

Looking for the Best Bonds in the Asian market

The Macrofinancial Backdrop

February 13, 2025

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AREO Update (January 2025): The ASEAN+3 region is expected to see robust growth and stable inflation amid higher uncertainties.

**Macro
backdrop**

1

Robust growth: ASEAN+3 growth remained robust in 2024, to be sustained into 2025, underpinned by strong domestic demand and improvement in exports.

2

Stable inflation: Inflation will remain stable in 2025—with modest increases in some economies due to stronger domestic demand and supply-side adjustments.

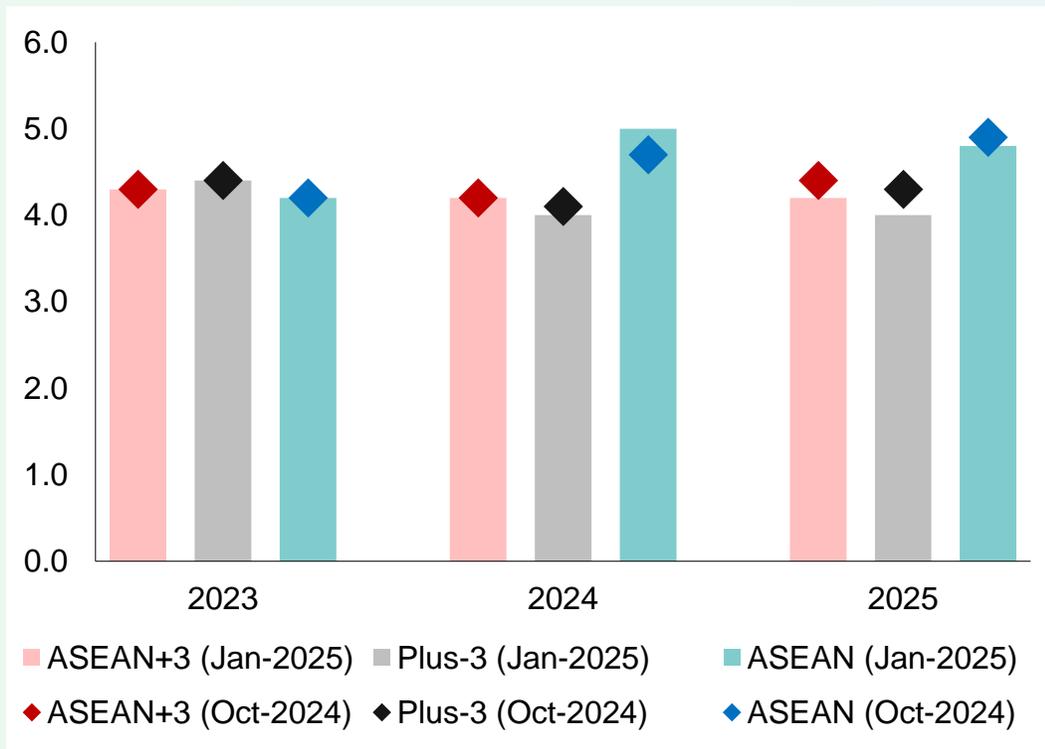
3

Higher uncertainties: Uncertainties have increased markedly, with key risks including US protectionist policies, tighter financial conditions, and commodity price spikes.

AREO Update (January 2025): Growth and inflation forecasts revised, largely to the lower side, reflecting spillovers from US protectionist policies.

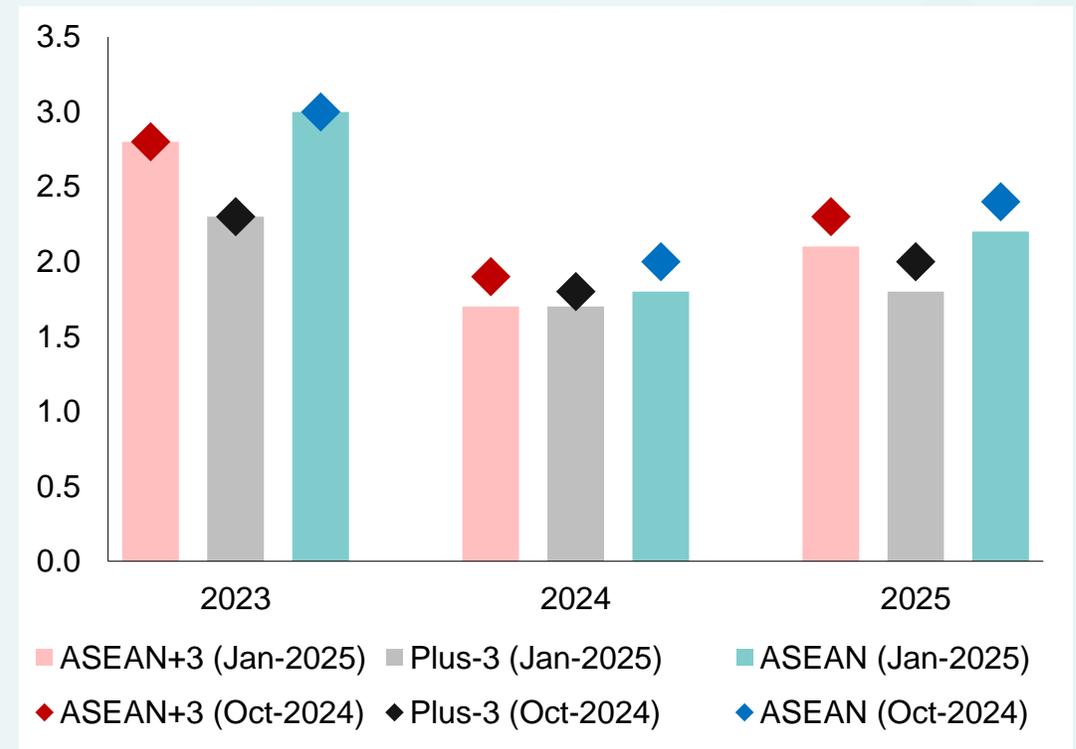
**Macro
backdrop**

**ASEAN+3: AMRO's Growth Forecasts
(Percent)**



Source: AMRO staff calculations.

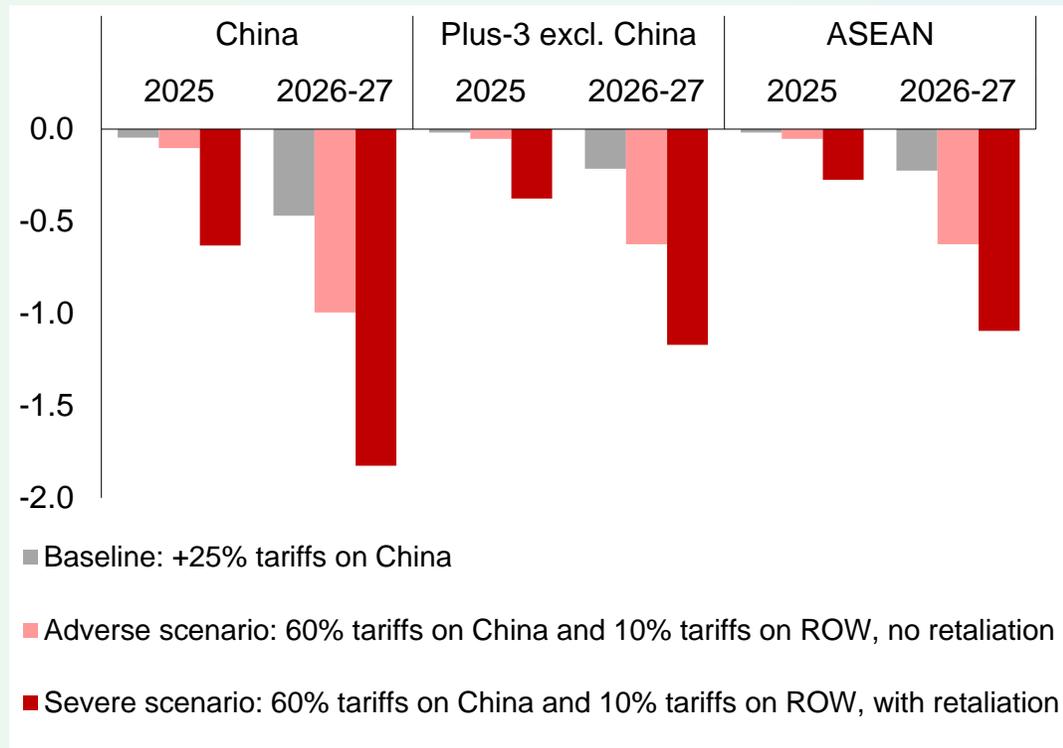
**ASEAN+3: AMRO's Inflation Forecasts
(Percent)**



Source: AMRO staff calculations.

AREO Update (January 2025): Key policy shifts by President Trump would have a material impact on ASEAN+3.

