


## Emerging Sovereign Bond Markets *NEWS* Week 16 – 22 May 2009 Number 11

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### ASIA

### China

### China bond yields fall ahead of 3-year auction

18 May 2009

Provided by: [Reuters News](#)

\* **Strong demand expected at Wednesday 3-yr bond auction**

\* **Secondary market yields seen falling up to 10 bps further**

**\* Bill, bond investments may rise as loan growth slows**

By Karen Yeung

SHANGHAI, May 18 (Reuters) - **China's bill and bond yields mostly fell on Monday and trading volume expanded with the approach of Wednesday's three-year government bond auction, which is expected to attract strong demand.**

Last week's weaker-than-expected April data for industrial output, exports and electricity generation cast doubt on the strength and sustainability of China's economic recovery, boosting demand for bonds.

**Longer-term bond yields in the secondary market, which have dropped seven to 10 basis points in the past month, may continue to ease by a similar amount in coming weeks, traders said.**

**"Banks are expected to support Wednesday's bond auction because there may be more disappointment in the data in coming months," said an analyst at a European bank in Shanghai.**

ING Bank forecast in a research note on Monday that the central bank would not change its monetary policy for the rest of this year.

The bank predicted that gross domestic product growth would not return to 8 to 9 percent until 2010, and only then would the central bank reverse last year's policy easing.

The indicative five-year government bond yield fell to a three-month low of 2.3773 percent bid on Monday from 2.3864 percent on Friday, according to Reuters Reference Rates.

**MONEY DIVERTED FROM LOANS**

**In the bills market, traders focused buying on tenors of six months and above as banks used money to buy bills and bonds that they would otherwise have moved into corporate lending.**

**"The market thinks bank loan growth will gradually ease, leaving more money for banks to buy bills and bonds," said an analyst at a mid-sized bank in Beijing.**

But they refrained from pushing bill yields of three months and below lower because of expectations that the central bank will not cut banks' reserve ratios and will conduct moderate net drains in its open market operations to put a floor under yields.

The one-year central bank bill yield slipped to 1.1970 percent bid on Monday from 1.1990 percent on Friday but the one-month yield rebounded to 0.9851 percent from a multi-year low of 0.9782 percent, which was only about 2 bps above the weighted average seven-day repo rate.

(Editing by Edmund Klamann)

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**China U.S. T-bond holdings hit record high by May 18**

18 May 2009

Provided by: [Xinhua's China Economic Information Service](#)

BEIJING, May 18 (Xinhua) - **China's U.S. Treasury bond holdings increased 23.7 billion U.S. dollars in March alone to arrive at 767.9 billion dollars by the end of the first quarter of 2009, according to the latest U.S. Treasury statistics.**

**Of the total 767.9 billion inventory, long-term T-bonds contributed 576.7 billion and short-term ones continued this year's rising momentum to reach 191.2 billion by end-March, up 0.4 percent over February.**

Fang Shangpu, deputy director of the State Administration of Foreign Exchange, said the U.S. Treasury data may include domestic financial institutions' increased holdings in March.

Statistics with China's central bank show that China's foreign exchange reserve added 41.7 billion dollars in March.

**It is estimated that China has increased its holdings of U.S. Treasuries by over 270 billion dollars so far this year.**

Additionally, many other countries raised their U.S. Treasury stocks in March. Of those countries, Japan ranked the second with 686.7 billion dollars holding by end March.

Enditem

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Xinhua's China Economic Information Service

**China bond yields down after strong 3-year auction**

20 May 2009

Provided by: [Reuters News](#)

**\* Liquidity slightly tighter vs Q1, but still loose**

**\* Bill curve stops steepening, may flatten**

By Karen Yeung

SHANGHAI, May 20 (Reuters) - **China's bond yields fell on Wednesday after a strong auction of three-year bonds by the finance ministry, reflecting loose liquidity in the market and expectations that it will remain ample.**

The ministry sold three-year government bonds at a yield of 1.55 percent, at the bottom of market forecasts which centred around 1.59 percent and ranged from 1.55 to 1.63 percent.

The issue was increased to 27.3 billion yuan (\$4 billion) from 26 billion yuan to reflect strong demand, while the bid-to-cover ratio was a healthy 1.68 times.

The auction yield came in well below Tuesday's indicative secondary market yield of 1.7018 percent bid for three-year government bonds. The yield fell to a five-week low of 1.7000 percent on Wednesday, according to Reuters Reference Rates.

**Demand at the auction was bolstered by expectations that the central bank will keep liquidity loose in coming months until it can**

**confirm that the economic recovery is sustainable. Banks also favoured the relatively liquid three-year bond maturity, which was auctioned for the first time this year on Wednesday.**

**China International Capital Corp said in a research note on Wednesday that, although liquidity had tightened in April compared with the previous quarters because of an increase in real interest rates, as consumer price deflation persists, it was still near its historically loosest levels.**

"Banks are happy to buy bonds before the public holidays (on May 28 and 29) because of ample liquidity and expectations that policy will be very quiet," said a trader at an Asian bank in Shanghai.

**In the bills market, traders avoided bills of up to six months while focusing on buying bills of two years and above because of uncertainty over the outlook for the economic recovery.**

**The curve, which had been widening in the first four months of this year due to recovery hopes, may stabilise or even flatten slightly in coming months until there are signs that the economic recovery is solid enough to allow the central bank to tighten quantitative policy, traders said.**

"The bill curve may flatten slightly in coming months because of uncertainty over the outlook of the recovery and monetary policy," said a trader at a U.S. bank in Shanghai.

The two-year central bank bill yield eased to a five-week low of 1.6440 percent bid on Wednesday from 1.6470 percent bid on Tuesday but the 90-day yield rose to 1.0130 percent bid from 1.0120 percent on Tuesday and 1.0110 percent on Monday, rebounding marginally after nearing a multi-year low of 0.9933 percent hit in late March.[...]

