

Global Crisis and Asian Capital Markets

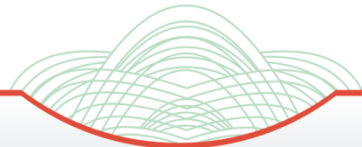
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Senior Economist
OREI, ADB**

February 2010



Outline

- Developments and impact on regional bond markets
- Fluctuating fortunes of regional equity markets
- Market integration Issues

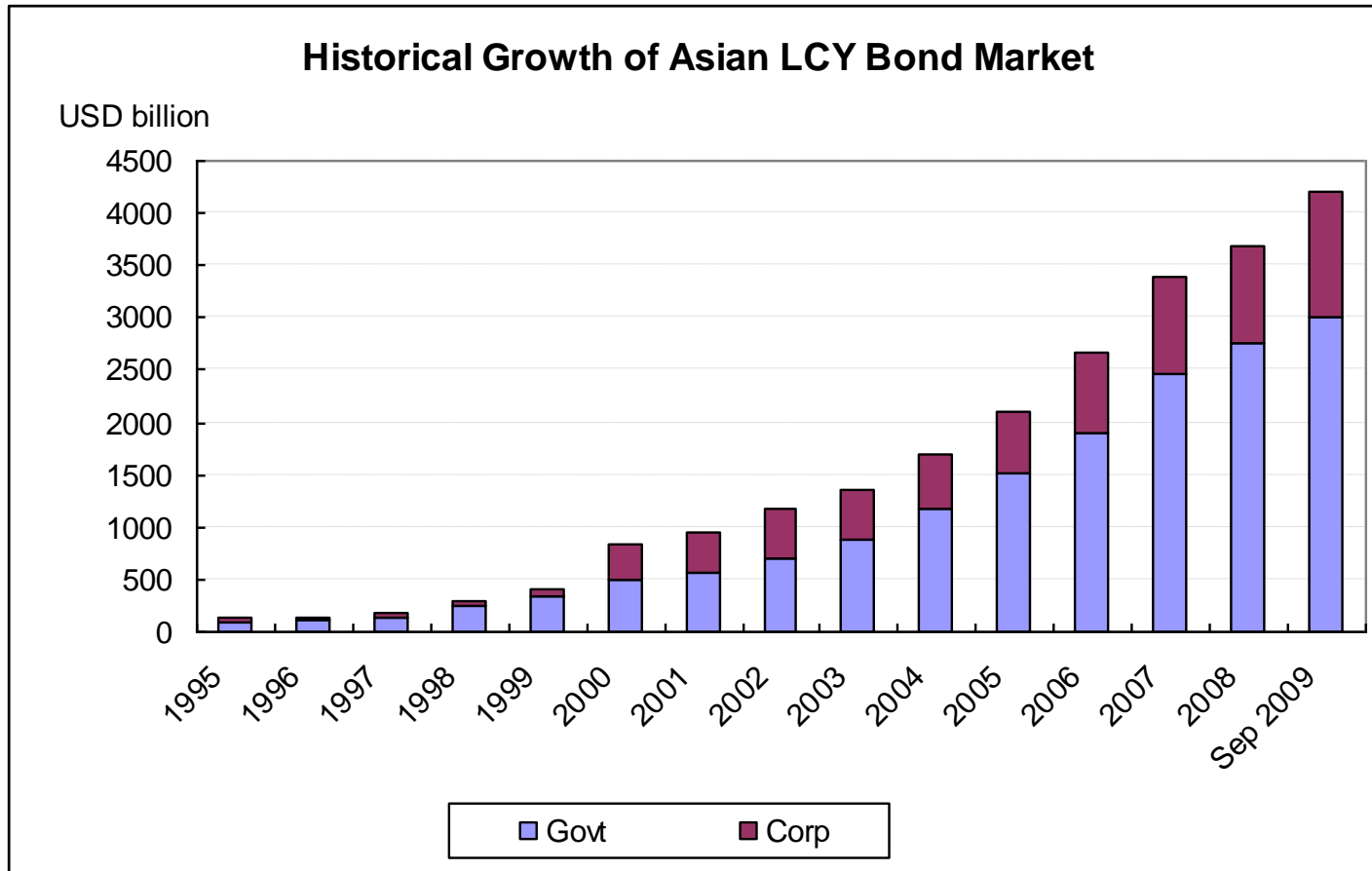


Bonds Outstanding in Major Markets

	1Q09		4Q96	
	LCY Bonds Outstanding (USD Bln)	% of World Total	LCY Bonds Outstanding (USD Bln)	% of World Total
United States	24,962	42.3	10,926	42.8
Japan	10,289	17.4	4,456	17.4
France	2,824	4.8	1,303	5.1
Germany	2,570	4.4	1,888	7.4
UK	1,268	2.1	678	2.7
Emerging East Asia	3,658	6.2	537	2.1
of which: PRC	2,192	3.7	62	0.2
Emerging East Asia excl. PRC	1,466	2.5	475	1.9
of which: Korea, Rep. of	796	1.3	283	1.1
of which: ASEAN-6	568	1.0	158	0.6
Indonesia	73	0.1	7	0.0
Malaysia	160	0.3	81	0.3
Philippines	56	0.1	28	0.1
Singapore	120	0.2	25	0.1
Thailand	147	0.2	18	0.1
Viet Nam	12	0.0	—	—
Memo Items:				
Brazil	893	1.5	299	1.2
India	450	0.8	81	0.3
Russia	33	0.1	43	0.2

Source: Asia Bond Monitor.

Historical Growth of Emerging East Asia LCY Bond Market

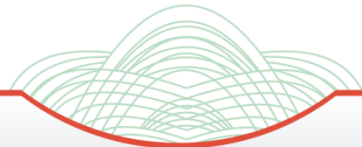


Source: AsianBondsOnline.



Key Developments in 2009

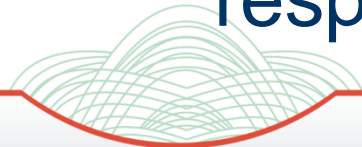
- LCY bonds outstanding reached USD4.2 trillion at the end of 3Q09
- Strong growth of 14.8% y-o-y versus 13% in 2Q09. Q-o-Q growth was 4.3% in 3Q09 against 2.7% in 3Q08
- Government bonds grew 9.5% y-o-y, corporate bonds 30.3%





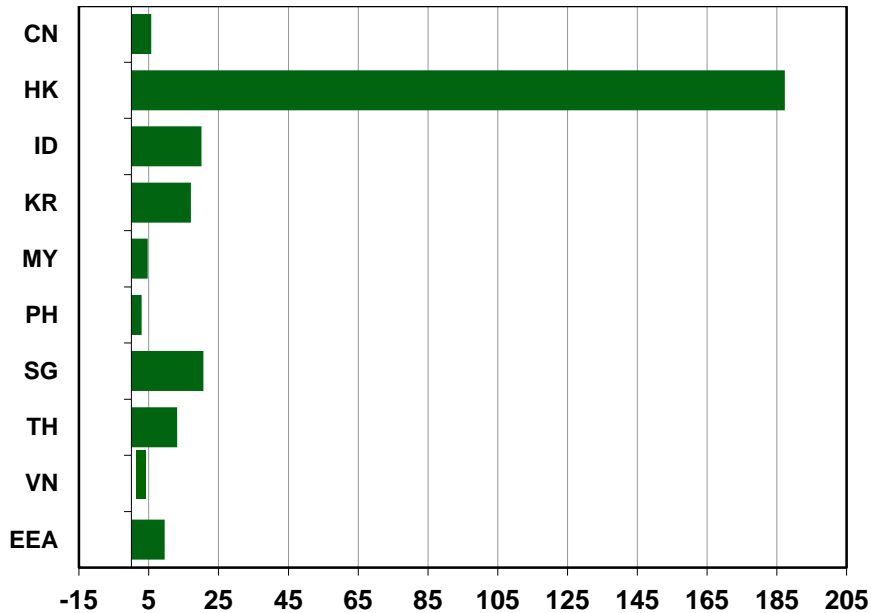
Broad-based Growth

- Growth in markets ex-PRC was 16.0% y-o-y in 3Q09
- Hong Kong, China; Indonesia; Singapore; Republic of Korea; and Thailand registered strong growth
- Government and corporate bonds (ex PRC) grew 18.4% and 13.2%, respectively