ASEAN+3: Impact of US Tariffs on GDP Growth
(Percentage point)



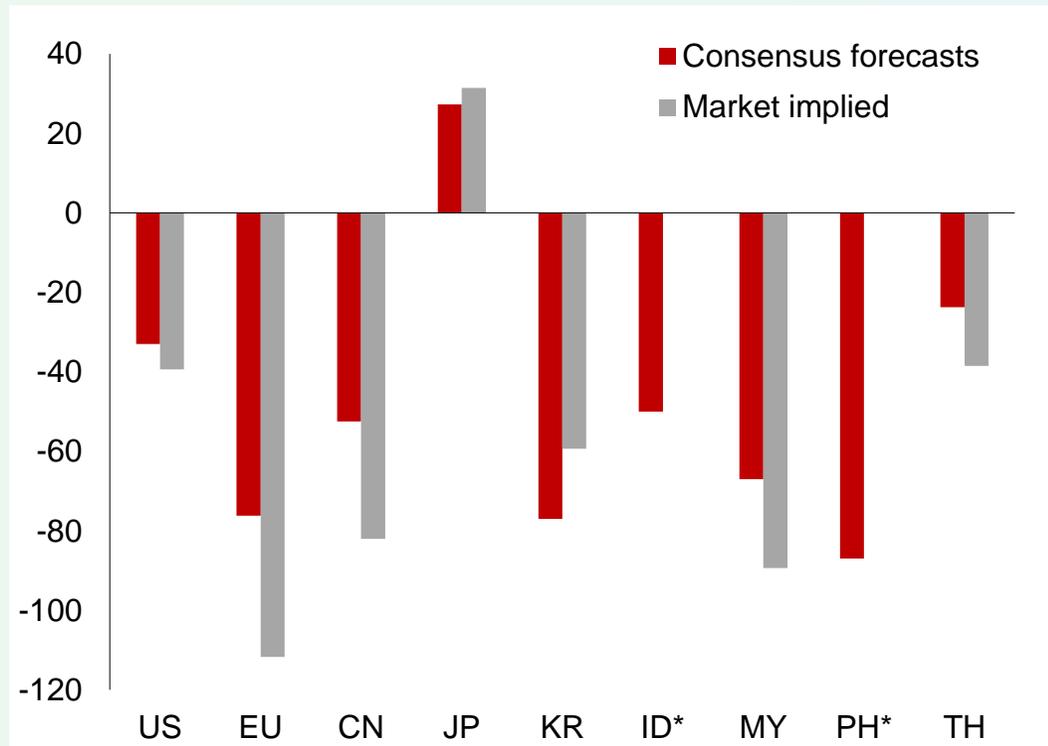
Scenario analysis points to considerably worse outcomes, especially with tariff retaliations.

- Uncertainty relating to the **protectionist policies from the US** poses considerable risk to the outlook for the ASEAN+3 region.
- **Higher tariffs** will **dampen regional growth**, with the severity depending on the magnitude and response from affected economies.
- Over time, a sharp increase in protectionism could **lower regional growth by 1-2 percentage points**, the worst since the Asian Financial Crisis (excluding pandemic years).

Source: Oxford Economics Model, AMRO staff calculations
Note: Regional aggregates are weighted using 2023 GDP on PPP basis. Brunei Darussalam, Cambodia, Lao PDR and Myanmar are excluded due to data unavailability. Estimates do not take into account the indirect impact(s) that could arise from the tariff measures such as those from adverse sentiments channel etc.

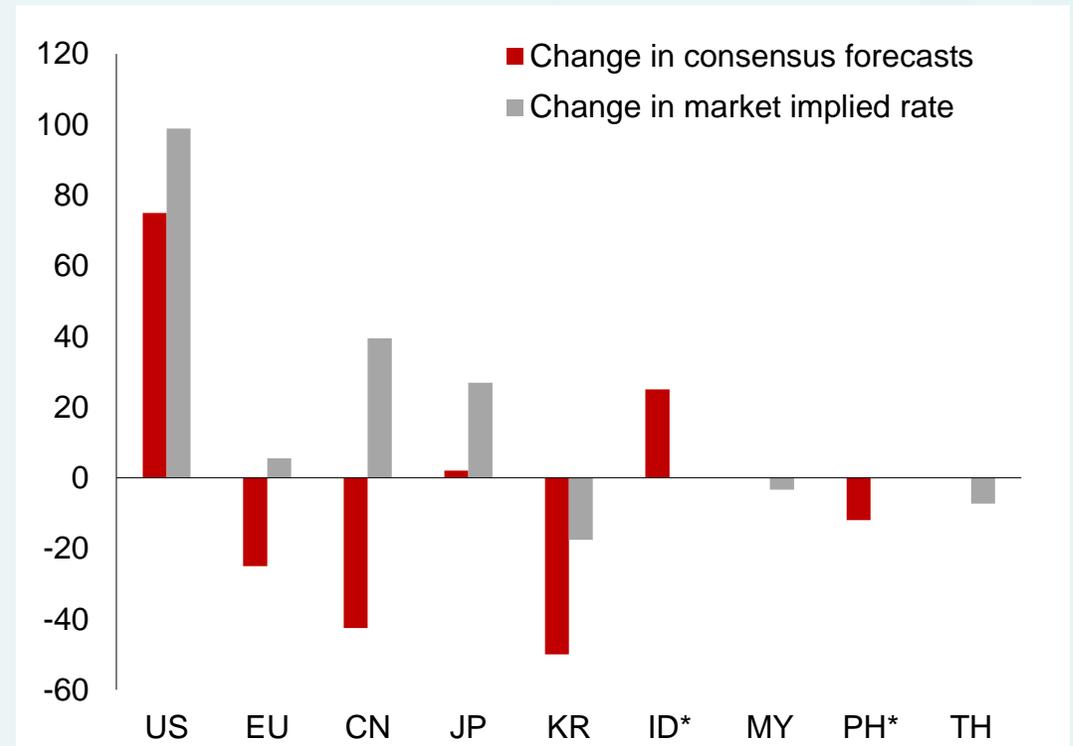
US monetary easing is expected to continue, but at a slower pace partly due to uncertainty around trade policies. Expectations around ASEAN+3 monetary easing remain stable.

US, EU, and Selected ASEAN+3: Implied Change in Policy Rates in 2025
(Basis points)



Source: Bloomberg, AMRO staff calculations.
Note: The market implied rates for Indonesia and the Philippines are not available.

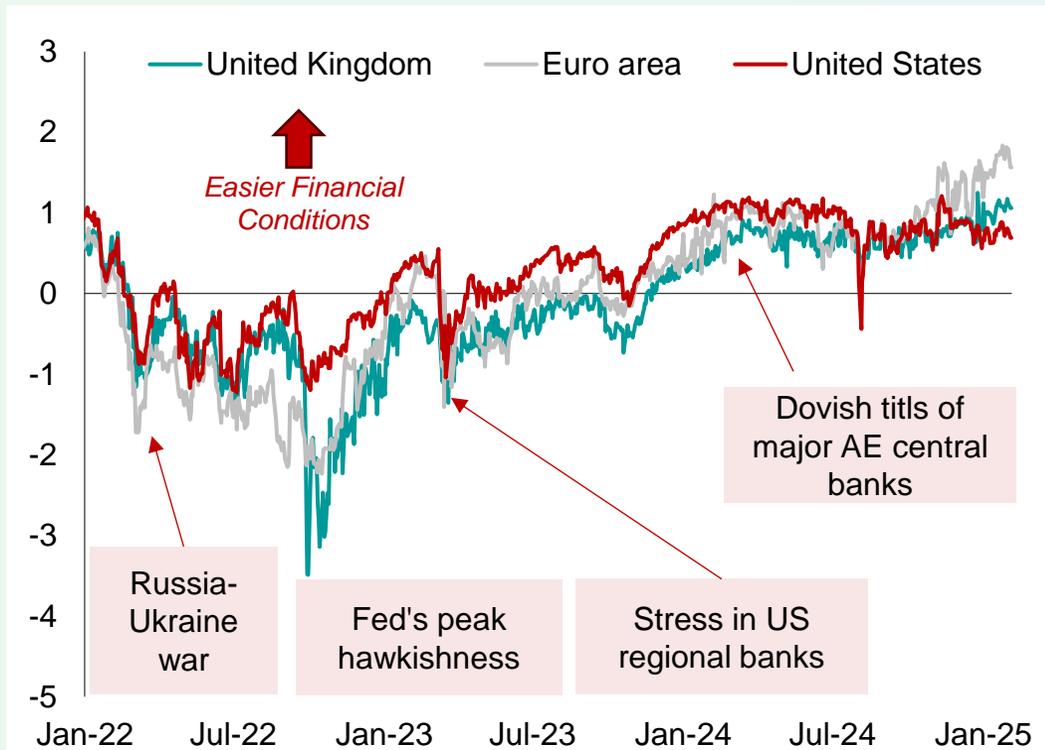
US, EU, and Selected ASEAN+3: Change in Expectations around Monetary Easing in 2025 since Q3 2024
(Basis points)



Source: Bloomberg, AMRO staff calculations.
Note: The market implied rates for Indonesia and the Philippines are not available.

