

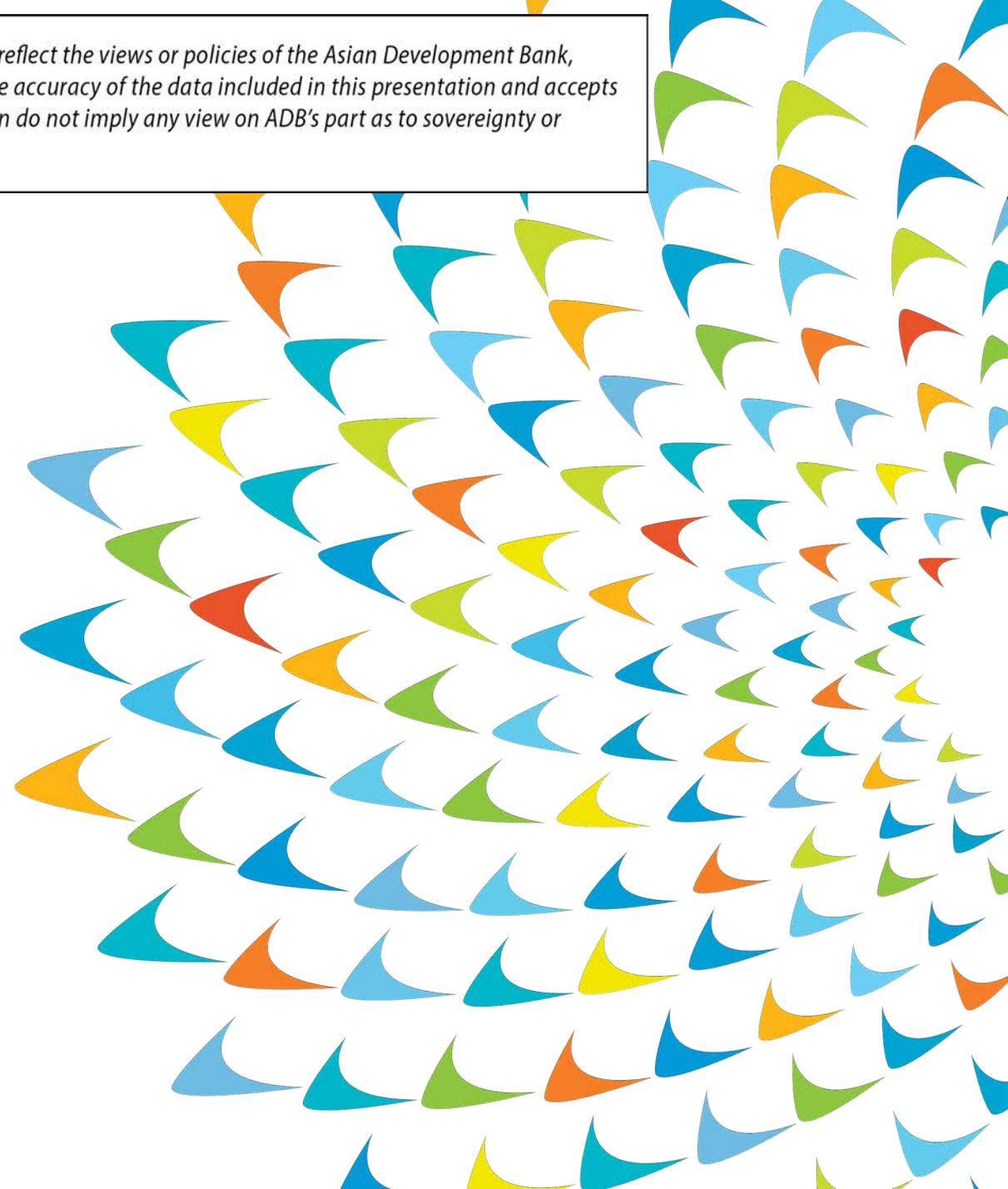


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The Impact of COVID-19 on the Financial Sector: ASEAN focus

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**2020 ASEAN Policy Network Online
Workshop
9 November 2020**





Agenda

- Dynamics in ASEAN financial conditions in 2020
- ASEAN Bond market development during COVID-19
- New trends in thematic bonds



Dynamics in financial conditions in ASEAN markets

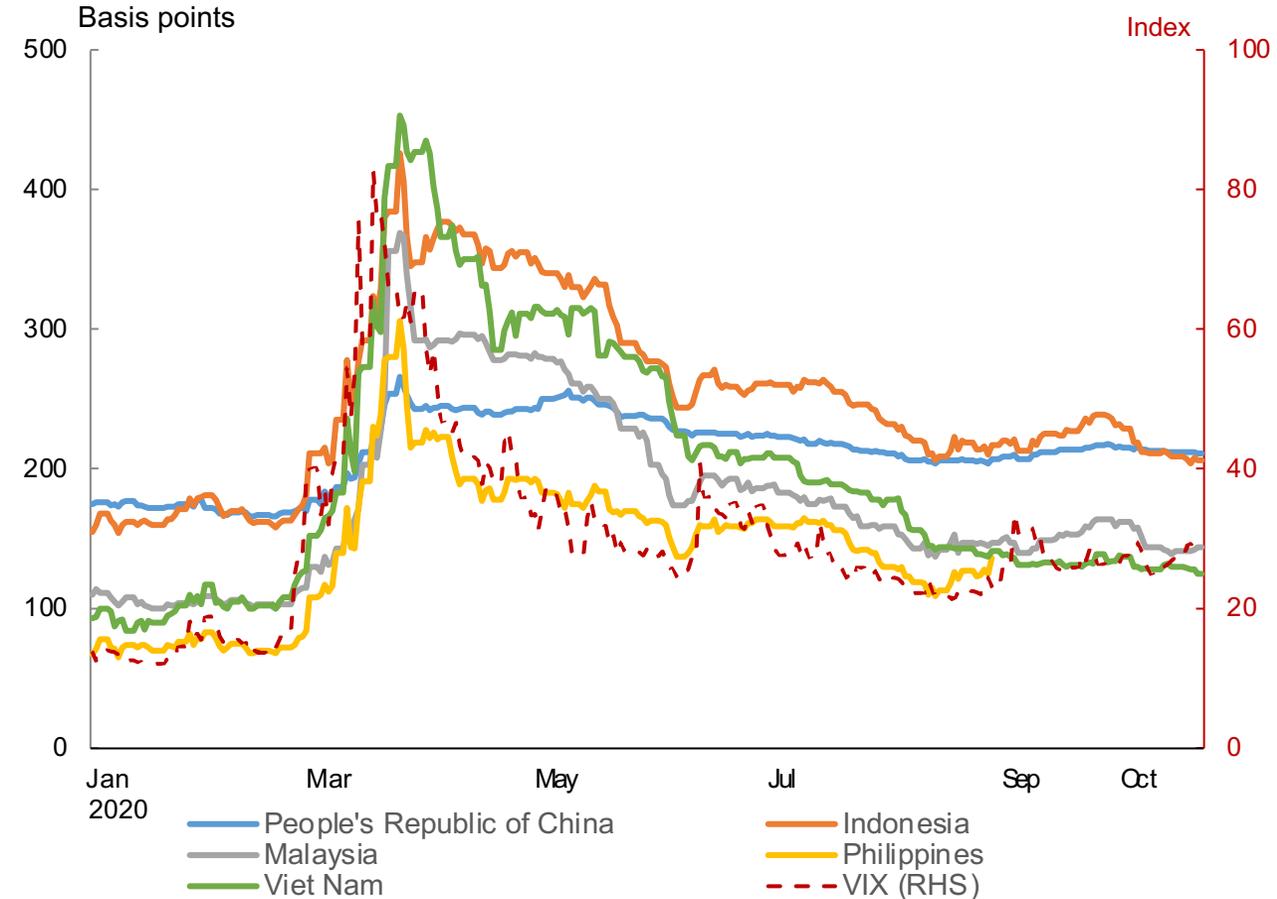
- Financial conditions in ASEAN markets have largely recovered after a market turmoil in March
- ASEAN financial markets demonstrated resilience: Foreign flows declined modestly, Equity and debt markets rallied but not fully recovered, currencies strengthened
- Easing monetary stance buoyed accommodative liquidity condition



Capital Markets rallied since the March turmoil, but risk appetite has not fully recovered in ASEAN

Major Asian equity markets rallied since Q2...