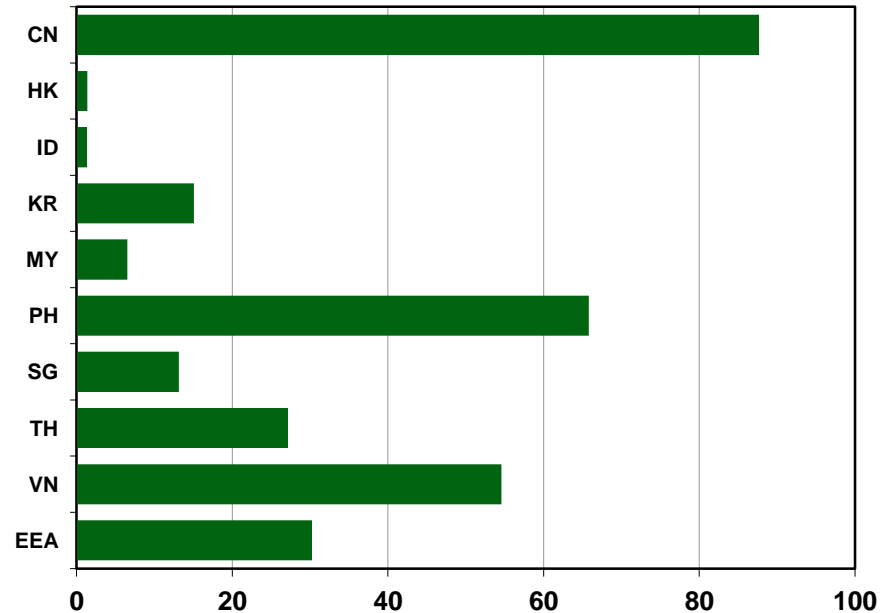


Growth of Emerging East Asian Bonds Outstanding

Growth of Emerging East Asian LCY Government Bond Markets in 3Q09 (y-o-y %)



Growth of Emerging East Asian LCY Corporate Bond Markets in 3Q09 (y-o-y %)

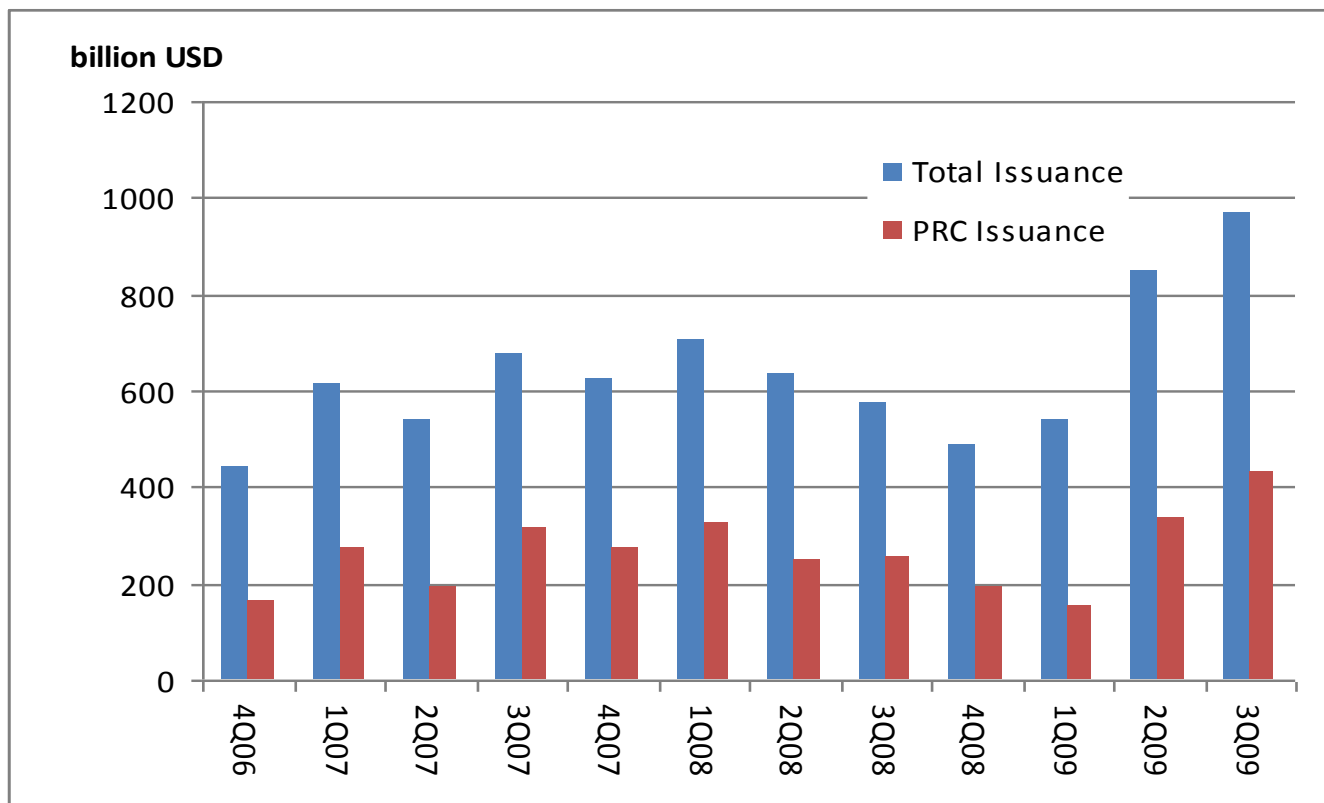


Note:

1. Calculated using data from national sources.
2. Growth rates are calculated from local currency (LCY) base and do not include currency effects.
3. Total emerging East Asia growth figure is based on end-June 2009 currency exchange rates and do not include currency effects.

