year bonds. There were also several LCY bond issues from the People's Republic of China (PRC), Malaysia, and Thailand. For the third time in two weeks, the PRC was unable to raise as much as intended at an auction of 182-day bills on 17 July. The Malaysian government sold 10-year Malaysian Government Securities worth MYR4 billion via re-opening. Malaysia's national mortgage corporation, Cagamas Berhad, issued MYR1.135 billion in debt securities comprising conventional medium-term notes and Islamic medium-term notes. Thailand sold 5-year savings bonds worth THB80 billion in two tranches: THB30 billion on 13 July and another THB50 billion on 15 July.

Both the PRC and Singapore reported improved economic growth prospects. The National Bureau of Statistics (NBS) reported that the PRC's GDP expanded 7.9% y-o-y in the second quarter. For the first half of the year, the PRC's economy grew 7.1% y-o-y mainly on the back of strong fixed asset investment growth pushed by record bank lending. Singapore's Ministry of Trade and Industry announced it expects the economy to contract between 4% and 6% in 2009, an upward revision from the contraction of between 6% and 9% forecast in April. Meanwhile, the Malaysian Institute of Economic Research (MIER) revised Malaysia's growth outlook downward further to -4.2% from -2.2%, saying the economy will worsen in the coming months before showing signs of recovery in the fourth quarter.

Indonesia's nonperforming loan (NPL) ratio has steadily risen over the last 5 months. The overall NPL ratio of banking institutions in May was reported at 4.14%, up from 3.59% in January. Meanwhile, the capital adequacy ratio (CAR) of Philippine banks improved over a 3-month period ending in December 2008.

Japan and Thailand left their policy rates unchanged last week. The Bank of Japan (BOJ) maintained the target interest rate at 0.10%, which has been steady since December 2008. The Bank of Thailand also maintained its policy interest rate at 1.25% after stating that its economy is improving and its fiscal stimulus is beginning to have an effect on the real economy.

The BOJ also extended the period for temporary measures, such as outright

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**10-Year Selected LCY Government Security Yields** Close of 17 July 2009  
basis point change from

Markets	Latest Closing	Previous Day*	Previous Week*	1-Jan-09*
US	3.30	-10.04	-19.59	109.03
EU	3.26	-4.00	-8.10	30.90
Japan	1.31	0.40	-2.50	13.10
PRC	3.30	1.00	5.00	54.00
Hong Kong, China	2.44	3.10	-14.50	125.30
India	7.03	3.20	20.30	178.50
Indonesia	10.50	-2.60	-27.80	-138.50
Malaysia	4.29	-1.00	-8.60	107.20
Korea, Rep. of	4.98	-6.00	-6.00	76.00
Philippines	8.05	5.00	5.00	67.50
Singapore	2.43	-5.00	-20.00	38.00
Thailand	3.62	-3.00	-3.90	96.00
Viet Nam	9.85	0.00	2.30	-33.30

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purchases of commercial papers and corporate bonds as well as special funds-supplying operations, to facilitate corporate financing.

Yield movements in Asian markets were mixed last week. Yields fell for most maturities in Hong Kong, China; the Philippines; and Viet Nam. On the other hand, yields for all maturities rose in the Republic of Korea and for most maturities in the PRC, Malaysia, Singapore, and Thailand. In Indonesia, yields fell for 1-year, 6-year, 9-year, 10-year, and 20-year maturities, while rising for all other maturities.

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## Summary Text of News Articles

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### Successful FCY Bond Issuances from the Philippines, Indonesia, and the Republic of Korea

The Philippines successfully issued another US dollar-denominated bond last week, amounting to USD750 million due January 2020. The newly-issued bonds, which were nearly six times oversubscribed, were priced at 99.065 to yield 6.625%—and carried a coupon of 6.5%. This yield resulted in a spread of 332.6 basis points (bps) over the 10-year US Treasury benchmark—compared to the 599.9 bps spread on the USD1.5 billion of 10-year global bonds the government sold earlier this year. The January issuance was expected to be the government's only deal in the international debt market for the year, but the need to finance a larger-than-forecast budget deficit forced a second bond issue. Recent estimates on the government's budget deficit indicate that the deficit could rise as high as PHP250 billion this year versus an earlier forecast of PHP199.2 billion. National Treasurer Roberto Tan said this would be the last global bond offering for the year and that the rest of the government's financing needs should be covered either locally or through the issuance of yen-denominated bonds. Moody's rated the bond issue B1, while S&P and Fitch gave it a BB- and a BB rating, respectively, with a stable outlook for both. Citibank, Credit Suisse, and Deutsche Bank acted as joint lead managers and joint bookrunners for the transaction.