(Editing by Edmund Klamann)  
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## **China yields down on 3 strong govt bond auctions**

22 May 2009

Provided by: [Reuters News](#)

**\* Three strong govt bond auctions driven by liquidity**

**\* C.bank unlikely to tighten before private sector picks up**

**\* Expected rise in GDP growth not seen lifting yields sharply**

By Karen Yeung

SHANGHAI, May 22 (Reuters) - **China's bond yields mostly fell on Friday after three strong auctions of government bonds, reflecting very loose money market liquidity.**

**The finance ministry auctioned 16.9 billion yuan (\$2.5 billion) of three-year bonds on behalf of the regional governments of Guangxi, Beijing, Shanghai and Hebei at a yield of 1.67 percent, down from the 1.71**

**percent yield at the previous sale of regional government bonds last Wednesday.**

Although the bid-to-cover ratio was only a moderate 1.39 times, the auction yield was slightly below Thursday's indicative secondary market yield of 1.6873 percent bid for three-year central government bonds, according to Reuters Reference Rates.

In response to the auction, the secondary market central government bond yield fell to a six-week low of 1.6582 percent on Friday, marking its biggest daily drop since mid-February.

**The ministry also auctioned 15 billion yuan of 91-day central government bonds** at a yield of 0.8252 percent, down from the 0.8507 percent yield for bonds with that maturity sold on May 8 and the 0.8684 percent yield for such bonds auctioned on April 24. The bid-to-cover ratio was a strong 2.09 times.

**In addition, it auctioned 15 billion yuan of 182-day bonds** on Friday at a yield of 0.8520 percent, down from the 0.9117 percent yield for such bonds sold on April 24. The bid-to-cover ratio was a strong 2.03 times.

**Traders said strong demand at the three auctions reflected expectations that May economic data would mainly be driven by government-infrastructure spending rather than private-sector investment, fuelling uncertainty over the sustainability of the current economic recovery.**

**The central bank is likely to keep liquidity ample until it can confirm that private investment is picking up, and because lending is expected to continue dropping in May from April's 592 billion yuan and March's record high 1.89 trillion yuan, traders said.**

**"Headline GDP is expected to improve gradually in coming quarters but the central bank may want to prevent yields from surging before confirmation of improvement in the private sector," said a trader at a mid-sized bank in Shanghai.**

### **LOOSE MONETARY POLICY**

**DBS Bank said in a research note on Thursday that state-owned enterprises would have to support the economy until the global financial crisis is over, putting stress on their profits while the government would subsidise any losses.**

**"Against this backdrop, monetary policy is likely to remain loose for a considerable period of time," it said.**

In the bills market, yields were narrowly mixed with banks growing cautious about bidding them lower as they approached multi-year lows and as longer-term worries about a re-emergence of inflation have not been dispelled.

There were no signs of fund companies shifting money into the bill market despite a third consecutive day of declines on the stock market. Traders doubted widespread talk in the market that the central bank might soon cut banks' reserve ratios and continued to believe the bank was unlikely to conduct large enough net

injections in its open market operations in coming months to push the seven-day repo below the bottom of its 0.9 to 1.0 percent range, which has prevailed since the start of the year. "Bill yields may not rise because the central bank is still cautious about shifting towards a tighter policy at the moment. But it is unnecessary for the bank to loosen in the foreseeable future," said a trader at a fund company in Shanghai. The 90-day central bank bill yield eased to 1.0100 percent bid on Friday from 1.0110 percent on Thursday but the two-year bill yield edged up to 1.6450 percent bid from a one-month low of 1.6440 percent.[...]

(Editing by Edmund Klamann)  
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## Hong Kong

### Bankers urge government to do more for bond market

16 May 2009

Provided by: [China Daily - Hong Kong Edition](#)

HONG KONG: ***The government's plan to issue bonds regularly will go a long way in facilitating the development of a sufficiently large and mature bond market in the city that will match its status as an international financial center, bankers said.***

***HSBC executive director Peter Wong, however, said the government should do more than its current plan of offering for sale only HK\$10 billion worth of bonds every year as this volume is unlikely to meet strong demand in the market.***

He said the current scale of the government's planned bond issue program should be expanded and it should also kickstart its bond issue program as soon as possible.

The Hong Kong government plans to issue Hong Kong dollar-denominated bonds up to four times a year or one bond issue every quarter under a proposed bond program.

***The government will sell around HK\$10 billion of bonds annually until it raises up to HK\$100 billion for a bond fund under the Public Finance Ordinance.***

"The government's bond sales program will serve as a strong driver for the development of the local bond market," said Anita Fung, head of Global Markets (Asia-Pacific) at HSBC.

"If the program adopts a mechanism, as planned, to issue bonds regularly with different maturities, it will continuously provide benchmarks for bond pricing," she told reporters at a press briefing on Friday.

***The city's efforts to develop a sufficiently large and mature bond market have been unsuccessful so far due mainly to the absence of an effective pricing mechanism, analysts have noted.***

The total worth of bonds issued by the government stood at HK\$230 billion at the end of 2008 while those issued by non-government institutions amount to HK\$560 billion currently, HSBC's Fung said.

The amount of bond issues pales in comparison with a total deposit of HK\$3 trillion in the city's banking system.

The lack of pricing mechanism, in turn, was due to the low liquidity in the secondary bond market, they said, adding that the lack of pricing mechanism has hindered companies' moves to raise funds through bonds.

"Previously, investors, who bought bonds, tended to hold the bonds up to maturity, therefore causing illiquidity in the secondary market," explained Daniel Chan, a senior investment strategist at DBS Bank.

***"Now, the government's plans to issue bonds quarterly will provide an effective pricing mechanism," he said.***

***Meanwhile, bankers said currently strong demand for bonds from investors who wish to diversify their investment portfolios amid uncertainties in equity markets also creates a favorable environment for the government to succeed in its renewed efforts to fully develop the local bond market.***

Figures from HSBC showed that demand for bonds from retail investors doubled in the first three months of this year.

"The strong demand was probably due to investors' desire to diversify their investment in risk-aversion moves," HSBC's Fung said.

She said institutional investors, such as insurers and MPF fund managers, also have strong demand for bonds.

***Another favorable factor that will likely give a boost to the government's latest drive to develop the local bond market is the keen desire of companies to raise funds for future expansion when the global economic downturn ends.***

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China Daily - Hong Kong Edition

### Low rates tipped to spark bond sales

21 May 2009

Provided by: [The Standard](#)

***Government bond sales may benefit from a low- interest rate environment as investors will want higher returns in the long term, market players said.***

HSBC (0005) yesterday cut its savings rate by 0.9 basis points to a mere 0.001 percent. But Justin Chan, a member of the Treasury Markets Association and head of Hong Kong trading at HSBC, said the development was not negative.