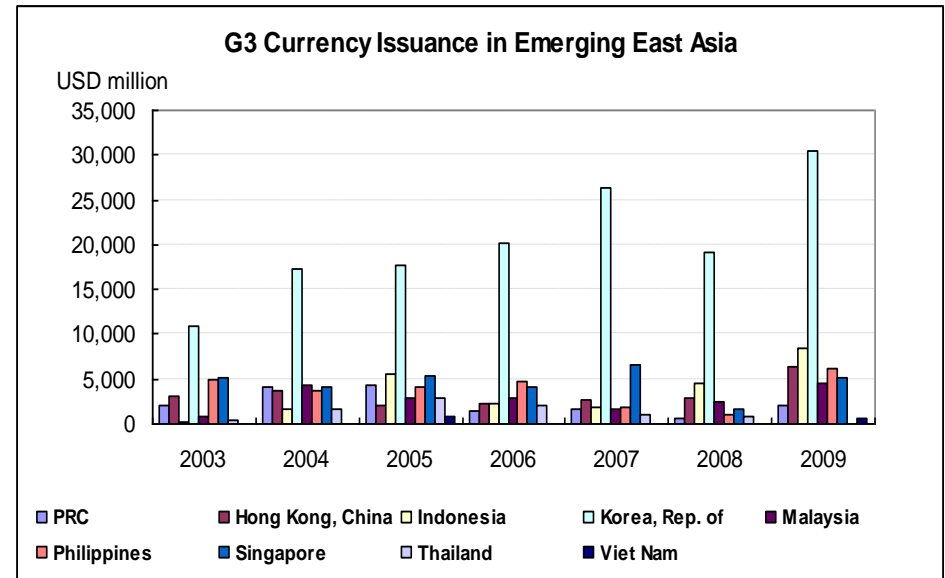
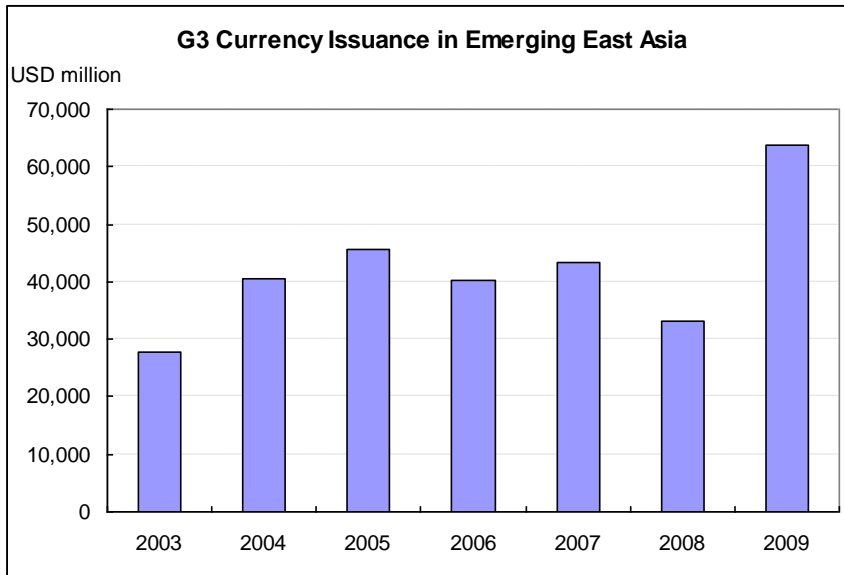
Source: Asia Bond Monitor.

Issuance Volume



Source: *AsianBondsOnline*.

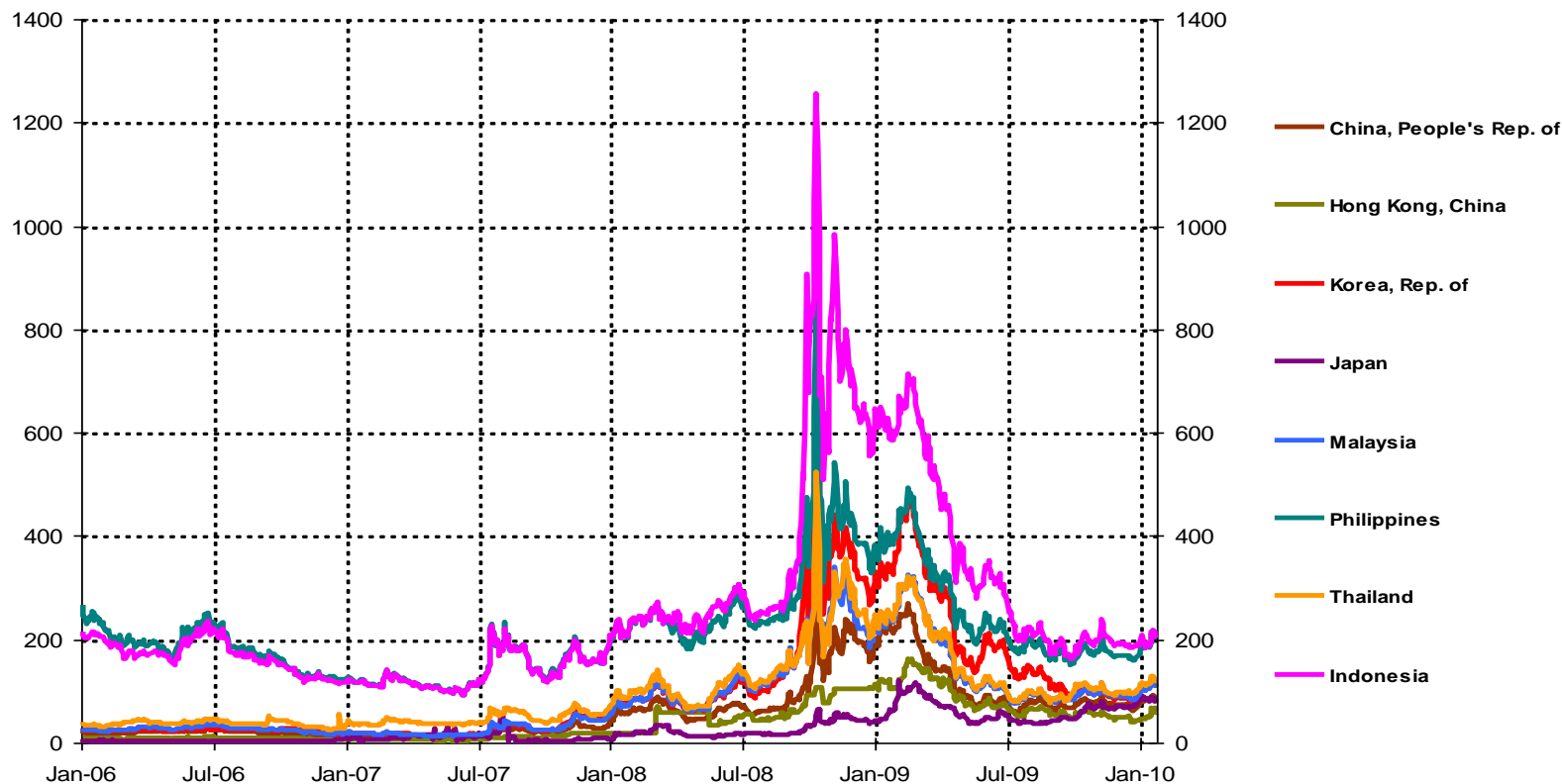
G3 Currency Issuance



Source: Bloomberg LP.