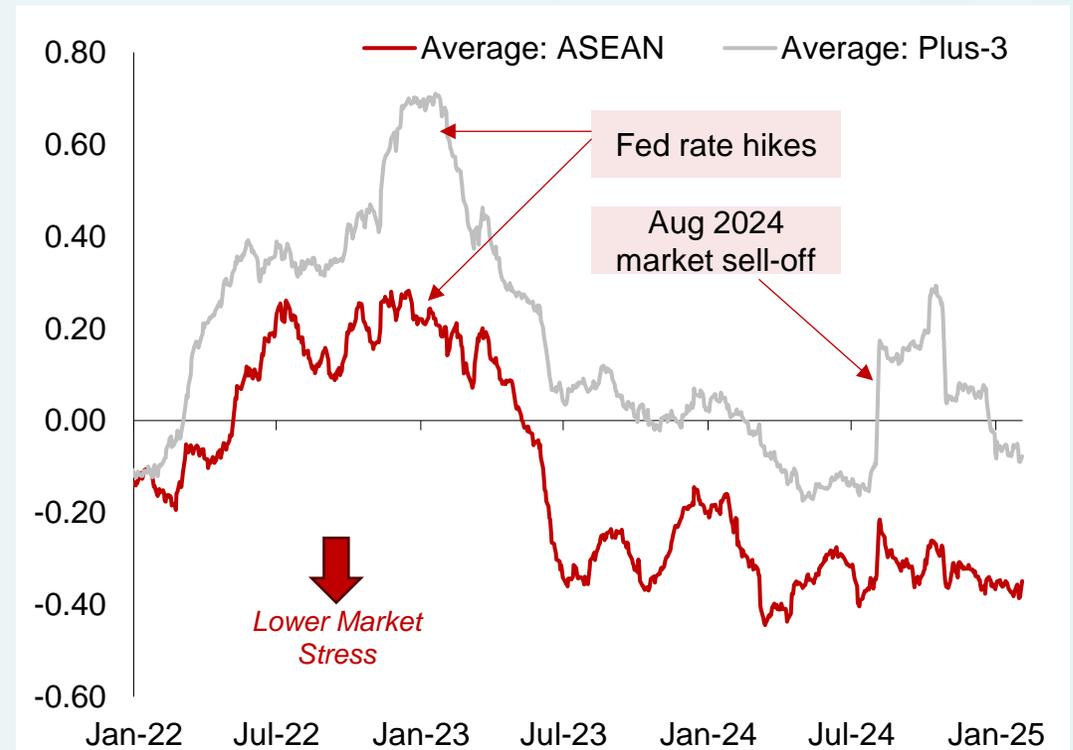
Financial conditions in the developed world and in ASEAN+3 have not deteriorated much as compared to last year, but....

Selected Advanced Economies: Financial Conditions Indices (Index)



Source: Bloomberg, AMRO staff calculations.
 Note: Higher values of the index indicate easier financial conditions. AE = advanced economy. Data as of January 2025.

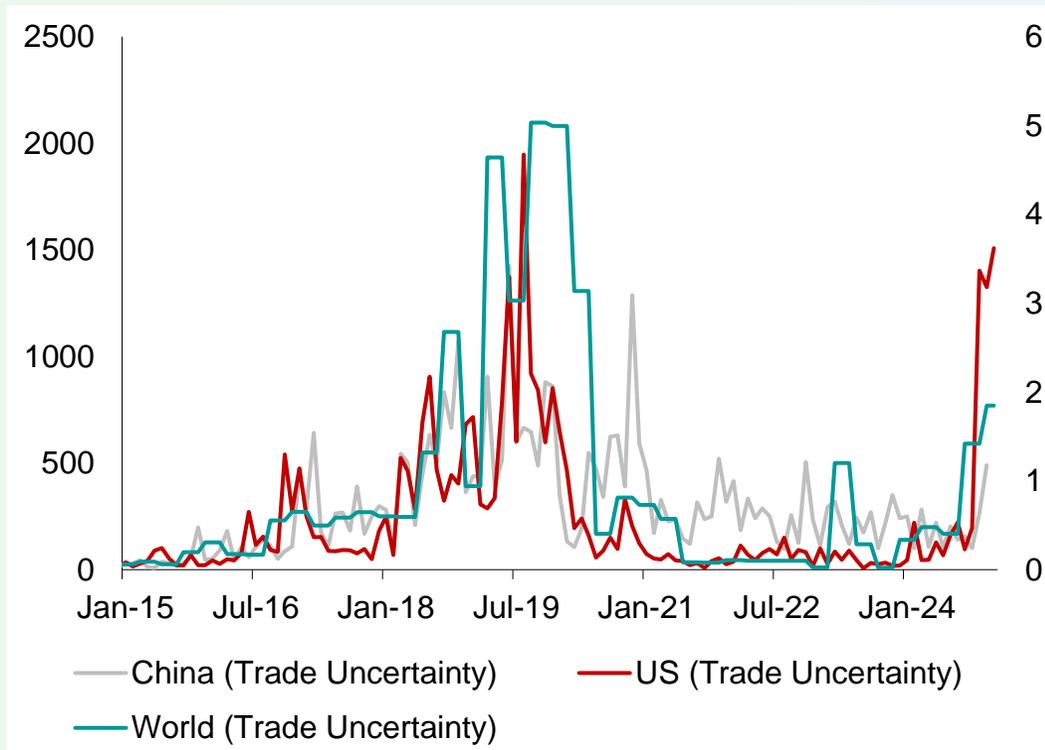
ASEAN and Plus-3: Market Stress Indicator (Index)



Source: Bloomberg Finance L.P.; Haver Analytics; AMRO staff calculations..
 Note: The Market Stress Index is based on the Mispricing Risk (Refined) proposed in Hennig, Iossifov, and Varghese (2023) which attempts to capture the slack in financial conditions.

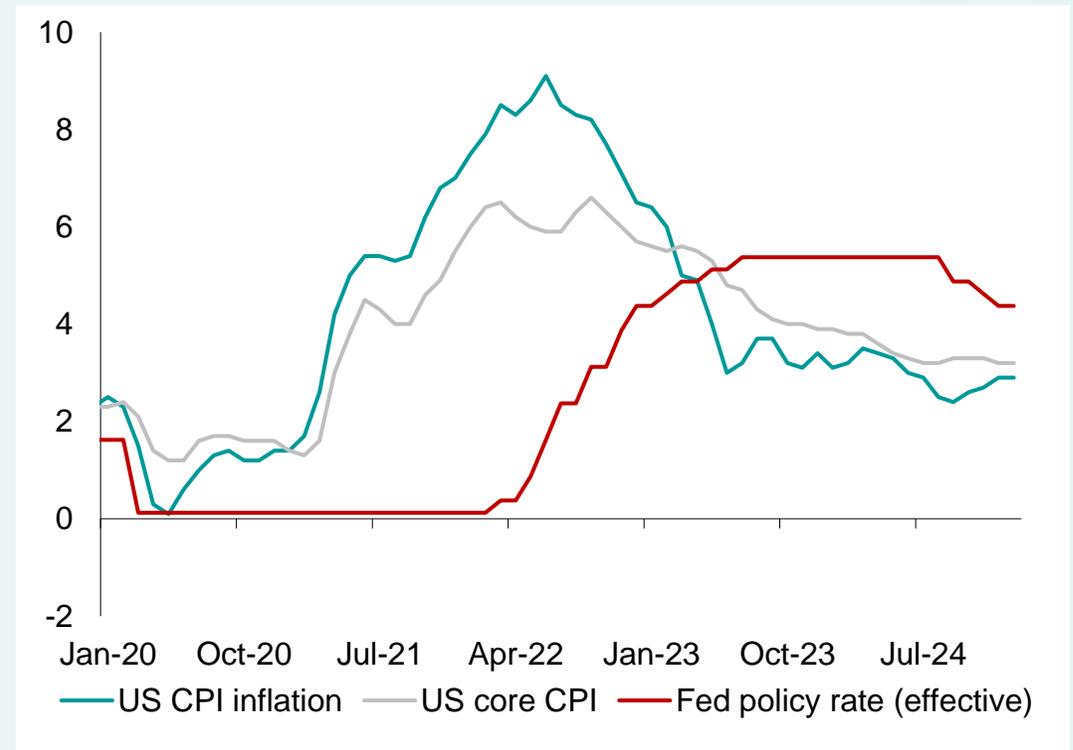
... policy uncertainty, especially on trade, has risen. The inflation outlook has also made central banks, especially the Fed, more cautious in reducing rates further.

US, China and World: Trade Policy Uncertainty Index
(Index, Index)



Source: PolicyUncertainty via Bloomberg, AMRO staff calculations.

