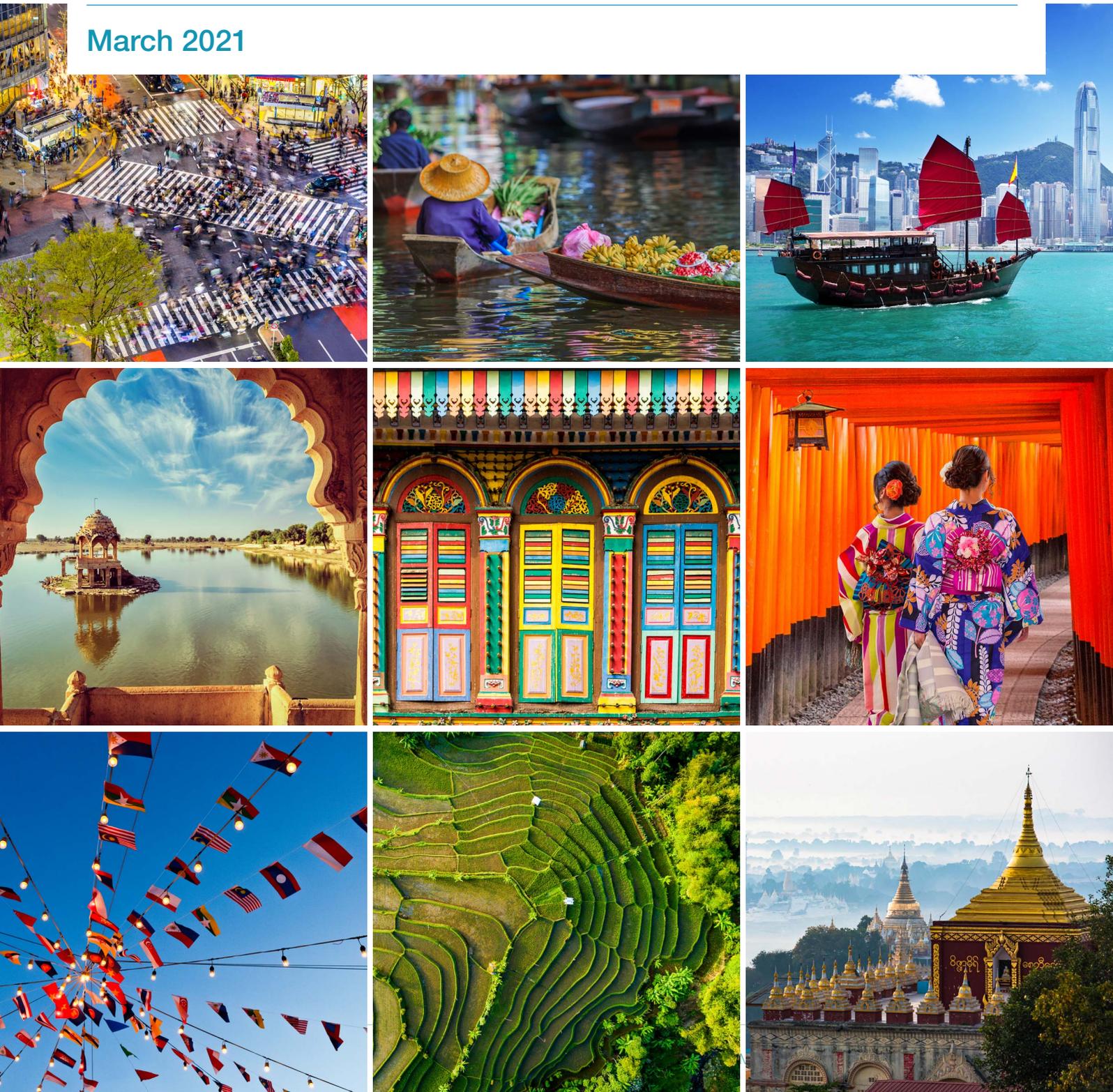


# The Asian International Bond Markets: Development and Trends

March 2021



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This report draws upon numerous interviews with market participants as well as discussions with the ICMA Asia-Pacific Bond Syndicate Forum and ICMA Asia-Pacific Legal and Documentation Forum. ICMA in particular would like to acknowledge Citi, Hong Kong Exchanges and Clearing Limited, HSBC, Standard Chartered, and Tradeweb for their contributions to the current report, as well as those who provided insights previously for [The Asia-Pacific Cross-Border Corporate Bond Secondary Market](#), 2018, and [The Internationalization of the China Corporate Bond Market](#), 2021. ICMA would further like to thank the various sources of data used in this report: Bloomberg, Dealogic, EquiLend, IHS Markit and MarketAxess.



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# Executive summary

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Annual issuance of cross-border bonds from Asia has increased more than fivefold from USD 107 billion in 2006 to USD 575 billion in 2020. In an effort to understand this remarkable growth, this report explores the evolution of the international bond market in Asia over the last 15 years and the influencing factors contributing to the current picture of overall regional market activity.

The report is in two parts, covering the primary and secondary markets. For the primary markets, this report examines issuances through multiple geographical lenses, by the location of arrangement and execution, the location of listing, the issuer's major place of business and the issuer entity's legal place of incorporation. China, India, ASEAN, and Japan, the main subregions in Asia, have all witnessed an increase in issuance volume over the past 15 years. Among them, international bond issuance from China has increased dramatically and now accounts for 40% of the international issuance volume in Asia. The growth of international bond market in Asia has been fuelled in large part by the steady entry of new issuers to the market.

The expansion of the international bond market in Asia has been supported by an increasing and more diverse investor base as well as the established professional services provided by lead managers and listing venues. Over the years, Asian financial centres have played a larger role and gained market share in arrangement and listing.

With respect to the secondary market, this report assesses liquidity conditions and then market structure and the dynamics that affect market liquidity. It also provides a short overview of recent market performance, particularly in light of the 2020 Covid-19 related turbulence.

Quantitative trade data for Asia international credit, suggest a relatively active and healthy secondary market. Occasional spikes in activity all correlate closely with 'risk-off' periods and a widening of regional credit spreads. The data further reveal the dominance of Chinese issues in the secondary market, very much reflecting the make-up of the primary market.

However, views on liquidity tend to be more nuanced among those interviewed in the market. The ability to trade in reasonable size is largely contingent on the issue size, and also whether it is a bid or an offer (with the former tending to be more liquid). The number of dedicated market-makers is also an important consideration, with interviewees noting that in the case of Chinese names, this can be extremely competitive, with both global and regional liquidity providers.

In terms of market performance, the Asia international credit market tends in general to track the movement of other international USD and hard currency credit markets. At a generic level, spreads tend to be driven more by international monetary policy than regional considerations, which continues to raise concerns among market participants about valuations and a disconnect between market levels and underlying fundamentals. However, sentiment remains positive, and investor demand for Asian bond issuance in the international market continues to grow.

# Introduction

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## Why this report?

This report aims to provide global market stakeholders with an overview of development and recent trends in the fast-growing international bond market in Asia.

This report also supplements two recent ICMA reports:

- [The Asia-Pacific Cross-Border Corporate Bond Secondary Market](#), 2018, which aimed to analyse and document the state and evolution of the international APAC credit markets, primarily from the perspective of USD, EUR, and GBP denominated issuance; and
- [The Internationalization of the China Corporate Bond Market](#), 2021, which focuses on China's domestic CNY and offshore (primarily USD denominated) corporate bond markets.

## Scope and methodology

The focus of this report is the international, offshore bond<sup>1</sup> market in Asia, which is most easily accessible to international market participants. This research covers trends in primary issuance in the international bond market as well as secondary market structure and trends in recent years.

In this report, ICMA combines quantitative data analysis where available with qualitative input from selected market participants. The quantitative data is taken from a variety of sources. The qualitative input was synthesised from a series of semi-structured interviews with relevant institutions, including regional banks, investors, trading venues, and market infrastructures (a list of participating institutions is provided in the acknowledgements). Interviews were conducted from November 2020 to January 2021. ICMA is grateful to the Hong Kong Monetary Authority for significant support on the quantitative data collection and analysis, as well as guidance on overall themes in this report.

## About ICMA

The International Capital Market Association is the trade association for the international capital market with around 600 member firms from more than 60 countries, including banks, issuers, asset managers, central banks, infrastructure providers and law firms. It performs a crucial central role in the market by providing industry-driven standards and recommendations for issuance, trading and settlement in international fixed income and related instruments. ICMA liaises closely with regulatory and governmental authorities, both at the national and supranational level, to help to ensure that financial regulation promotes the efficiency and cost effectiveness of the capital market.

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<sup>1</sup> Issues that are sold in a foreign market, in the Euro market, or globally.

# Primary Markets: Evolution, trends, and state of play

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## International bonds globally and in Asia

For any particular jurisdiction, the international bond market usually develops after issuers become seasoned in their domestic capital markets. Domestic borrowers tend to raise money in their own domestic market first, not only because their operations are in local currency, but also because they are more familiar with investors and regulations closer to home. As issuers gain experience, they may gradually tap another country's market with issuances in that country's currency, or issue bonds internationally in a global foreign currency and have them cleared through an international clearing house/ICSD. Unlike local currency bonds in the domestic market, international bonds are mostly for institutional investors and/or individual professional investors only.

Reasons for raising funds via international bonds include, but are not limited to, meeting foreign currency funding needs, managing funding costs and structure, diversifying funding channels and investor base, and raising profile in the international markets. For investors, international bond markets serve as a channel to get exposure to emerging market credits without setting up access to individual domestic markets and managing foreign exchange risks associated with local currencies. Investing in international bonds may also help with portfolio diversification and yield seeking, especially in emerging markets like Asia.

With the capital market becoming more mature domestically, more international bond issuances have come to the market. Domestic issuers are becoming more seasoned and seek to diversify their funding channels, while investor interest in emerging market credit has also increased.

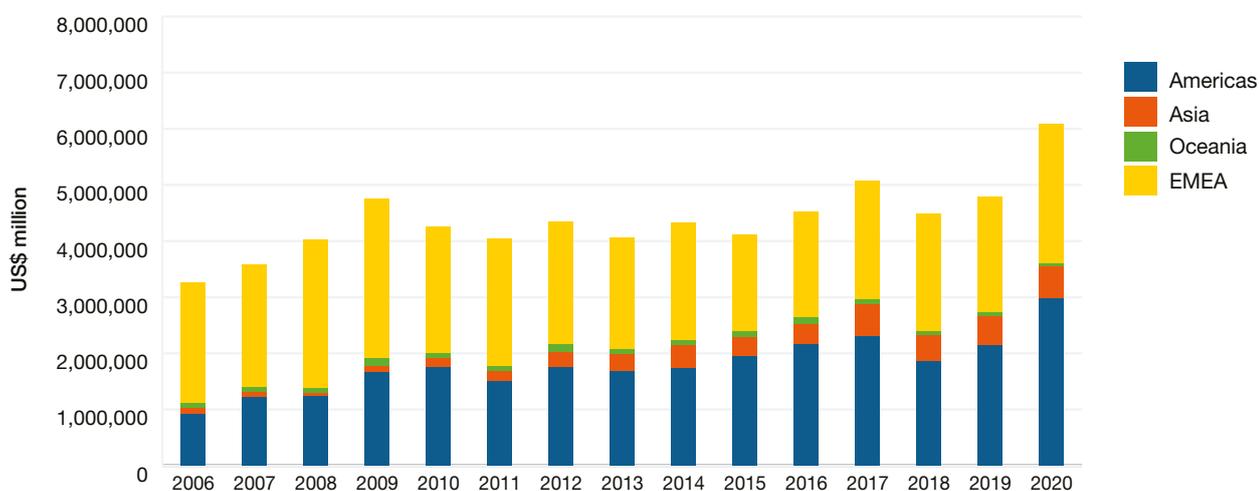
The Asian international bond market has experienced significant growth over the years (figure 1), with issuance amounting to USD 575 billion in 2020. However, international bond issuances still make up around 20% of all bond issuances from the region, compared with approximately 40% for the world (figure 2). One main reason, as interview participants pointed out, is a preference for many Asian issuers to secure financing onshore. Detailed reasons vary from country to country and are explained more fully in the section "Deal nationality" below.

Generally speaking, though reliable regional data is difficult to obtain, the view of market participants is that Asian companies source a smaller proportion of their total borrowings from the bond market, in comparison with the US and European markets. For example, in China, total loan financing accounts for approximately four times the amount of bond financing for non-financial corporates, while in the Euro area, corporate loans outstanding are three times the amount of corporate bonds outstanding, and in the US market the ratio is reversed with total corporate bonds amounting to 150% of other types of financing.<sup>2</sup> Considering the lower ratio of bond financing in Asia, the international bond market in this region has potential to grow further.