***A "zero" interest rate market could push investors to seek higher and stable returns, and they might target high credit government bonds, although bond yields will be hurt.***

**``Secondary bond market transactions in the first four months at our bank doubled, which is encouraging and shows rising investor interests," Chan said.**

The TMA set up a working group last June to enhance the local bond market.

The association supports the continuous selling of government bonds to develop a successful local bond market.

But the association declined to suggest a yield level that would be attractive to investors.

``It all depends on the market situation when the bonds are launched ... it's too early to tell," it said.

**The government has tabled a motion in the Legislative Council to set up a fund for the bond program. It expects to issue the first batch of bonds in the third quarter at the earliest.**

Source : The Standard.

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The Standard

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## India

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### Bond dealers pin hopes on lower rates

18 May 2009

Provided by: [The Economic Times](#)

**MUMBAI: The near decisive mandate to the United Progressive Alliance (UPA) has kindled hopes in India's bond and money markets of a continued bias in favour of a soft interest rate regime.**

**Dealers in the bond market are hopeful that the new government could resort to disinvestment of state-owned units besides auction of 3G spectrum - two moves which could help meet the government's huge funding requirement and restrict forays to the bond market to raise money.**

**The government's record borrowing programme has been weighing heavily on the bond market since January this year, rendering RBI's multiple rate cuts ineffective. But market participants say the stunning verdict in favour of the UPA may facilitate a soft interest rate regime in the form of lower government borrowings.**

"With the government getting a more complete mandate for governance, it may tap the divestment route for any incremental stimulus spending," said B Prasanna, head of ICICI Securities Primary Dealership, a leading bond house. However, he does not expect the government to deviate too much from the current borrowing programme.

**The government plans to raise a record Rs 3.62 lakh crore by selling bonds in the current fiscal year as it spends more to counter the impact of the global economic slowdown.** The 10-year benchmark paper which had touched an

all time low of 4.86% in January shot up in the weeks following this announcement. It touched 7.4% in April.

**RVS Shridhar, head of markets in Axis Bank says that the biggest impact of a stable government could be continuance of good liquidity in the system. "Market sentiment has improved considerably, this could lead to better portfolio and Foreign Direct Investment (FDI) flows," he said. This, he feels, should be more than sufficient in absorbing the worst case scenario of the government announcing any new borrowings.**

**But other market players point out that the euphoria surrounding the UPA's victory should not blind the market and investors to the grim economic realities. A sharp dip of 2.3% in industrial output in March - the worst in 16 years - will present an immediate challenge to the new government of reviving market confidence.**

These dismal numbers came after three rounds of fiscal and monetary stimuli from the government and the RBI.

**"The private sector is not likely to invest and the global economy is still to recover - so the government has no option but to step in," said Ritesh Jain, head of fixed income at Canara Robeco Mutual. "Then there are also concerns about the central bank having to eventually unwind its easing policies once inflation picks up," he added.**

**The new government is also expected to go ahead with its plan to create a Public Debt Management Office (PDMO) which will take away the job of managing government borrowings away from the RBI.** The announcement was made in the last budget of the government, but since then there has been little progress.

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The Economic Times

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### Indian bond yields rise as auction size increased

19 May 2009

Provided by: [Reuters News](#)

**\* Concerns about widening fiscal deficit push yields up**

**\* Size of next two auctions raised by 25 pct to 150 bln rupees**

By V. Ramakrishnan

MUMBAI, May 19 (Reuters) - **Indian federal bond yields rose on Tuesday as increase in the size of auctions scheduled for this week and next worried traders that government could plan to tap markets for more funds than expected.**

**After market hours on Monday, the central bank said the size of bonds auctions this week and next week would be increased by 30 billion rupees (\$630 million) to 150 billion rupees .**

Dealers said that might be a sign of deterioration in government finances or point to a boost in social spending after the Congress-led coalition swept back to power with a decisive mandate in the general election.

The benchmark 10-year bond yield ended at 6.39 percent, off an intraday high of 6.44 percent but still above Monday's close of 6.31 percent. It had fallen to a two-week low of 6.20 percent in early trade on Monday.

"For every downward movement of 3-4 basis points (in yield), there can be an upward movement of 10-15 basis points," said K. Ramkumar, head of fixed income at Sundaram BNP Paribas Mutual Fund.

"This market doesn't have the capacity to digest negative news. So this negative news of increased borrowing is something the market is not able to digest," he said.

In its interim budget in February, the government said it planned to borrow a record 3.62 trillion rupees in 2009/10, and the market has worried that final borrowing could be even higher.

**The combined fiscal deficit of the federal and state governments is running at about 10 percent of GDP, and analysts said it could widen further if the government did not tap other revenue sources such as asset sales.**

The government is selling 60 billion rupees of 6.07 percent 2014 bonds, 50 billion rupees of 6.35 percent 2020 bonds, 20 billion rupees each of 8.24 percent 2027 bonds and 7.50 percent 2034 bonds at Friday's auction.

(Editing by John Mair)

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## Indian bond yields up ahead of \$3.2 bln auction

21 May 2009

Provided by: [Reuters News](#)

**\* Government to sell 150 bln rupees of bonds on Friday**

**\* Cbank only buys 60 pct of offered amount at buyback auction**

By Neha D'silva

MUMBAI, May 21 (Reuters) - **Indian federal bond yields rose on Thursday as traders positioned for a 150 billion rupees (\$3.2 billion) bond auction on Friday, and the market is waiting for an update on the government's longer-term borrowing needs.**

Dealers said there was enough cash in the market for the auction to be smoothly absorbed, even though the central bank only bought 36.4 billion of bonds out of a potential 60 billion rupees at buyback auction on Thursday.

The 10-year benchmark bond yield ended at the day's high of 6.43 percent, above Wednesday's close of 6.35 percent. It hit a low of 6.34 percent in early deals.

Volumes were an average 57.70 billion rupees, with the 2019 bond being most traded.