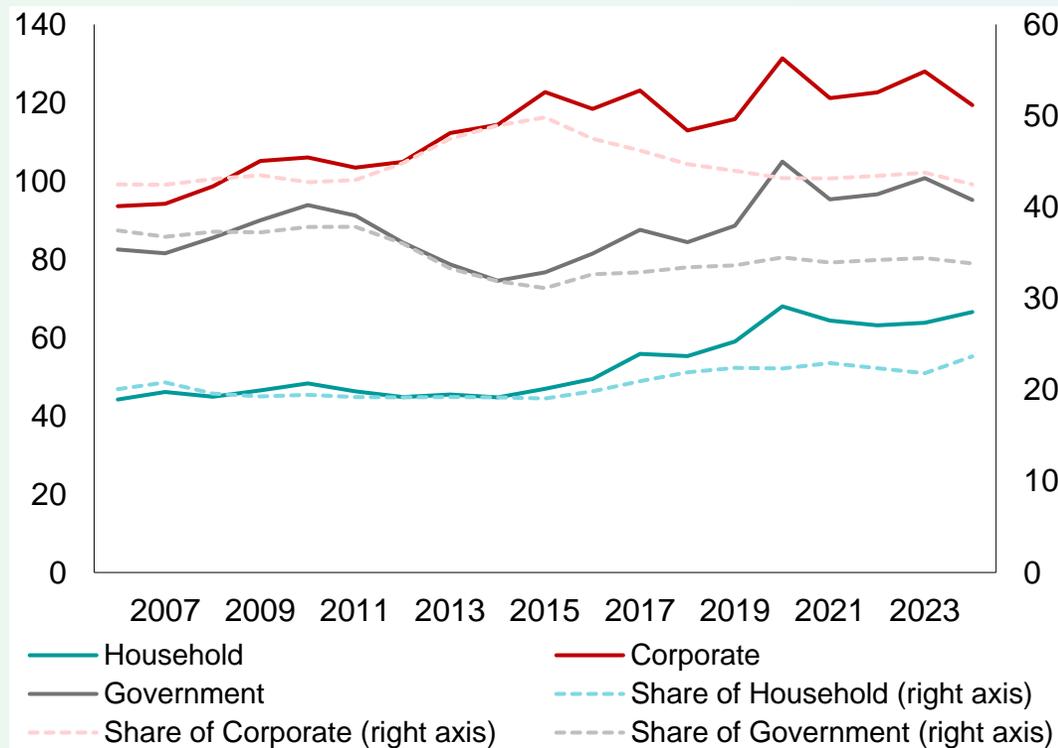
US: Inflation and Fed Policy Rate
(Percent)



Source: Cbonds, AMRO staff calculations.

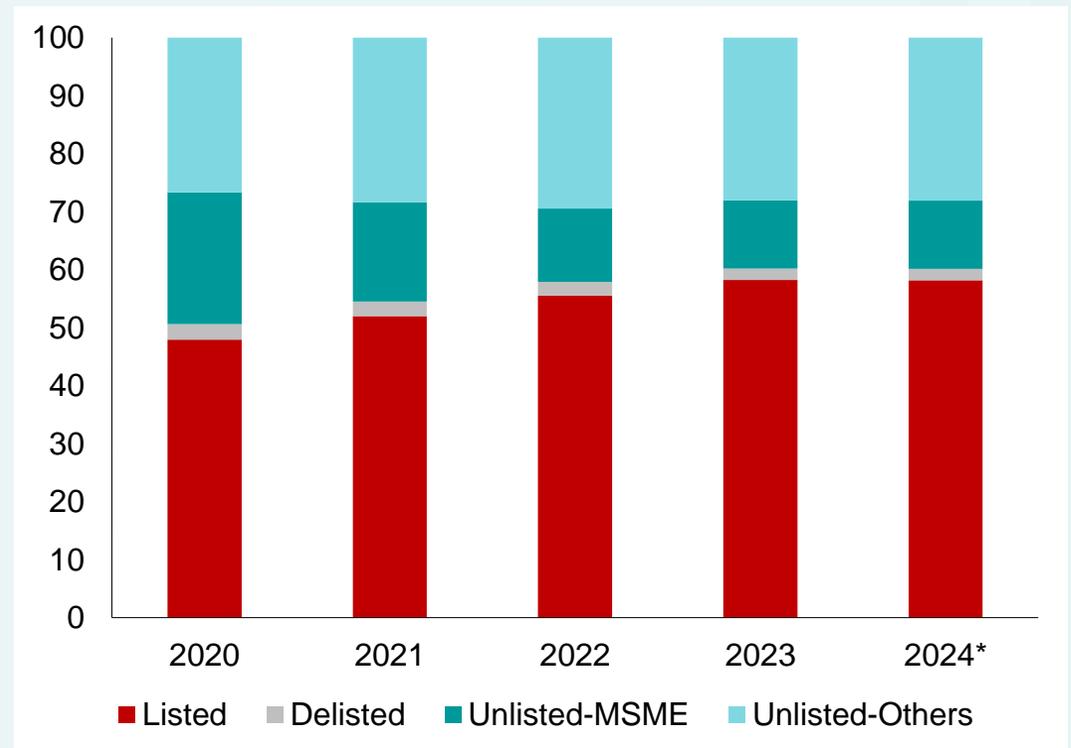
The other risk comes from the debt buildup post-pandemic, which can create vulnerabilities if interest rates stay higher for longer.

Selected ASEAN+3: Corporate, Government and Household Debt
(Percent of GDP, Percent)



Source: Bank for International Settlements (BIS); AMRO staff calculations.
Note: Data covers all economies reporting nonfinancial debt data to the BIS. Selected ASEAN+3 includes China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Singapore, and Thailand. Government debt data for these economies in nominal value, except for Korea, which reports market value.

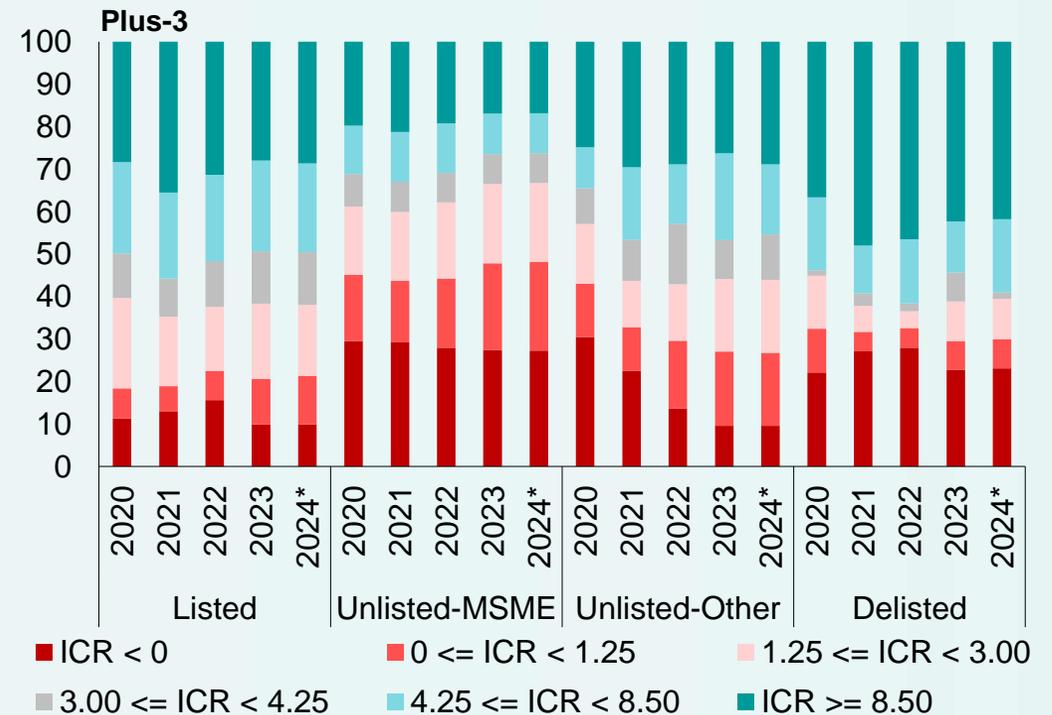
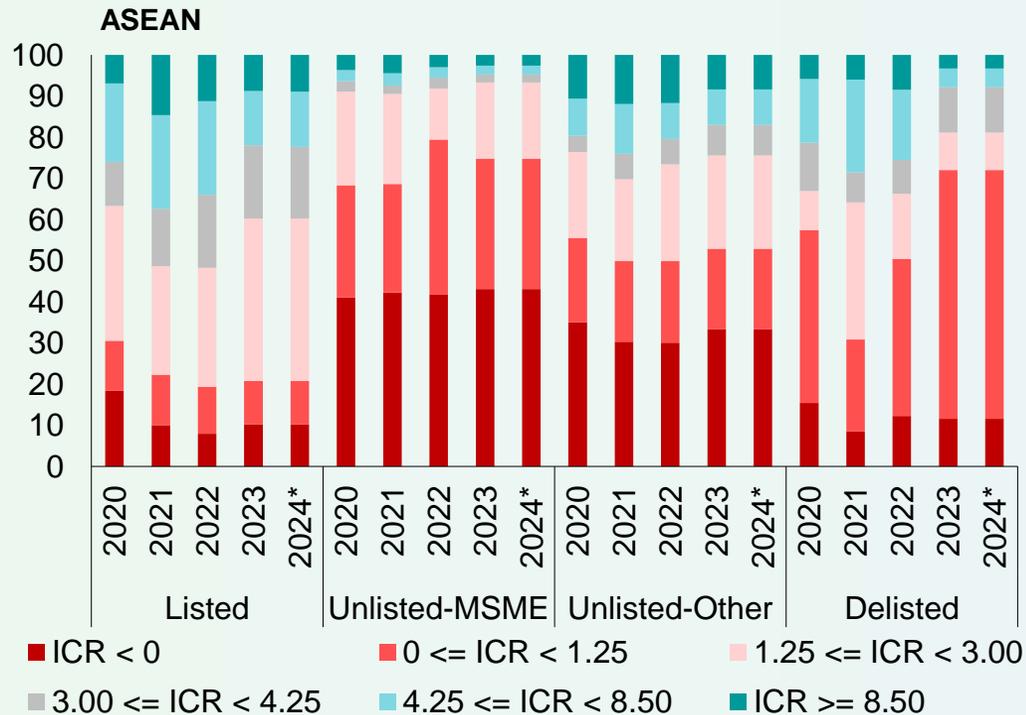
ASEAN+3: Share of Corporate Debt by Firm Type
(Percent)



Source: Orbis; AMRO staff calculations.
Note: MSME = micro, small, and medium enterprise. Unlisted-Others refers to other sub-groups than MSMEs in the "unlisted" category.