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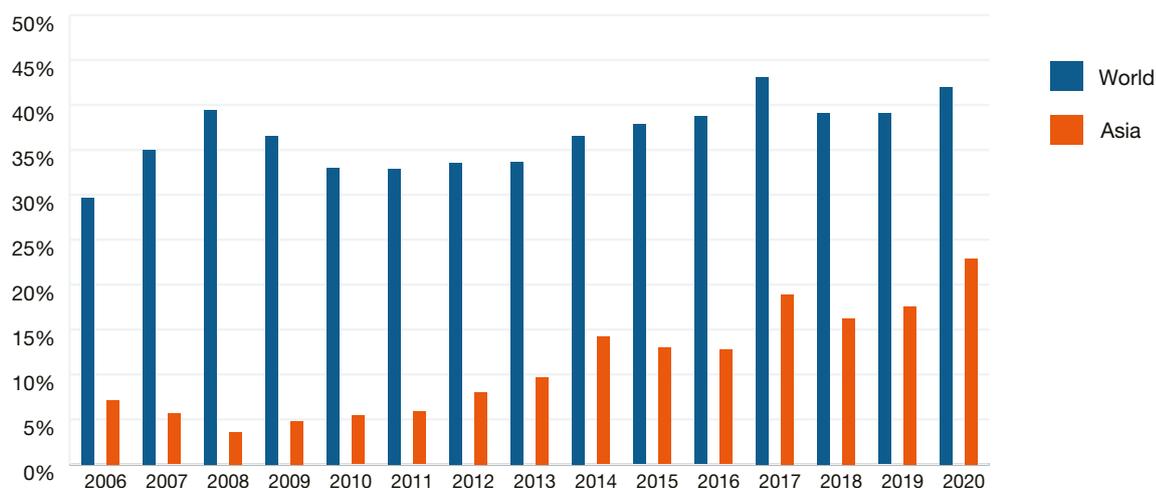
<sup>2</sup> ICMA estimates based on statistics published by the People's Bank of China, Euro Area Statistics, and the Federal Reserve.

**Figure 1: Global international bond issuance - by region (deal nationality<sup>3</sup>)**



Source: ICMA analysis using Dealogic data (January 2021)

**Figure 2: Percentage of international bonds issuances over all issuances**



Source: ICMA analysis using Dealogic data (January 2021)

In the context of the international bond markets, the participants and operations often cover multiple jurisdictions, and geographical analysis often presents methodological issues. This paper provides various ways to look at “where” a bond transaction takes place, in the spirit of providing a more complete and nuanced picture of overall regional market activity. The analysis first covers the location of arrangement and execution, secondly the location of listing, subsequently the issuer’s major place of business (the “deal nationality”) and finally the most straightforward (but also potentially misleading) criterion which is the issuer entity’s legal place of incorporation.

<sup>3</sup> Deal nationality is defined as the nationality where the majority of the borrower’s business takes place. Throughout this report, nationality and region refer to the deal nationality of bond issuances, unless otherwise specified.

## Arrangement and execution

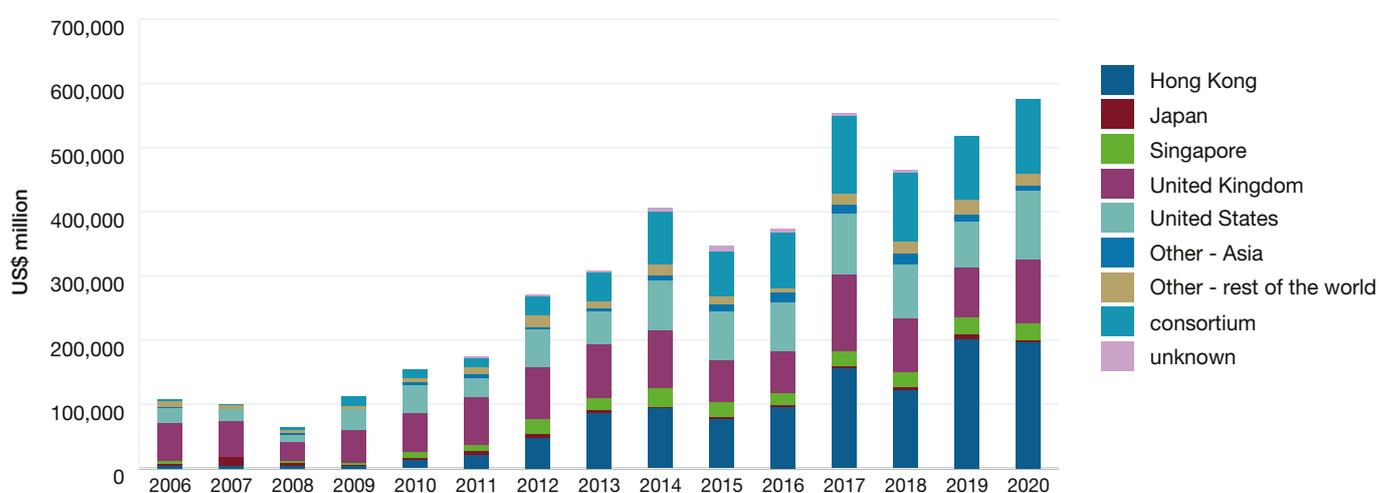
When issuing bonds, it is common practice for issuers to appoint market intermediaries, typically banks, to manage the debt capital raising process. The lead managers help issuers to understand market conditions and explore investor interest, and then manage book-building and allocation. Usually, these lead managers have an aim to cultivate and maintain investment relationships with investors that are both able to contribute to satisfying the issuer's ongoing funding needs; and also willing to act as committed ('buy and hold') stakeholders in the issuer's business. In particular, it is often important to issuers that investors in the primary market would be purchasing bonds for investment purposes, rather than trading purposes, which helps to ensure that issuers will have closer relationships with and better long-term understanding of their direct investors. Therefore, the lead managers' abilities to ensure access to a wide investor base, optimally price the transaction, and fulfil the issuer's funding requirements are essential contributors to the success of the bond issuance.

For purposes of this analysis, a bond is considered as arranged in the location where a majority of its arranging activities take place. Bond arranging activities comprise originating and structuring, legal and transaction documentation preparation, and sale and distribution.

Where a bond is arranged in practice depends on many factors, but is mainly influenced by the location of the lead managers (and their teams of professionals across investment banking, trading, legal, and operations) who are appointed to manage the transaction. A financial centre's regulatory system, independence of judiciary, and enforceability of contracts are also important for banks to minimise legal and operational risk in execution.

Looking at the main location of arrangement<sup>4</sup> of Asian international issuances, the main trend over the past decade is that Asian financial centres have gained market share. In particular, concurrent with the significant growth of the Chinese bond markets, Hong Kong has overtaken non-Asian financial centres to become the most common location for Asian international bonds to be arranged. Before 2010 mandates were mostly granted to UK-based and US-based banks. Since then, banks located in Asia, especially Hong Kong, continued to win mandates for international bond issuance. For 2020, Hong Kong arranged 34% of the Asian transactions<sup>5</sup>, while the US and the UK took shares of 18% and 17%, and Singapore 5%.

**Figure 3: International bond issuance in Asia (deal nationality) - by main location of arrangement**



Source: ICMA analysis using Dealogic data (January 2021)

<sup>4</sup> The main location of arrangement is the jurisdiction which more than 50% of the lead managers of a deal comes from. If two jurisdictions tie for a deal, the averaged nominal amount of the bond is calculated. Deals that do not have dominant country for the group of lead managers are classified to "consortium".

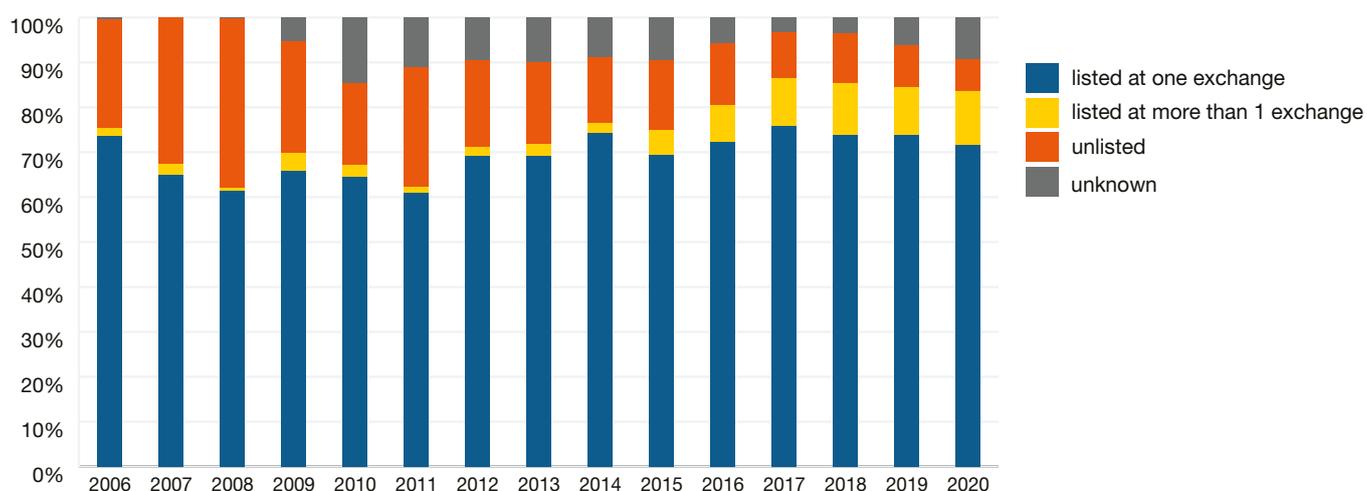
<sup>5</sup> By nominal amount of bond issuance.

According to market participants, this trend could mainly be attributed to the increasing share of offshore issuances from China, and Hong Kong's role as an established hub for international Chinese transactions. In particular, banks located in Hong Kong are seen to have closer banking relationships to the Chinese mainland combined with experience in international issuance practice and the ability to distribute bonds to a global investor base.

## Listing

The listing of a bond on an exchange in theory facilitates trading on the secondary market, just as with equities. However, in practice, the Asian international bond market is similar to the rest of the world in that bonds are listed at exchange but are generally traded OTC. While market perspectives vary on the ultimate rationale for Asian international bonds to be listed, one reason cited is that listed securities are preferred by many international institutional investors. The ultimate motivations for this investor preference vary, but some general reasons are potentially increased transparency on deal documentation, required ongoing disclosure, an extra layer of governance provided by the listing approval process, and a potential, if not always realised, liquidity increase from on-exchange trading. In fact, nearly 8% of international bond issuances were listed on more than one exchange. The issuer's choice of listing location comes down to the simplicity, speed, and affordability of the listing process. In the last decade, around 80%<sup>6</sup> of international bonds issued by Asian issuers were listed (figure 4).

**Figure 4: International bond issuances in Asia (deal nationality) - listed or not**



Source: ICMA analysis using Dealogic data (January 2021)

As interview participants suggest, when choosing the listing venue/country, issuers' main criteria are efficiency and cost of listing application and approval. Singapore and Hong Kong are the most popular places for listing in Asia, Luxembourg and the UK in Europe. In 2020, Singapore and Hong Kong hosted 31% and 28% of the international issuances from Asia respectively, while Luxembourg and the UK listed 17% and 4% of them (figure 5). This echoes the common view of issuers and underwriters that a streamlined listing procedure for bonds facilitates the financial centres to attract more bond listing.