**"The buyback result provides a good yield signal to the market, and the buyback of the partial amount shows that the bids may have come at a higher amount," said a fixed income trader at Axis Bank.**

**"The underwriting commission for the bond auction also indicates there could be a good bidding interest," he said, because a low commission is a signal of expected strong demand.**

**The cut-off yields at the buyback auction were in line with market expectations even though the central bank bought a smaller amount than it had offered. Dealers said the buyback bonds were illiquid and mostly held by state-run banks.**

Data showing annual wholesale price inflation running at 0.61 percent on May 9, matching expectations, had little impact.

Friday's auction and one next week have both been increased by 30 billion rupees from the originally scheduled size, which had raised concerns the government might tap markets for more than the forecast gross market borrowings of 3.62 trillion rupees in 2009/10.

**Traders said debt markets would remain contained until the ruling Congress-led coalition, which on the weekend won an unexpectedly strong mandate in national elections, announced its revised budget and market borrowing plan for 2009/10.**

Cash conditions in the banking system remained easy, with banks depositing 1.306 trillion rupees with the central bank via its reverse repo window on Thursday.

(Editing by John Mair)

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## Indonesia

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### Economist blames Indonesian Govt for continuing rise in Debt

19 May 2009

Provided by: [Asia Pulse](#)

JAKARTA, May 19 Asia Pulse - **The amount of Indonesia's foreign and domestic debts is continuing to rise because the state's decision makers are ignoring their constitutional duty to keep the public sector under state control and manage it to the people's maximum benefit, an economist said.**

**"During the past five years, there has been no visible effort by the government to consistently minimize debts. A fact is that our foreign debt has continued to increase and this situation was exacerbated by an escalation in domestic debt," said Revisrond Baswir, an economist at Airlangga Univeristy, here Monday.**

He said, according to statistical data, Indonesia's foreign debt due in 2009 totaled more than US\$6,485 million or three times the amount that was repayable in 2008.

Meanwhile, the statistical data had also shown that from 2004 to 2009, Indonesia's outstanding foreign debt had increased from Rp1,275 trillion (US\$122.4 billion) to Rp1,667 trillion. In addition, domestic debt had risen from Rp662 trillion in 2004 to Rp920 trillion in 2009.

**Baswir said the sharp increases in foreign and domestic debts were caused by a combination of a number of factors such as inappropriate spending of state budget funds in the field, mismanagement of potential sources of state revenue, inept efforts to restructure state-owned enterprises.**

"To free the country from the stranglehold of its debts, the government under any president or people in power must return to what the constitution expects them to do because this is what they failed to do so far," Baswir said.

Citing examples of the government's failure to meet its constitutional mandate, Baswir referred to the electricity law which the Constitutional Court had found to be in violation of the constitution, the law on non-oil/non-gas trade which also proved to run counter to Article 33 of the 1945 Constitution which says that all things involving the livelihood of the people at large must be controlled by the state and be made to benefit the people maximally.

(ANTARA)

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## Indonesia debt swap gets strong demand

19 May 2009

Provided by: [Reuters News](#)

**JAKARTA, May 19 (Reuters) - Investors swapped 1.248 trillion rupiah (\$120.5 million) of Indonesian government debt maturing in 2009-2013 for bonds maturing in 2024, the finance ministry said on Tuesday, representing strong demand compared with a recent offering.**

**Investors swapped the shorter term government bonds with fixed rate bonds maturing in 2024 coded FR0044.**

That compared to the 30 billion rupiah (\$2.90 million) for a swap offer in March when demand was relatively weak when investors favoured short-term bonds to reduce risk.

"As yields have started to ease, government offers should get strong demand as the yield of long-term bonds is relatively favourable," said Handy Yuniarto, a fixed income analyst at Mandiri Sekuritas.

The 15-year bonds were priced to yield 12.26226 percent in the debt swap.

(Reporting by Tyagita Silka and Dicky Kristanto; Editing by Ed Davies)

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## Philippines

### Philippine Debt-Yields may fall on April budget surplus data

18 May 2009

Provided by: [Reuters News](#)

**MANILA, May 18 (Reuters) - Philippine debt yields may fall 5 to 10 basis points this week on expectations the budget data for April will be stronger than expected and growing hopes the central bank would cut interest rates at a policy meeting next week, traders said on Monday.**

The market expects a budget shortfall after the main tax agency said on Wednesday it failed to hit its revenue target during the traditionally strong revenue month of April as income tax payments fell because of a slowing economy.

But Finance undersecretary Gil Beltran said on Monday the government had a budget surplus last month. He did not provide more details. The Finance department is set to announce official April fiscal data later on Monday at 0600 GMT.

**A budget surplus last month would ease pressure on the government to raise borrowings, but analysts still expect public finances to deteriorate this year as economic growth slows and force Manila to raise spending to compensate.**

"A better-than-expected budget performance in April should lessen the compulsion for the government to borrow at higher rates," said a trader from a local bank. "So, this is good news."

Yields were mostly steady across the curve on Monday. Secondary market transactions totalled about 9 billion pesos by noon on Monday, with most deals on the 5-year debt, compared with 14 billion pesos for the whole of Friday.

The government had a 119.7 billion pesos budget shortfall in the first three months of the year, above the 110 billion pesos deficit target, as it accelerated spending to deal with the impact of the global downturn.

**Traders said ample liquidity in the financial system, a favourable inflation outlook, and expectations of more rate cuts in the coming months should push down yields further.**

The central bank, which meets on May 28 to set policy rates, has said it sees room to further ease monetary policy to spur consumption-driven growth amid slowing inflation. The overnight borrowing rate presently stands at a 17-year low of 4.5 percent after the central bank slashed rates by a total of 1.5 percentage points since December.

The government will sell 7.5 billion pesos (\$157 million) worth of T-bills at 0500 GMT. Traders said yields should be steady to lower than

secondary market rates. Best bid for the benchmark 91-day T-bill was at 4.4854 percent on Monday. [...]