...but risk premia remain higher than pre-COVID-19 period

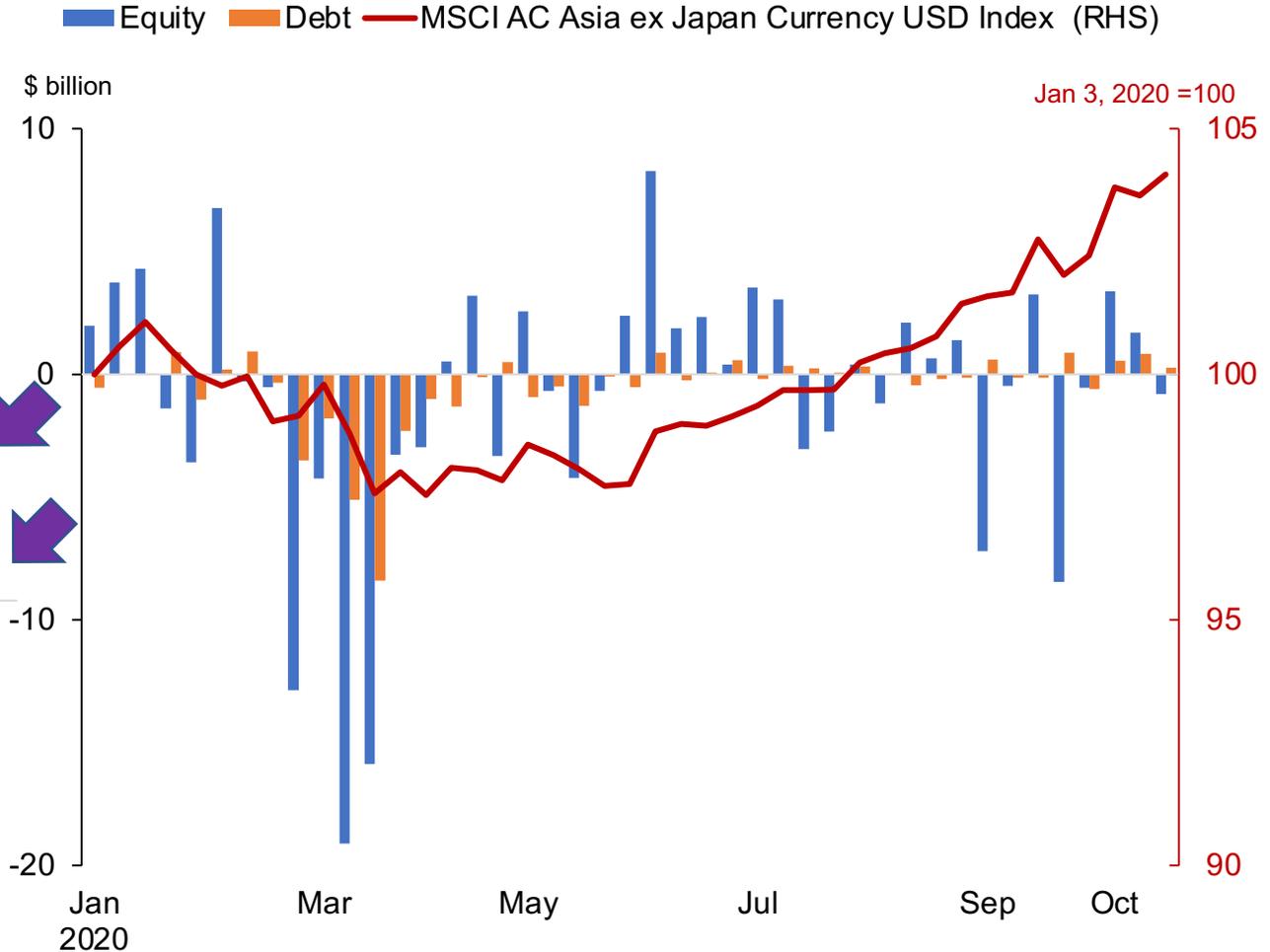
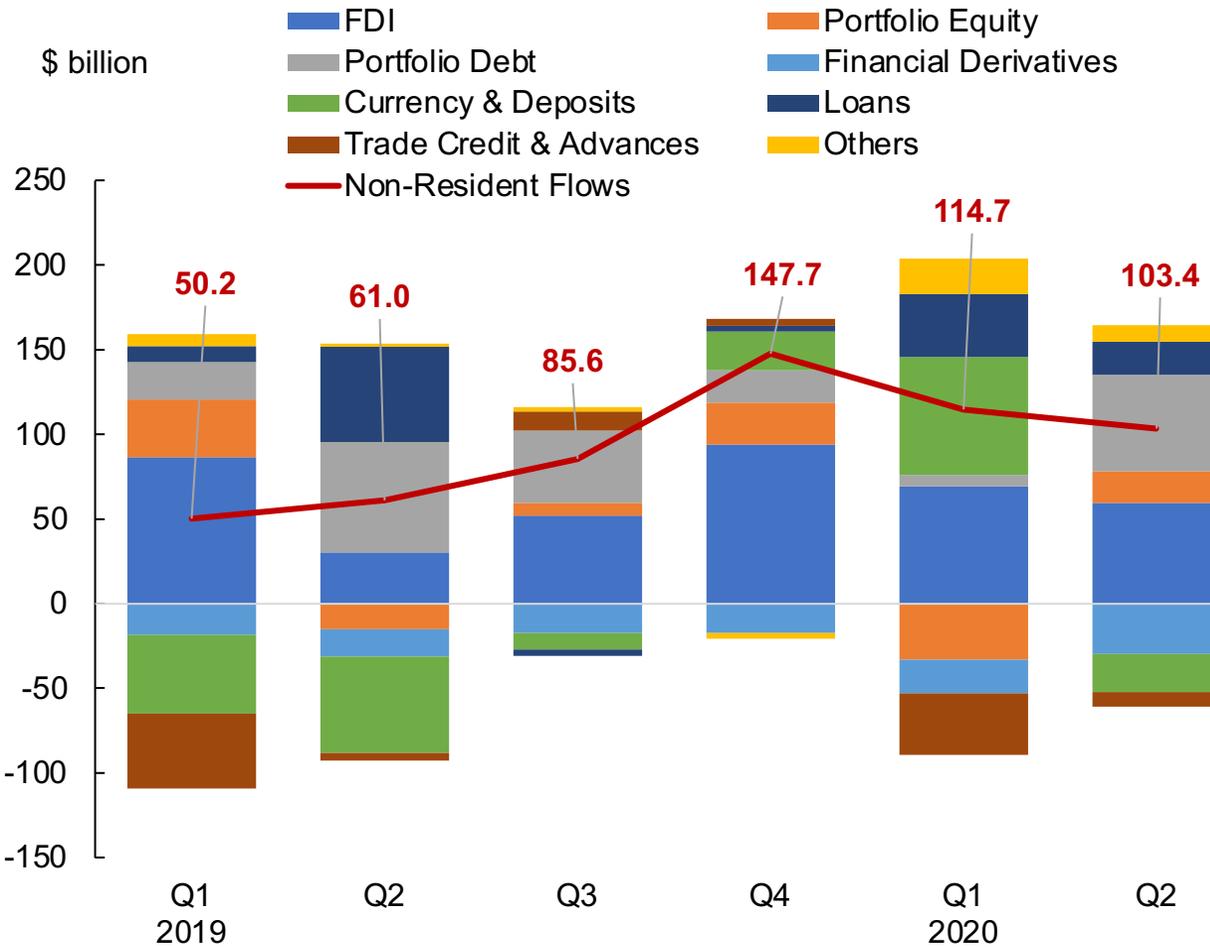




Capital flows across the region declined

FDI declined in Q1 and Q2

... foreign portfolio investment improved since Q2



Emerging Asia includes Cambodia, Hong Kong, China; Indonesia; Mongolia; the Philippines; People's Republic of China; Republic of Korea; Thailand; and Taipei, China.