Credit Default Swap Spreads – Senior 5 year

Mid-spread in
basis points

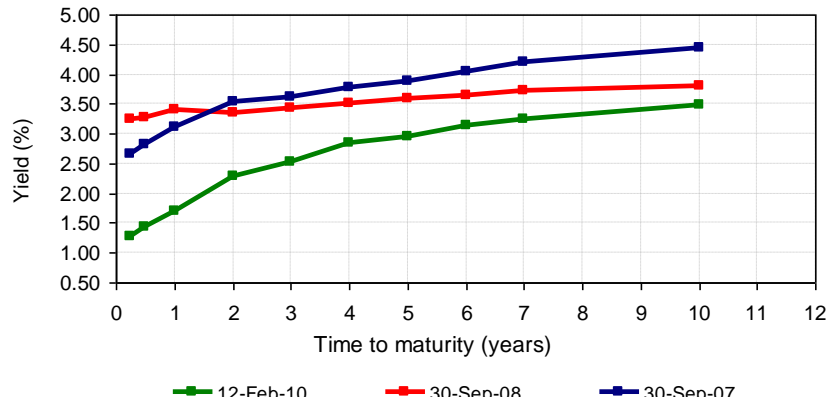


Note: In USD currency and based on sovereign bonds.

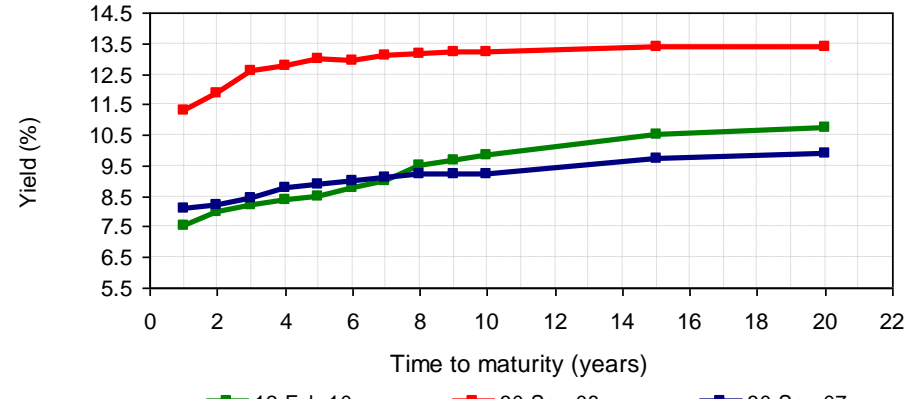
Source: Thomson DataStream.

