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3. The international debt securities market

The pace of borrowing activity in the international debt securities market slowed in the third quarter of 2005, with gross issuance of bonds and notes down 19% from the second quarter. However, due to strong issuance earlier in the year, third quarter gross issuance was still up on a year-over-year basis by almost 10% (Table 3.1). One region where issuance picked up markedly was the United States, whereas issuance by euro area nationals declined. High-yield entities once again stepped up their borrowing in the international market, shrugging off a weak second quarter that had seen turmoil in the US auto sector. Global net issuance of bonds and notes fell sharply on both a quarterly and an annual basis (Table 3.2).

Borrowing by emerging market countries remained at a high level in the third quarter, as secondary market spreads on emerging market debt fell to a record low. Local currency issuance of international securities by emerging market entities continued to be particularly strong, and 2005 looks set to be a record year for this segment of the market. Latin American borrowers once again accounted for the vast bulk of local currency issuance, the government of Brazil being the main contributor with a $1.5 billion issue in September.

US issuance surges

Pickup in US issuance is driven by the agencies

On the heels of several quarters of weak activity in the international bond and note market, gross issuance by US entities increased sharply in the third quarter from $175 billion to $219 billion. On a year-over-year basis, gross issuance increased by 29%. Consistent with past behaviour, the most active US entities were the agencies. Fannie Mae issued five- and 10-year bonds with a face value of $3 billion each. Freddie Mac and Federal Home Loan Banks each completed two $4 billion medium-term notes and three $3 billion issues during the quarter. These issues were placed at several different points on the curve, with the larger issues from Freddie Mac at five- and 10-year maturities and those from Federal Home Loan Banks at the short end.

Net borrowing by Freddie Mac jumps up …

The large jump in gross issuance by Freddie Mac coincided with positive net issuance by the agency, a sharp turnaround from the second quarter, when net issuance was –$4.6 billion (Graph 3.1). Total net issuance of long-term debt securities (domestic and international) by the agency has been on an upward trend this year. The rise in the third quarter helped fund a $20 billion

Gross issuance in the international bond and note markets

In billions of US dollars

	2003	2004	2004		2005		
	Year	Year	Q3	Q4	Q1	Q2	Q3
Total announced issues	2,885.0	3,300.1	726.0	822.5	1,077.6	977.0	795.9
Bonds	1,610.6	1,785.9	378.1	435.1	596.6	514.4	460.6
Notes	1,274.4	1,514.2	347.9	387.4	481.0	462.6	335.3
Floating rate	962.4	1,256.8	285.2	327.9	337.7	410.9	272.7
Straight fixed rate	1,834.5	1,985.9	430.3	483.3	723.7	559.7	517.0
Equity-related[1]	88.1	57.4	10.5	11.2	16.3	6.4	6.2
US dollar	1,171.8	1,154.1	255.5	284.1	314.1	300.0	326.7
Euro	1,287.6	1,597.5	350.2	389.8	571.9	532.5	304.4
Yen	102.7	111.4	22.4	25.9	30.5	27.0	30.6
Other currencies	322.9	437.1	97.9	122.6	161.1	117.5	134.2
Developed countries	2,620.7	3,009.4	655.8	752.1	954.8	885.7	704.3
United States	740.3	774.2	169.7	184.4	215.5	175.1	219.4
Euro area	1,301.9	1,469.4	306.1	362.9	532.8	510.8	286.0
Japan	48.3	62.0	12.1	9.9	13.9	13.3	18.7
Offshore centres	32.0	41.1	13.8	13.5	11.4	13.3	11.0
Emerging markets	139.7	152.4	35.0	35.1	83.1	49.8	46.3
Financial institutions	2,280.2	2,687.7	607.3	688.2	842.9	813.2	677.3
Private	1,913.4	2,282.3	506.6	592.2	697.8	681.3	602.7
Public	366.8	405.4	100.6	95.9	145.1	132.0	74.6
Corporate issuers	270.2	270.2	61.5	75.3	58.1	56.2	46.6
Private	218.9	232.7	56.8	60.9	54.7	43.4	38.6
Public	51.3	37.5	4.7	14.3	3.4	12.9	8.0
Governments	242.1	245.0	35.9	37.3	148.3	79.3	37.7
International organisations	92.5	97.1	21.3	21.8	28.3	28.2	34.3
Completed issues	2,866.1	3,303.7	708.8	864.4	1,017.3	1,019.8	739.6
Memo: Repayments	*1,503.0*	*1,750.1*	*405.0*	*439.8*	*521.8*	*516.0*	*527.8*

[1] Convertible bonds and bonds with equity warrants.