Source: Updated using Mercado, Roger. 2020. Recent Trends of Capital Flows in Asia. Presented at the RCI-POD Webinar No. 10: Capital Flows During COVID-19 Pandemic—Insights from Sectoral Capital Flows and Policy Challenge, 18 August, Asian Development Bank.

<https://aric.adb.org/rcipod/capital-flows-during-covid19-pandemic-insights-from-sectoral-capital-flows-and-policy-challenges>

Note: Total equity flows includes economies of People's Republic of China (PRC); India; Indonesia; Pakistan; Philippines; Republic of Korea; Sri Lanka; Taipei, China; Thailand; and Viet Nam.

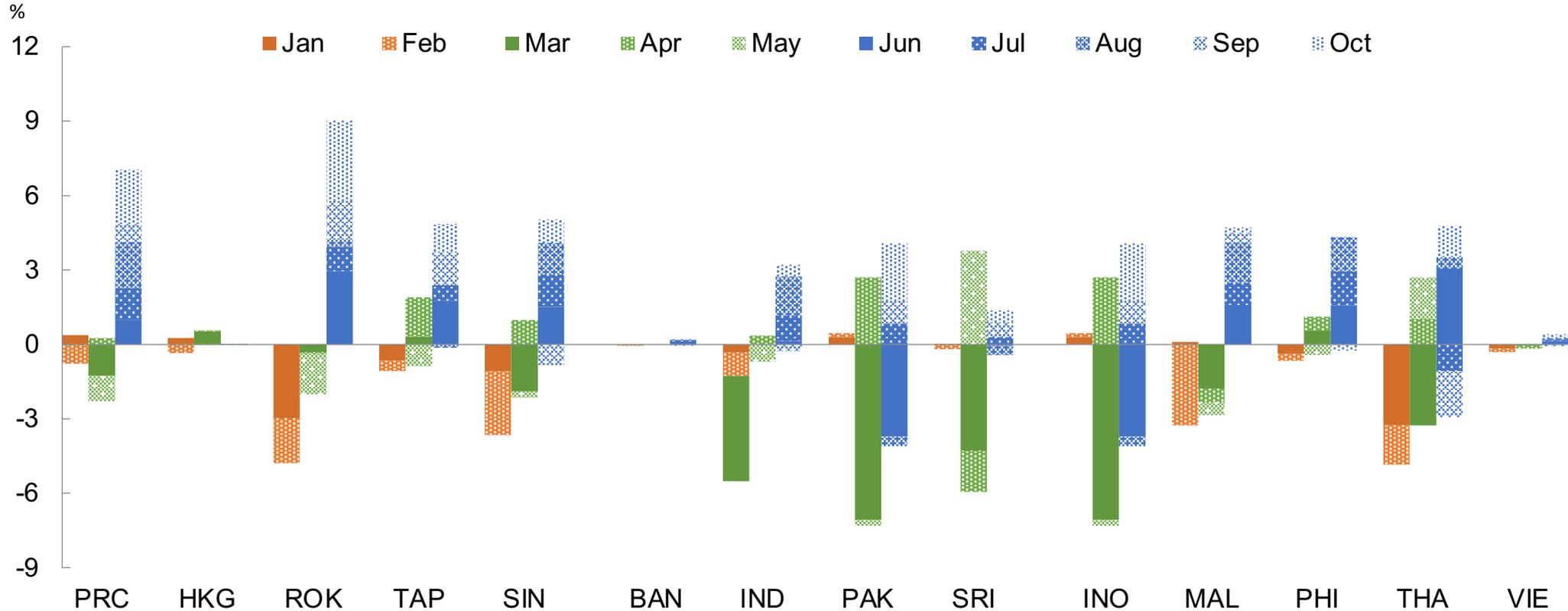
Total debt flows includes economies of India, Indonesia, and Thailand only

Source: Institute of International Finance Capital flow tracker database and Bloomberg (accessed 23 Oct 2020)



... most Asian currencies strengthened since May

Exchange rates 2020: USD per national currency unit



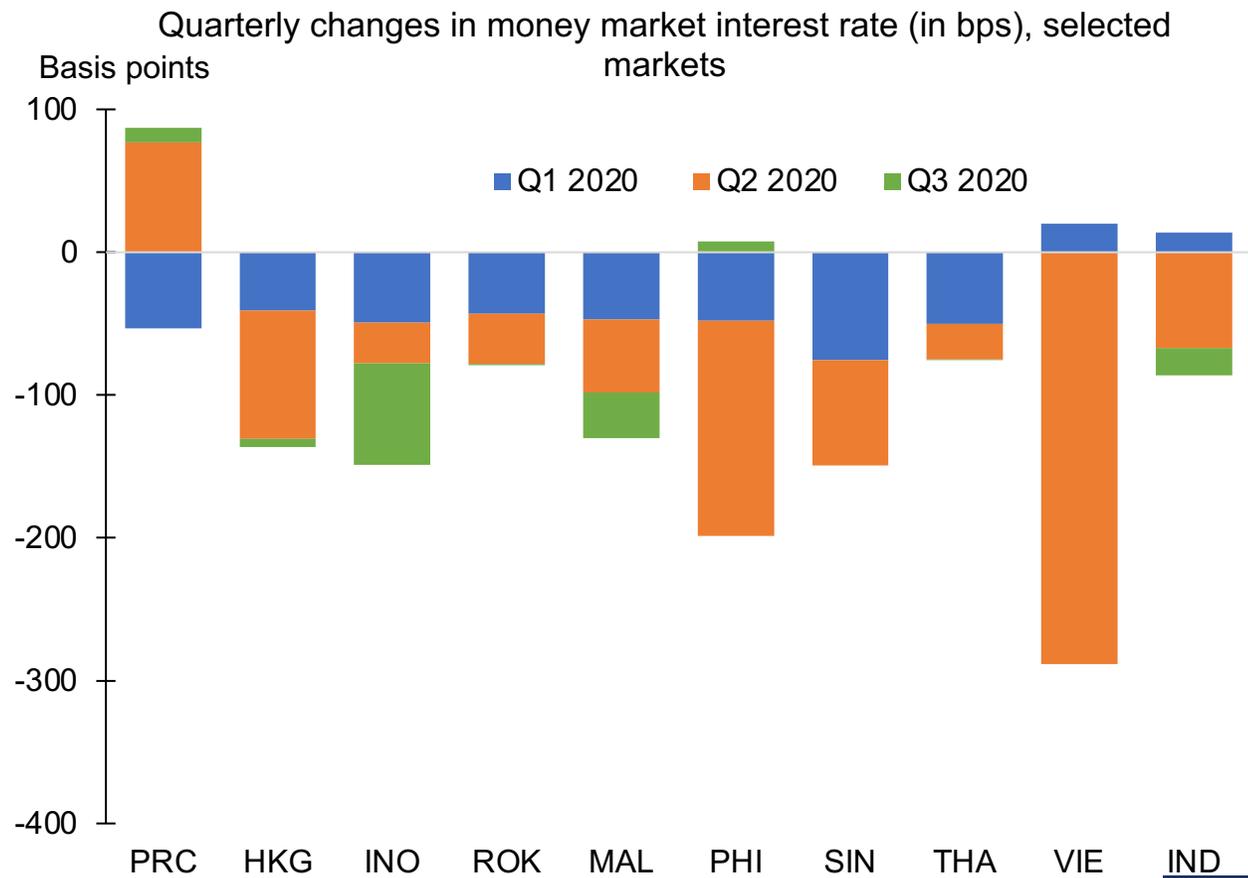
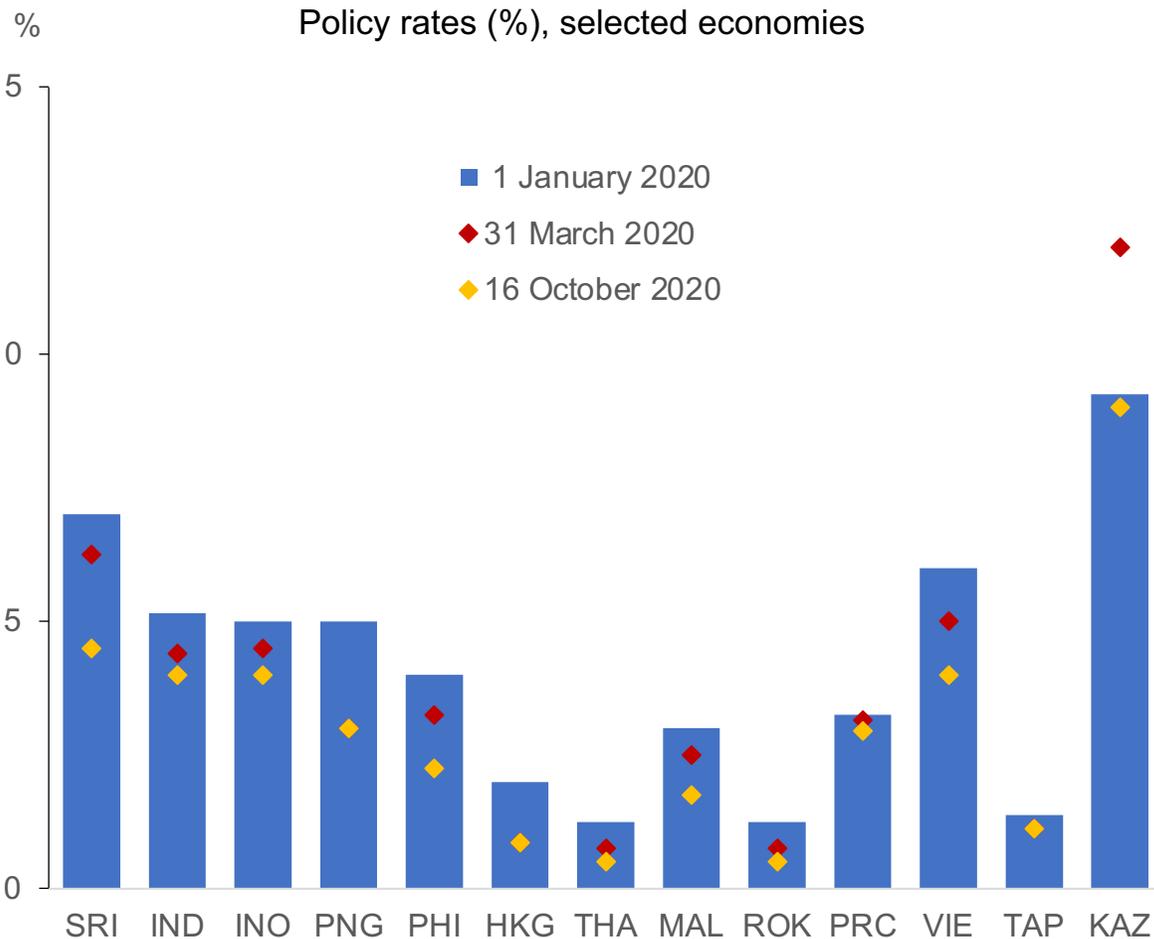
Exchange rate is against USD. ASEAN = Association of Southeast Asian Nations, NIEs = newly industrialized economies, PRC = People's Republic of China, BAN = Bangladesh, HKG = Hong Kong, China, IND = India, INO = Indonesia, MAL = Malaysia, PAK = Pakistan, PHI = Philippines, ROK = Republic of Korea, SIN = Singapore, SRI = Sri Lanka, TAP = Taipei, China, THA = Thailand, VIE = Viet Nam. Source: CEIC data company (accessed 23 Oct 2020).