Government Bond Yields

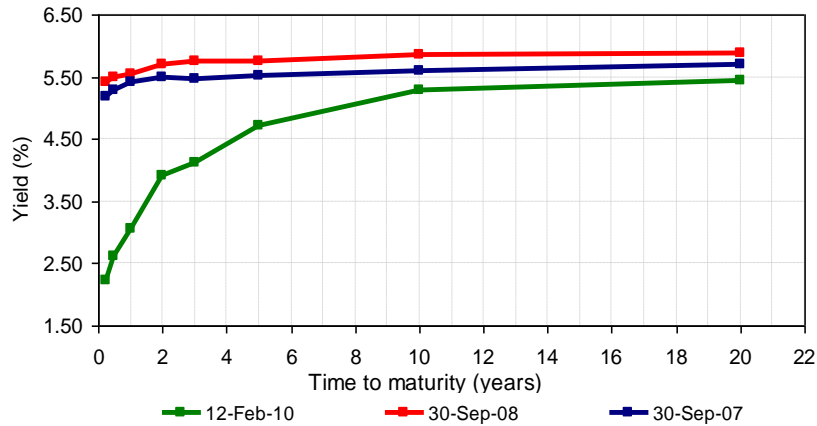
China, People's Rep. of



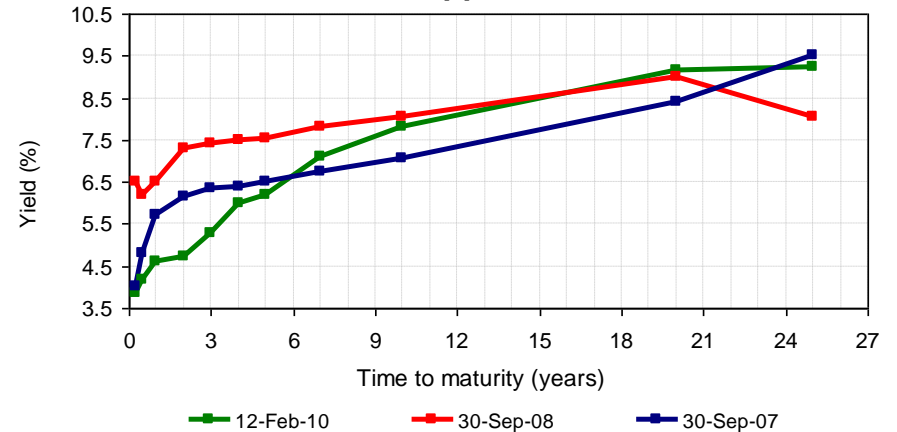
Indonesia



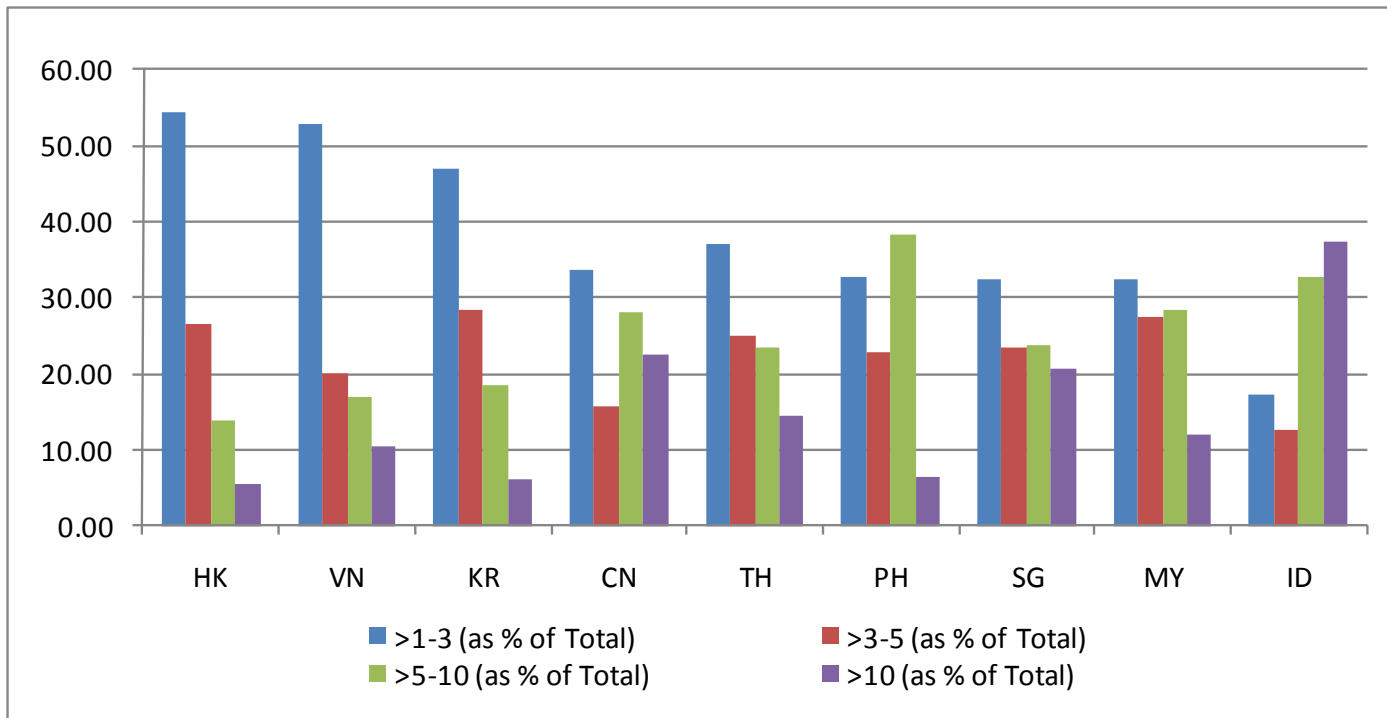
Korea, Rep. of



Philippines



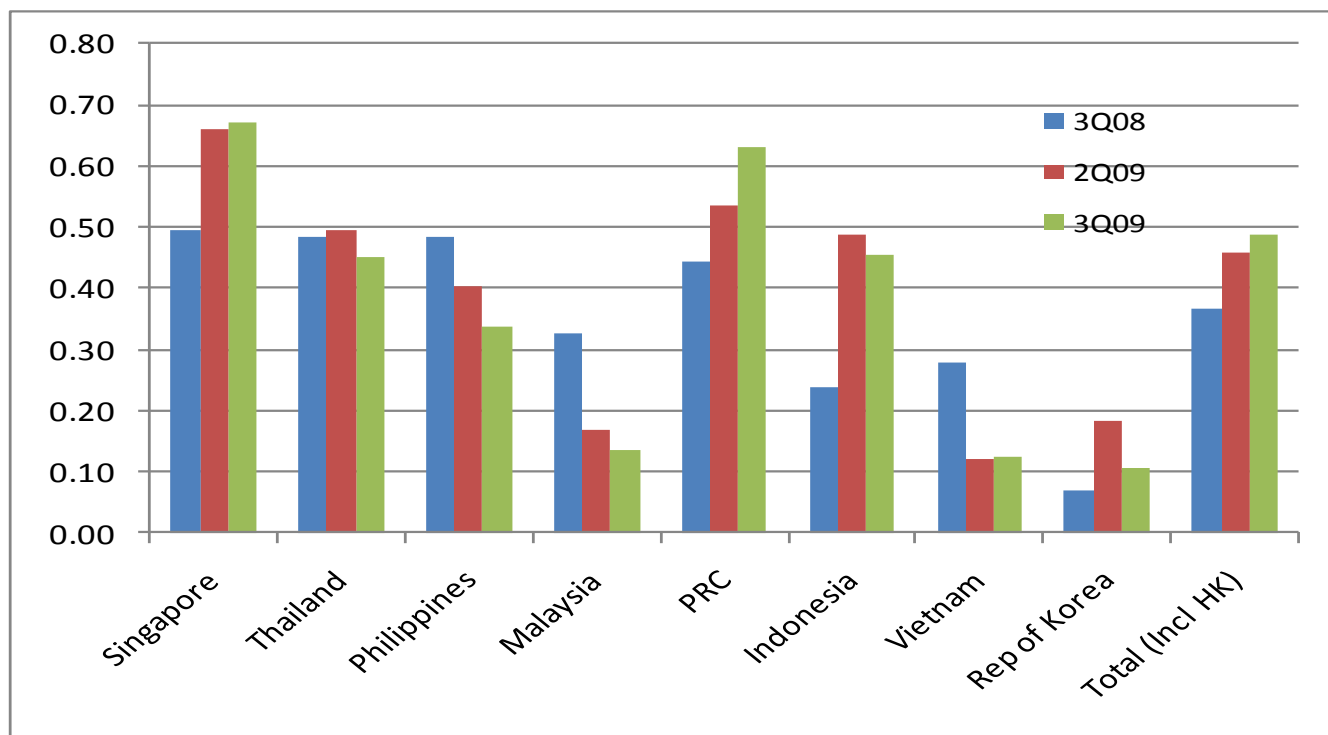
Maturity Profile (Individual Maturities as % of Total)



Note: Data is as of 3Q09 except for Philippines as of end-August.

Source: *AsianBondsOnline*.

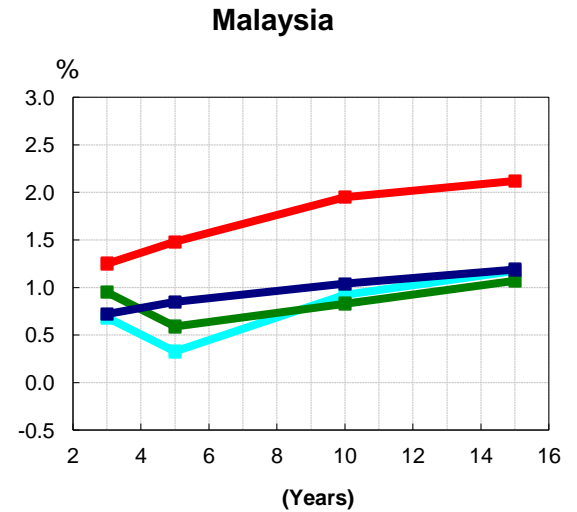
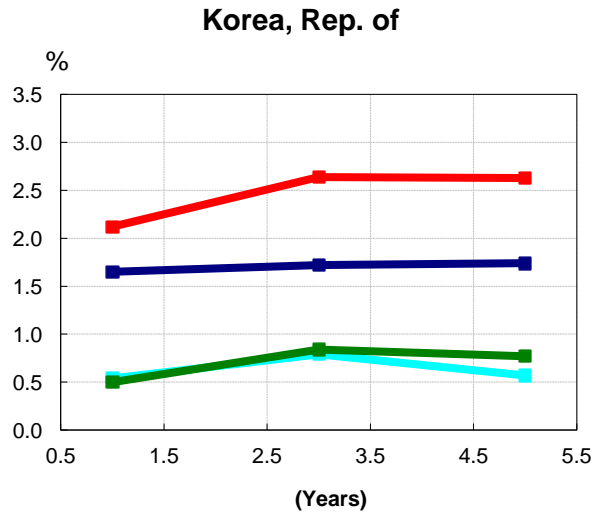
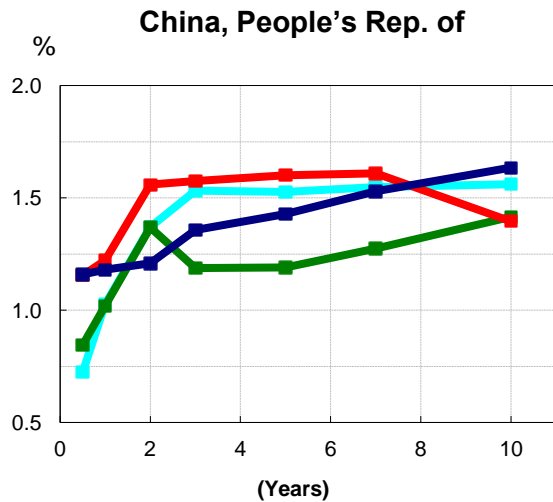
Total Bills to Bonds Ratio



Note: Total bills comprise central bank bills plus treasury bills. Bonds comprise long-term bonds (more than 1 year in maturity) issued by central governments and central banks.

Source: Asia Bond Monitor.