(Reporting by Karen Lema; Editing by Kazunori Takada)  
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## South Korea

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### President calls on Asia to enlarge Bond Markets

18 May 2009

Provided by: [Korea Times](#)

By Na Jeong-ju

Staff Reporter

**President Lee Myung-bak urged Asian countries Monday to step up efforts to expand the regional bond market as part of measures to strengthen financial integration.**

**He also warned of rising protectionism in the global economy, saying the continent needs to pursue free trade for economic growth and prosperity.**

Lee made the remarks during his meeting with 29 journalists from ASEAN, an economic block of 10 Southeast Asian nations, at Cheong Wa Dae. The journalists arrived in Seoul for a four-day visit, during which they will cover Korea's preparations for the ASEAN+Korea summit scheduled from June 1 to 2 on Jeju Island.

They will also report on Korea's cultural and tourism infrastructure to their countries to meet the growing public interest in hallyu, or Korean culture wave, a presidential spokesman said.

**“The global bond markets are heavily dependent on the United States. The expansion of Asian bond markets is already a shared goal among ASEAN leaders,” Lee said.**

**“It is important to strengthen regional financial cooperation to tide over the current economic crisis. I hope the planned summit will be an opportunity to boost partnerships and discuss pending issues, such as the bond market initiative.”**

Earlier this month, Seoul agreed to provide a total of \$19.2 billion to the Asia Joint Fund, the Asian version of the International Monetary Fund, to help fight a regional financial crisis. Japan and China will each offer \$38.4 billion to the fund, while the remaining \$24 billion will be contributed by the 10 ASEAN member countries — Singapore, Malaysia, Laos, Brunei, the Philippines, Thailand, Vietnam, Indonesia, Myanmar and Cambodia.

The effort will help Asian countries grow closer and have a stronger say on the global stage, Lee said.

Asia's move to enlarge bond markets reflects concerns that the continent is relatively vulnerable to an external shock because of a heavy dependence on U.S. and European

investors. Many Asian countries have struggled with a severe dollar shortage since last summer as foreign investors dumped local stocks and for dollars in the wake of the global credit squeeze. Experts say the unstable foreign exchange rate has negatively affected corporate activity and household consumption by aggravating uncertainties in the regional economy.

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### South Korea's Foreign Debt falls in Q1

21 May 2009

Provided by: [Asia Pulse](#)

SEOUL, May 21 Asia Pulse - **South Korea's foreign debt declined in the first quarter as local banks repaid overseas borrowing amid easing global financial turmoil, the central bank said Thursday.**

The country's foreign debt stood at US\$369.3 billion as of the end of March, down 3.1 per cent from three months earlier and marking the second consecutive quarter of fall, according to the Bank of Korea (BOK).

In the fourth quarter, Korea's overseas debt declined by a record US\$45 billion as lenders repaid short-term borrowing by tapping foreign currency liquidity provided by authorities, it added.

"The country's overseas debt fell last quarter as the current account swung to the black and local banks paid back overseas borrowing," an official at the BOK said.

**The banking sector's foreign debt stood at US\$161.9 billion as of the end of March, down US\$9.79 billion from the previous quarter, it said.**

**The data comes as local banks, saddled with high overseas short-term borrowing, had been suffering from dollar shortages in the wake of the collapse of Lehman Brothers Holdings Inc., sparking concerns they may face difficulty in meeting financial needs and servicing their debt.**

**But as the country's trade surplus is rising and local banks are making efforts to borrow overseas, foreign currency liquidity conditions are improving, making it easier for local banks to rollover their overseas borrowing.**

South Korea's net external debt reached US\$23.9 billion as of end-March, down from a net debt of US\$32.6 billion the previous quarter, the BOK added.

South Korea's growing foreign debt, coupled with a deficit in its current account, led the country to become a net debtor for the first time in eight years in the third quarter of 2008.

(Yonhap)

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## Thailand

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### Thailand: Bond Market Condition

21 May 2009

Provided by: [Thai News Service](#)

Section: Business News - The Nation

***The Thai bond yield curve is one of the steepest in the region, with the spread between the two and 10-year yields at around 240 basis points.***

***Despite the central bank nearing the end of its easing cycle, with consensus expecting the Bank of Thailand to deliver a final 25-bps cut to 1 per cent on May 20, flush liquidity domestically should keep frontend yields low.***

Meanwhile, the broad theme for Asian regional bond markets this year has been the underperformance of longend bonds due to supply pressures, and Thailand is no exception.

Moreover, comments from the authorities recently that an extra Bt800 billion of government borrowing will be needed to fund the Bt1.43trillion fiscal stimulus plan over the next three years have exacerbated the bearishness at the long end over the past couple of weeks.

Going forward, investors will be concerned about what this means for government bond supply, as the more supply there is, the more bearish it is for the market.

Recent reports suggest that of the Bt800 billion to be borrowed by the government, Bt400 billion could be raised very soon, assuming there is no blockage by the courts.

Hence, additional supply may flood the market during fiscal years 2009 and 2010.

***One notable observation is that yield curves tend to flatten at the end of easing cycles, in preparation for the next hiking cycle.***

***However, we conjecture that the Bank of Thailand will keep policy rates on hold for a considerably longer period than usual, with the next hike not forecast until 2011.***

***Therefore, we expect the Thai yield curve to remain steep, with the bias skewed towards even further steepening in the coming months.***

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## EUROPE

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### Czech Republic

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### Demand thinner at Czech 15-year bond auction

20 May 2009

Provided by: [Reuters News](#)

***PRAGUE, May 20 (Reuters) - The Czech Republic sold less of its new 15-year government bond than planned on Wednesday, showing dampened demand for longer-dated issues compared to recent well-bid shorter maturity auctions.***

The Finance Ministry sold 5.35 billion crowns (\$272.8 million) worth of the 5.7 percent coupon paper due in 2024 in the first round of its inaugural auction.

Demand reached 8.31 billion in the first competitive round, above the 6.8 billion on offer. The paper was sold with an average yield of 5.798 percent.

The closest-dated other Czech bond due in 2022 was quoted on Wednesday with a yield of 5.738/5.507 percent.

"Demand was not that high but it was more or less to be expected because it (the maturity) is not really interesting for everyone," said fixed income trader Dalimil Vyskovsky of Komerční Banka.

"At first glance it looks negative but just a little bit more negative than expected."

He said it should have limited impact on secondary market prices, while upcoming short-term auctions should still see good demand.

The Czechs plan another auction of the new 15-year bond in June along with sales of a variable rate 3-year bond and 10-year paper.