Our analysis of interest coverage ratios (ICRs) shows that many unlisted firms (especially MSMEs) could face difficulties due to high interest rates.

ASEAN+3: Share of Corporate Debt by Interest Coverage Ratio (ICR) Range
(Percent of debt)

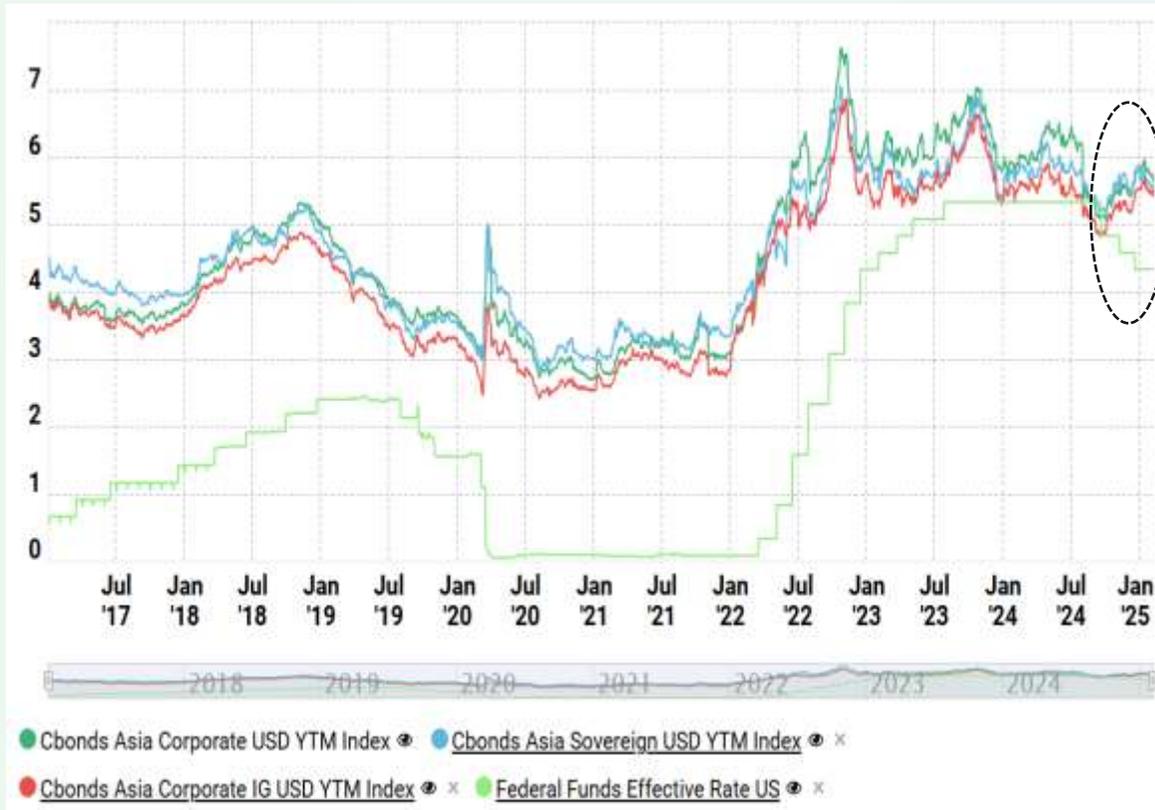


Source: Orbis; AMRO staff calculations.
 Note: MSME = micro, small, and medium enterprise; ICR = interest coverage ratio.

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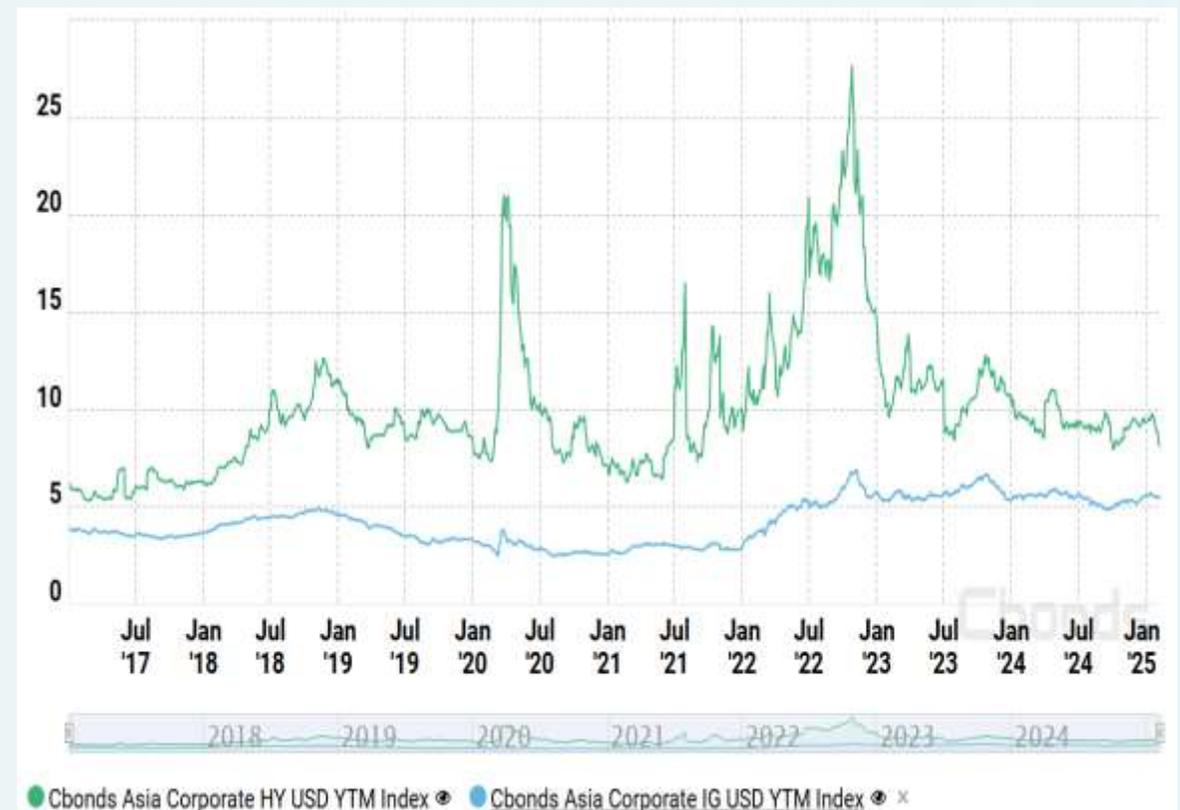
The uncertainty is reflected in the Asia USD corporate yields, which have inched higher despite the Fed's easing. The risk of credit events or growth shocks could trigger another sell-off in HY credit.

**Asia: Sovereign and Corporate Against US Fed Fund Rates
(Percent)**



Source: Cbonds, AMRO staff calculations.

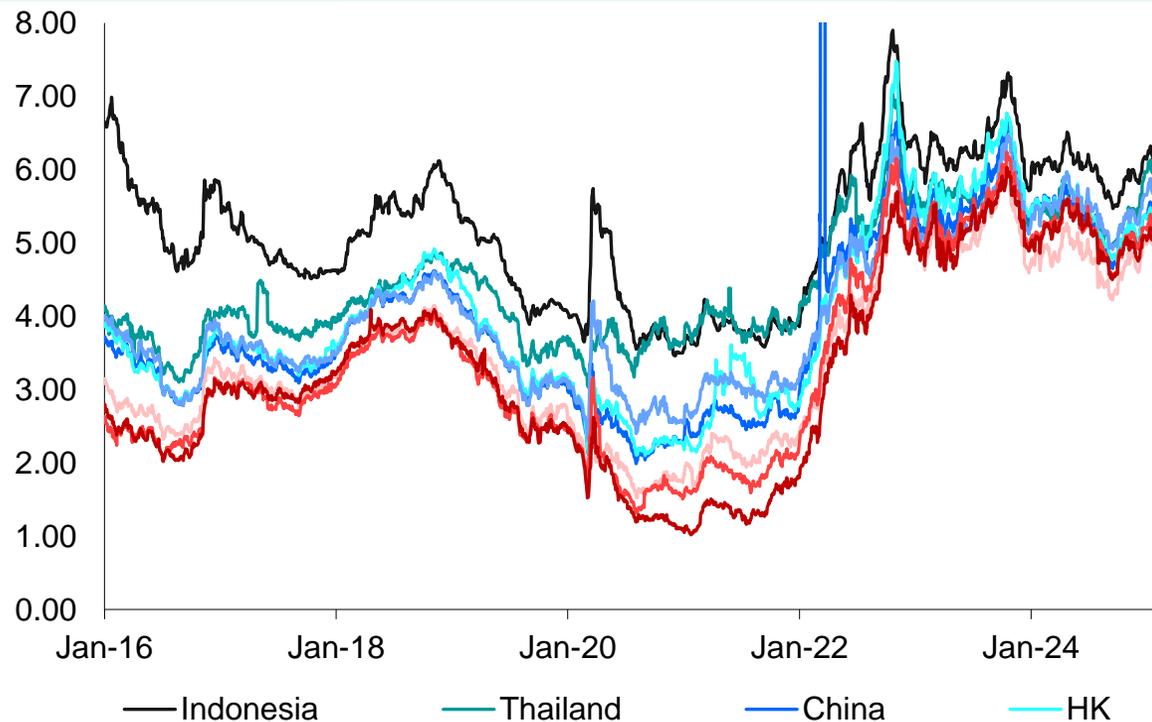
**Asia: IG vs HY Corporate Yield
(Percent)**