Indonesia sold JPY35 billion (USD374 million) worth of samurai bonds on 17 July through a private placement. The government sold 2.73% of 10-year-bonds at par. The sale will help finance the stimulus spending proposed by President Susilo Bambang Yudhoyono. The Japan Bank for International Cooperation (JBIC) provided a guarantee for issuance of up to USD1.5 billion. However, the Finance Ministry announced mid-week that it has no plans at the present time to issue samurai bonds up to the full USD1.5 billion provided by the guarantee.

Meanwhile, Korea Electric Power Corp (KEPCO), a state-owned electricity company, sold foreign currency (FCY) bonds on 13 July. KEPCO sold USD500 million worth of 5-year bonds. The notes carry a coupon of 5.55% payable semi-annually. The offer was oversubscribed with order book reaching USD3 billion. KEPCO's US dollar-denominated bond issuance was the first FCY issuance since the Financial Services Commission allowed domestic institutional investors to purchase a limited amount of FCY bonds issued by Korean companies. This new rule came into effect on 6 July. KEPCO had been one of Korea's most active issuers of USD denominated bonds before the 1997/1998 Asian financial crisis.

### More LCY Bond Issuances from Malaysia and Thailand

On 15 July, the Malaysian government sold 10-year Malaysian Government Securities worth MYR4 billion. Investors submitted bids for 1.67 times the amount of debt on offer, down from an average of 1.81 times in the 10 previous auctions of various maturities this year. On 17 July, Cagamas Berhad, the national mortgage corporation, issued MYR1.135 billion in debt securities. The issuance comprises both conventional and Islamic medium-term notes amounting to a nominal value of MYR645 million and MYR490 million, respectively.

Also, the Government of Thailand issued savings bonds last week worth THB80 billion in two tranches to finance its projects aimed at stimulating the Thai economy. In the first auction held on 13 July, THB30 billion of government savings bonds were immediately sold out, according to Finance Minister Korn Chatikavanij, and THB15 billion worth of bonds were purchased within minutes, leading the Ministry of Finance to double the size of the bond auction. Thai retirees were the targeted buyers of these savings bonds with a minimum subscription of THB10,000 and maximum of THB1 million. These savings bonds have a maturity of 5 years with a yield of 3.0% in the first 2 years, 4.0% in the third year, and 5.0% in the last 2 years. In the second tranche held on 15 July, the Thai government, with the support of seven local commercial banks, sold THB50 billion of savings bonds to the general public. According to Chakkrit Parapuntakul, Deputy Director General of the Public Debt Management Office, 110,000 investors bought the savings bonds that were issued on 15 July. Mr. Chakkrit added that new government bonds could be introduced in the next month to cater to those who were not able to purchase the savings bonds.

### PRC's Economic Growth Accelerates to 7.9% in 2Q2009; Singapore Revises 2009 Growth Forecast as Contraction Moderates

On 16 July, the National Bureau of Statistics (NBS) reported that the People's Republic of China's (PRC) GDP expanded 7.9% y-o-y in the second quarter. PRC's first quarter GDP growth was 6.1% y-o-y, which was the lowest growth rate in a decade. For the first half of 2009, the PRC's economy grew 7.1% y-o-y to CNY13.99 trillion (USD2.06 trillion), mainly on the back of strong fixed asset investment growth, which was pushed forward by record bank lending. Over this period, consumption and investment accounted for 3.8 and 6.2 percentage points of the growth figure, respectively. A falling trade surplus weighed down growth by 2.9 percentage points. The NBS said that economic growth during the first half of 2009 had laid the foundation for reaching the country's annual growth target of 8.0%, although it cautioned that the recovery was not yet on firm footing.