Sources: Dealogic; Euroclear; ISMA; Thomson Financial Securities Data; BIS. Table 3.1

… while Fannie Mae's falls sharply to meet a capital requirement

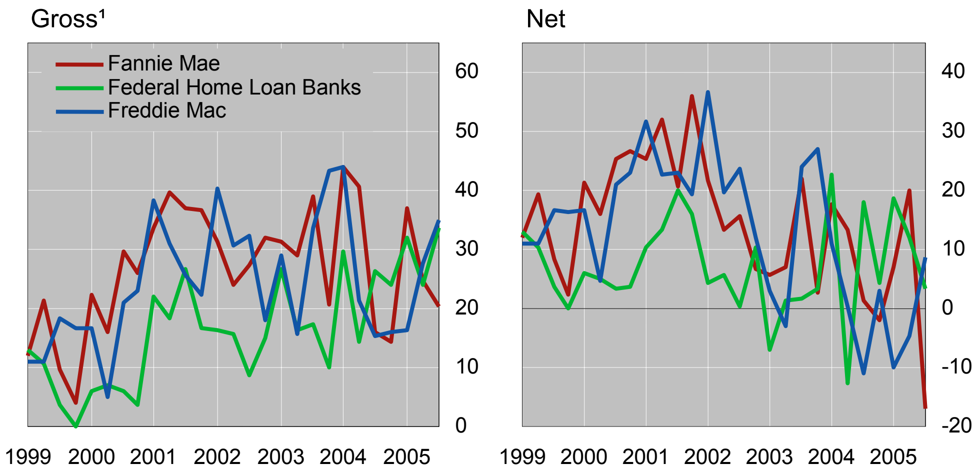
increase in Freddie Mac's retained mortgage portfolio. By contrast, total net issuance of long-term debt securities by Fannie Mae has been negative in the year to date; in particular, a decline in net issuance of $20.3 billion in the third quarter coincided with a sharp drop in the size of its mortgage portfolio, which reflected efforts to meet a 30% capital surplus requirement by end-September imposed by the Office of Federal Housing Enterprise Oversight (OFHEO).[1]

Total net US issuance of international bonds and notes fell by 22% in the third quarter. This decline was not in line with past seasonal patterns, as net issuance by US entities, unlike in many other countries, has tended to be

[1] Subsequently, OFHEO confirmed that Fannie Mae had met its capital requirement target.

US agencies' issuance of international bonds and notes

In billions of US dollars



¹ Announced issuance.

Sources: Dealogic; Euroclear; ISMA; Thomson Financial Securities Data; BIS. Graph 3.1

higher than average in the third quarter (see this chapter of the *BIS Quarterly Review*, September 2005).

Large fall in euro area issuance

Euro area issuance declines …

Gross issuance by euro area entities in the international bond and note market fell for the second consecutive quarter, though this time the decline, 44% on a quarterly basis to $286 billion, was much larger than in the previous quarter. In part, the drop-off in issuance can be explained by seasonal factors: euro area issuance in the international market tends to be about 18% lower in the third than in the second quarter. The decline cannot be explained by valuation effects, as the exchange rate of the euro vis-à-vis the dollar depreciated by less than 0.5% during the quarter.

… with negative net issuance by German entities a major factor

Net issuance of international bonds and notes in the euro area fell sharply in the third quarter, from $310 billion to $33 billion. After a very strong first half of the year, net borrowing by German entities was negative in the third quarter at –$13.4 billion. This decline was due to both financial firms and corporates, whereas net borrowing by the government actually increased slightly during the quarter. Net issuance was also negative in Italy. By contrast, Spanish and Dutch entities increased net borrowing by $21.4 billion and $15.4 billion, respectively.

Despite the sharp drop in gross issuance, there were some notable transactions by euro area entities during the period. First, the European Investment Bank came to the market with two large deals: a 10-year euro-denominated issue with a face value of €5 billion ($6.1 billion) and a five-year US dollar-denominated bond for $3 billion. The larger of the two issues has a coupon of 3.125% and was launched at a spread of 8.1 basis points over the 10-year bund. This was the first 10-year benchmark issue by the supranational