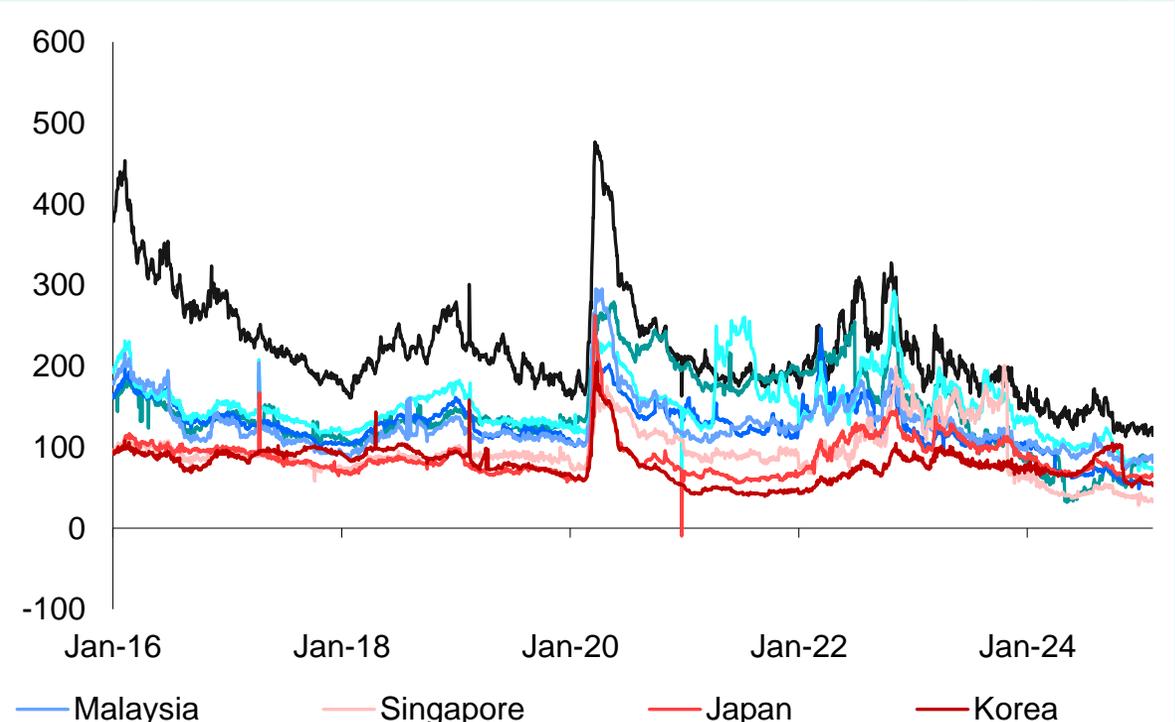
Source: Cbonds, AMRO staff calculations.

That said, the dispersion of corporates IG yields and the level of t-spreads among ASEAN+3 economies have reduced, reflecting an overall improvement in investor sentiment towards corporate bonds.

Selected ASEAN+3: Investment Grade Corporate Yields
(Percent)



Selected ASEAN+3: Investment Grade Corporate T-Spreads
(Basis points)

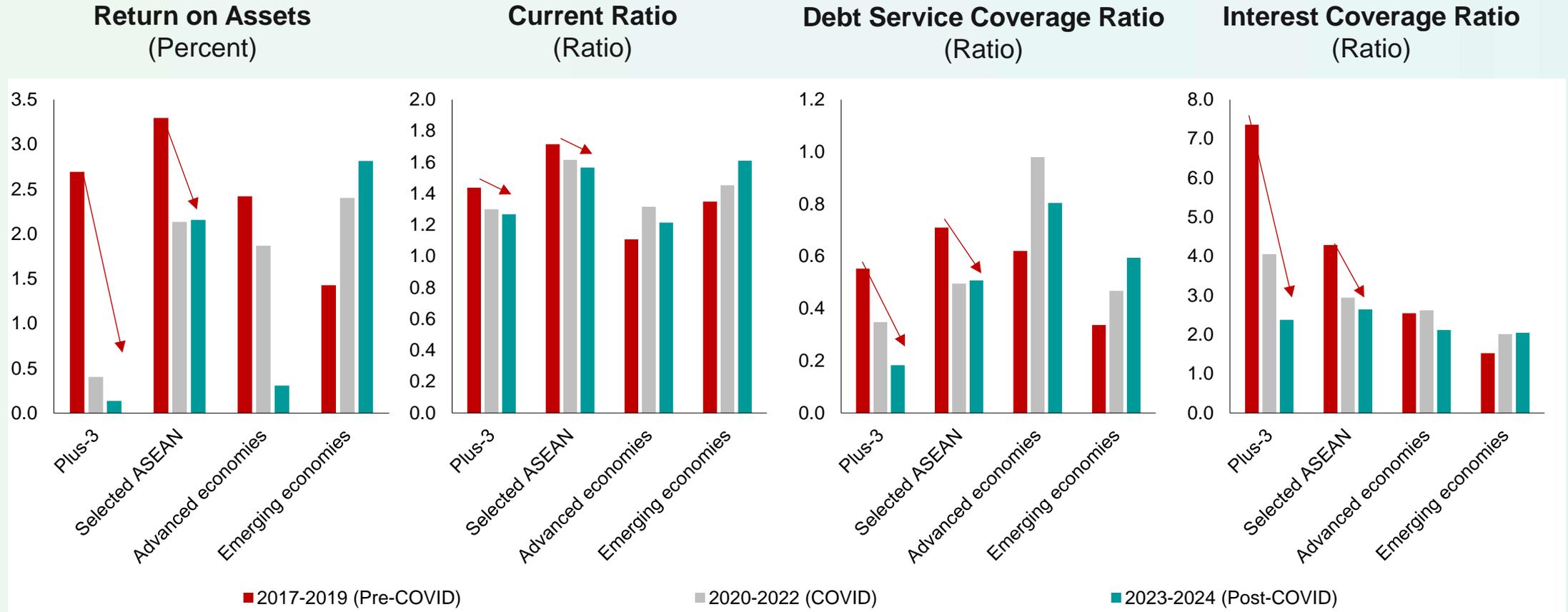


Source: Cbonds, AMRO staff calculations.

Note: The series are arranged in descending order of the average yield from 2016 to 2025.

The property sector remains a potential stress point for the region. Many key performance ratios for the sector in ASEAN+3 have deteriorated.

Selected Regions

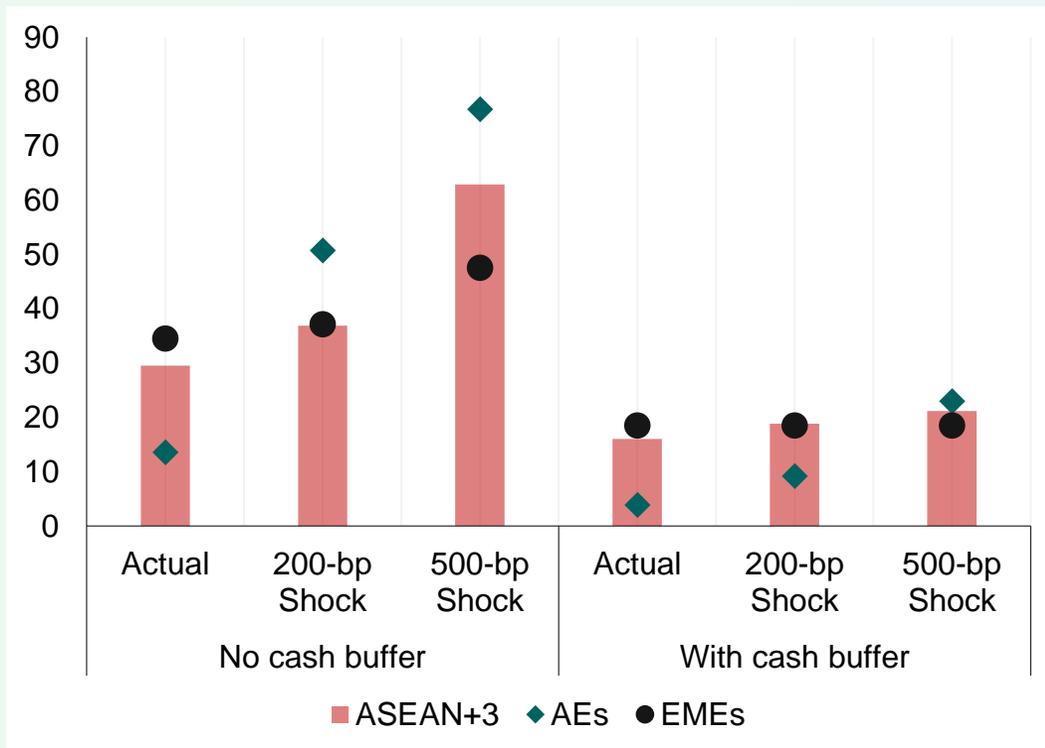


Source: Orbis; AMRO staff calculations.