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 Summary Text of News Articles
 

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### **PRC's Economic Growth Accelerates to 7.9% in 2Q2009; Singapore Revises 2009 Growth Forecast as Contraction Moderates (conti...)**

Along with the PRC's GDP data, NBS also released a number of economic indicators last week. Urban fixed asset investment rose 33.6% y-o-y in the first half of 2009, its highest growth rate in 5 years. Industrial production in June grew 10.7% y-o-y, which was the highest rate of growth in 9 months. First half retail sales increased by 16.6% y-o-y. The country's consumer price inflation declined to -1.7% y-o-y in June, its lowest level since 1999. The producer price index, an indicator of inflation on the wholesale level, fell 7.8% y-o-y for its largest decline in 10 years.

On 14 July, Singapore's Ministry of Trade and Industry announced that it expects the country's GDP to contract between 4% and 6% for the whole of 2009, an upward revision from the contraction of between 6% and 9% forecast in April. The revised forecast was due to an upward revision to the y-o-y first quarter GDP growth rate—to -9.6% from -10.10%—and a spike in biomedical manufacturing output leading to improved second quarter performance, although the ministry still has a subdued outlook for the rest of the year. Advanced GDP estimates for the second quarter indicate a moderation in the rate of economic contraction, which stood at -3.7% y-o-y. On a quarterly basis, real GDP rose 20.4% in the second quarter following a 12.7% contraction in the first quarter.

### **MIER Revises Malaysia's Growth Outlook to -4.2%**

The Malaysian Institute of Economic Research (MIER) revised Malaysia's growth outlook further to -4.2% from -2.2%, saying the economy will worsen in the coming months before showing signs of recovery in the fourth quarter of 2009. MIER said that Malaysia may need an additional MYR8 billion stimulus package to boost spending, which would push Malaysia's fiscal deficit to more than 8% of GDP. MIER Executive Director Professor Datuk Mohamed Arriff Abdul Kareem said the impact from the MYR67 billion in the government's two previous stimulus packages will not be felt until the end of the year.

### **PRC Debt Auction Demand Falls Short For Third Time in 2 Weeks; PBOC Sells Bills at Highest Yields This Year**

For the third time in two weeks, the PRC was unable to raise as much as intended at an auction of 182-day bills on 17 July. Of the CNY20 billion on offer, the Ministry of Finance (MOF) sold CNY18.51 billion. The average yield was 1.6%. The MOF last sold bills of about the same tenor in late June, when they yielded 0.85%.

Yields on similar-maturity bills have risen 45 bps this month on concern that economic stimulus spending—driven by the massive expansion of credit in the first half of the year—will result in property and stock market bubbles.

Some indications of monetary tightening are provided by the rise of short-term yields in the People's Bank of China's (PBOC) 16 July auction, and by the rise in the 7-day repurchase rate, which is an indicator of interbank liquidity. On 16 July, the PBOC sold 3-month bills and 1-year bills to 1.167% and 1.595%, respectively, their highest yields this year. The 7-day repurchase rate for the same day rose to 1.52%, which is also the highest rate this year.

### **Philippines' Overseas Remittances Climbs by 3.7% in May**

Overseas Filipino remittances showed resilience despite the global economic slowdown, rising by 3.7% in May y-o-y to reach USD1.48 billion. Bangko Sentral ng Pilipinas (BSP) said that cumulative remittances for the first 5 months of year grew by 2.8% y-o-y to USD6.98 billion, which can be attributed to steady demand for Filipino workers abroad and expanded access of overseas Filipinos and their beneficiaries to a wide range of financial products and services offered by Philippine banks and other financial institutions.

### **Indonesia's Nonperforming Loans Rise in May; Philippine's end-December 2008 Capital Adequacy Ratio Improves**

Indonesia's non performing loan (NPL) ratio has steadily risen in the last 5 months. The overall NPL ratio of banking institutions in May was 4.14%, rising from 3.59% in January. Soaring NPLs—higher than 5%—were reported for state and overseas banks. In nominal terms, NPLs for state and overseas banks totaled IDR54.08 trillion in May, up 16.8% from IDR46.29 trillion early this year.

Meanwhile, Philippine banks' capital adequacy ratio (CAR) improved over the 3-month period ending in December 2008. Bangko Sentral ng Pilipinas (BSP) reported that the CAR on a consolidated basis stood at 15.49% compared to 15.45% in September 2008 and 15.70% a year earlier.