Main features of net issuance in the international bond and note markets

In billions of US dollars

	2003	2004	2004		2005			Stocks at end-Sep 2005
	Year	Year	Q3	Q4	Q1	Q2	Q3	
Total net issues	1,363.1	1,553.6	303.9	424.6	495.5	503.9	211.8	13,588.2
Floating rate	383.6	636.8	129.8	193.6	100.5	242.2	32.2	3,736.6
Straight fixed rate	958.5	922.9	176.8	235.4	397.4	266.8	188.4	9,521.1
Equity-related	20.9	–6.2	–2.7	–4.4	–2.4	–5.2	–8.8	330.4
Developed countries	1,282.2	1,433.2	276.6	396.6	462.1	474.1	167.8	12,044.0
United States	260.5	223.2	34.8	63.9	65.1	53.9	42.3	3,356.4
Euro area	731.8	779.7	139.8	220.2	283.8	309.6	32.7	5,902.1
Japan	–1.7	17.4	1.9	0.4	4.9	–2.4	4.6	269.4
Offshore centres	16.3	21.4	8.5	9.0	2.6	8.6	7.1	168.5
Emerging markets	42.1	76.1	13.0	21.6	28.8	15.6	15.3	831.5
Financial institutions	1,101.9	1,305.4	277.7	364.8	395.2	445.8	195.3	10,121.3
Private	907.3	1,095.5	226.4	316.4	319.2	369.4	186.3	8,562.8
Public	194.5	209.9	51.3	48.4	76.1	76.4	9.0	1,558.5
Corporate issuers	110.2	73.8	11.7	43.0	13.8	13.6	–4.6	1,494.1
Private	90.9	55.9	12.5	34.7	21.9	6.8	–6.2	1,260.2
Public	19.3	17.9	–0.9	8.4	–8.1	6.8	1.6	233.9
Governments	128.5	151.4	8.8	19.4	84.5	39.0	–0.6	1,428.5
International organisations	22.5	22.9	5.8	–2.7	2.0	5.4	21.7	544.3

Sources: Dealogic; Euroclear; ISMA; Thomson Financial Securities Data; BIS. Table 3.2

in the past two years, and it helped to fill out its benchmark curve from one to 30 years.

Large demand for shorter-dated paper

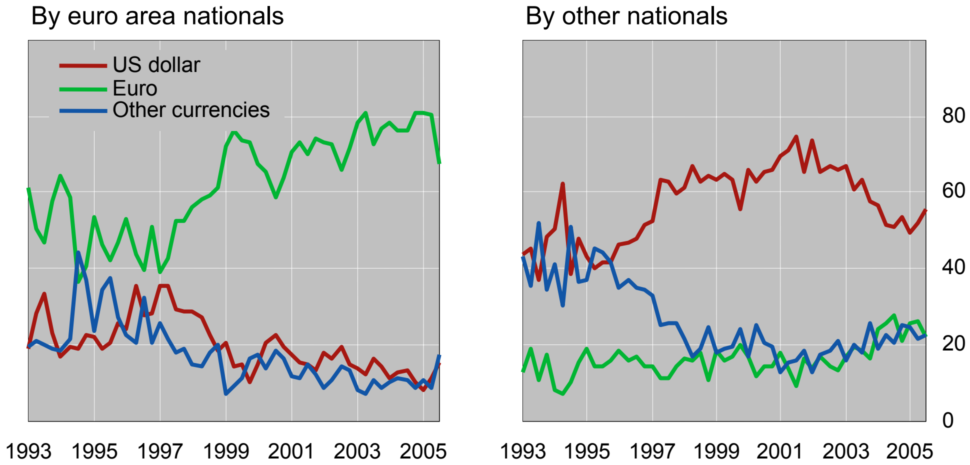
Second, there seemed to be strong demand for short-dated floating rate paper, with several large issues of this type coming to the market. Eurohypo AG, an A-rated mortgage bank, completed a €3 billion ($3.64 billion) three-year floating rate eurobond on 8 September at 5 basis points over three-month Euribor. This issue was part of a €20 billion programme. BBVA Senior Finance SA Unipersonal, a Spanish commercial bank, issued a two-year €3 billion ($3.73 billion) eurobond on 30 September at 2 basis points over three-month Euribor.

Currency shares change significantly

Trend increase in euro-denominated issuance …

Looking back in time, there has been a steady trend towards greater euro-denominated issuance by euro area entities since late 2000. In the run-up to European monetary union, the share of issuance by euro area nationals in euro area currencies in the international market rose significantly, from about 40% to 75% in a two-year span (Graph 3.2). After temporarily dipping to 60% in mid-2000, the share has steadily risen back to around 80% in the first half of 2005. By contrast, euro-denominated issuance in the international market by non-euro area nationals has not increased significantly. As shown in the graph, the share of gross issuance in euros and other currencies has increased relative to