Financial conditions are buoyed by accommodative liquidity conditions ...

Regional central banks eased the monetary stance...

...leading to accommodative liquidity conditions for financial institutions



ABO AsianBondsOnline An ASEAN+3 Initiative

PRC = People's Republic of China, HKG = Hong Kong, China, IND = India, INO = Indonesia, KAZ = Kazakhstan, MAL = Malaysia, PHI = Philippines, PNG = Papua New Guinea, ROK = Republic of Korea, SRI = Sri Lanka, TAP = Taipei, China, THA = Thailand, VIE = Viet Nam.

Note: Interbank offering rate is used for all markets except Philippines is 1-week average term deposit auction facility rate is used and **PRC Depository-Institute Repo Rates 7 Day (DR007)**.

Source: Bloomberg (accessed 23 October 2020)





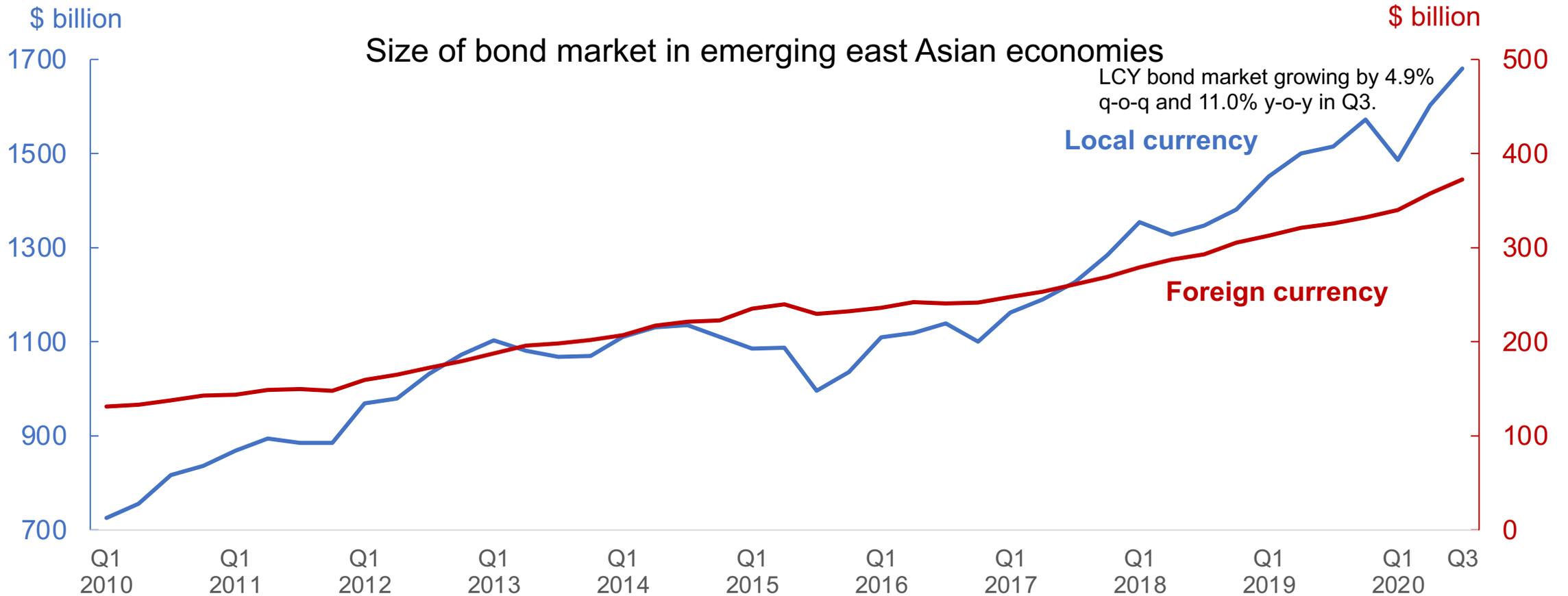
ASEAN Bond Market Dynamics

- ASEAN LCY Bond Market continued to expand since Q2 this year when market sentiment improved
- Foreign holdings declined but to different extent across ASEAN LCY bond markets
- Domestic institutional investors such as banks and insurance companies increase holdings implying the importance of strong domestic investor base.