Note: Return on assets = Net income / Total assets. Current ratio = Current assets / Current liabilities. Debt Service Ratio = EBITDA (Earnings before interest, taxes, depreciation, and amortization) at time t / (Interest expense at time t + Principal on short-term debt at time t-1, due at time t). Interest Coverage Ratio = EBIT (Earnings before interest, taxes) at time t / Interest expense at time t. The sample consists of publicly listed property construction, developers, and real estate firms. Selected ASEAN economies = Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam. Plus-3 economies = China, Hong Kong, Japan, and Korea. The benchmark advanced and emerging market economies are those with at least 20 listed real estate companies in the Orbis database and are grouped according to the IMF classification (<https://www.imf.org/en/Publications/WEO/weo-database/2023/April/groups-and-aggregates>). The values for each group were calculated as simple averages.

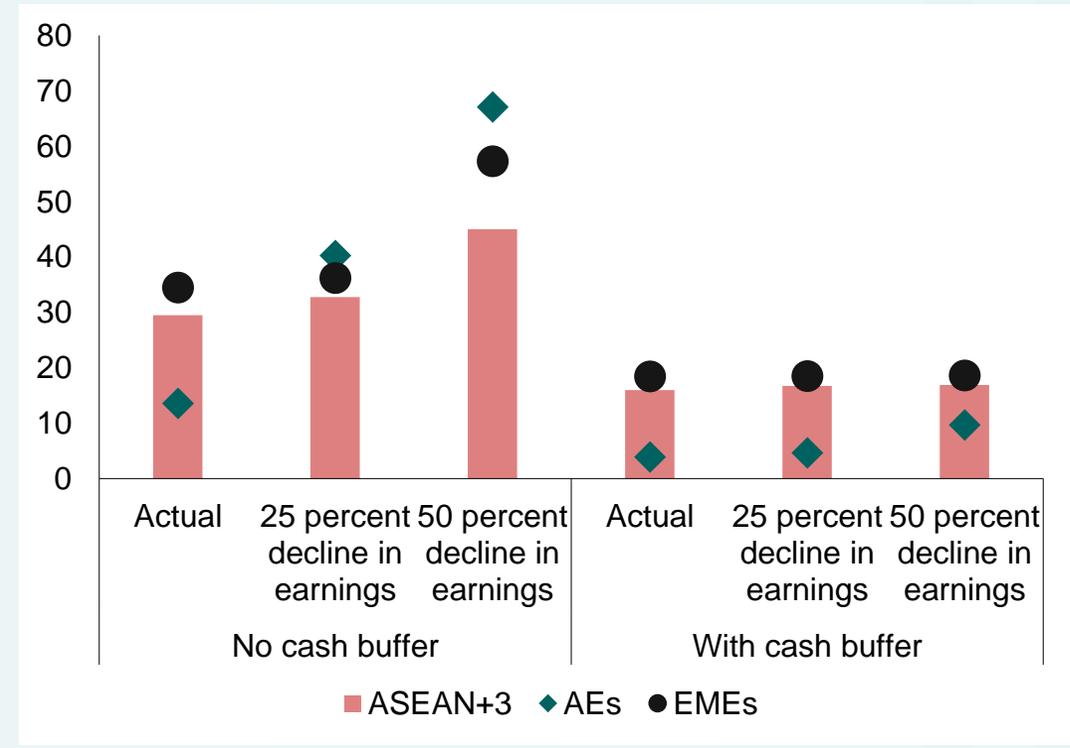
However, the ratios are still in line with the global average. If an interest rate shock occurs, the ratio of the debt under stress will rise materially. However, cash buffers of the sector may soften the blow.

Selected Regions: Share of Debt Under Stress by Funding Cost Shock, 2023 (Simulation Results)
(Percent)



Source: Orbis; AMRO staff calculations.
 Note: AEs = Advanced economies; EMEs = Emerging market economies; Interest Coverage Ratio = EBIT (earnings before interest, taxes)/interest expense. A rise in funding cost is assumed to affect interest expense but not EBIT. 'Actual' refers to the real data in 2023. 'Shock' refers to a 200-bp or 500-bp increase in funding rate. The scenarios indicating "no cash buffer" consider only EBIT in servicing interest expense while the scenarios indicating "with cash buffer" also include cash and cash equivalents in servicing interest expense. Due to data availability, Brunei Darussalam, Cambodia, Lao PDR, and Myanmar are not included in the ASEAN+3. AEs refer to selected advanced economies in western Europe and North America. EMEs refers to selected emerging market economies in eastern Europe and Latin America.

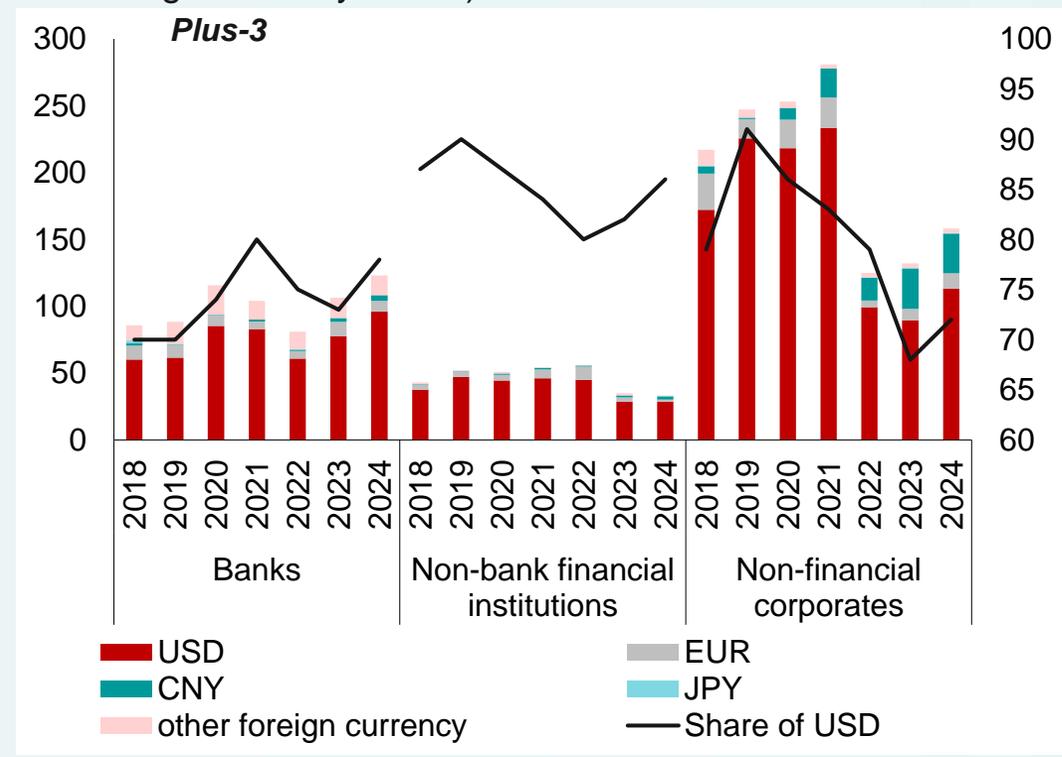
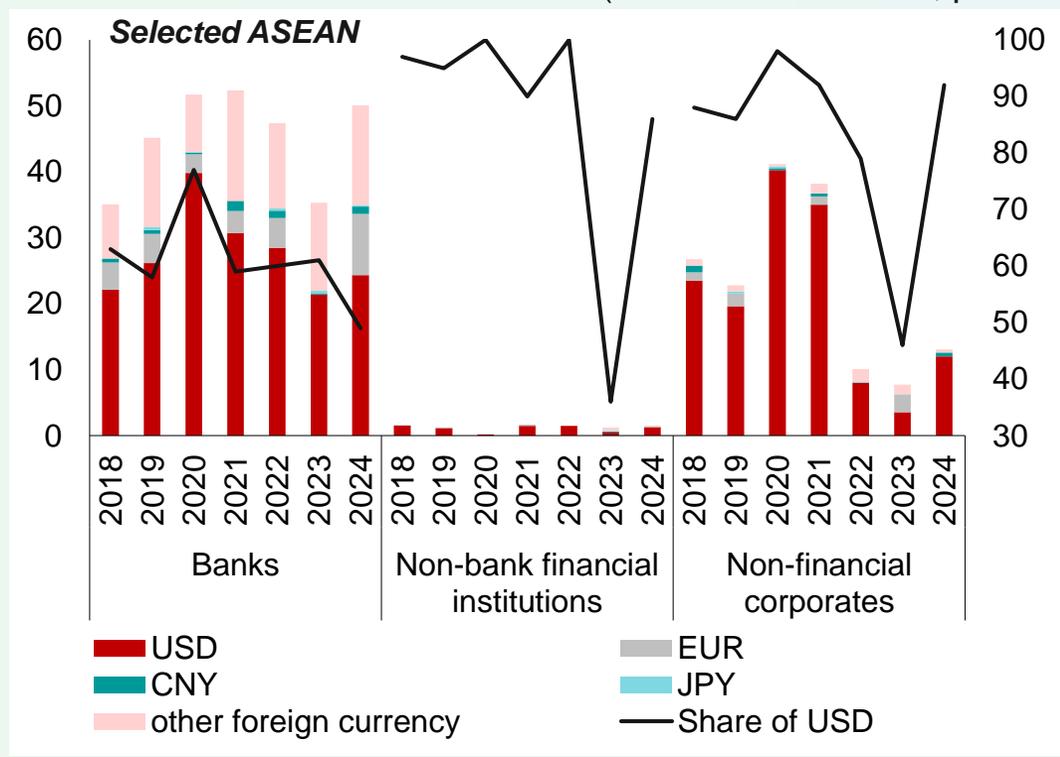
Selected Regions: Share of Debt Under Stress by Earning Shock, 2023 (Simulation Results)
(Percent)