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**Bank of Japan Extends Credit-Easing Programs**

On 15 July, the Bank of Japan (BOJ) extended the period for temporary measures, such as outright purchases of commercial paper and corporate bonds as well as special funds-supplying operations, to facilitate corporate financing. The details of these measures include the following:

- outright purchases of commercial paper (extended to 31 December 2009 from 30 September 2009);
- outright purchases of corporate bonds (extended to 31 December 2009 from 30 September 2009);
- special funds-supplying operations to facilitate corporate financing (extended to 31 December 2009 from 30 September 2009);
- expansion in the range of corporate debt eligible as collateral (extended to 31 March 2010 from 31 December 2009);
- expansion in the range of asset backed commercial paper eligible as collateral (extended to 31 March 2010 from 31 December 2009);
- complementary deposit facility (extended to 15 January 2010 from 15 October 2009); and,
- US dollar funds-supplying operations (extended to 1 February 2010 from 30 October 2009).

### Selected Government Security Yields

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

#### 3-Month Selected LCY Government Security Yields

Markets	Latest Closing	basis point change from		
		Previous Day*	Previous Week*	1-Jan-09*
US	0.16	-0.30	-0.51	9.13
EU	0.33	-4.30	-8.50	-132.70
Japan	0.16	0.30	0.80	-4.00
PRC	1.21	5.00	24.00	29.00
Hong Kong, China	0.04	0.00	3.00	-1.00
India	3.17	-3.00	0.00	-133.00
Malaysia	2.00	0.00	1.10	-93.00
Korea, Rep. of	2.05	3.00	17.00	-60.00
Philippines	4.50	43.47	20.00	-112.50
Singapore	0.23	0.00	-1.00	-34.00
Thailand	1.14	0.90	0.23	-94.89

Close of 17 July 2009

#### 10-Year Selected LCY Government Bond Yields

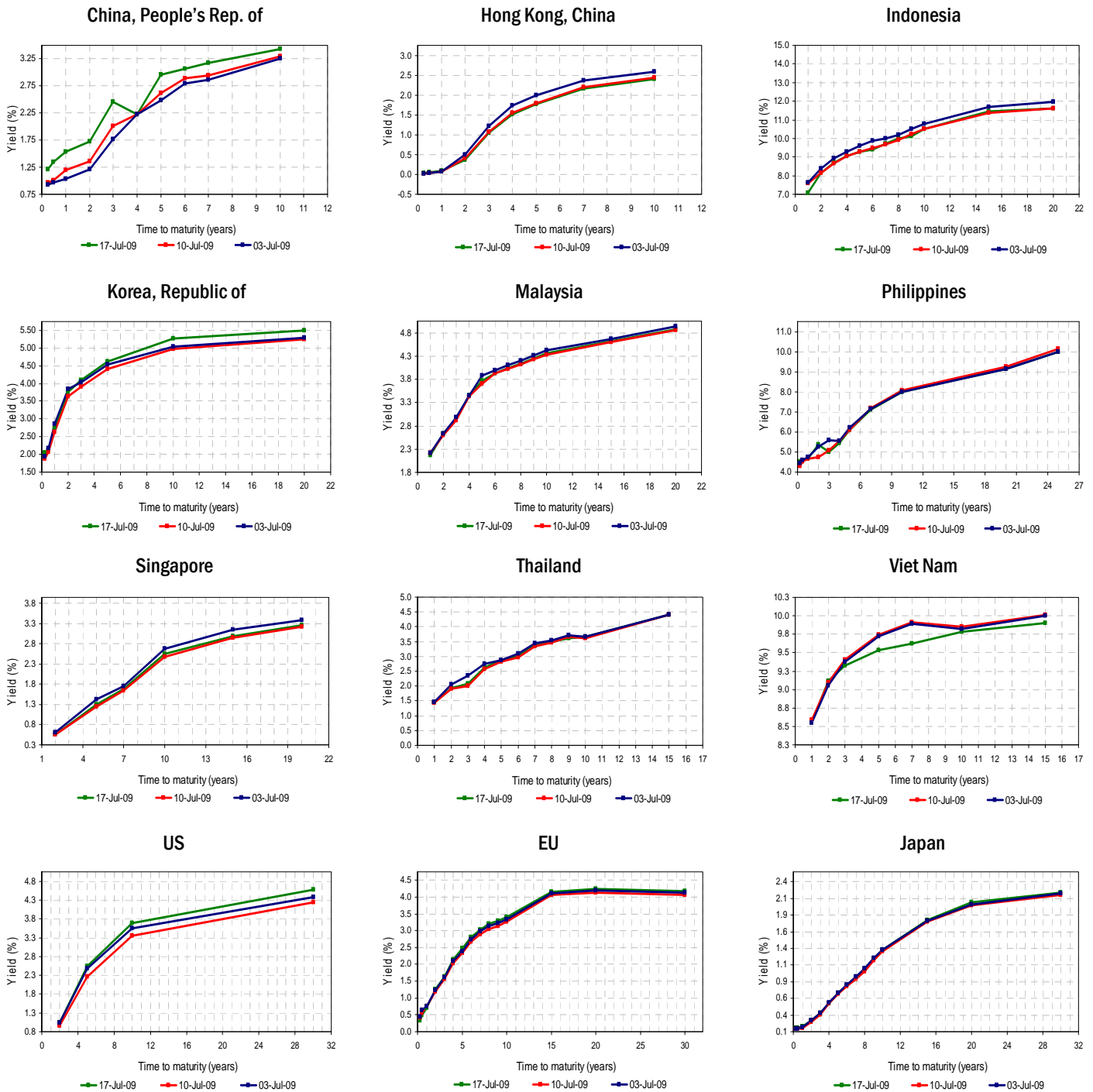
Markets	Latest Closing	basis point change from		
		Previous Day*	Previous Week*	1-Jan-09*
US	3.64	7.44	34.07	143.10
EU	3.40	8.40	14.10	45.00
Japan	1.33	-1.90	2.00	15.10
PRC	3.43	4.00	13.00	67.00
Hong Kong, China	2.39	-5.80	-5.00	120.30
India	6.98	-3.10	-4.60	173.90
Indonesia	10.50	8.90	-0.40	-138.90
Malaysia	4.30	-2.20	1.80	108.60
Korea, Rep. of	5.26	10.00	28.00	104.00
Philippines	8.00	11.11	-5.00	62.50
Singapore	2.51	-2.00	8.00	46.00
Thailand	3.66	0.30	4.10	100.10
Viet Nam	9.79	-13.90	-6.40	-39.70