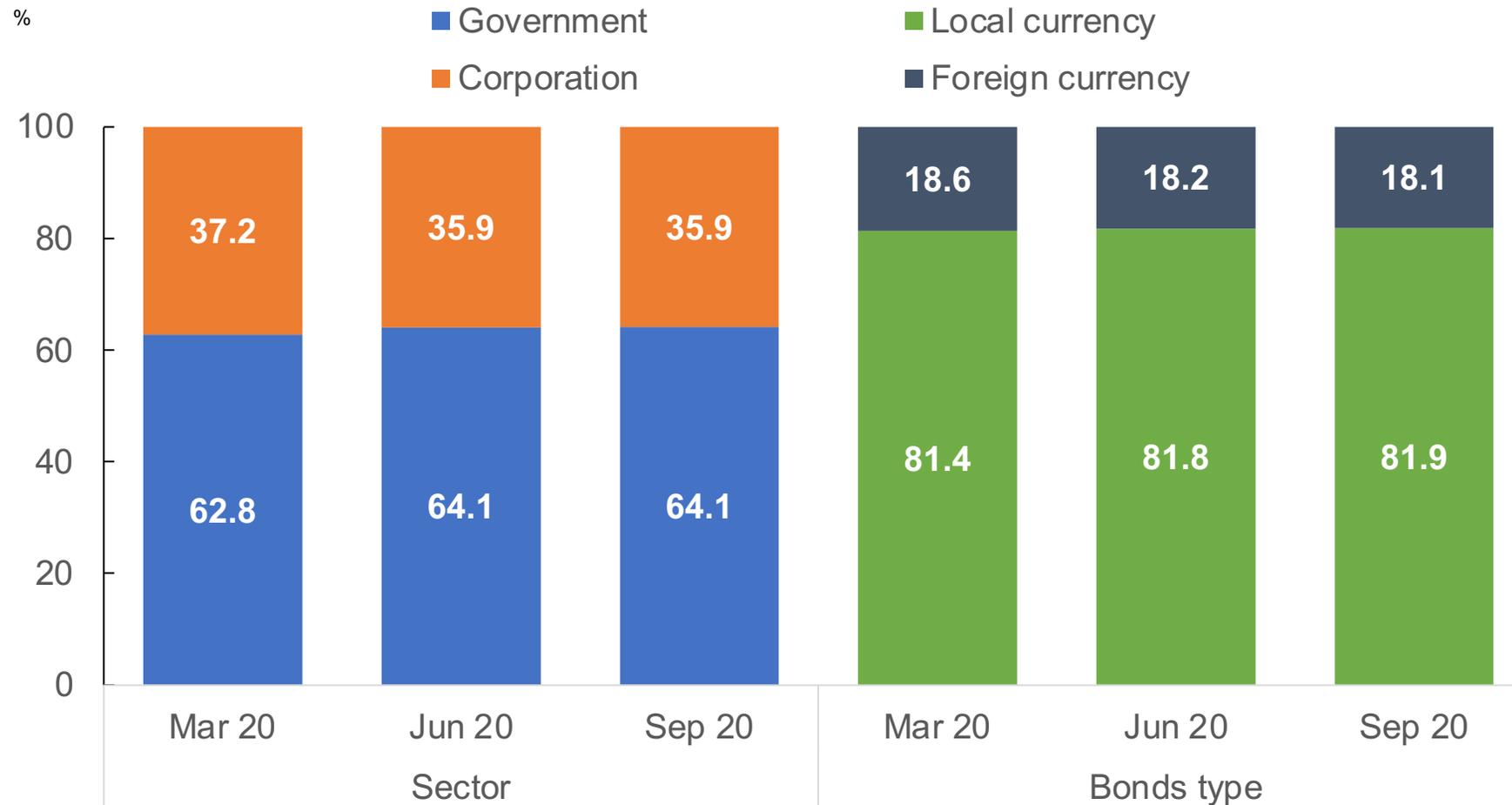
ASEAN LCY Bond Market Developments

The volume of bonds outstanding in the ASEAN markets continue to rise since Q2 2020, suggesting that LCY bond financing playing an important role to fight COVID-19 since sentiment improved.





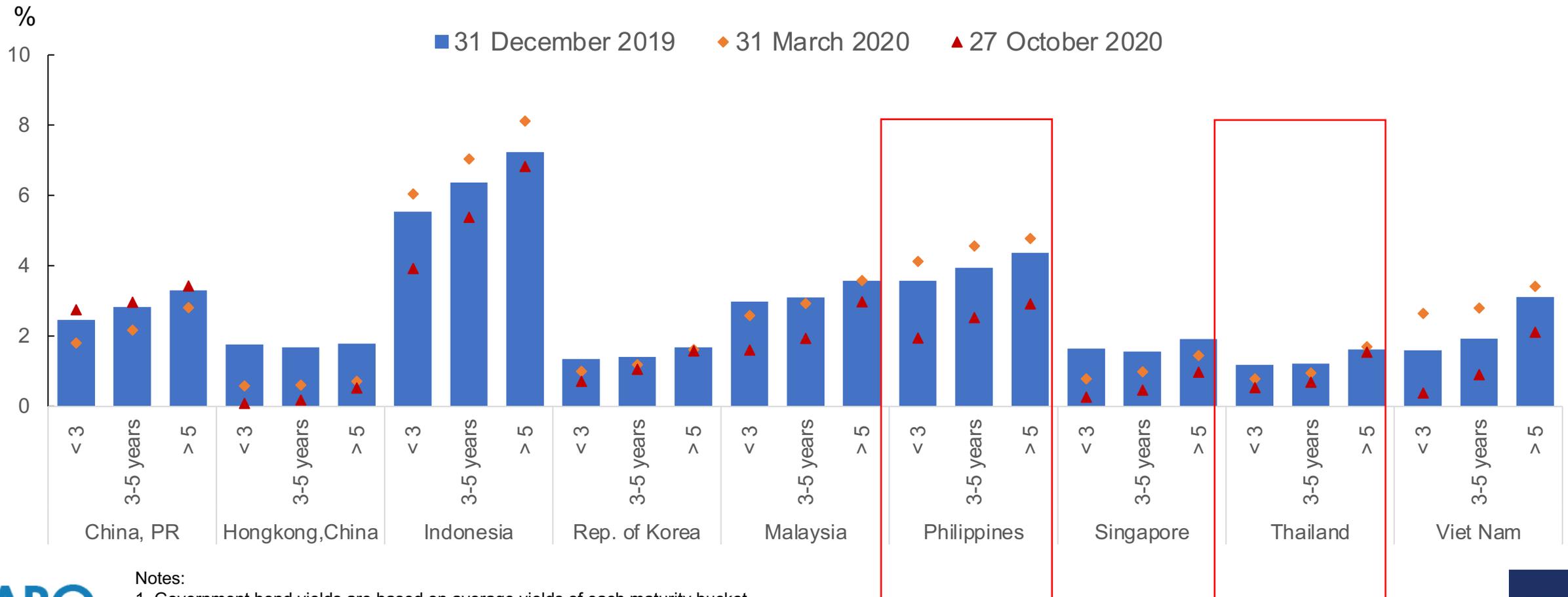
ASEAN Bond Market Development





Government bond yields were lower than December 2019....

By end of Q1, yield rose in some markets despite policy rate cuts, pointing to the importance of deeper financial markets in stabilizing asset prices.



Notes:

