

News from the International Capital Market Association (ICMA)

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ICMA publishes report on the Asia-Pacific cross-border corporate bond secondary market

ICMA has published a [report on the state and evolution of the Asia-Pacific cross border corporate bond secondary market](#). While the report is primarily focused on G3 (USD, EUR, GBP) denominated bonds of non-financial and financial corporate issuers, as defined by having the issuer country of risk within the APAC region, it also explores the ongoing internationalisation of local currency markets, in particular the Chinese market.

The report highlights the rapid rise in issuance and the size of the G3 (in particular USD) corporate bond market since 2011, which has accelerated in the past two years driven primarily by Chinese financial and non-financial issuers coming to the market. From 2011 to 2017, annual G3 APAC corporate issuance has more than trebled to over USD 930bn, with Chinese names accounting for more than 40% of total issuance in 2017, compared with less than 20% in 2011. The report sets the size of the market at May 2018 at approximately 8,500 outstanding issues with a nominal value of almost USD 2.5 trillion.

The report is based on interviews with market participants, including buy-side users, as well as extensive data and quantitative analysis. It sets out to map the state of the market, including trends in market size and structure, primary and secondary market liquidity conditions, the impacts of post-crisis financial and market regulatory reforms, developments in e-trading and new market technologies, and potential risks and opportunities.

Martin Scheck, ICMA Chief Executive, said: "ICMA has been instrumental in mapping the ongoing state and evolution of the European credit and ancillary markets, and this report is a natural extension of that work given the increasing importance of the Asia-Pacific fixed income markets for the global economy."

The interviews and data paint a mixed picture on secondary market liquidity. Some respondents feel that liquidity is generally good, while others posit that the market is traditionally a buy-to-hold market, and so inherently illiquid. However, it would seem that to the extent that liquidity is healthy, it is skewed heavily to investment grade issuance, as well as to the bid-side of the market. The interviews and data also suggest that secondary market activity has lagged the overall growth in primary issuance.

Other key findings of the report highlight the under-development of both repo and single name credit default swap markets (which seems to have a direct impact on the ability for dealers to provide liquidity), a cultural reticence to move trading from over-the-counter onto electronic venues, the extraterritorial impacts of US and European regulatory initiatives, and the ongoing internationalisation of the Chinese onshore corporate bond market.

Looking forward, the report concludes that China will remain the most important part of the story, in terms of USD issuance, investment, and intermediation, as well as the ongoing

internationalisation of its onshore bond market. Other local currency markets are also expected to become a more prominent part of the cross-border corporate bond market.

There are broad concerns of a potential marked correction in the near future, with participants citing unsustainable credit valuations, excess leverage, and the turning of the rate and credit cycle. However, the longer-term outlook for the APAC cross-border corporate bond markets would seem to be mostly positive, with plenty of opportunities for investors, intermediaries, and issuers.

Notes for editors

International Capital Market Association (ICMA)

ICMA is the trade association for the international capital market with over 540 member firms from more than 60 countries, including issuers, banks, 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.

ICMA supports its members and users of its standards in Asia Pacific from its representative office in Hong Kong.

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