Currency shares in gross issuance of international bonds and notes
In per cent



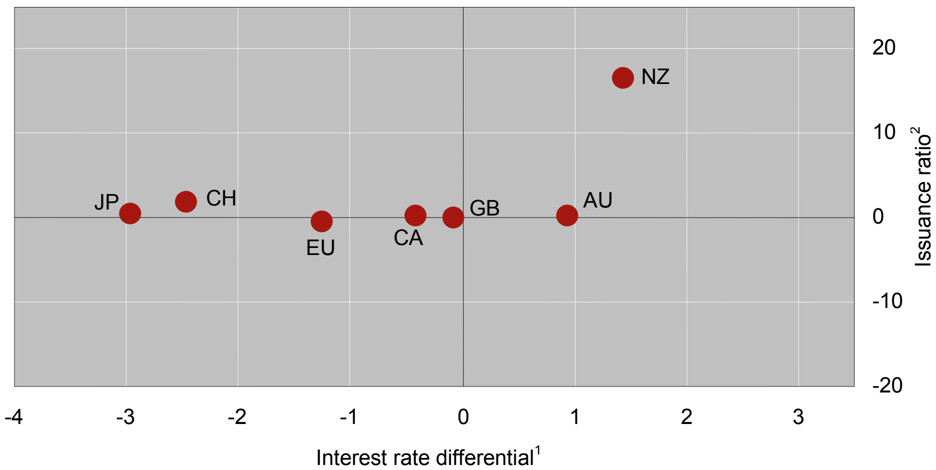
Sources: Dealogic; Euroclear; ISMA; Thomson Financial Securities Data; BIS. Graph 3.2

that in the US dollar since 2003, but the changes have been relatively modest to date.

… reverses in the third quarter

These trends aside, the share of euro-denominated issuance by euro area nationals declined in the third quarter along with the sharp fall in overall gross issuance by euro area nationals. Similarly, the shares of both gross and net issuance of international bonds and notes in euros by non-euro area nationals also dropped (Table 3.3). In fact, the amount of euro-denominated net issuance ($60.5 billion) was lower than US dollar-denominated issuance ($78.8 billion) for the first time since the third quarter of 2002.

Interest rate differentials and issuance in selected currencies



AU = Australia, CA = Canada, CH = Switzerland, EU = euro area, GB = United Kingdom, JP = Japan, NZ = New Zealand.

¹ Ten-year government bond yield in home country minus 10-year US Treasury yield, 2005 Q3; for euro area, 10-year bund yield (in per cent). ² Ratio of detrended issuance in a given currency to issuance by residents of home country in 2005 Q3, where issuance refers to announced gross issuance of international bonds and notes. Trends are calculated using data from 1995 Q1 to 2005 Q3.

Sources: Dealogic; Euroclear; ISMA; Thomson Financial Securities Data; BIS. Graph 3.3

Net issuance of international bonds and notes by region and currency[1]								
In billions of US dollars								
		2003	2004	2004		2005		
		Year	Year	Q3	Q4	Q1	Q2	Q3
United States	US dollar	204.9	134.8	5.0	51.0	42.6	56.3	14.0
	Euro	41.4	48.9	14.7	7.4	13.7	–3.2	12.1
	Pound sterling	12.0	22.9	10.6	4.7	5.5	1.1	6.9
	Yen	1.2	4.8	1.5	0.3	–1.1	–0.3	3.4
	Other	1.0	11.7	3.0	0.5	4.5	–0.1	6.0
Euro area	US dollar	74.7	56.8	9.7	15.7	15.2	15.0	14.9
	Euro	627.1	655.4	115.4	195.3	238.3	279.2	3.2
	Pound sterling	13.9	32.6	8.2	5.3	12.0	6.9	9.4
	Yen	–9.5	3.1	0.6	–3.0	5.0	0.4	–0.4
	Other	25.6	31.8	5.8	6.9	13.3	8.0	5.6
Others	US dollar	139.9	182.5	39.2	46.3	37.9	28.2	49.9
	Euro	115.0	218.5	62.6	47.8	61.1	56.0	45.2
	Pound sterling	58.9	78.7	8.2	29.1	31.4	25.7	27.5
	Yen	12.0	19.2	5.2	0.9	0.1	–6.5	–3.0
	Other	45.0	51.8	14.0	16.5	16.2	37.1	17.1
Total	US dollar	419.4	374.0	53.9	113.0	95.6	99.5	78.8
	Euro	783.5	922.9	192.8	250.5	313.0	332.0	60.5
	Pound sterling	84.8	134.2	27.0	39.0	48.9	33.7	43.8
	Yen	3.7	27.2	7.3	–1.8	4.0	–6.4	0.0
	Other	71.7	95.3	22.9	23.9	34.0	45.0	28.6

[1] Based on the nationality of the borrower.