An auction last week for the 3-year floating rate bond sold 6.8 billion of the paper, while demand was more than triple that, mainly coming from domestic accounts.

***Dealers and analysts have said that the government has covered most of its borrowing needs this year after having sold more than 100 billion crowns worth of domestic bonds this year, along with 1.5 billion euros in euro-denominated bonds.***

Central European assets have come back in favour since March, lifted by International Monetary Fund pledges to make funds available for countries struggling in the global downturn.

European Union members Hungary, Romania and Latvia have reached for IMF lifelines, while Poland, a country in better shape, applied for a flexible credit line. But the Czechs have said they do not need external help.

***The Czech budget deficit is seen tripling this year to 4.5 percent of gross domestic product, and could grow larger still next year when a new government, saddled by bold spending promises, takes power after early elections this autumn.***

***Like other export-reliant economies in central Europe, Czech industry has seen declines of over 20 percent due to faltering western demand for its cars and electronics, which has led to rising joblessness and strained government coffers.***

(Reporting by Jason Hovet; Editing by Toby Chopra)  
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## Hungary

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### Hungary considers foreign currency bond -finmin

20 May 2009

Provided by: [Reuters News](#)

**BUDAPEST, May 20 (Reuters) - Hungary will consider selling foreign currency denominated bonds later this year as investor confidence in the country has improved, Finance Minister Peter Oszko was quoted as saying.**

"It's our plan that later in the year we will consider the issuance of foreign-exchange based government bonds," he said in an interview with Bloomberg on Tuesday.

Oszko did not disclose the size or yield of the possible issue.

Finance Ministry press chief Ferenc Pichler confirmed that Oszko spoke in the interview about a possible foreign currency bond issue.

**"We do not need the proceeds from a foreign currency issue as our financing is solved but we consider such an issue which would ensure that we are present in the market," Pichler said.**

His comments follow a rebound of the assets of Central Europe's emerging markets in the past weeks, which were hit hard late last year and early this year by the global credit crunch and a rise in risk aversion in global markets.

The Czech Republic sold 1.5 billion euros worth of 5-1/2 year bonds on international markets at the end of April and Poland may issue dollar-denominated bonds in late June.

Slovakia, which entered the euro zone this year, tapped international markets for the first time in two years earlier this month with a two billion euro bond issue.

Hungary, the first European Union member to resort to international aid amid the global financial crisis, secured a \$25.1 billion International Monetary Fund-led lifeline in October, which will expire early next year.

**The country's new government has announced spending cuts worth 1,300 billion forints (\$6.12 billion) for this year and next, contributing to an improved market sentiment over the last weeks.**

**Hungary's debt management agency AKK restarted regular forint-denominated bond auctions in April with small amounts, after the bond market was all but frozen for months. Short-term government bills continued to sell.**

(Reporting by Sandor Peto, editing by Mike Peacock)  
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### Hungary cuts 10-yr bond sale on global mood

21 May 2009

Provided by: [Reuters News](#)

**\* Hungary sells 3-yr, 5-yr bonds as planned**

**\* Hungary sells HUF 3.5 bln 10-yr bonds vs 5 bln offer**

**\* Hungary will not hold top-up auction**

**BUDAPEST, May 21 (Reuters) - Hungary sold three- and five-year government bonds as planned on Thursday but cut its 10-year bond auction as risk aversion rose again in international markets.**

The government sold 5 billion forints (\$23.52 million) worth of three-year 2013/D bonds and 5 billion forints of five-year 2015/A bonds, both in line with the original offer.

However, it cut the sale of 10-year 2019/A bonds to 3.5 billion forints from an original offer of 5 billion.

**The Debt Management Agency (AKK) said on its page that it would hold no top-up auctions like two weeks ago when it sold bonds worth altogether 20.5 billion forints.**

**Hungary's primary bond market was frozen for several months before the AKK relaunched bi-weekly bond auctions last month. It has also scaled back weekly short-term bond repurchases, indicating that the market may have started to consolidate.**

But the amounts sold at the restarted bond auctions remain low, demand remains heavily dependent on global market sentiment and it will take months or even a longer period for the country to return to market financing to replace international aid secured late last year.

"The international market mood is clearly worse today than it was two weeks ago," one Budapest-based trader said.

Another trader said: "Today was not a good day for the auction. It's not sure that this is a trend change (in the global market mood) but it is possible that sentiment will be worse in the coming weeks."

In Poland investors snapped up a 10-year bond on Wednesday, before Thursday's falls in equity markets in the world.

(Reporting by Sandor Peto, editing by Mike Peacock)  
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## Poland

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### Zloty expected to hold at EUR/PLN 4.30-4.40, T-bond could gain

21 May 2009

Provided by: [PAP Market Insider](#)

**Warsaw, May 21, 2009 (PAP) - The zloty will again look to global sentiment for direction**

**Thursday although little major movement is expected, while T-bonds may see a slight drop in yields, local players say.**

"The main factor affecting the zloty's rate today will again be global sentiment," BPH analysts wrote in their morning note.

"Interest in both directions is visible, I don't see any discernable trend," Millennium FX dealer Henryk Sulek told PAP. "I expect the zloty to range trade."

Analysts expect sentiment to be influenced by euro zone PMI and US economic growth data.

BPH analysts expect the zloty to stay in the range of 4.30-4.40 against the euro.

**T-bond market seems to be still affected by Wednesday macro data, which could result in further yields decrease.**

"The yields may continue to decline Thursday as a result of Wednesday auction and the macroeconomic data," BGZ bond trader Pawel Radwanski told PAP, referring to Wednesday's industrial output data.

Poland's industrial output declined by 12.4% y/y in April vs a 1.9% decline in March, on a monthly decline of 7.1%, the Central Statistical Office (GUS) said Wednesday.[...]

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PAP Market Insider

## Turkey

### **Bishkek Mayor: Turkey is ready to write off Kyrgyzstan's Debt**

21 May 2009

Provided by: [Asia Pulse](#)

**BISHKEK, May 21 Asia Pulse - Turkish authorities are ready to write off Kyrgyzstan's debt in exchange for the return of campus land area in the Jal microdistrict, Nariman Tyuleev, the Bishkek mayor said last Thursday.**

During the fifteen year reign of former Kyrgyz president Askar Akaev, Kyrgyzstan borrowed US\$54 million from Turkey.