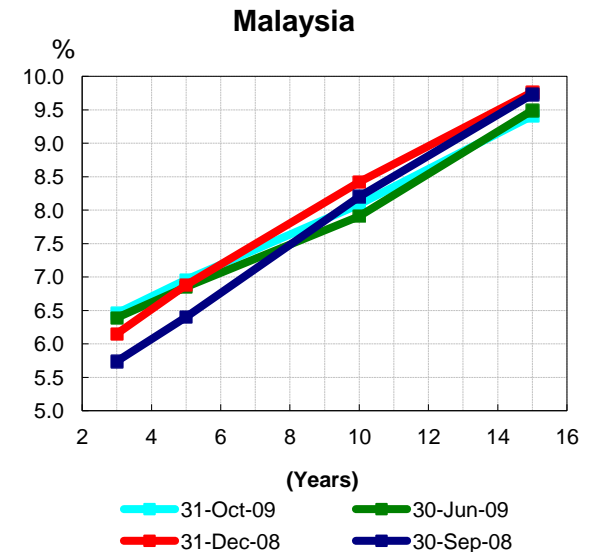
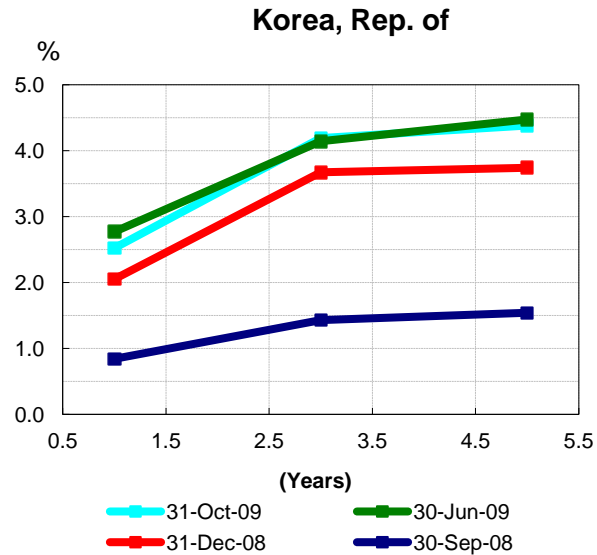
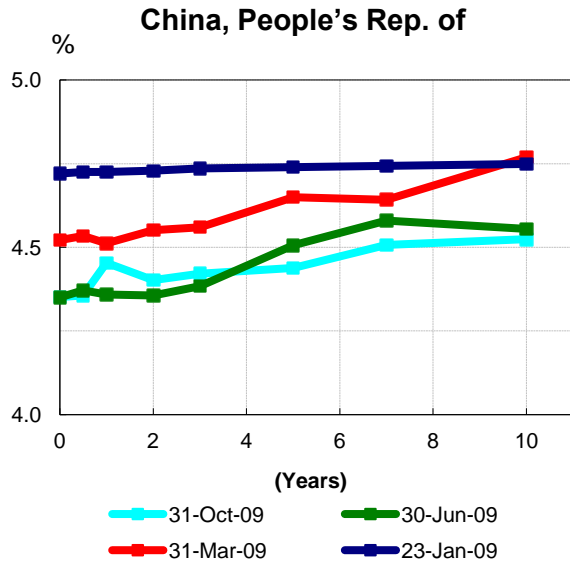
Credit Spreads – LCY Corporate Rated AAA vs Govt. Bonds



Note: Credit spreads are obtained by subtracting the government yields from corporate indicative yields.

Source: Asia Bond Monitor.

Credit Spreads - LCY Corp Rated BBB vs AAA

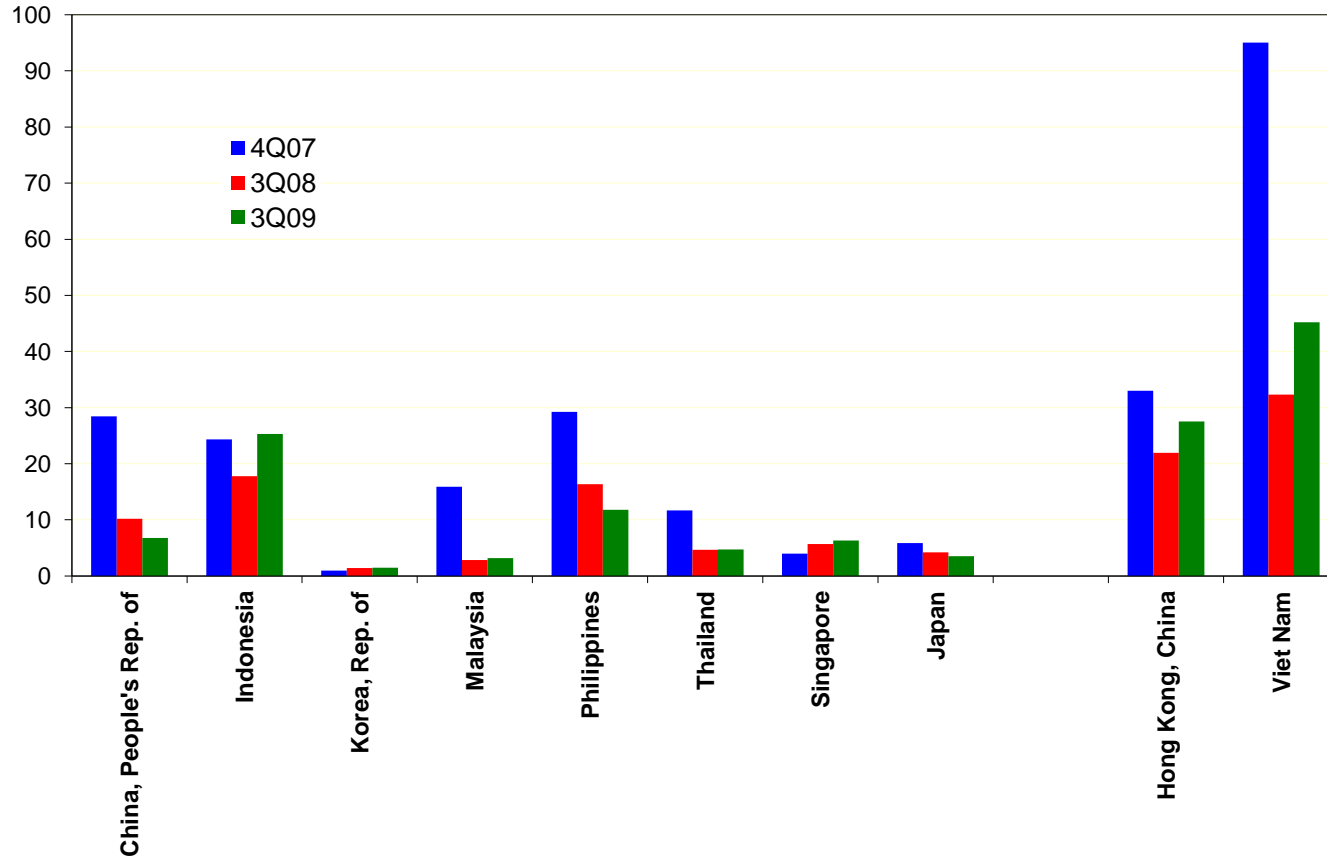


Note:

1. For the People's Republic of China, credit spreads are obtained by subtracting the corporate indicative yields rated as AAA from corporate indicative yields rated as BBB+.
2. For Malaysia, credit spreads are obtained by subtracting the corporate indicative yields rated as AAA from corporate indicative yields rated as BBB.
3. For the Republic of Korea, credit spreads are obtained by subtracting the corporate indicative yields rated as AAA from corporate indicative yields rated as BBB+.

Source: Asia Bond Monitor.