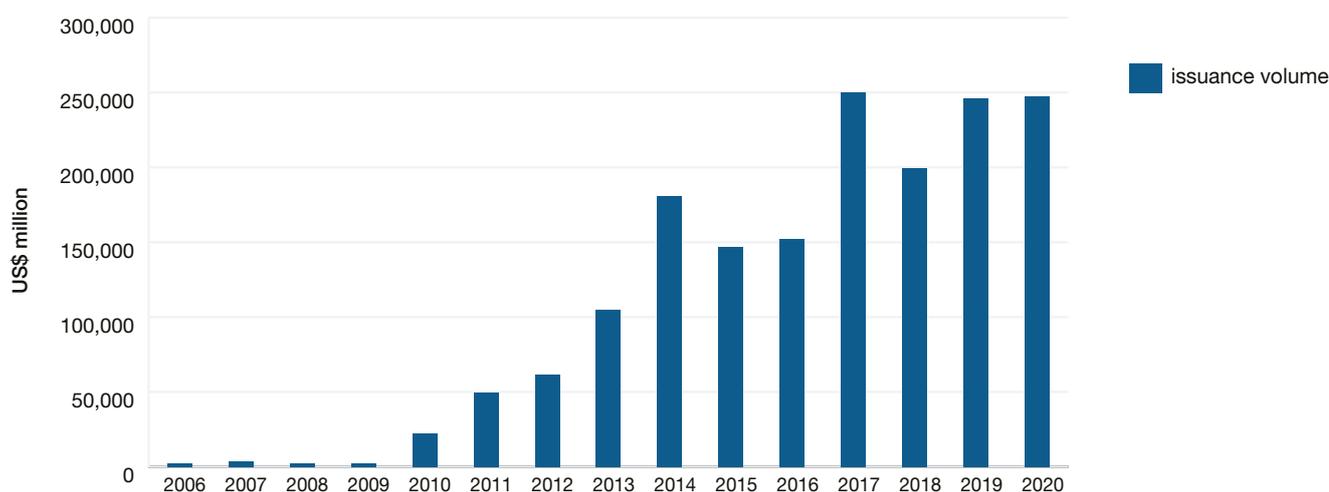
<sup>6</sup> By nominal amount.



## China

The amount of international bond issuances from China increased rapidly in the past 15 years (Figure 7), from fewer than 20 deals each year in the 2000s to nearly 600 deals in 2020.

**Figure 7: International bond issuances from China (deal nationality)**



Source: ICMA analysis using Dealogic data (January 2021)

One of the factors contributing to this significant growth is the increasing overseas operational and financial activities of Chinese entities. Raising funds in USD or Euro offshore to meet their acquisition or expansion plans was especially advantageous from 2010 to 2014 with continued appreciation of RMB and low interest rates in USD funding markets. Interest rate hikes introduced by the Fed and the devaluation of RMB in 2015-2016, as well as the filing requirement introduced in 2015<sup>7</sup> for all offshore issuances longer than 1 year, led to a temporary decline in funding raising activities of Chinese entities offshore. Issuance was back on the uprising track again in 2017. In 2018, the National Development and Reform Commission introduced stricter standards to manage the scale of foreign debt financings by onshore enterprises. These new stipulations aiming at reducing levels of corporate and institutional leverage contributed to the decline of new issuances from China in 2018.

For some Chinese issuers, going into the offshore market is a way to diversify their financing structure with an additional funding channel. The international bonds do not replace but supplement their existing bank loan or onshore capital raising.<sup>8</sup>

The flexibility of use of funds is a favourable reason for an international bond issuance. Compared with issuers elsewhere in Asia, Chinese issuers also tend to put a greater weight on the opportunity to build a global reputation in addition to the obvious concerns of cost of capital when deciding whether to tap the international bond market. Some local governments encourage the local state-owned enterprises (SOEs) and local government financing vehicles (LGFVs) to enter the offshore market, in order to promote their provinces and attract foreign investment in the long run.

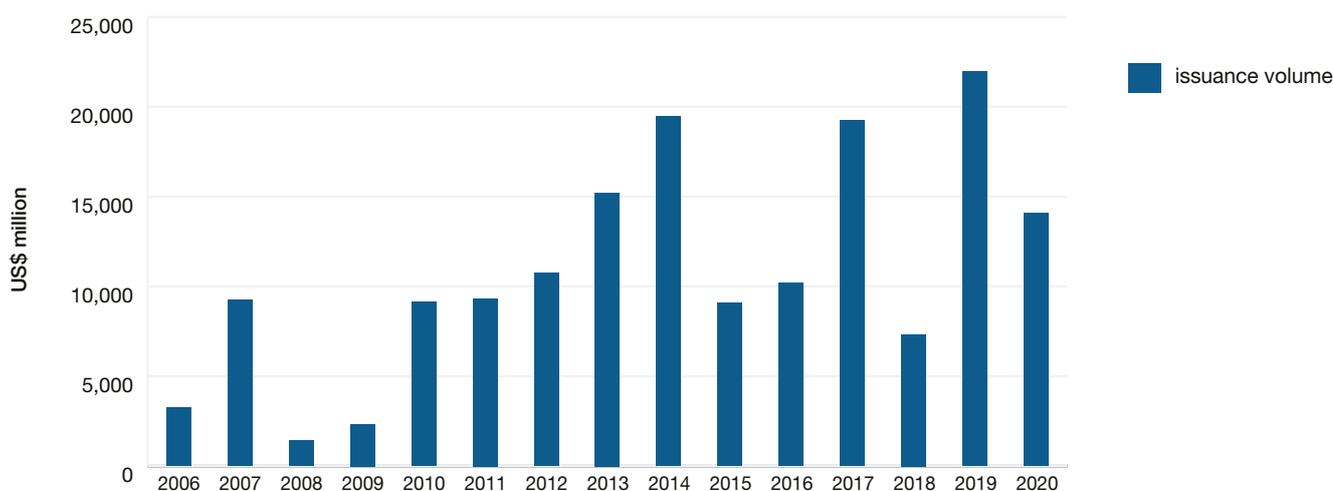
<sup>7</sup> China's National Development and Reform Commission (NDRC) Circular on Promoting the Reform of the Filing and Registration Regime for Issuance of Foreign Debt by Corporate Entities (Circular 2044) published in September 2015.

<sup>8</sup> It is notable, however, that bond financing is playing a larger role for Chinese corporates. The ratio of the outstanding volume of bonds to loans of non-financial corporates in the domestic market has increased from 16% at the beginning of 2014 to 26% at the end of 2020. (numbers estimated by ICMA based on statistics of PBOC)

## India

Back in 2006, only banks and a selected major corporate issuers from India tapped the foreign currency bond market, and in 2011 state-owned enterprises and quasi-government entities started to consider raising funds in G3 currencies and were well received by investors with 10 times oversubscription. The shadow banking and credit crisis in 2018 brought a disruption but the issuance went back on track the year after. The international bonds from India continued to diversify in terms of issuer types, industry sectors and structures.

**Figure 8: International bond issuances from India (deal nationality)**



Source: ICMA analysis using Dealogic data (January 2021)

## ASEAN

In ASEAN (a subregion of 10 countries in southeast Asia), international bond issuances have grown significantly since the global financial crisis, and the total level of issuance has fluctuated over the past decade (figure 9). However, according to bankers interviewed, ASEAN corporate issuers still generally prefer domestic borrowing (in loans or bonds) over international bond issuance as their first choice.

The main reason for this growth is that the local currency bond markets have matured to become deeper and more liquid. Since the Asian financial crisis, ASEAN governments had been committed to developing robust and strong local currency bond markets with SSA<sup>9</sup> issuances. The momentum has extended to financial institutions and corporates with time. In the domestic capital market, corporates enjoy the benefit of an increasingly straightforward and familiar issuance process, adequate demand in relation to issue size and familiarity with investors. Also, borrowers may issue retail bonds to address demand from public investors too, whereas retail bonds are generally impractical in the USD international bond market due to regulatory requirements on disclosure and marketing.

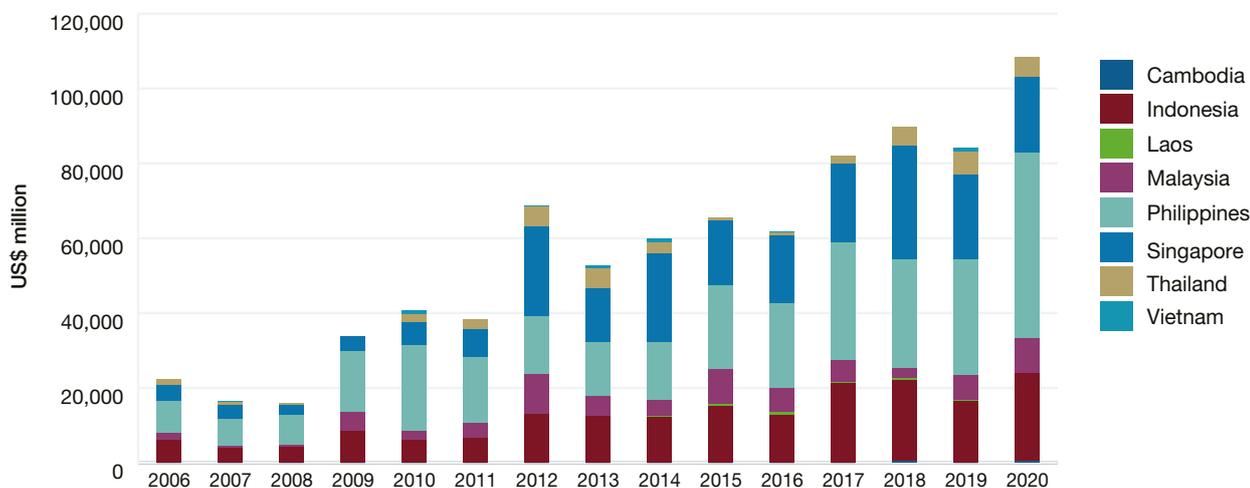
In addition, commercial banks in the domestic market are relatively well capitalised, which in the experience of market participants has meant that bank loans have historically been a less expensive source of funding than bonds<sup>10</sup>.

Another major factor is corporate size. Even relatively large corporates in ASEAN, when compared with global conglomerates, are still relatively small. The impression of the market is that they may have to pay an issue premium in the international bond market.

<sup>9</sup> SSA: Sovereign, supranational and agency.

<sup>10</sup> This is based on qualitative input by interview participants and holds true for individual borrowers. It is however difficult to compare cost of bond and loan financing on an aggregate basis.

**Figure 9: International bond issuance from ASEAN (deal nationality)**



Source: ICMA analysis using Dealogic data (January 2021)

## Japan

Japan has a developed international bond market with a long history. Japan's first government bond issued in 1870 to fund railway construction, was issued in London and denominated in GBP. Subsequently, the Japanese government established financial and securities regulations to develop its domestic market.

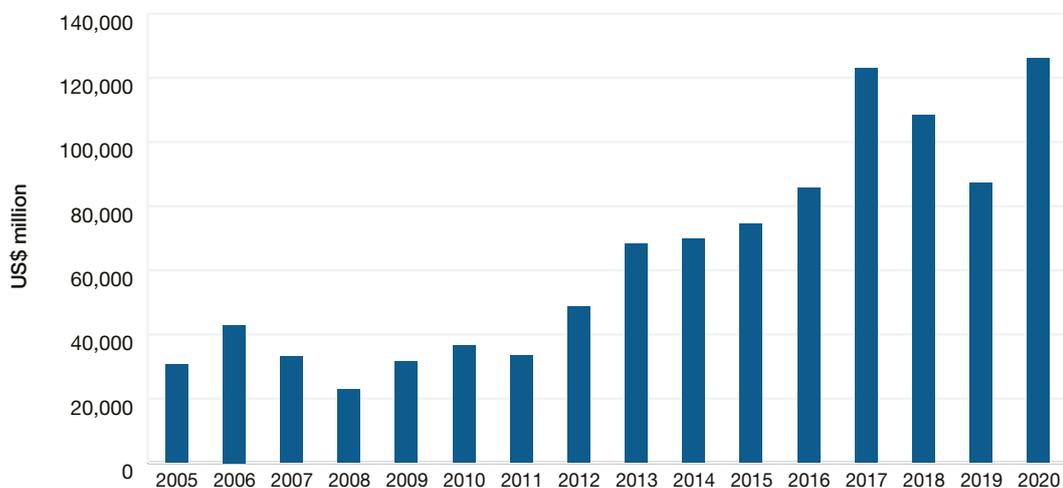
Currently there are well established markets for JPY denominated bonds issued offshore (known as Euroyen bonds, since 1984), JPY denominated bonds issued in Japan by offshore issuers (known as Samurai bonds, since 1970), and for foreign currency denominated bonds issued in Japan by offshore issuers (known as Shogun bonds).

The factors affecting the international bond issuances, including comparative advantage in funding costs in JPY against other hard currencies, are increasingly influenced by monetary policies of Japan's and other major central banks. The Bank of Japan introduced its quantitative easing (QE) program in 2001, which created a low interest rate environment for the Japanese bond market over the last two decades.

In the international market, the interest rate environment initially contributed to the development the Yen carry trade (borrowing Yen at lower cost and invest in other assets), which also caused an increase in Yen denominated bond issuances. However, after global financial crisis and the dramatic decrease in USD rates the market gradually shifted away from the carry trade and to a larger extent reflected credit fundamentals and more realistic funding needs and business relationships between Japan and international investors.