1. Government bond yields are based on average yields of each maturity bucket.

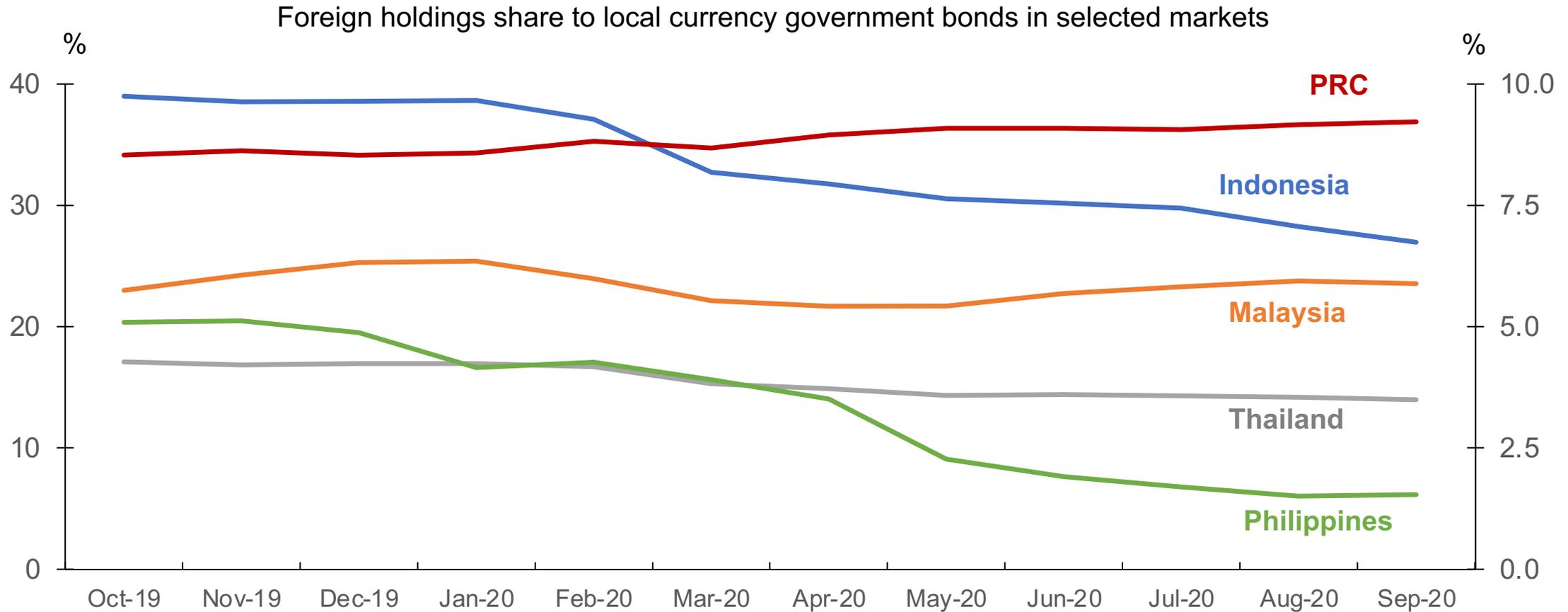
2. S&P Global Rating is used for the sovereign rating classification.

Source: Bloomberg LP (accessed 1 September 2020).



Foreign holdings declined in ASEAN LCY bond markets

Smaller market suffer more, again pointing to the importance of deeper financial markets

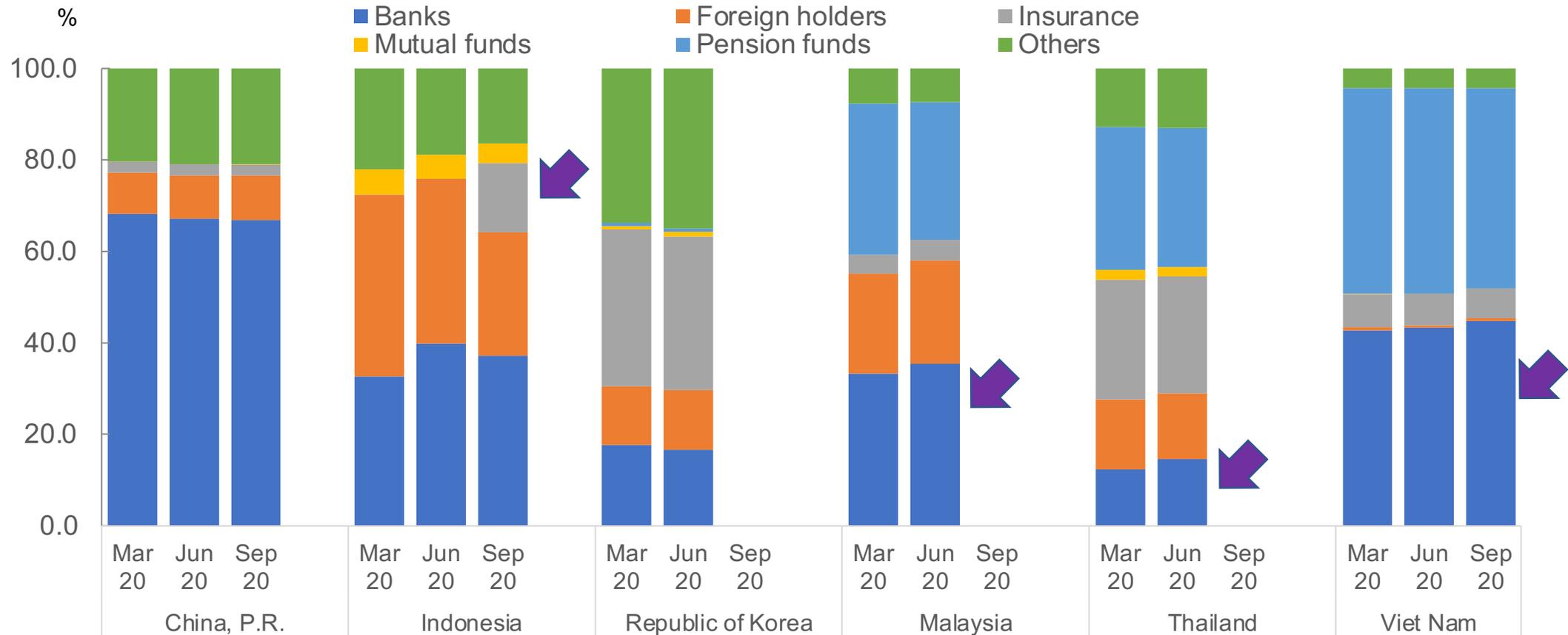




Changes in Domestic investor profile in ASEAN bond markets

Domestic institutions such as banks and insurance companies increased holding after foreign investors sell. Highlighting the importance of strong domestic investor base.