"President of Turkey is ready to restructure credit if we return the campus land areas which we obtained from its leadership by court decision," Tyuleev added.

(TCA)

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## Ukraine

### **EBRD gives USD 250 million to Ukreximbank on terms of Subordinated Debt**

20 May 2009

Provided by: [Ukrainian News](#)

(Ukrainian News, Oleh Sorochan, 05/20/2009)

**The European Bank for Reconstruction and Development has allocated a subordinated loan of up to USD 250 million to the State Export-Import Bank of Ukraine (Ukreximbank) to support the continued funding of the Ukrainian real economy by one of the country's leading financial institutions.**

Ukrainian News learned this from a statement by Ukreximbank, the wording of which was made available to the agency.

The credit has been given for ten years.

**Part of the loan proceeds, up to USD 50 million, will be used to finance energy efficiency projects.**

**It is also envisaged that at least another USD 50 million will be allocated to export-oriented Ukrainian companies.**

Further details of the credit is not disclosed.

As Ukrainian News earlier reported, Ukreximbank ended January-March of 2009 with net profits of UAH 7.643 million.

The bank received UAH 622.141 million in profits for 2008.

As of April 1, 2009, its net assets were equal to UAH 51,069.9 million, credit portfolio UAH 42,946.9 million, equity capital UAH 8,192.4 million.

The state owns 100% of the shares in the Ukreximbank open joint stock bank.

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Ukrainian News

## LATIN AMERICA

### Brazil

### **Brazil domestic debt burden eases slightly in April**

21 May 2009

Provided by: [Reuters News](#)

**BRASILIA, May 21 (Reuters) - Brazil's domestic debt burden eased in April, the national Treasury said on Thursday, in a month where there was a concentration of bonds maturing.**

The debt totaled 1.261 trillion reais (\$618.7 billion) at the end of April, down 0.47 percent from the previous month.

**Fixed-rate bonds accounted for 28.51 percent of the debt in April, compared with 30.09 percent in March.**

**Floating-rate bonds accounted for 37.06 percent of the total in April, up from from 35.17 percent in March.**

**Inflation-linked bonds made up 30.59 percent of the total in April from 30.10 percent the month prior.**

The stock of federal foreign debt fell 6.29 percent to 122.25 billion reais, reflecting mainly Brazil's real strengthening against the dollar. The real gained 6.28 percent against the greenback in April.

The data also comes as Brazil's central bank cut interest rates at three consecutive meetings since the beginning of the year to a record low of 10.25 percent.

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## Colombia

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**Govt to ask congress to increase debt ceiling by US\$4.5bn**

20 May 2009

Provided by: [Business News Americas](#)

**Colombia's national government will ask congress for authorization to increase its debt quota for 2010 and the first months of 2011 by US\$4.5bn, paper La República reported.**

"The objective is to leave everything prepared for the new government, at least its first year of financing, so that in 2010 it can negotiate its debt quota for the four-year period," finance minister Oscar Iván Zuluaga was quoted as saying.

The increase is necessary to cover the government's financing needs for next year, ensure part of 2011, and enable the administration to take preventive action or take advantage of opportunities in case current conditions change. The government needs tools to continue investments under the national development plan, according to Zuluaga.

One of the most important initiatives in the plan is the Ruta del Sol highway, which will require around US\$2.5bn and will connect capital Bogotá to Santa Marta port, on the Caribbean.

The initiative is expected to be presented in congress next week.

<http://www.bnamericas.com>

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## AFRICA

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### South Africa

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**S.Africa global bond 3 times oversubscribed**

20 May 2009

Provided by: [Reuters News](#)

**\* Treasury says global bond oversubscribed**

**\* S&P rates bond at BBB+, Moody's at Baa1**

JOHANNESBURG, May 20 (Reuters) - **A South African \$1.5 billion 10-year global bond has drawn bids of more than \$6 billion, the National Treasury said on Wednesday.**

**The bond, issued on Tuesday, was arranged by Barclays, JP Morgan and Standard Bank. It was originally to raise \$1 billion but was increased due to the strong interest.**

**Standard & Poor's rated the bond at BBB+ and Moody's at Baa1, saying the ratings were supported by prudent macroeconomic policies and relatively low debt.**

"The ratings on South Africa are supported by its prudent macroeconomic policies, a moderate debt burden, and stable political institutions," S&P credit analyst Remy Salters said in a statement.

"These are balanced by continued high reliance on external portfolio inflows in the context of a large current account deficit, and severe structural socio-economic weaknesses."

**South Africa's current account deficit stood at 5.8 percent of GDP in the first quarter of this year, having narrowed from 7.8 percent previously.**

Salters said an orderly balance of payments correction and continued prudent fiscal policies would support the country's rating, while a loosening in policy would add downward pressure.

The agency cut the outlook on South Africa's sovereign rating to negative last year.

Rating agencies have voiced concerns about possible changes to economic policy under new President Jacob Zuma, due to the increased influence of his trade union and communist allies in the government. However, Finance Minister Pravin Gordhan has stressed the conservative stance of predecessor Trevor Manuel would continue.

S&P said South Africa's economy was likely to contract by 1.5 percent in 2009.

Africa's biggest economy has been hard hit by the global downturn, and is widely expected to have fallen into its first recession in nearly two decades in the first quarter of this year.

Moody's said growth would resume in the second half of the year after a "relatively brief" recession, helped by lower interest rates and higher government spending.

"Both domestic and external demand are weak, and the agency is also not optimistic that the economy will stage a more vigorous revival until sometime next year," said Kristin Lindow, Moody's Senior Vice-President.

**Lindow said South Africa's low level of external debt was a key factor behind Moody's positive outlook on the government's Baa1 foreign currency rating.**

"South Africa is issuing in the international capital market for the first time in two years," she said. "Its modest external financing requirements mean that the South African government only taps the market infrequently."