Source: Orbis; AMRO staff calculations.
 Note: AEs = Advanced economies; EMEs = Emerging market economies; Interest Coverage Ratio = EBIT (earnings before interest, taxes)/interest expense. A decline in earnings is assumed to affect EBIT but not interest expense. 'Actual' refers to the real data in 2023. 'Shock' refers to a 25 percent or 50 percent decline in earnings. The scenarios indicating "no cash buffer" consider only EBIT in servicing interest expense while the scenarios indicating "with cash buffer" also include cash and cash equivalents in servicing interest expense. Due to data availability, Brunei, Cambodia, Lao PDR, and Myanmar are not included in the ASEAN+3. AEs refer to selected advanced economies in western Europe and North America. EMEs refers to selected emerging market economies in eastern Europe and Latin America.

The interest rate hikes in 2022-2023 led to a sharp reduction in debt issuances, but it has increased again in 2024. Despite higher interest rates, USD remains the favored currency for debt issuance.

Selected ASEAN+3: Bonds Issued in US Dollar and Other Foreign Currencies
(Billions of US dollar, percent of total foreign currency bonds)

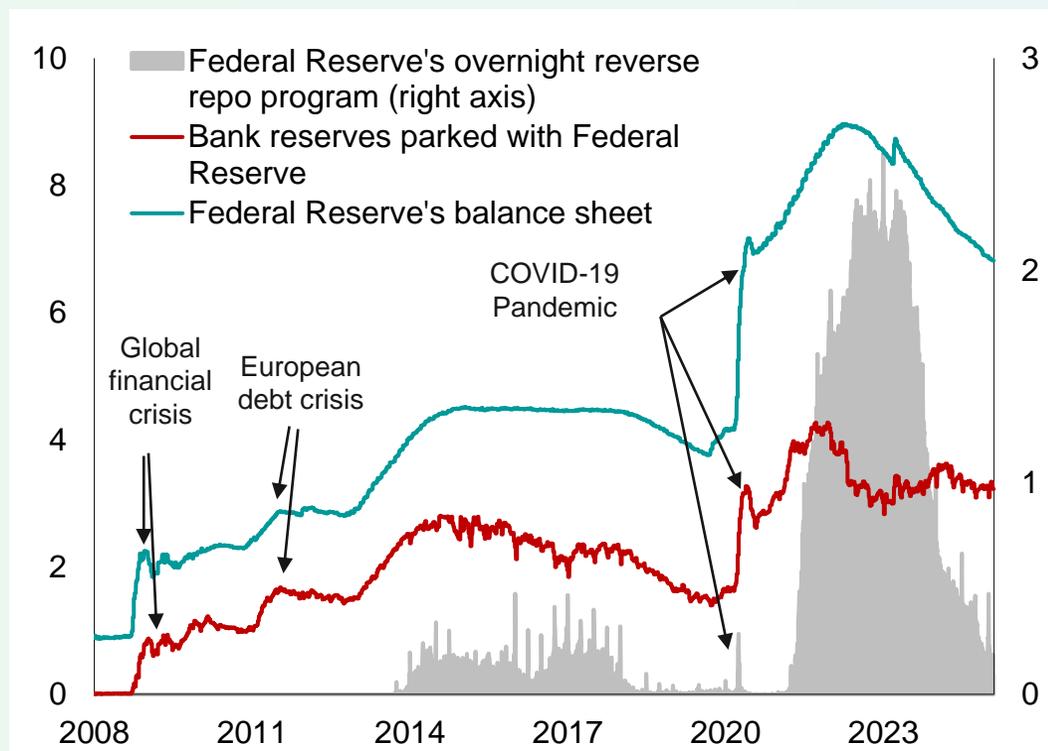


Source: Cbonds, AMRO staff calculations.
Note: Economies included in the analysis are Indonesia, Malaysia, Singapore, Thailand, the Philippines, and Vietnam.
CNY = Chinese renminbi; EUR = Euro; JPY = Japanese yen; USD = US dollar.

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Note: Economies included in the analysis are Indonesia, Malaysia, Singapore, Thailand, the Philippines, and Vietnam.
CNY = Chinese renminbi; EUR = Euro; JPY = Japanese yen; USD = US dollar.

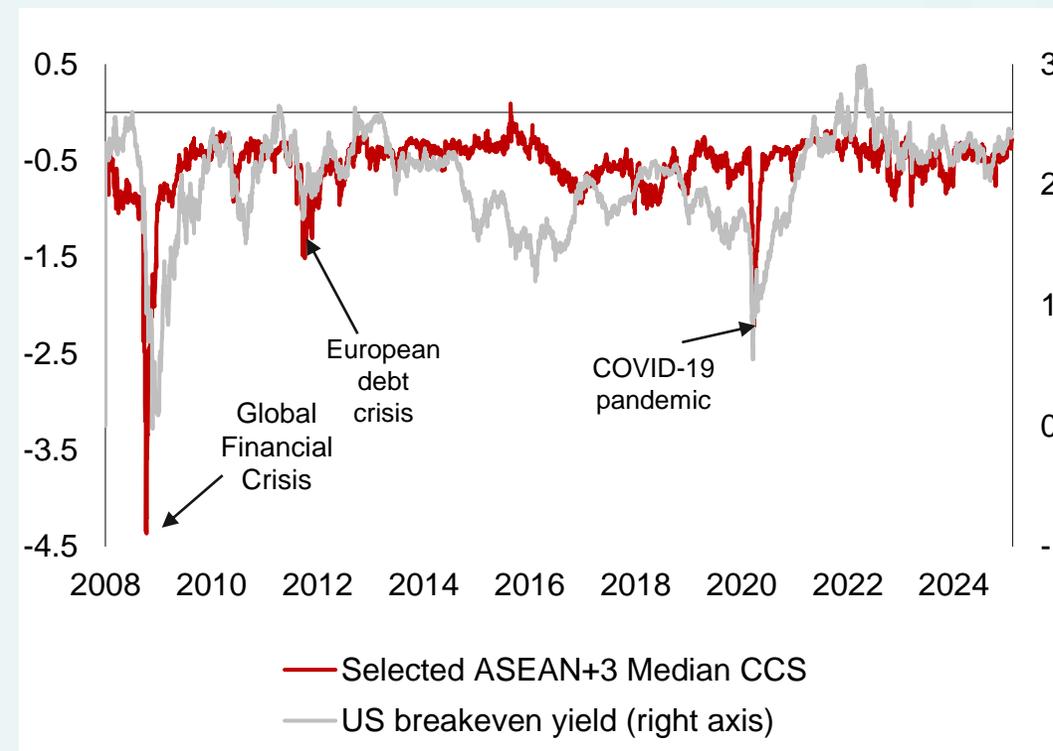
Though US dollar liquidity is receding at the margin, the funding conditions are still easy. That said, stress in global financial markets can create funding shortages.

US: Proxies for Surplus US Dollar Liquidity
(Trillions of US dollar)



Source: Cbonds, Bloomberg Finance L.P., AMRO staff calculations.
Note: Data for Federal Reserve's overnight reverse repo program begins in September 2013.

Selected ASEAN+3: Median Cross-Currency Basis and US Breakeven Yields
(Percent)



Source: Cbonds, Bloomberg Finance L.P., NUS Credit research Initiative (NUS-CRI), AMRO staff calculations.
Note: Due to data unavailability, economies in selected ASEAN+3 only includes China, Hong Kong, Japan, Korea, Malaysia, Singapore, and Thailand.

Policymakers should remain vigilant, prioritizing resilience-building and fostering regional cooperation.



Inflation Resurgence

- Remain vigilant regarding the upside risk to inflation
- Maintain price stability by both monetary and non-monetary measures



Increasing Debt

- Monitor financial imbalances and rebuild policy buffers
- Prevent a buildup of risks through macroprudential tools



Geopolitical Escalation

- Enhancing the resilience of the macro-financial system
- Swiftly facilitate orderly market adjustments to external shocks



Longer-term Risks

- Climate change and green finance
- Digitalization