Changes in Domestic Investor Profile

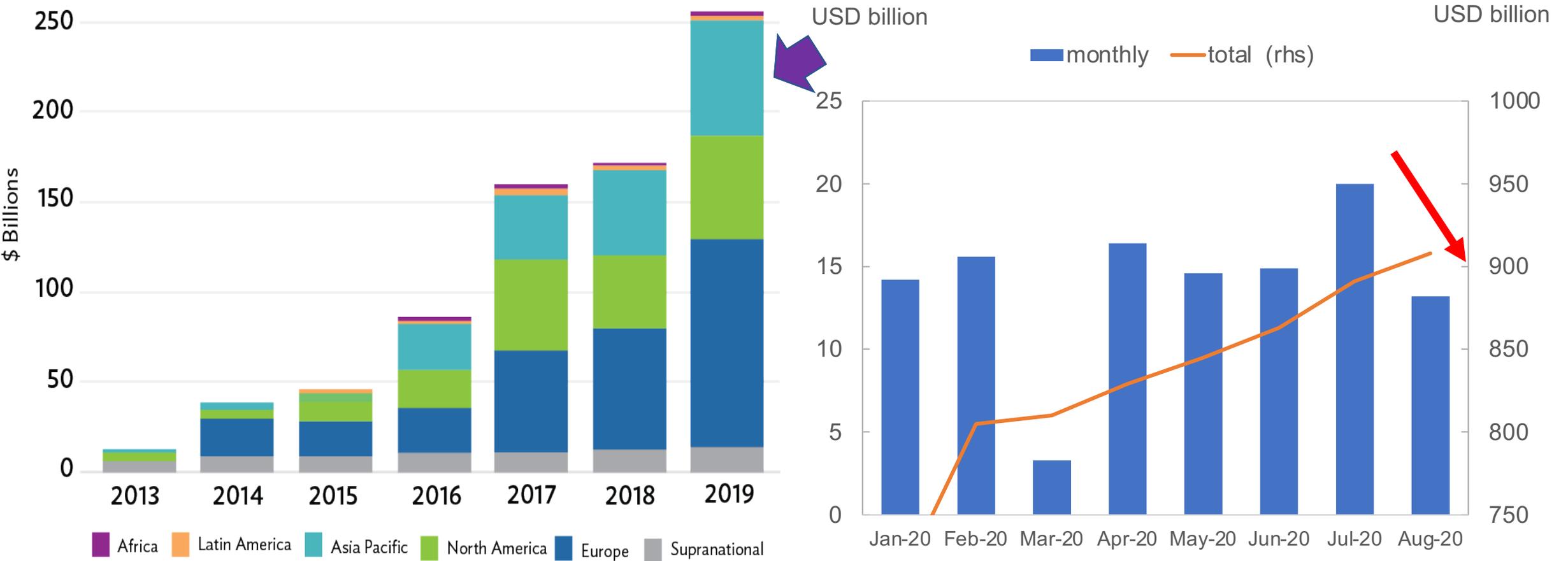




Recent trends in sustainable bonds

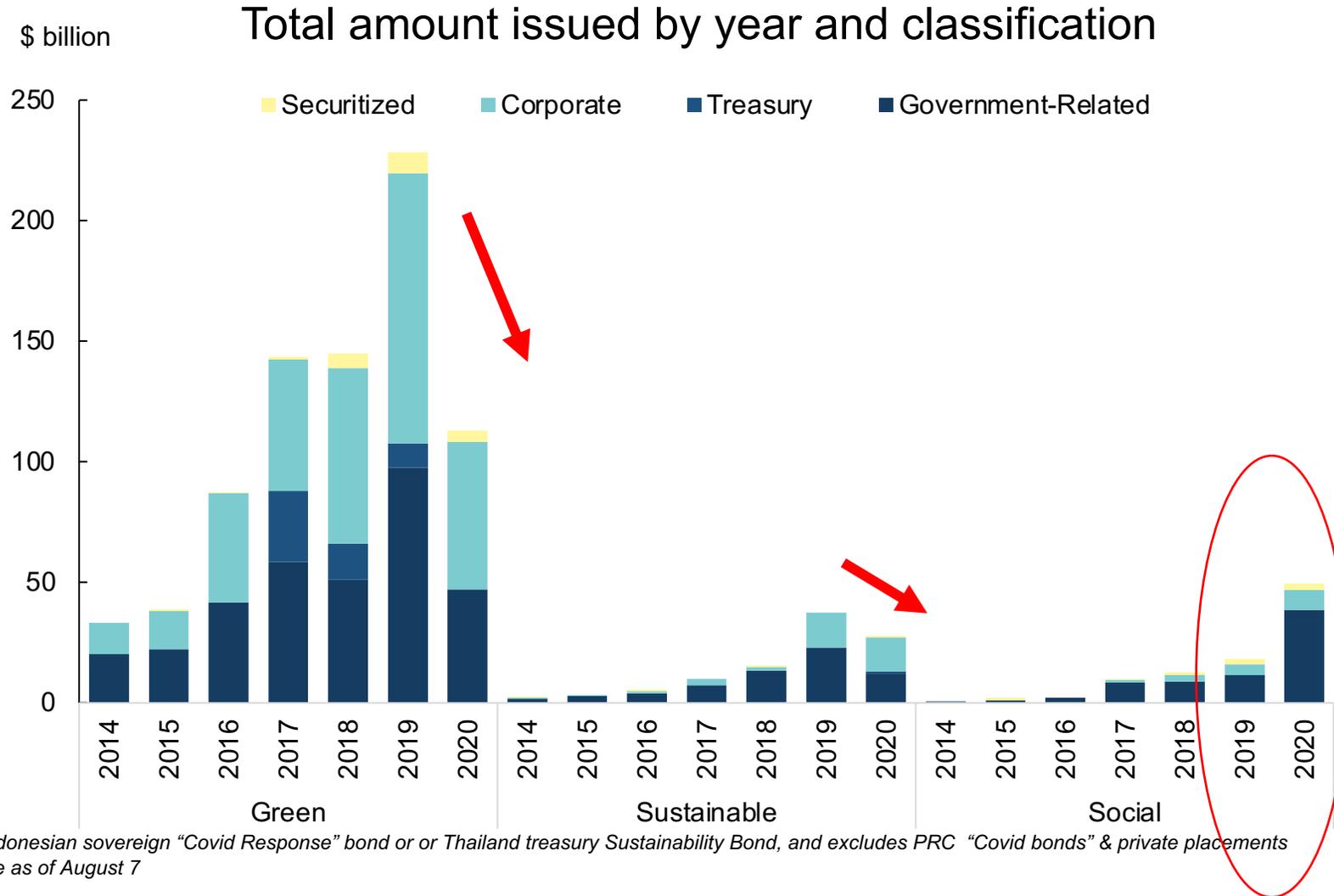
- In 2020, as COVID-19 hit the vulnerable groups harder, increasing awareness is called for instruments with positive social impacts.
- A surge in social bond issuance is observed accompanied by a decline in green bond issuance
- Asia becomes the 2nd largest social bond markets, following Europe
- Asian social bond market is dominated by public sector issuers.

Green bonds have gained traction worldwide recent years, but issuance declined in 2020.





Due to the COVID pandemic, market focus has shifted to the Social Bond market in 2020



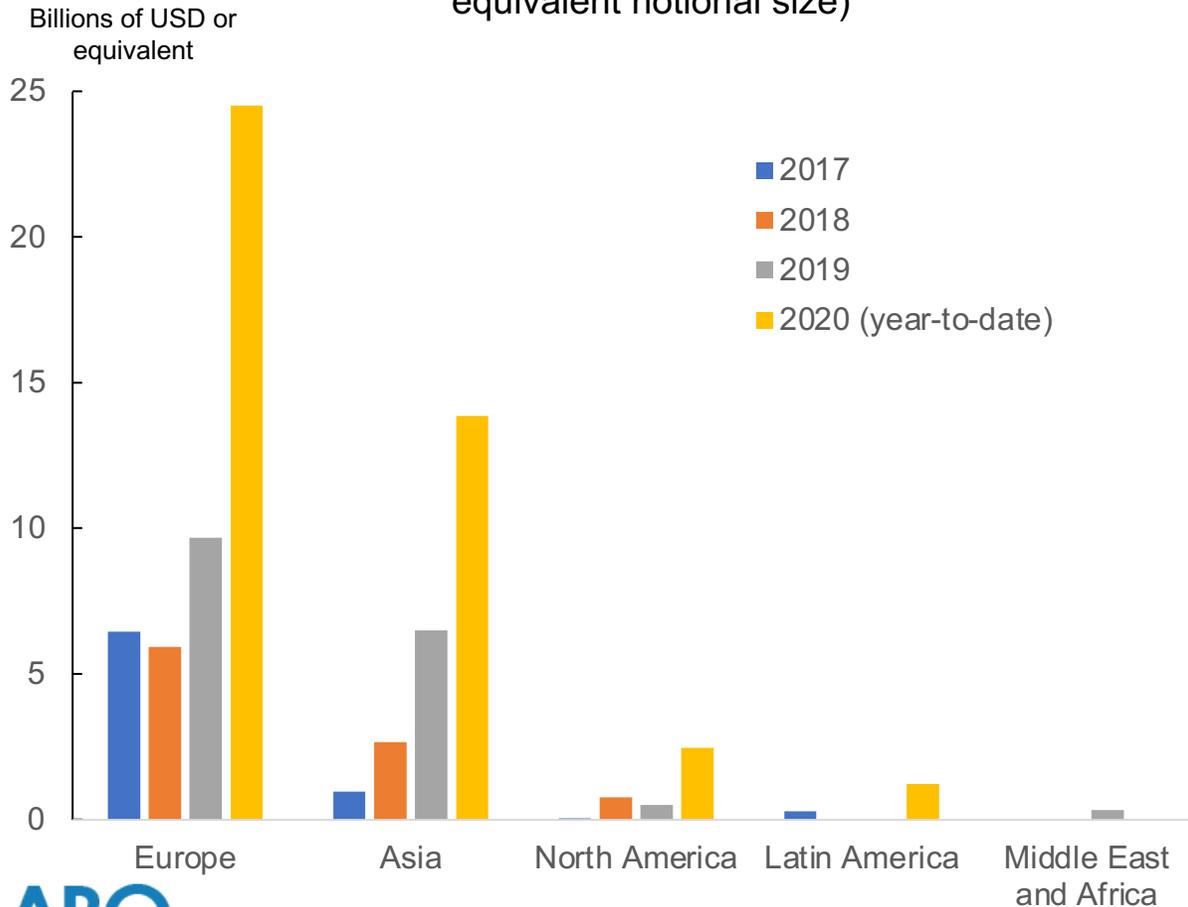
Data does not include Indonesian sovereign "Covid Response" bond or or Thailand treasury Sustainability Bond, and excludes PRC "Covid bonds" & private placements
2020 data is Year-to-date as of August 7