Close of 17 July 2009

Source: Based on data from Bloomberg, LP.

Benchmark Yield Curves – Local Currency Government Bonds

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

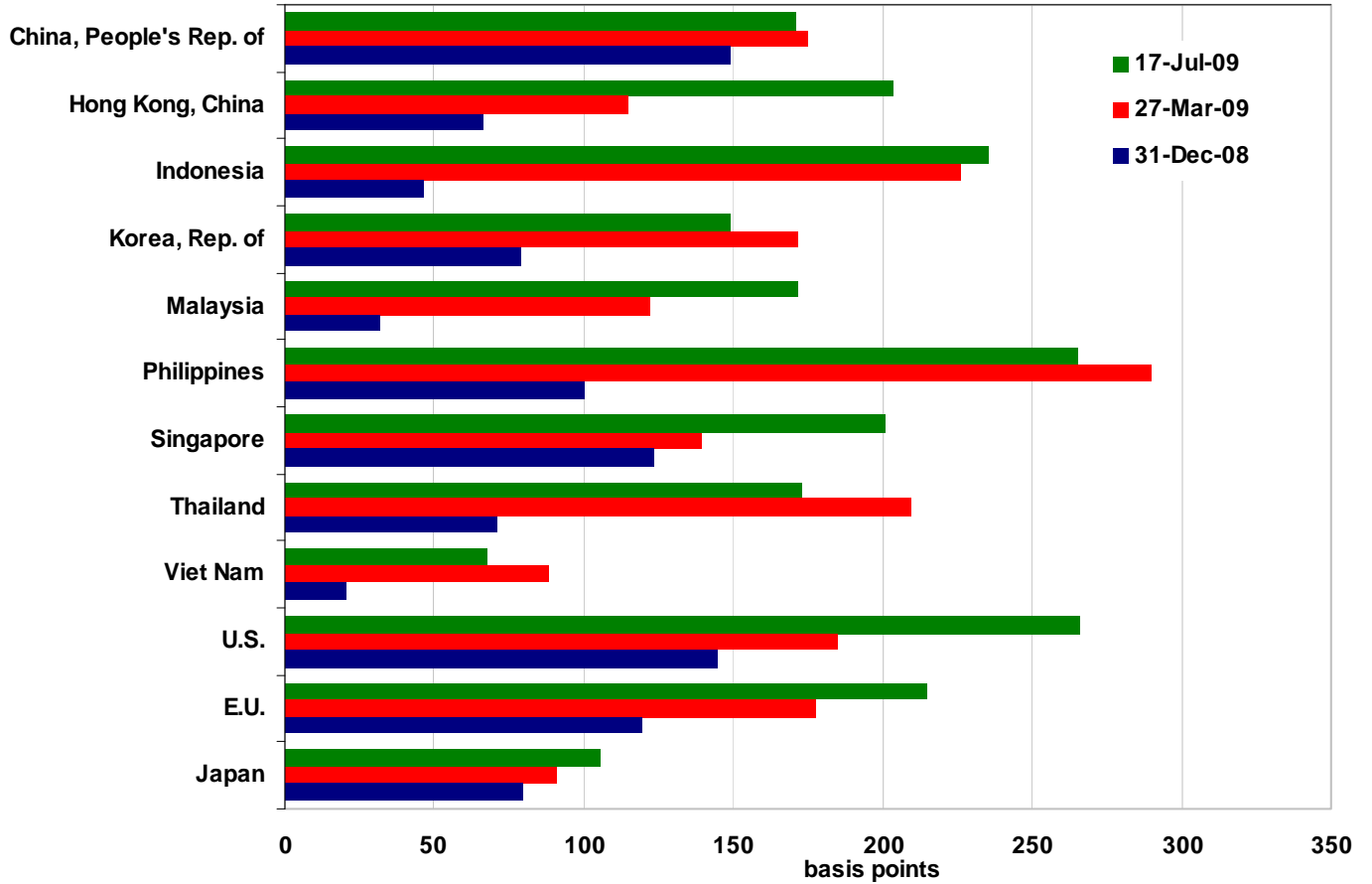


Source: Based on data from Bloomberg.

**2-versus-10 Yield Spread Chart**

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

**Yield Spread Between the Two- and Ten-Year Government Bonds**

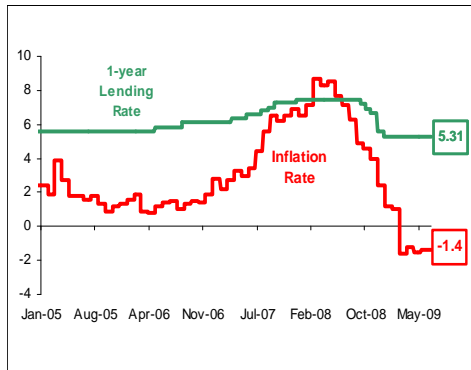


Source: Based on data from Bloomberg.

**Policy Rate versus Inflation Rate Charts**

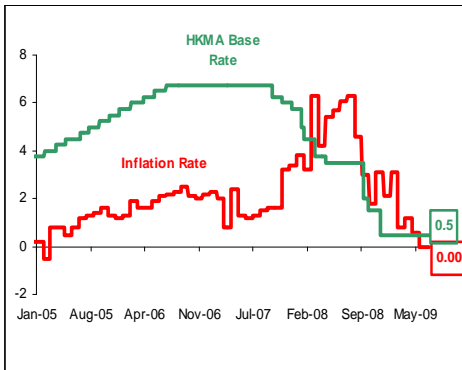
Tip: Zoom-in on the table using the Acrobat zoom tool

**China, People's Rep. of**



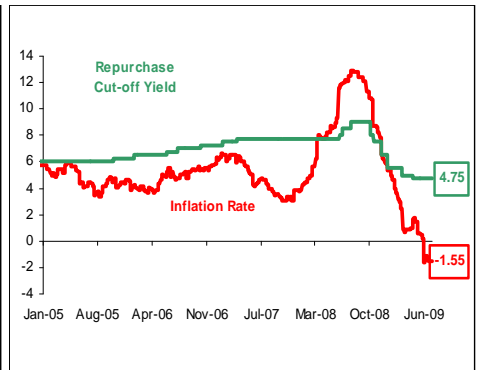
PRC uses 1-year lending rate as one of its policy rates. Source: Bloomberg, LP.