Since the 2008 financial crisis, the issuance volume of Japanese offshore bonds has grown steadily. In 2017 it reached a peak of over USD 120 billion, driven by the desire of Japanese issuers to diversify their funding channels and fund operations of international business.

**Figure 10: International bond issuance from Japan (deal nationality)**

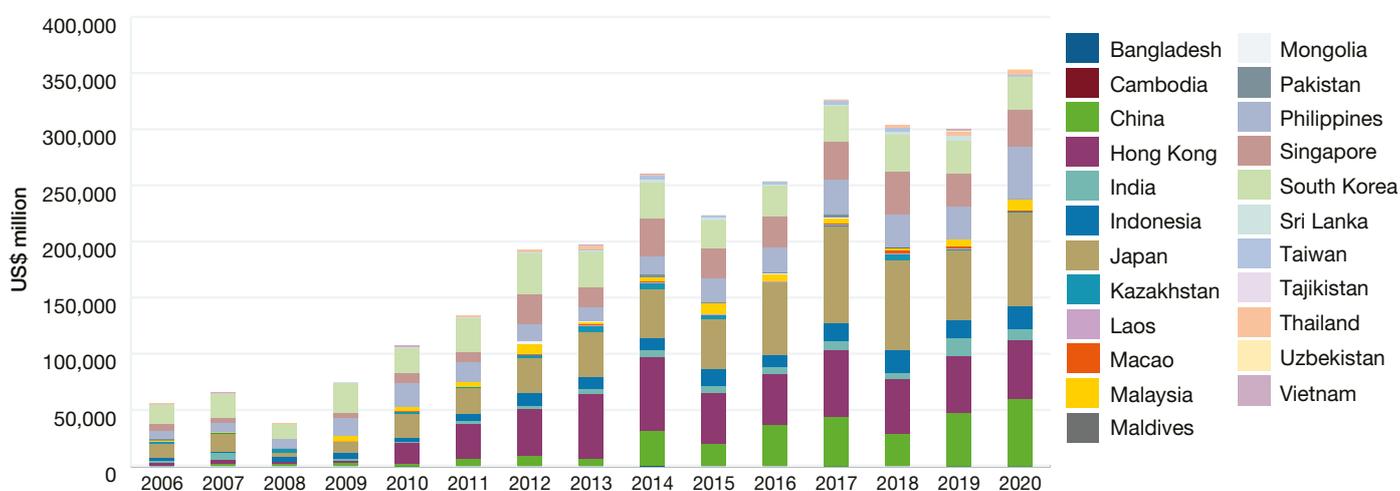


Source: ICMA analysis using Dealogic data (January 2021)

## Issuer nationality

When counting Asian international bonds by issuer’s country of incorporation (as opposed to deal nationality, which is based on the economic activities of the issuer and generally more relevant to investors), the overall bond issuance is smaller in size, at around USD 354 billion for 2020 (comparing figure 6 and 11). The smaller total for country of incorporation is largely due to the use of European issuance vehicles (such as Cayman Islands or British Virgin Islands) for Asian corporates with international operations. Under this classification of issuer nationality, Hong Kong and Singapore have more international bond issuances than by deal nationality. This to a certain extent reflects their prominent status of offshore centres in Asia as well as the legal frameworks in these jurisdictions to support issuance and efficient corporate actions.

**Figure 11: International bond issuance in Asia - by issuer nationality**

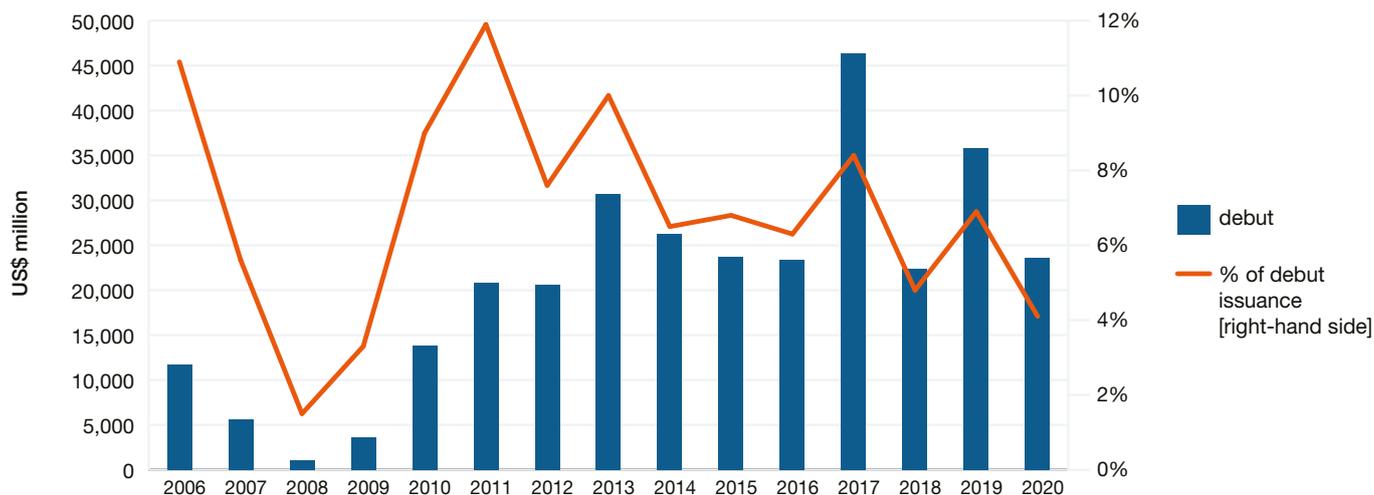


Source: ICMA analysis using Dealogic data (January 2021)

## Debut issuance

The growth of the international bond market in Asia has been organic and fuelled constantly by new issuers<sup>11</sup> to the market. In the past 15 years, debut international issuances accounted for 4% to 12% of all issuances in a year, with exceptions of retreats during the 2008 finance crisis (1% and 3% for 2008 and 2009).

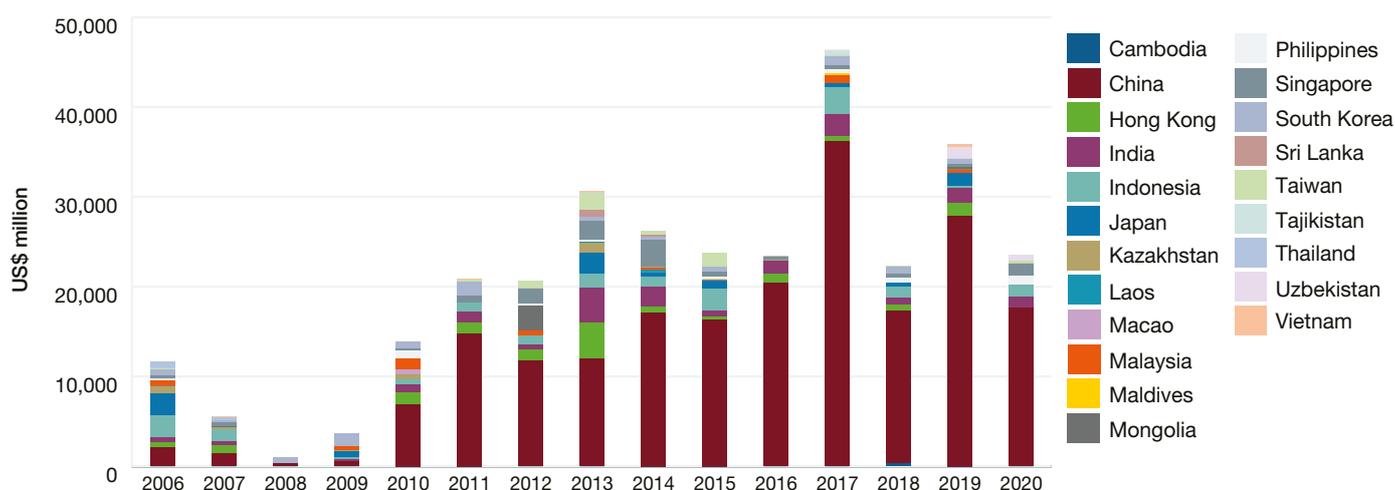
**Figure 12: Debut issuance vs all international issuance in Asia (deal nationality)**



Source: ICMA analysis using Dealogic data (January 2021)

Breaking down the debut issuances by their deal nationality, we can see Chinese deals as a significant driving force, making up 70% of all debut international issuances since 2011.

**Figure 13: Debut international bond issuance in Asia - by deal nationality**

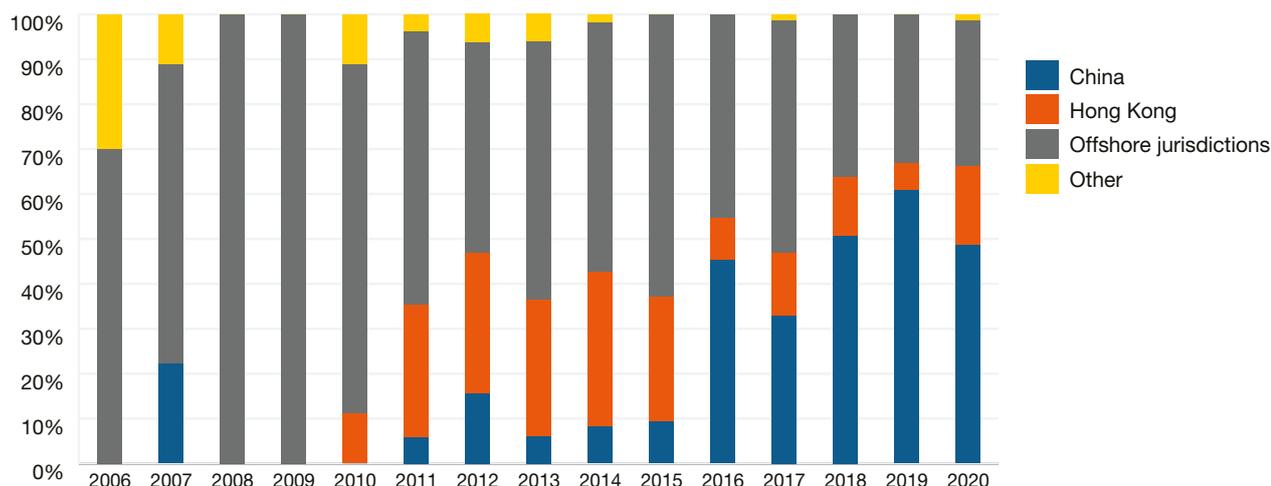


Source: ICMA analysis using Dealogic data (January 2021)

<sup>11</sup> Debut issuance in this report is defined as the first international bond issuance of a parent group.

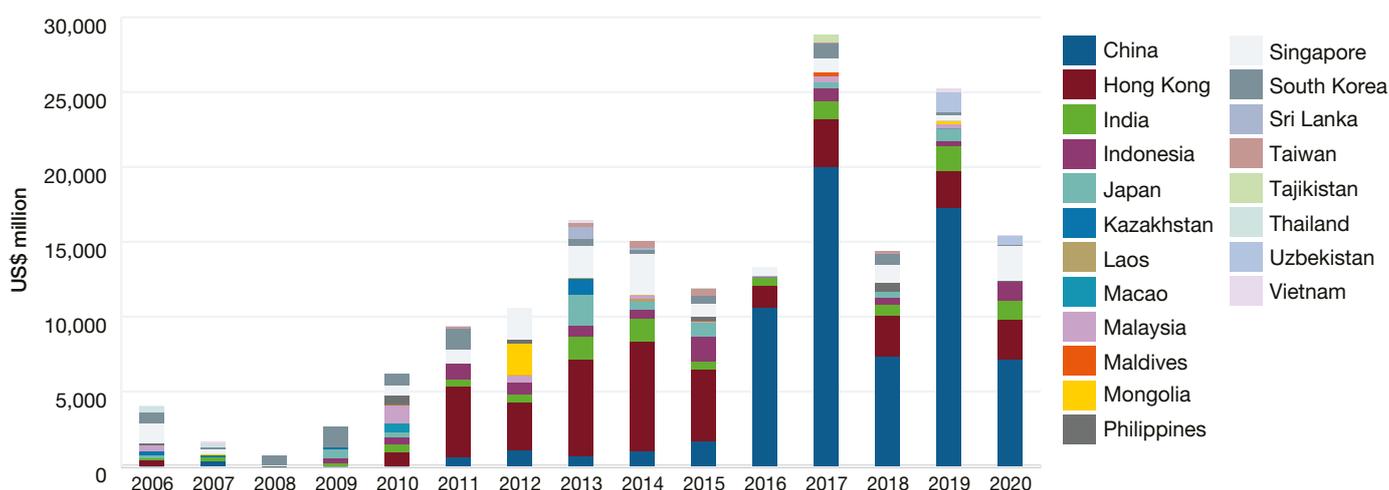
In the early growth stages of the Chinese international bond market, issuers preferred to issue their debut issuances via their companies incorporated in offshore jurisdictions (Cayman Islands, BVI, Bermuda, Jersey). The preference shifted towards Hong Kong entities in the 2010s and later to onshore entities directly (figure 14). This shift is also reflected in the trend of increasing issuances by Hong Kong entities in the first half of 2010s decade and by Chinese entities in the second half (figure 15).