Asia becomes the second largest region for social bond issuance, led by Japan and Korea

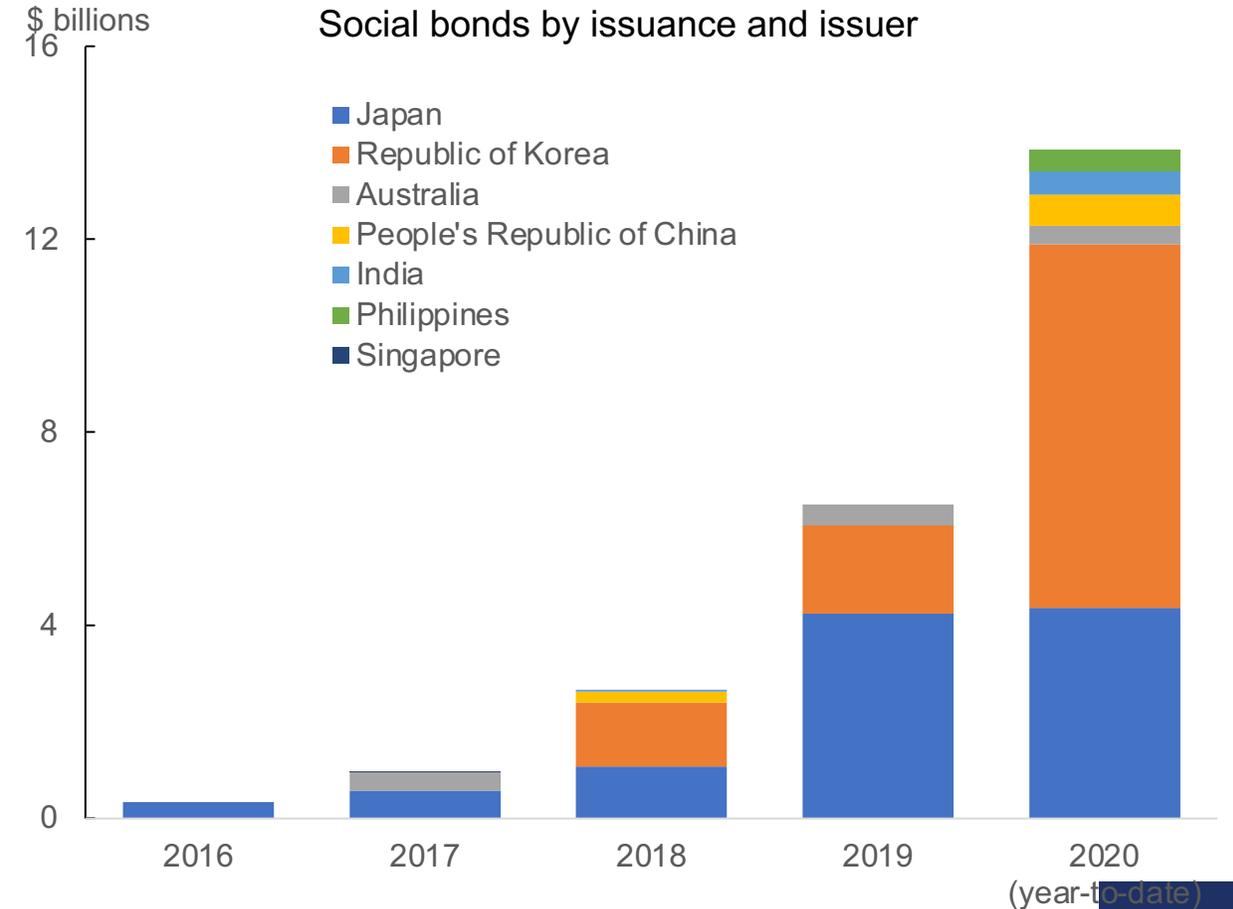
It is picking up with rapid growth in 2020

Social Bonds, by issuance year and region (Sum of USD-equivalent notional size)



...dominated by higher-income countries, especially Japan and Republic of Korea

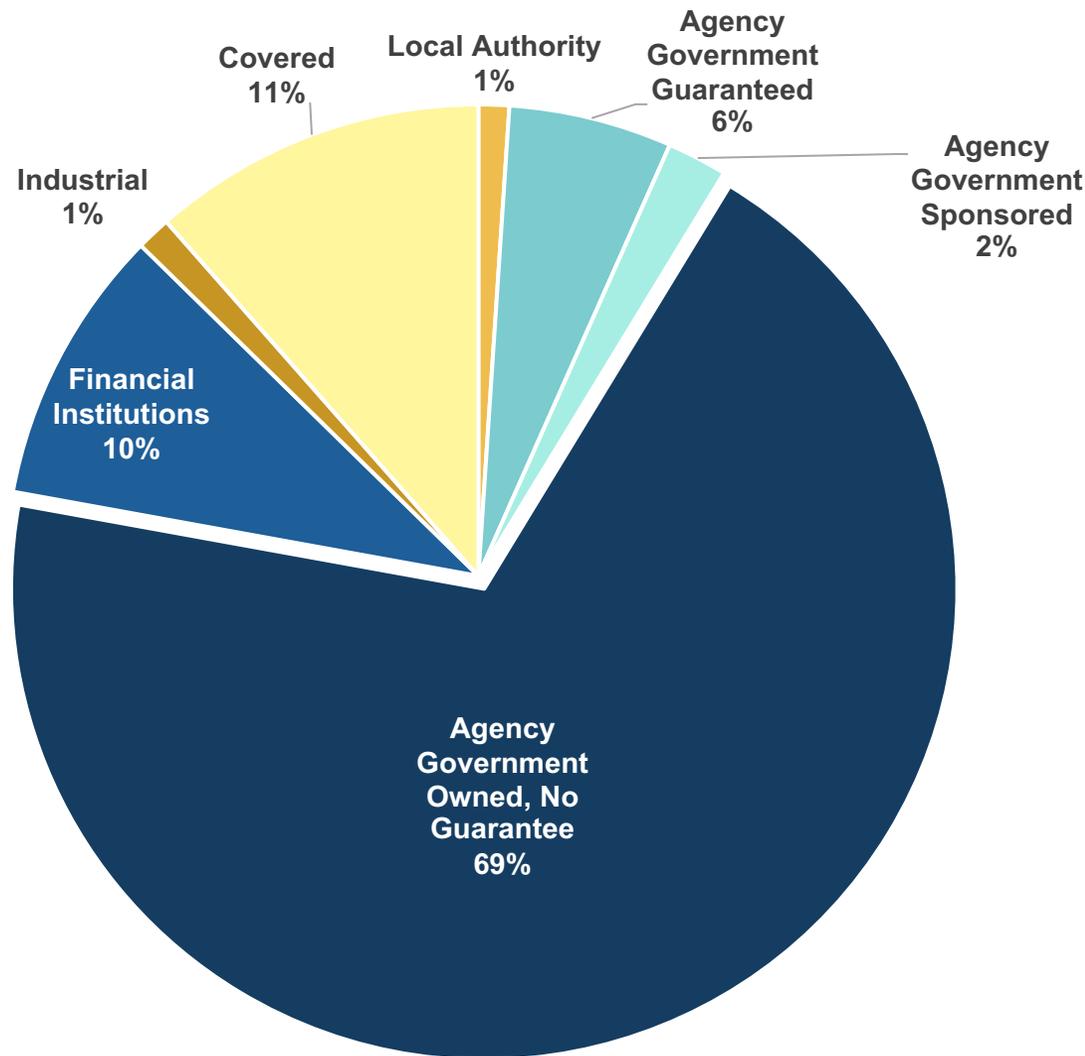
Social bonds by issuance and issuer





Outstanding Asia social bond market composition

- The Asian Social Bond market is heavily weighted to public-sector debt, with a 78% combined share vs 70% for Social Bonds globally
- Asian private sector issuance is limited to 11% vs 21% globally





Thank you. Commercial Time

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<https://asianbondsonline.adb.org>*

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