(Reporting by Gordon Bell; editing by David Stamp)  
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## ANALYSIS

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### China

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#### China grows more picky about Debt

21 May 2009

Provided by: [The New York Times](#)

**HONG KONG -- Leaders in both Washington and Beijing have been fretting openly about the mutual dependence -- some would say codependence -- created by China's vast holdings of United States bonds. But beyond the talk, the relationship is already changing with surprising speed.**

**China is growing more picky about which American debt it is willing to finance, and is changing laws to make it easier for Chinese companies to invest abroad the billions of dollars they take in each year by exporting to America. For its part, the United States is becoming relatively less dependent on Chinese financing.**

China has actually bought Treasury bonds at an accelerating pace over the last year -- notwithstanding Chinese officials' complaints about American profligacy. But the borrowing needs of the United States government have grown even faster. So China represents a rapidly shrinking share of overall purchases of Treasury securities. "China's demand for Treasuries has increased over the past year, but it hasn't increased at anything like the pace of the Treasury's sale of new Treasury bonds," said Brad W. Setser, a specialist in Chinese financial flows at the Council on Foreign Relations.

Americans and investors elsewhere are buying Treasuries instead. They are saving more and have been shifting out of other investments -- including equities until the past two months -- and into Treasuries.

**China bought less than a sixth of the Treasuries issued in the 12 months through March. Less than two years ago, by contrast, Chinese purchases of Treasuries, which included purchases in the secondary market as well as newly issued securities, briefly exceeded the entire borrowing needs of the United States.**

**Financial statistics released by both countries in recent days show that China paradoxically**

**stepped up its lending to the American government over the winter even as it virtually stopped putting fresh money into dollars.**

This combination is possible because China has been exchanging one dollar-denominated asset for another -- selling the debt of government-sponsored enterprises like Fannie Mae and Freddie Mac in a hurry to buy Treasuries. While this has been clear for months, new data shows that China is also trading long-term Treasuries for short-term notes, highlighting Beijing's concerns that inflation will erode the dollar's value in the long run as America amasses record debt.

**So China's rising purchases of Treasuries do not represent the confident bet on America's future that they might seem to be on the surface. For instance, China does not appear to be dumping euros or yen to buy Treasuries, economists said.**

**That said, recent Chinese and American data suggest that an astounding 82 percent of China's \$2 trillion in foreign reserves is in dollars, according to calculations by Standard Chartered.**

The development has caught the attention of the leaders of both countries.

"The long-term deficit and debt that we have accumulated is unsustainable -- we can't keep on just borrowing from China," President Obama said last Thursday.

Wen Jiabao, prime minister of China, also has expressed concern.

"We have lent a huge amount of money to the U.S. Of course we are concerned about the safety of our assets. To be honest, I am definitely a little worried," Mr. Wen said earlier this year.

China now earns more than \$50 billion a year in interest from the United States, Mr. Setser at the Council on Foreign Relations calculated.

**China's leaders were able to buy more Treasuries in recent months without buying more dollars because they have abruptly turned their back on the market for securities issued by government-sponsored enterprises. China was the world's biggest buyer of these securities a year ago, splashing out more than \$10 billion a month.**

But in the 12 months through March, it actually had net sales of \$7 billion, and ramped up purchases of Treasuries instead.

**China has also changed which Treasuries it buys.** It has done so in ways calculated to reduce its exposure to inflation or other problems in the United States. As recently as a year ago, China actively bought long-dated bonds, seeking the extra yield they could bring compared to Treasury securities with short maturities, of which China bought virtually none.

**But in each month since November, China has been buying more Treasury bills, with a maturity of a year or less, than Treasuries with longer maturities.** This gives China the option of cashing out its positions in a hurry, by

not rolling over its investments into new Treasury bills as they come due should inflation in the United States start rising and make Treasury securities less attractive.

***The big question now for policy makers and economists alike lies in whether the Chinese government's purchases of American securities will rise or fall in the coming months.***

Two big forces are at work -- but they are pushing Chinese investments in opposite directions and might cancel each other out.

***The first big shift is that Chinese foreign exchange reserves might start growing again, after shrinking early this year.***

A senior Chinese economic policy maker, Xu Lin, expressed concern here on Monday that the reserves might grow faster if speculators started pushing more foreign exchange into China in the months ahead.

***China is strongly opposed to any significant appreciation or depreciation of its currency, Mr. Xu said at a press conference.*** But if international investors conclude that the Chinese economy has stabilized ahead of economies elsewhere, they may start pumping more money into the Chinese economy, he said.

To keep its currency at the same level, the Chinese government buys foreign currency flowing into the country in excess of China's needs. If overseas demand for Chinese exports recovers, then China's trade surplus could start widening again as well. This would also tend to fatten Chinese reserves.

***But the countervailing trend is that the Chinese government is trying to foster channels for foreign currency to be pumped out of the country without the involvement of the central bank.*** The government has been buying a wider range of assets and encouraging the private sector to invest more money overseas.

"That's part of a strategic move by the authorities to diversify," said Wensheng Peng, the head of China research at Barclays Capital. "The reserves growth should accelerate because

of inflows, but it will not be as large as what we observed in 2007 and the first half of 2008."

The State Administration of Foreign Exchange, which is part of the central bank, issued draft regulations on Monday that would make it considerably easier for private companies to raise dollars in China to spend on overseas investments -- a step that would lessen the need for the Chinese government to buy up those dollars.

This spring China has also been stepping up its purchases of commodities, which are usually bought in dollars. Iron ore has been piling up on Chinese docks, government stockpiles of crude oil and grain are being expanded and stockpiles are being started for products like gasoline, diesel and sugar.

After six years of silence, China unexpectedly disclosed last month that it had been gradually buying gold from domestic producers. The country's reserves had climbed from 600 tons in 2003 to 1,054 tons, worth \$31.8 billion at prices late Wednesday.

The disclosure, which produced a frisson of excitement in gold markets, may have been aimed at reassuring a domestic audience that the Chinese government was not putting all the nation's savings into American dollars. But the actual investment was tiny compared with China's foreign exchange reserves -- and showed that China was accumulating gold at a much slower rate than foreign currency.

A person in periodic contact with China's central bank, who insisted on anonymity to preserve his access, said that a Chinese central banker complained to him last year that "we have so much money and there's so little gold, we can't buy much without driving up the price." [...]

(Source: Brad Setser, Council on Foreign Relations, from People's Bank of China and United States Treasury data)(pg. B9)

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