**Figure 14: Debut international issuances from China - issuer nationality breakdown**



Source: ICMA analysis using Dealogic data (January 2021)

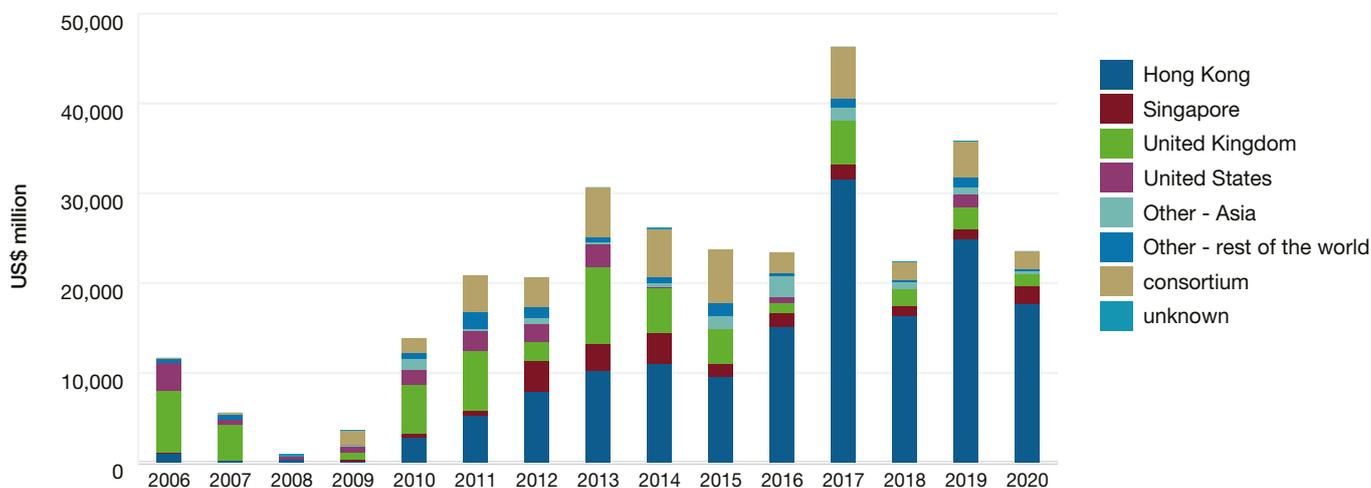
**Figure 15: Debut international bond issuance in Asia - by issuer nationality**



Source: ICMA analysis using Dealogic data (January 2021)

Banks in Hong Kong are increasing market share through mandates for arranging debut issuances for Chinese corporates. In the past 5 years, Hong Kong arranged 69% of debut international issuances from Asia.

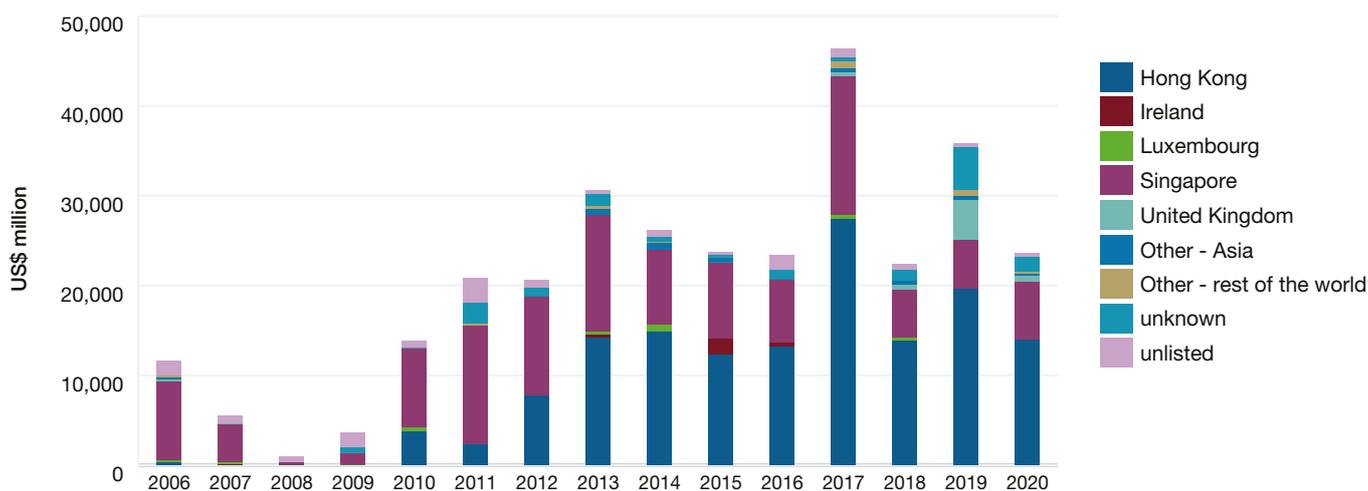
**Figure 16: Debut international bond issuance in Asia (deal nationality) - by main location of arrangement**



Source: ICMA analysis using Dealogic data (January 2021)

First-time issuers tend to have their international issuances listed, to enable maximum reach to the widest group of potential investors and make a positive impression in the international market. Less than 2% of debut issuances have not been listed since 2017. The preferred listing venues are Hong Kong Stock Exchange followed by Singapore Exchange. Listing venues in Europe are less often considered for first-time bond issuance. Over the past decade, 51% of debut issuances were listed in Hong Kong, 34% in Singapore, and 2% and 1% respectively in UK and Luxembourg. In 2020, 59% of debut Asian international bond issuances were listed in Hong Kong and 28% in Singapore.

**Figure 17: Debut international bond issuance in Asia (deal nationality) - by listing location**



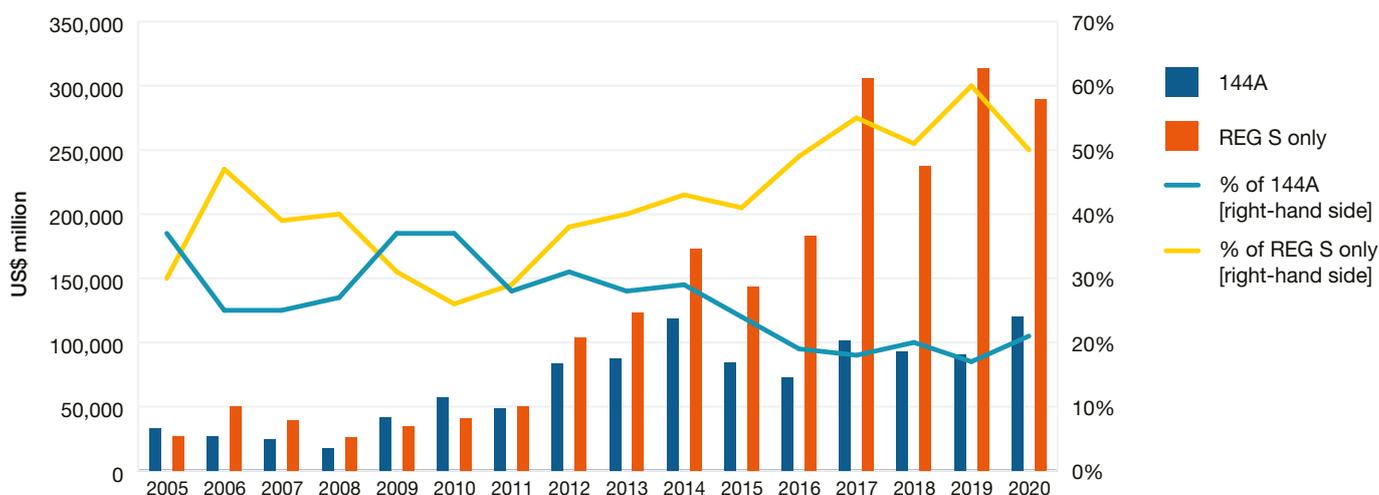
Source: ICMA analysis using Dealogic data (January 2021)

## Investors and distribution

As the international bond market first developed in Asia, there was an increasing trend of “Asian money buying Asian bonds”. Similar themes also applied for Chinese bonds. One straightforward explanation is that Asian investors – including offshore branches and subsidiaries of Asian banks and fund houses – understand the Asian issuers better and are more comfortable with the analysis of their credit and macroeconomic risk. In particular, it has been noted that Chinese investors may be able to better judge the risk of default on government-linked LGFVs and local SOEs. Secondly, Asian investors are generally more willing to accept the risk of (and find it easier to get internal approval for) Asian issuer names rather than bonds elsewhere, given the same international credit rating. This “home country bias” is not unique to Asia and is also reflected in other regions in the world.

Interviewees indicated that this still influences the investor profile now, but there has been increasing participation from international investors. In the early 2000s, syndicate managers would recommend an issuer to obtain a US 144A for a large bond issuance, to secure enough orders from key international institutional investors. Over the years, with more US fund managers establishing offices and raising funds in Asia, 144A distribution is no longer as necessary as before. The percentage of 144A deals has decreased since 2010 (figure 18). It is not uncommon more recently for issuances to attract over 100 investors in the book-building process with diverse investor backgrounds.

**Figure 18: International bond issuance in Asia (deal nationality) - Reg S & 144A**



Source: ICMA analysis using Dealogic data (January 2021)

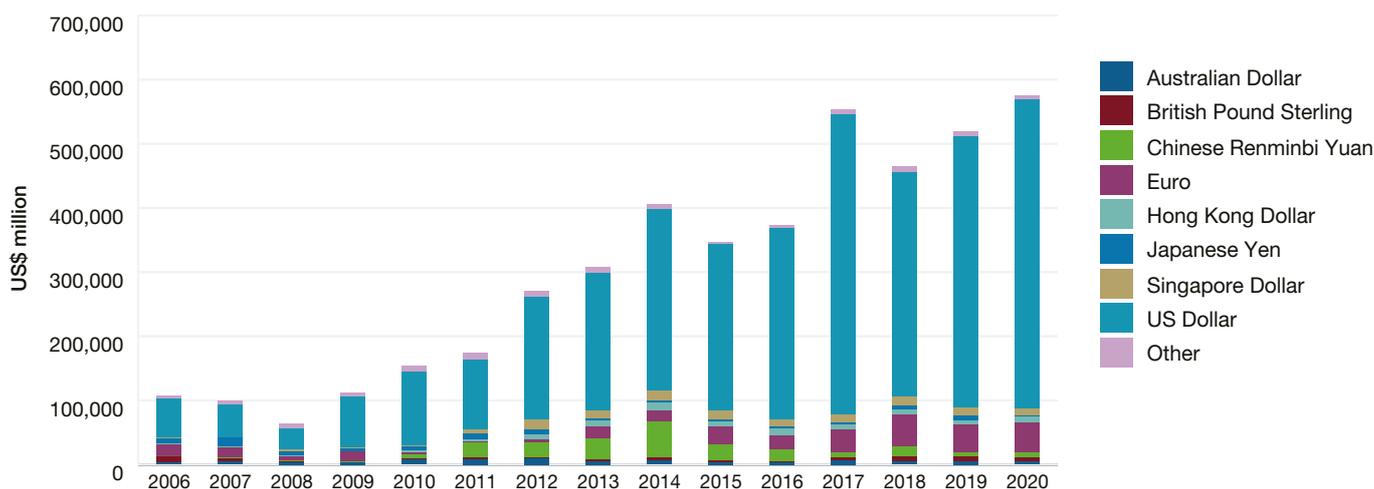
In general, it is difficult to derive an overall picture of the exact split of Asian and international investors for international bonds in Asia, as there is no regulatory reporting required. Also, with the growth of wealth in Asia, more US and European institutional investors have set up dedicated offices in Asia and raised funds in the region. Syndicate desks may classify orders from those Asian offices as “Asian” or international investors differently. Overall, market participants interviewed expressed a range of opinions on whether “Asian” investors in a primary distribution may represent non-Asian asset owners, or whether “non-Asian” investors in name may represent ultimate investment from Asian end-clients.