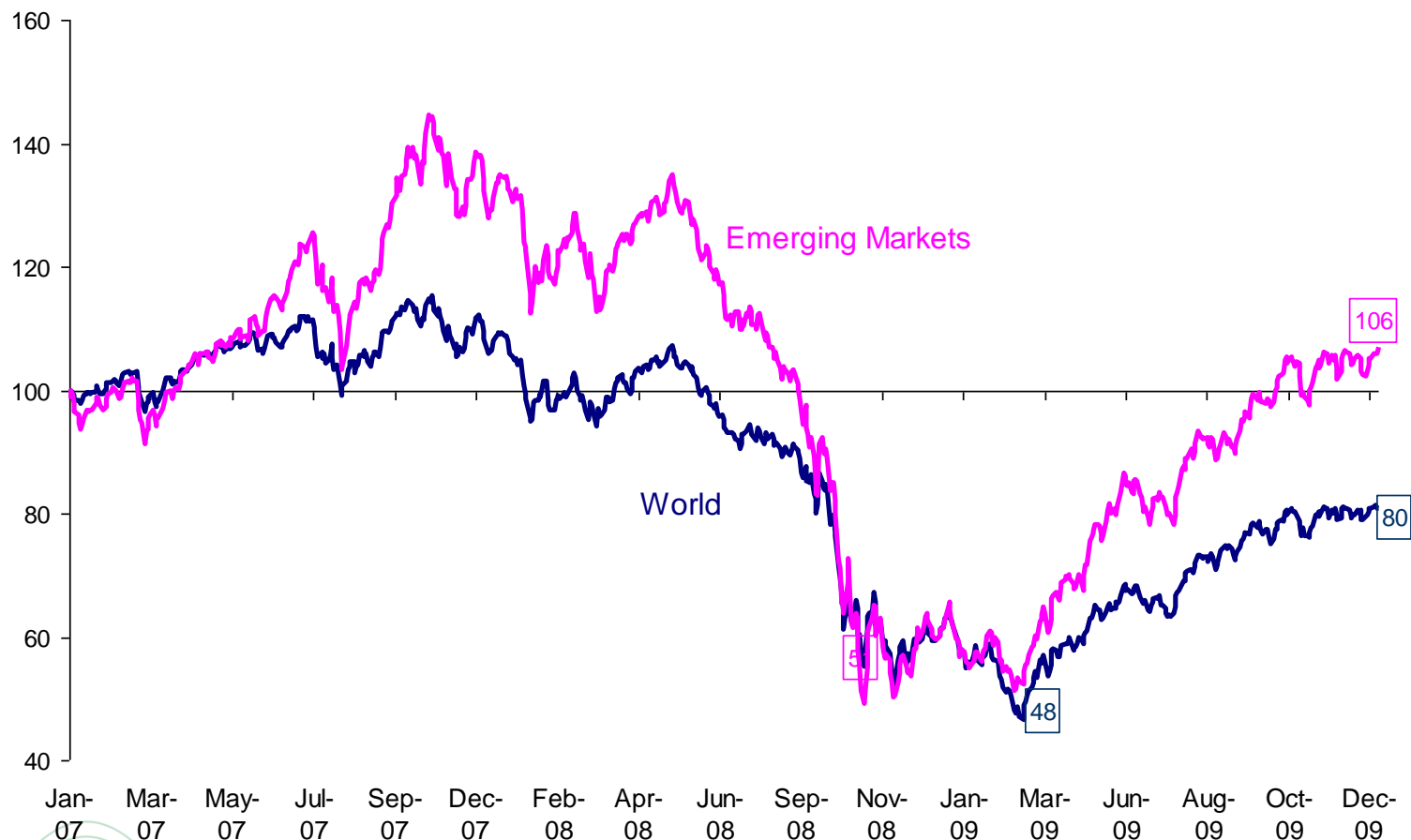
Ratio of Equity Market Capitalization to Corporate Bonds Outstanding



Source: Asia Bond Monitor.

MSCI Indexes – Emerging Asia

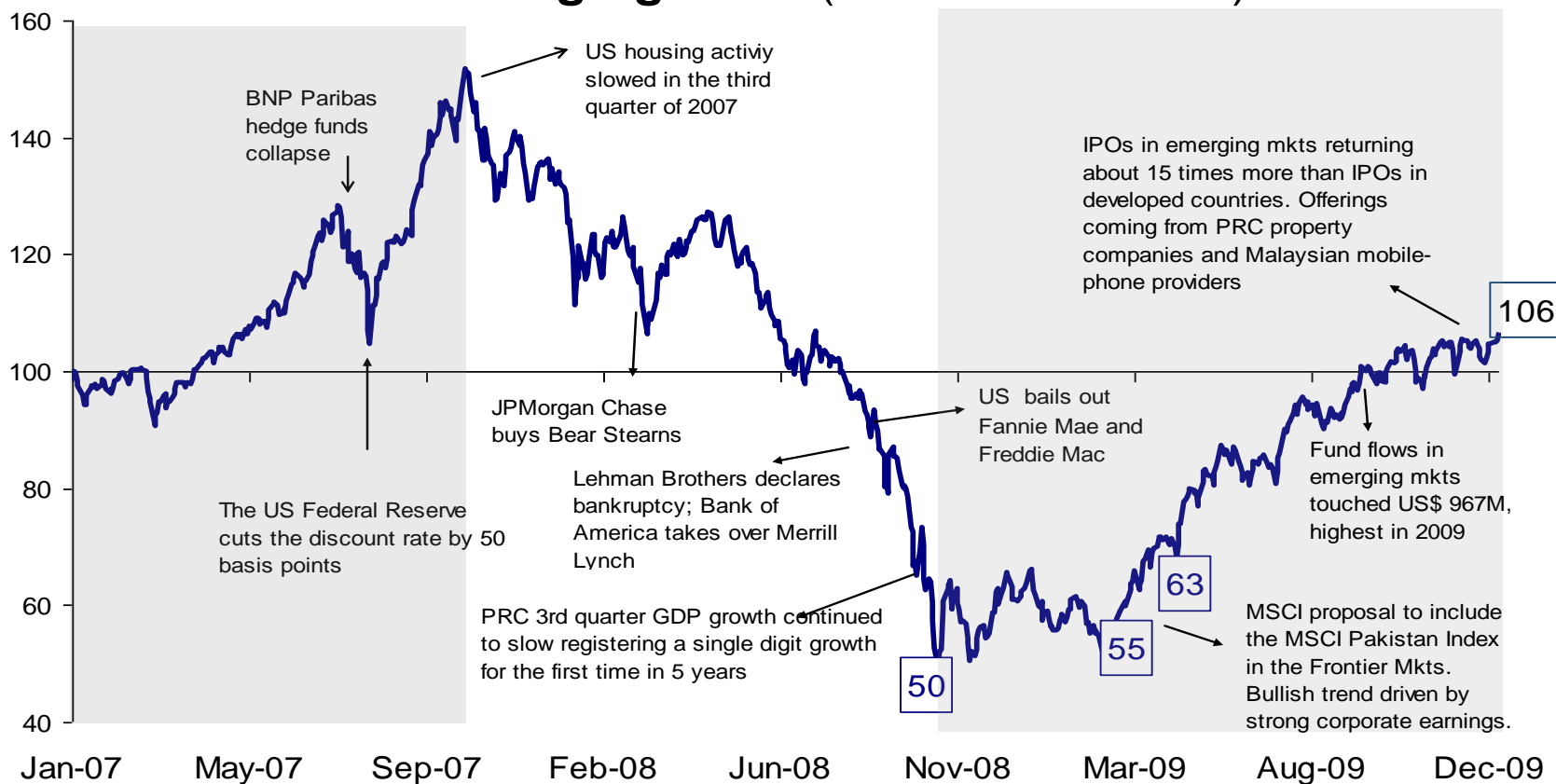
MSCI Indexes (2 Jan 2007 = 100)



Source: Morgan Stanley Capital International (MSCI) Barra.