**Hong Kong, China**



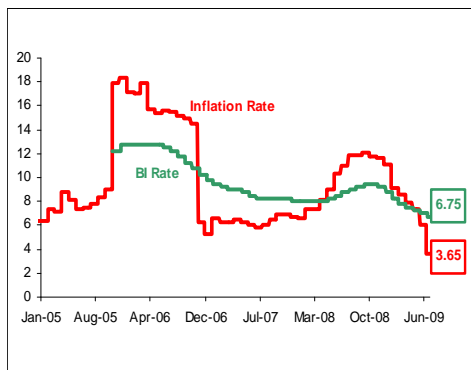
The Hong Kong Monetary Authority maintains a Discount Window Base Rate. Source: Bloomberg, LP.

**India**



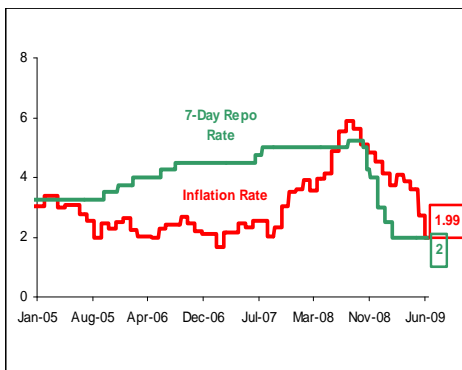
The Reserve Bank of India uses the repurchase (repo) cut-off yield as its policy rate. Source: Bloomberg, LP.

**Indonesia**



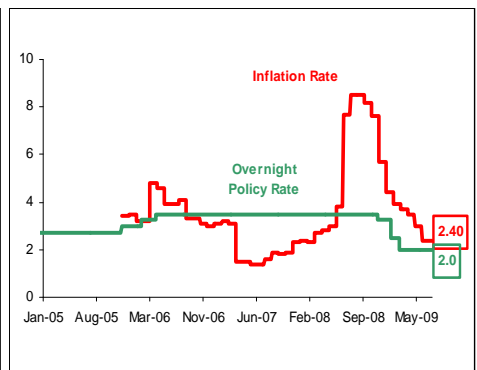
Bank Indonesia uses its reference interest rate (BI rate) as its policy rate. Source: Bloomberg, LP.

**Korea, Republic of**



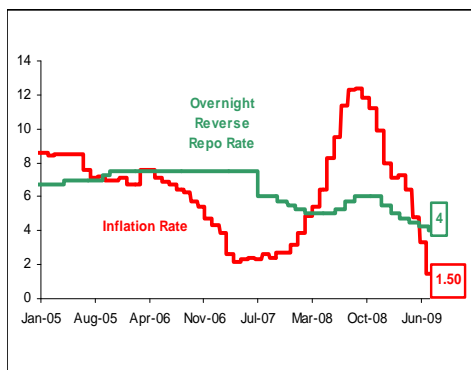
The Bank of Korea shifted its policy rate from the overnight repurchase (repo) rate to the 7-day repo rate in March 2008. Source: Bloomberg, LP.

**Malaysia**



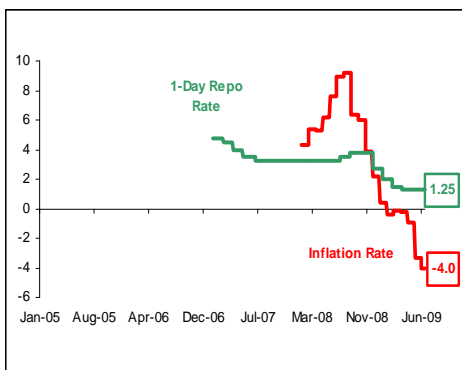
Bank Negara Malaysia uses the overnight policy rate (OPR) as its policy rate. Source: Bloomberg, LP.

**Philippines**



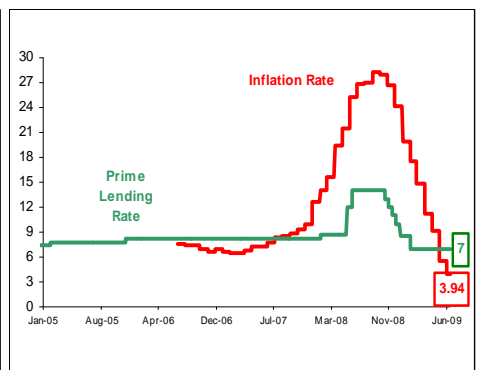
Bangko Sentral uses the Philippine overnight reverse repurchase agreement rate as one of its policy instruments. Source: Bloomberg, LP.

**Thailand**



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

**Viet Nam**



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