Nevertheless, interview participants generally agree that: (1) the investor types have become more diverse; (2) interest in Asian emerging markets from non-Asian investors has increased in terms of volume and number of investors, and (3) that cross-border investment within Asia has increased as a share of overall distribution.

## Currency

Unsurprisingly, the international bonds in Asia are mostly denominated in G3 currencies. USD issuances made up 84% of all issuances in 2020, followed by EUR (8%), SGD (1.8%), HKD (1.5%), GBP (1.3%) and CNH (1.3%).

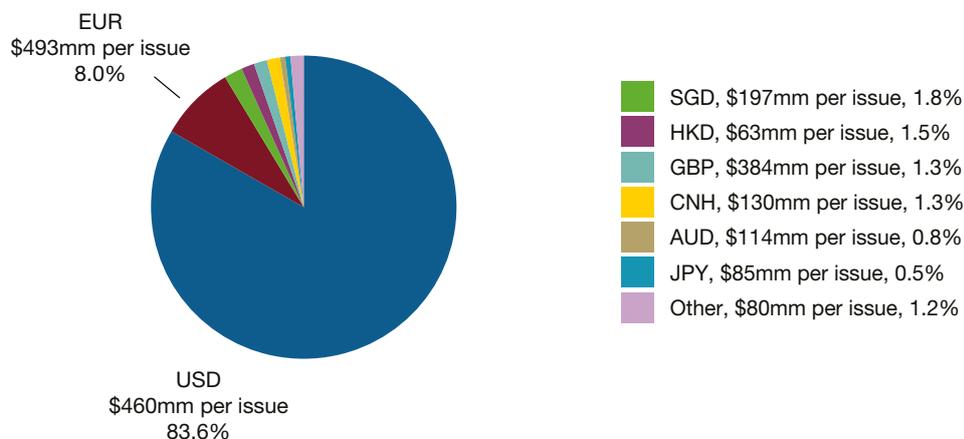
**Figure 19: International bond issuance in Asia (deal nationality) - by currency**



Source: ICMA analysis using Dealogic data (January 2021)

The abundant liquidity in the hard currencies, namely USD, EUR, and GBP, enables issuers to tap the market with a larger issue size than issuing in local currencies, such as CNH. Issuers may not issue in the currency they need for business operations, but often consider the desired issue size and weigh up the after-swap funding cost to determine the currency for their international bond issuance.

**Figure 20: 2020 international bond issuance in Asia - by currency, with average issue size in USD equivalent**



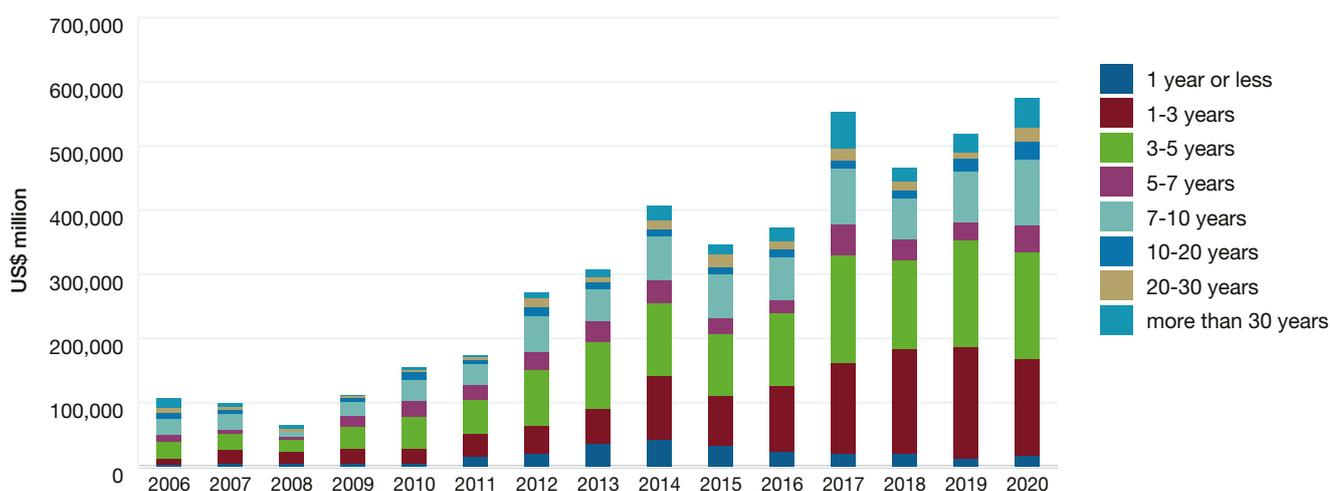
Source: ICMA analysis using Dealogic data (January 2021)

## Tenor

Medium-term bonds are prevailing in the Asian international bond market. Tenors of 1-3 years and 3-5 years took up 26% and 29% respectively in the annual issuances in 2020. It is noteworthy that bonds no longer than one year are dominated by Chinese issuers (figure 22), partly due to filing requirements for Chinese issuers with respect to issuances of longer than one year.

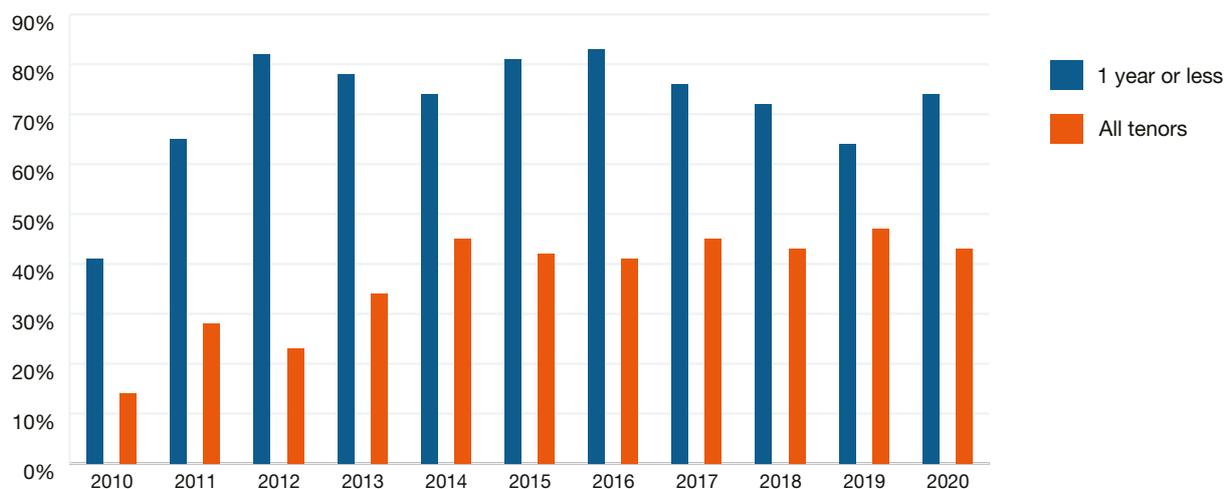
One notable recent trend is that the percentage of bonds longer than 10 years increased from 11% in 2019 to 17% in 2020, which is attributed at least in part to lower interest rates brought about through policy responses to COVID-19.

**Figure 21: International bond issuance in Asia (deal nationality) - by tenor**



Source: ICMA analysis using Dealogic data (January 2021)

**Figure 22: Percentage of international bonds from China over Asia (deal nationality)**



Source: ICMA analysis using Dealogic data (January 2021)

# Secondary Markets

## Overview

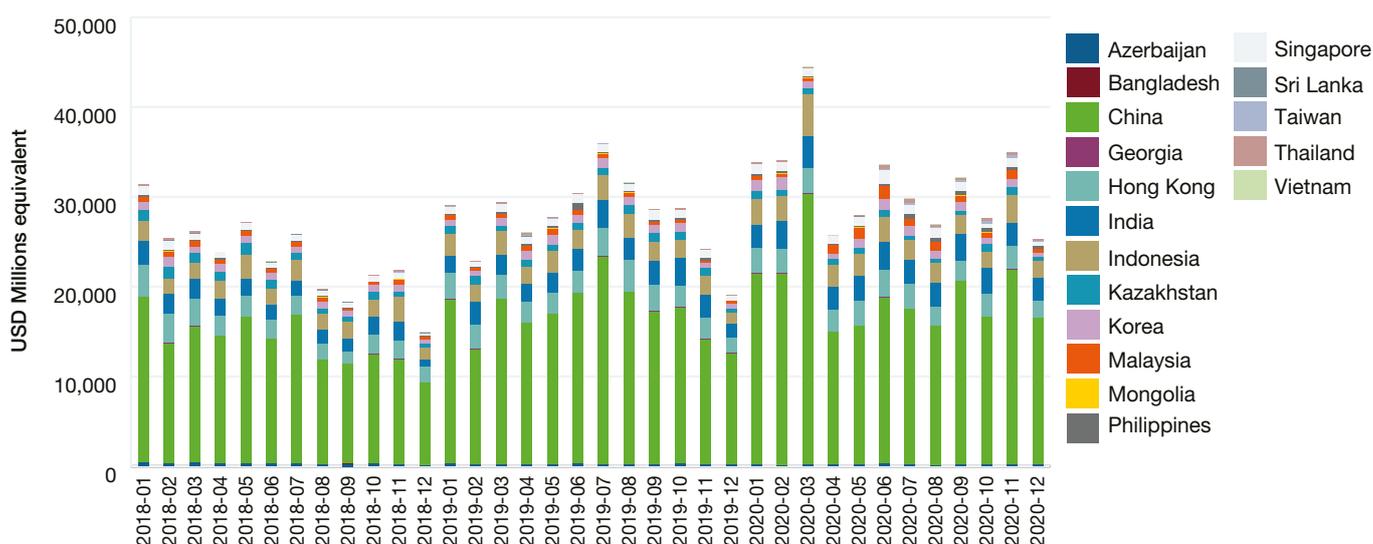
This section supplements the more detailed analysis of the Asian international primary market, by providing a shorter perspective on the secondary market. Again, this is based on qualitative input provided through interviews with market participants and other stakeholders, as well as market data. It firstly assesses liquidity conditions, before describing how the market is structured and the dynamics that affect market liquidity. It also provides a short overview of recent market performance, particularly in light of the 2020 Covid-19 turbulence.

## Liquidity

Views on liquidity tend to be mixed among interviewees, and that while it is usually possible to trade reasonably sized clips (see Figure 27), although this is largely contingent on the issue size, and also whether it is a bid or an offer (with the former tending to be more liquid). The number of dedicated market-makers is also an important consideration, with interviewees noting that in the case of Chinese names, this can be extremely competitive.

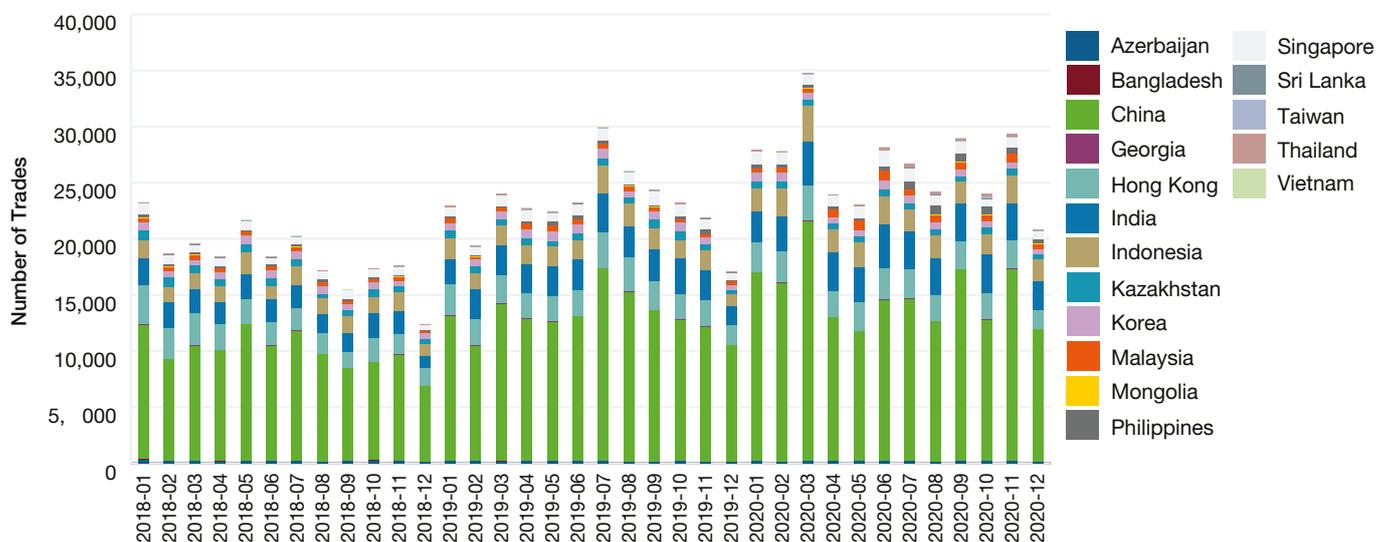
Secondary market trade data provided by MarketAxess from Trax, showing both volumes and trade counts for Asia international credit, suggest a relatively active and healthy secondary market. Spikes in activity (at the start of 2018, the summer of 2019, and February-March 2020, all correlate closely with ‘risk-off’ periods and a widening of regional credit spreads (see Figure 30). The data further reveal the dominance of Chinese issues in the secondary market, very much reflecting the make-up of the primary market.