MSCI Indexes – Emerging Asia

MSCI Indexes—Emerging Asia¹ (2 Jan 2007 = 100)



¹Includes China, People's Rep. of; India; Indonesia; Korea, Rep. of; Malaysia; Philippines; Taipei,China; and Thailand.

²PRC=People's Republic of China.

³GDP = Gross domestic product.

Source: Morgan Stanley Capital International (MSCI) Barra.

Market Capitalization

	2009		2008		2007		Peak	Trough	2004-2007 Growth Rate
	USD billion	% of GDP	USD billion	% of GDP	USD billion	% of GDP			(Annual Average)
Emerging Asia	9701.1	110.6	5299.1	65.3	12099.6	163.2	163.2 (Dec 07)	55.1 (Feb 09)	48.0 ¹
China, People's Rep. of	3302.9	69.4	1775.6	40.4	4459.5	127.8	127.8 (Dec 07)	16.5 (Jan 06)	112.9
Hong Kong, China	2305.0	1103.7	1328.9	613.6	2653.6	1281.3	1429.2 (Oct 07)	277.6 (Mar 03)	40.1
India	1301.2	104.7	637.3	58.1	1815.0	166.0	166.1 (Dec 07)	35.2 (Jun 04)	62.8
Indonesia	212.1	41.2	95.9	21.8	204.8	48.5	48.5 (Dec 07)	14.9 (Feb 09)	40.9
Korea, Rep. of	822.1	102.7	484.0	69.5	1103.3	114.0	126.1 (Oct 07)	37.5 (Feb 09)	37.1
Malaysia	284.0	137.0	186.3	89.3	324.4	168.5	168.5 (Dec 07)	75.5 (Feb 09)	20.1
Philippines	85.3	53.8	48.5	31.1	102.0	64.0	68.1 (Oct 07)	25.5 (Mar 04)	46.2
Singapore	448.3	274.8	248.0	142.4	498.0	286.8	313.9 (Oct 07)	102.3 (Feb 09)	31.5
Taipei, China	733.1	205.1	386.7	140.8	701.1	267.6	312.6 (Oct 07)	108.5 (Jan 09)	14.4
Thailand	173.7	65.2	99.0	28.0	212.9	56.7	65.2 (Dec 09)	22.3 (Feb 09)	18.4
Viet Nam	33.3	36.3	8.8	8.2	24.9	35.1	36.3 (Dec 09)	6.9 (Feb 09)	—
United Kingdom	2989.9	136.0	1995.7	74.5	4046.9	144.2	147.9 (Apr 06)	60.7 (Feb 09)	14.5
Japan	3466.6	68.7	3264.8	58.8	4545.9	98.9	121.6 (Mar 06)	56.0 (Feb 09)	10.6
United States	13740.1	96.3	10606.3	74.4	17663.5	127.9	136.1 (May 07)	60.0 (Feb 09)	7.0

¹Average does not include Viet Nam because data for the period is not available

Note: Peaks and troughs were defined over the period Jan 2003–Dec 2009.

Sources: Bloomberg and IMF *World Economic Outlook* (GDP 2009).

Market Integration and Spillovers

- Correlation between regional equity markets and US have increased over time
- Correlations between individual Asian equity markets have increased more than those with the US
- Spillover from global crisis to Asian equity markets was largely through real sectors



iBoxx ABF Index Family Returns

Market	Modified Duration (years)	2008 Returns (%)		1H09 Returns (%)		2009 Returns (%)	
		LCY Total Return Index	USD Unhedged Total Return Index	LCY Total Return Index	USD Unhedged Total Return Index	LCY Total Return Index	USD Unhedged Total Return Index
China, People's Rep. of	4.76	11.91	18.71	(0.48)	(0.60)	(0.64)	(0.69)
Hong Kong, China	3.46	10.22	10.85	(2.09)	(2.09)	(0.76)	(0.82)
Indonesia	4.82	3.22	(12.30)	9.62	16.89	20.22	35.61
Korea, Rep. of	3.60	11.46	(18.20)	0.29	(0.84)	1.94	9.73
Malaysia	4.58	7.58	2.89	(1.64)	(3.16)	0.48	1.64
Philippines	4.02	1.63	(12.55)	5.07	3.95	9.00	11.88
Singapore	5.23	6.75	6.80	(0.41)	(1.16)	0.48	3.06
Thailand	4.82	16.88	13.72	(3.91)	(1.82)	(3.47)	0.73
Pan-Asian Index	4.36	n.a.	4.14	n.a.	0.15	n.a.	5.00
HSBC ALBI	5.72	n.a.	0.97	n.a.	0.26	n.a.	6.13
US Govt 1-10 years	3.91	n.a.	10.95	n.a.	(2.50)	n.a.	(1.38)

LCY = local currency, n.a. = not applicable.

Note:

1. The ABF indices contain only government debt and government-guaranteed debt obligations.
2. Market bond indices are from iBoxx Index Family. 2009 returns year-to-date are as of 31 December 2009.
3. Annual return is computed for each year using natural logarithm of end-of-year index value/beginning year index value.
4. Duration is as of 31 December 2009.

Source: Asia Bond Monitor



MSCI Index Returns

Market	2008 Returns (%)		1H09 Returns (%)		2009 Returns (%)	
	LCY Currency Terms	USD Terms	LCY Currency Terms	USD Terms	LCY Currency Terms	USD Terms
China, People's Rep. of	(52.23)	(51.94)	35.10	35.10	58.89	58.80
Hong Kong, China	(53.16)	(52.88)	32.56	32.56	55.28	55.20
Indonesia	(50.76)	(57.57)	44.65	54.46	90.27	120.75
Korea, Rep. of	(40.62)	(55.87)	24.60	23.19	56.63	69.42
Malaysia	(40.77)	(43.39)	24.45	22.50	46.25	47.78
Philippines	(46.77)	(53.79)	30.10	28.54	55.79	60.24
Singapore	(49.50)	(49.55)	30.59	30.00	63.02	67.29
Thailand	(48.72)	(50.34)	39.10	42.00	63.00	70.04
Far East ex Japan Index	(48.14)	(51.96)	31.80	31.66	60.32	65.01
MSCI USA	n.a.	(38.58)	n.a.	2.39	n.a.	24.20

LCY = local currency, n.a. = not applicable.

Notes:

1. Market indices are from MSCI country indexes. 2009 returns are as of 31 December 2009.

2. Far East ex Japan includes: PRC; Hong Kong, China; Indonesia; Korea, Rep. of; Malaysia; Philippines; Singapore; Taipei, China; and Thailand.

Sources: *AsianBondsOnline* and Bloomberg LP.

The logo for the Asian Development Bank (ADB), consisting of the letters 'ADB' in white serif font on a dark blue square background.

ADB

Thank You

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