**Figure 23: Asia international credit (NFCs) secondary market traded volumes by country of risk**



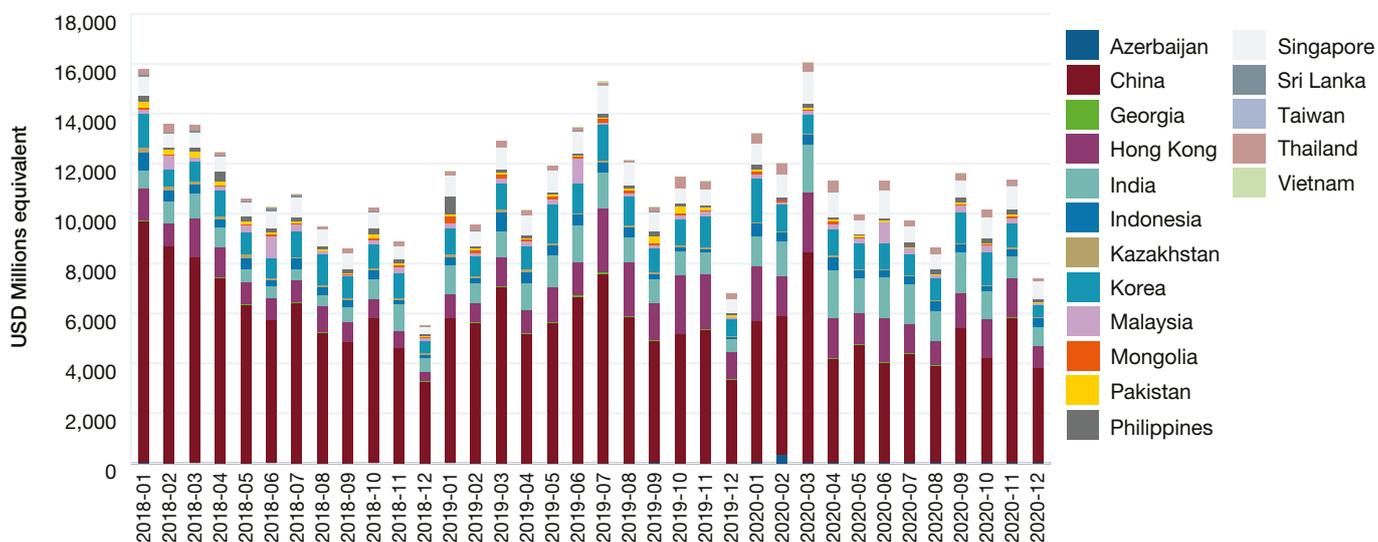
Source: ICMA analysis using Trax data from MarketAxess (December 2020)

Figure 24: Asia international credit (NFCs) secondary market trade count by country of risk



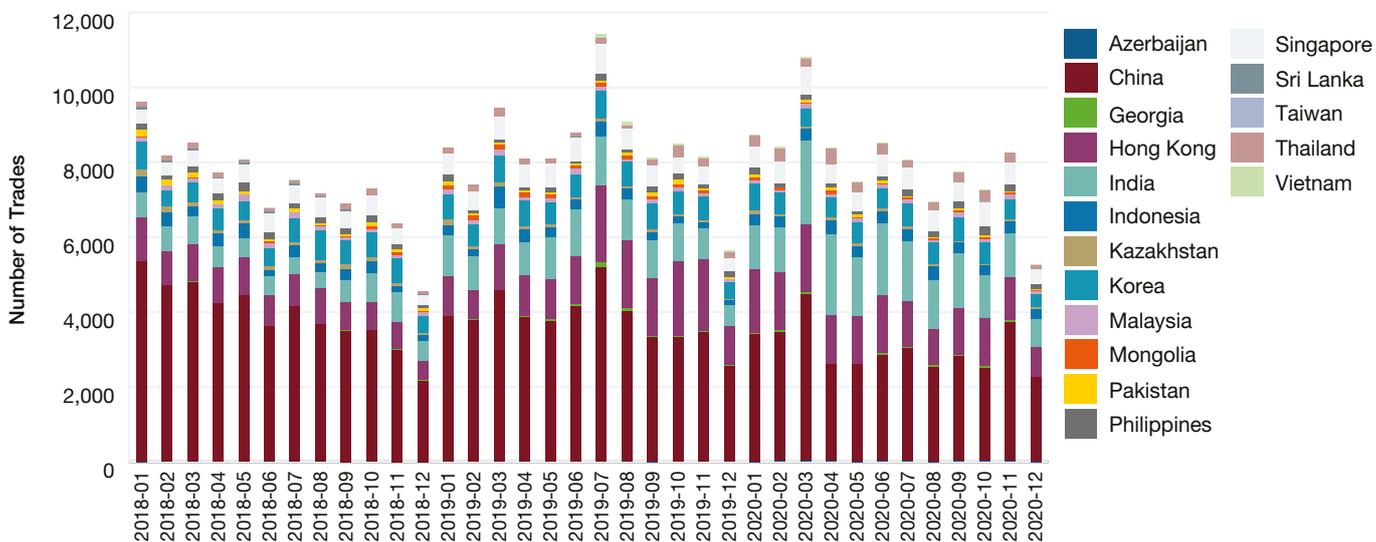
Source: ICMA analysis using Trax data from MarketAxess (December 2020)

Figure 25: Asia international credit (Financials) secondary market traded volumes by country of risk



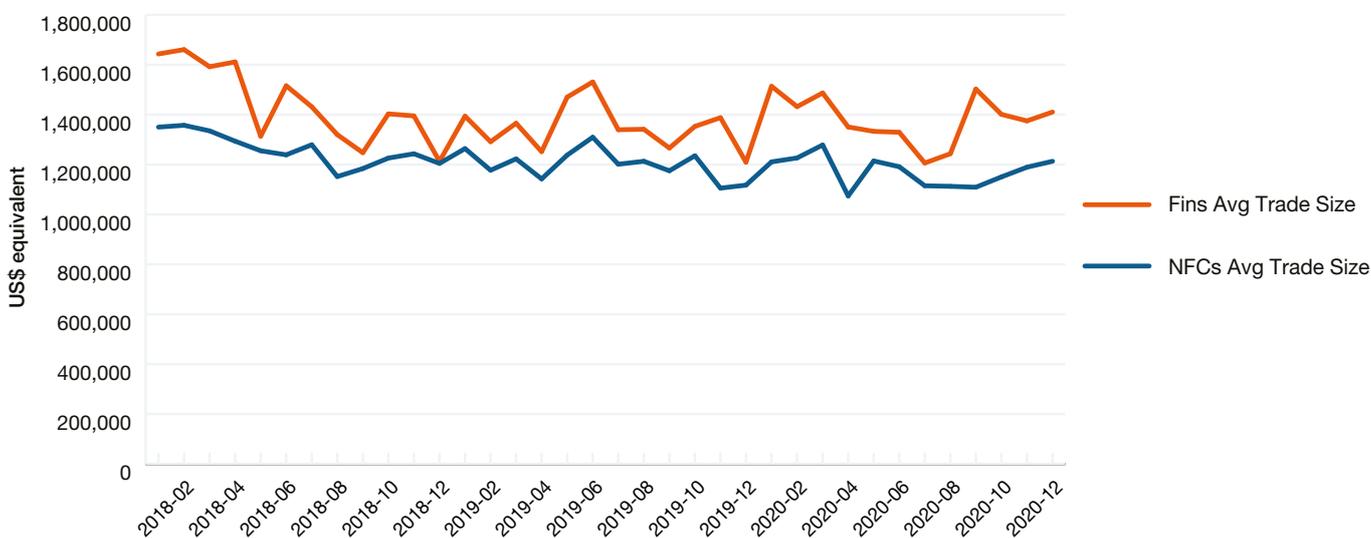
Source: ICMA analysis using Trax data from MarketAxess (December 2020)

Figure 26: Asia international credit (Financials) secondary market trade count by country of risk



Source: ICMA analysis using Trax data from MarketAxess (December 2020)

Figure 27: Asia international corporate bonds secondary market average trade size



Source: ICMA analysis using Trax data from MarketAxess (December 2020)

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## Structure

### Primary impacts

The primary market structure has a direct influence on secondary market structure and liquidity. A common observation is that despite rapid growth in issuance in recent years, particularly that driven by Chinese issuers, the overall market, in terms of total outstandings, remains relatively small, notably compared to other global credit markets, such as the US and Europe (see Figure 2 in the Primary Section). This creates a demand-supply imbalance in the primary market that feeds into the secondary markets. As well as too few issuers, interviewees comment that issue sizes often could be larger, and that syndicate banks could perhaps encourage their clients to support the issuance of more jumbo, benchmark issues.

As well as a lack of overall supply impacting liquidity, commentators point to a lack of diversity among investor types, with a propensity toward buy-to-hold accounts. An unwillingness to sell bonds back into the secondary market is reinforced by a lack of switching options available to investors.

As well as larger issue sizes, it is suggested that longer maturities would also help to attract a broader investor base, particularly those seeking to manage longer term liabilities and wishing to minimize their reinvestment risk.

### Market-makers

Interviewees report that, historically market-makers, which are the primary source of liquidity in the secondary markets, tended to be organized along the lines of the nationality of the underlying issuers. In more recent years, however, the main source of secondary market liquidity, has tended to come from a number of dominant global banks that support flow trading on a truly pan-Asian basis, and which tend to be the first port of call for international investors.

### Investors

Historically, the investor base has been largely regional, and in many cases structured along national lines and driven by familiarity with the underlying credit. However, interviewees suggest that in recent years the international real money investment flows have become more important. Much of these flows comes from global emerging market funds and to an extent is being fuelled by a search for better return as well as increasing inclusion of underlying sovereigns and credits in indexes. This has also seen many US or EMEA based investment firms and asset managers opening regional offices; partly to be in the same time zone, but mainly to be closer to the market. More recently, with the global shift to remote working, the investor landscape has become even more fluid.

The fluidity of global investors can be seen as contributing to the gradual reduction of the proportion of issues with a 144A tranche (and thereby sold in part to US investors). As many global and US-headquartered investment firms expand their presence in Asia, it may be less necessary to market Asian bonds directly to US-based entities. Furthermore, it is remarked that over the last several years, frequent issuers have also become more seasoned with debt structuring and funding plans, in particular issuing in smaller size (rather than via large-scale global benchmark deals) and targeting regional investors for potentially better pricing.

### E-trading

While market electrification is driven more by the pursuit of efficiencies, rather than liquidity, trading platforms and alternative e-trading protocols can facilitate access to liquidity. Interviewees note that while the uptake of e-trading in the Asia international bond market has lagged that seen in the US and, more recently Europe, it is becoming more entrenched, particularly as more US and European investors become active in the market. The migration of swaps trading onto swap execution facilities (SEFs) has also helped to make regional traders more comfortable with venue trading in fixed income. A number of platforms are now taking a foothold in the market, helped further by initiatives such as Bond Connect that provides direct connectivity into the onshore China bond market. A growing emphasis on data capture,

particularly among the larger, global market participants, is also driving digitization. And while human relationships are considered highly important in the Asia bond markets, interviewees feel that this trend toward increased automation, in both secondary and primary markets, will only continue.

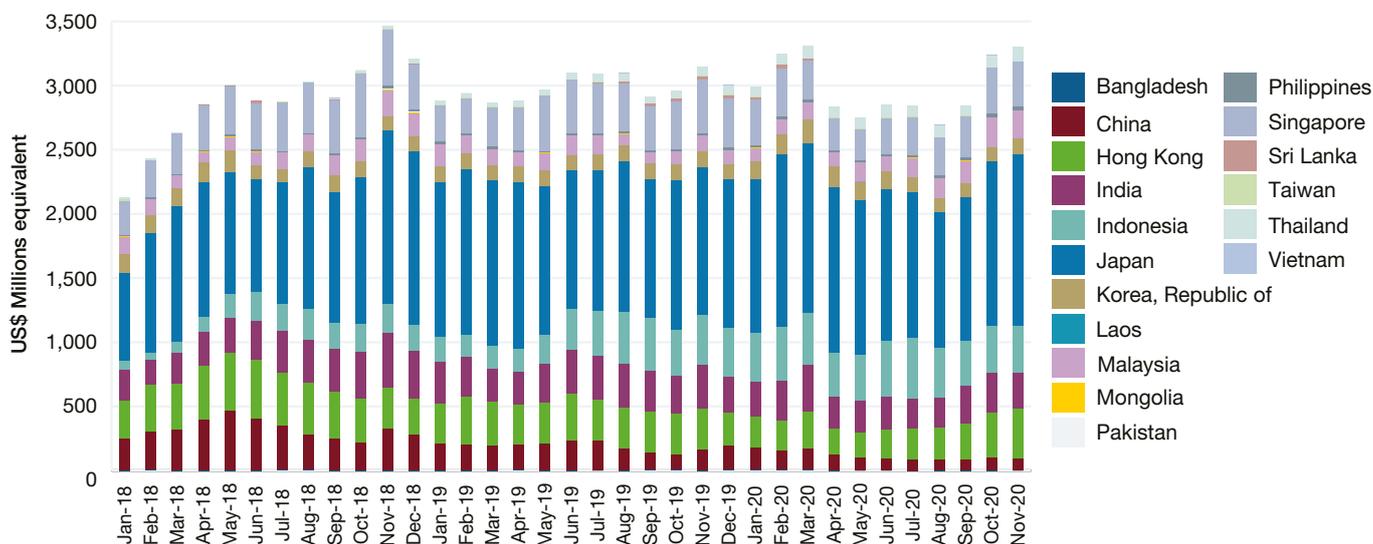
## Hedging and financing markets

An important element in underpinning market liquidity is the ability for both market-makers and investors to hedge and fund their risk. These are areas where interviewees feel that there is a gap, compared to other international credit markets.

CDS indices are widely relied upon for hedging credit risk, and trading volumes and liquidity can be considered good (see Figure 31). However, single name (SN-CDS) liquidity is widely considered to be poor, making it difficult to hedge specific Asia credits. Interviewees suggest that while market-makers will provide quotes in credits that are included in the index, unwinding positions can often be difficult. It is pointed-out that the demise of the Asia SN-CDS market followed the 2008 Lehman collapse, when there was also an active high yield index and SN market. And despite the growth in size and activity of the underlying bond market in recent years, this has never really recovered.

Similarly, the repo and lending market for Asian international corporate bonds can be relatively illiquid. This can largely be attributed to the fact that issues tend not only to be small, but that they are often held by investors that have no need nor desire to lend their bonds back into the market. Most supply tends to come through the repo and lending desks of the international banks who in turn source bonds through their international clients, either directly or through agent lending programs. This tends to limit supply, making repo rates particularly sensitive to demand (see Figure 29), which increases the risk to market-makers that sell bonds not held in inventory. A characteristically regional low tolerance for settlement fails heightens this risk, which perhaps helps to explain a reported 'liquidity skew' among dealers toward the bid side.

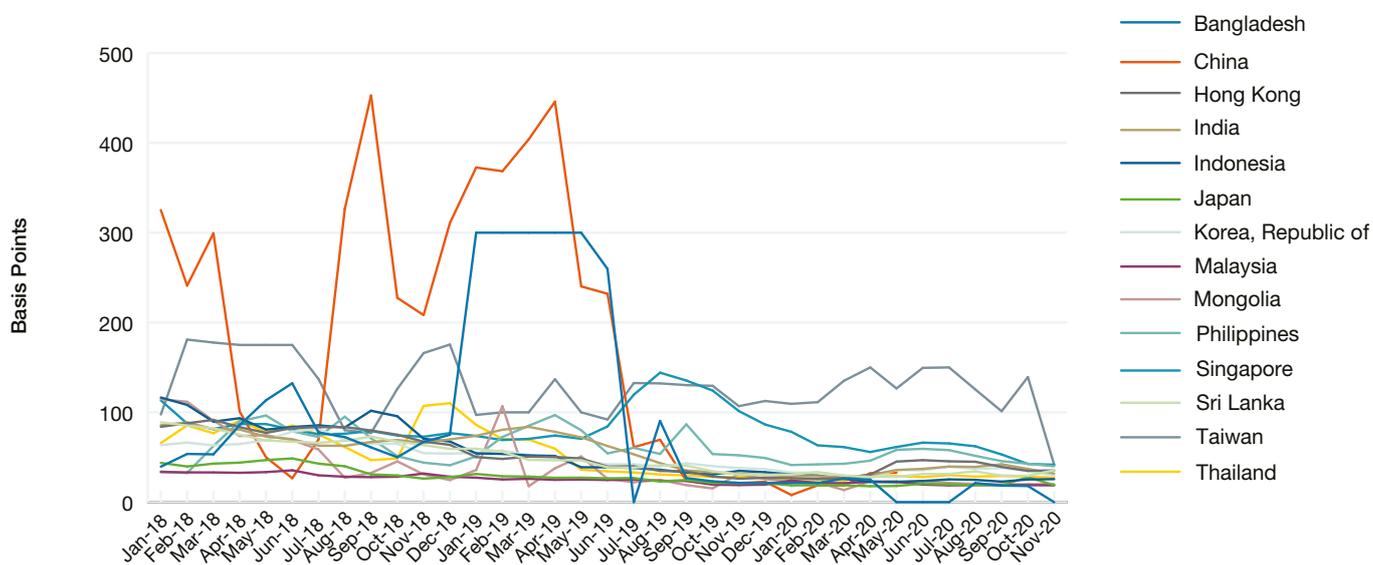
**Figure 28: Asia international credit on loan (lender-to-broker) – average balances by country of risk<sup>12</sup>**



Source: ICMA analysis using DataLend data (November 2020)

<sup>12</sup> The BondLend platform is one of the most widely used credit repo/securities lending platforms for major currencies and can be used as a good proxy for overall market trends

Figure 29: Asia international credit on loan (lender-to-broker) – average monthly fees by country of risk

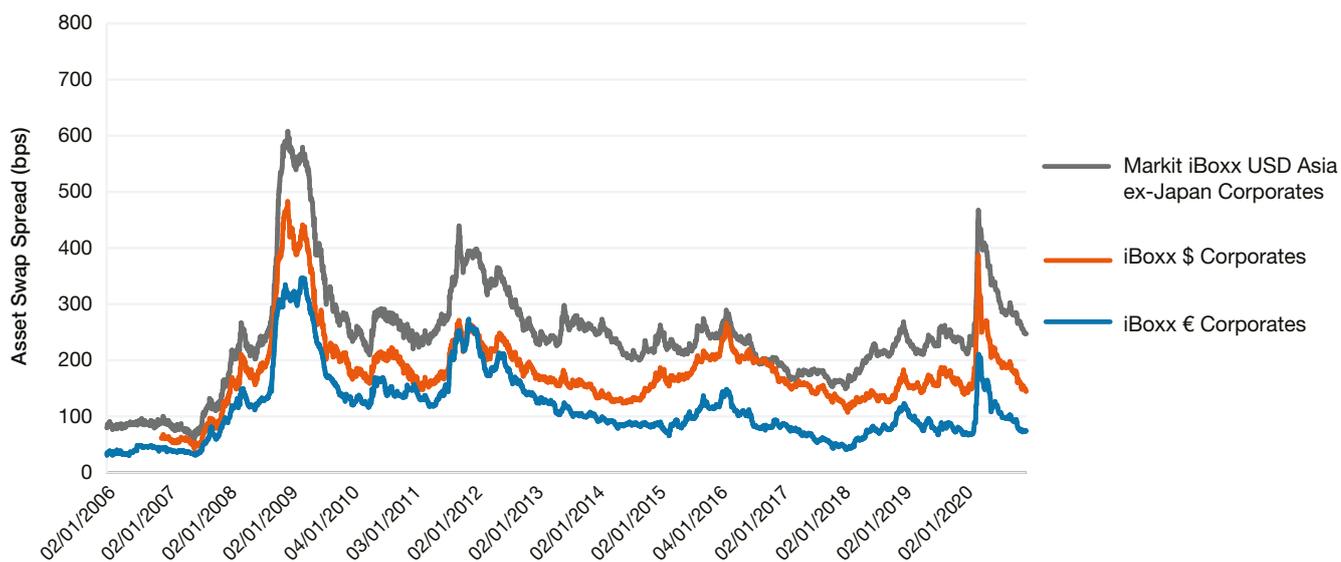


Source: ICMA analysis using DataLend data (November 2020)

## Market performance

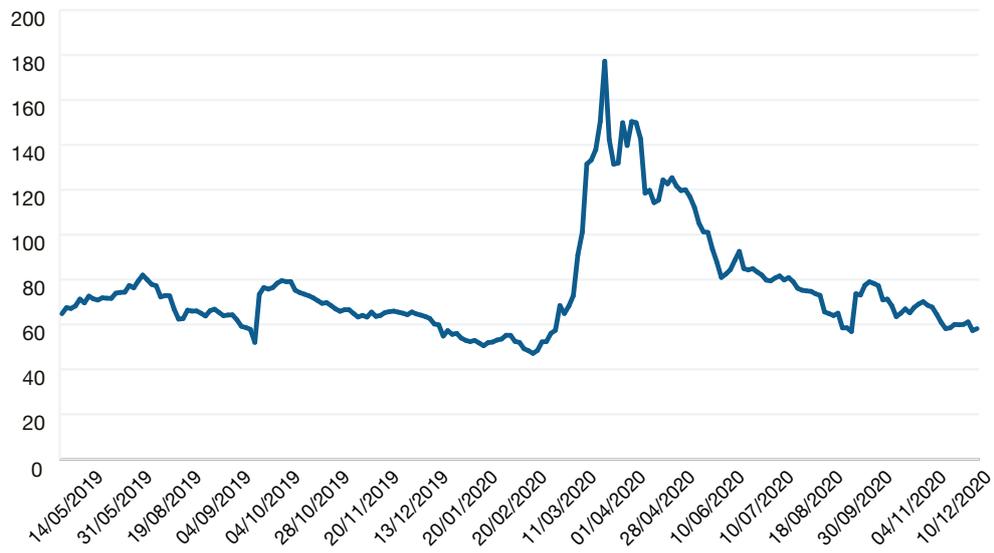
The Asia international credit market tends to track closely the movement of other international USD and hard currency credit markets, although historically it has tended to underperform, particularly during major risk-off moves, such as the 2008 Lehman crisis and the 2020 Covid crisis (see Figure 30). At a generic level, spreads therefore tend to be driven more by Federal Reserve monetary policy than regional considerations, which continues to raise concerns among some interviewees about valuations and a disconnect between market levels and underlying fundamentals. However, sentiment remains positive (see Figure 31), and investor demand for Asia names in the international market is as strong as it ever was.

Figure 30: iBoxx Credit Spreads



Source: IHS Markit (January 2021)

Figure 31: iTraxx Asia ex-Japan Investment Grade 5-year CDS Index



Source: ICMA analysis using Bloomberg data (January 2021)

# Conclusion

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The last 15 years have seen remarkable growth in the Asia cross-border bond market. Much of this rapid development can be attributed to the rise of Chinese issuers tapping the international bond markets as a means to diversify their financing structures, to fund their global expansion, as well as to build an international brand on the world's capital markets. But it is not just a Chinese story, and recent years have seen a wider range of issuers from countries where domestic markets have historically dominated, such as India and the ASEAN nations.

Much of this trend can also be attributed to the internationalization of the investor base. While it is difficult to quantify, or even define, the split between Asian and international investors, interviewees paint a picture of a more diverse investor landscape, with greater cross-border investor flows within the region.

These developments have helped to solidify a truly Asian international bond market. This is increasingly reflected in both the dominance of regional centres for arranging deals, in particular Hong Kong, and also in the way that secondary market liquidity is provided, with a number of global banks consolidating their position as pan-Asian market makers. The adoption of new technologies and e-trading, particularly post-pandemic, should further support this. As regional issuers see increasing opportunity to diversify their sources of funding, international investors become ever more familiar with Asian credits and look to diversify their risk, and as the market structure, both primary and secondary, becomes ever more defined and efficient, we can only expect the Asian international bond market to continue to expand and deepen.

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