Sources: Dealogic; Euroclear; ISMA; Thomson Financial Securities Data; BIS. Table 3.3

Issuance in Australian and New Zealand dollars surges

In addition to a rise in the share of US dollar-denominated issuance during the quarter, there was a jump in issuance in selected other currencies; in particular, gross issuance of bonds and notes in the Australian and New Zealand dollars increased by 39% and 88%, respectively. Past research has shown that the share of gross issuance in a currency tends to rise with the amount of home country issuance and the difference in the home country's long-term interest rates relative to US Treasury yields.[2] Consistent with this, long-term interest rates have been considerably higher in both Australia and New Zealand than in the United States in recent quarters (Graph 3.3). However, a deeper examination reveals that the relationship between issuance and interest rate differentials was not so clear-cut in the third quarter. For instance, issuance in the Canadian dollar and Swiss franc was also high on a historical basis even though these countries had lower long-term interest rates than the United States.

[2] See B Cohen, "Currency choice in international bond issuance", *BIS Quarterly Review*, June 2005, 53–66. The share of issuance in a currency also typically rises with the strength of the currency relative to the US dollar. The exchange rates of the currencies considered in Graph 3.3 were all relatively high in the third quarter compared to their average since 1995 (measured in US dollars per unit of domestic currency).

Issuance in other developed economies remains robust

Borrowing in other developed economies keeps pace …

Borrowers from several other developed economies were active in the international market in the third quarter. Gross issuance of bonds and notes was up by 128% in Switzerland, 40% in Japan and 6% in Canada (Graph 3.4). Admittedly, these countries form a relatively small segment of the international market, so their impact on total market activity is limited. For instance, the amount outstanding of international bonds and notes issued by UK, Canadian and Japanese entities was $1.4 trillion, $300 billion and $269 billion, respectively, as of September 2005, compared to $5.9 trillion and $3.4 trillion for euro area and US nationals, respectively.

… including a large deal from Canada

One of the largest deals in the international market in the third quarter came from Canada Housing Trust No 1, a special purpose vehicle that issued a fixed rate bond in the amount of 4.35 billion Canadian dollars ($3.7 billion), guaranteed by Canada Mortgage and Housing Corporation. The bond has a maturity of five years and was launched at a spread of 8 basis points over the January 2010 Canadian government bond. With the declining supply of Canadian government debt, there has been increasing demand for issuance by highly rated government-sponsored enterprises. Another large issue in the third quarter was from The Royal Bank of Scotland. The UK-based bank completed a $3 billion US dollar-denominated bond with a three-year maturity. The Royal Bank of Scotland has been one of the major issuers in the international debt markets in recent years, with gross issuance of bonds and notes averaging $21 billion on an annual basis since 2003.

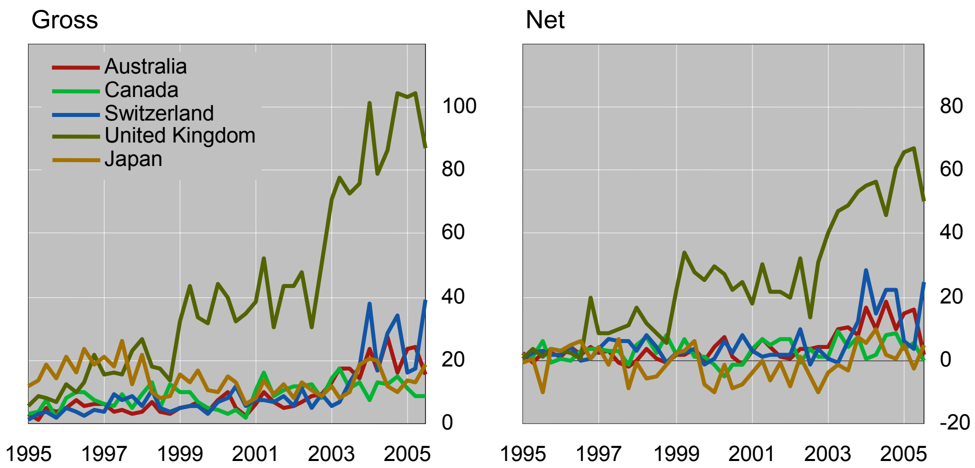
High-yield issuance rebounds after spring's turmoil

High-yield issuance bounces back …

Gross issuance of bonds and notes by high-yield entities in developed economies increased in the third quarter by over 50% on a quarterly basis to $9.5 billion (Graph 3.5). In percentage terms, this largely offset the sharp

International issuance by nationals of selected countries[1]

In billions of US dollars

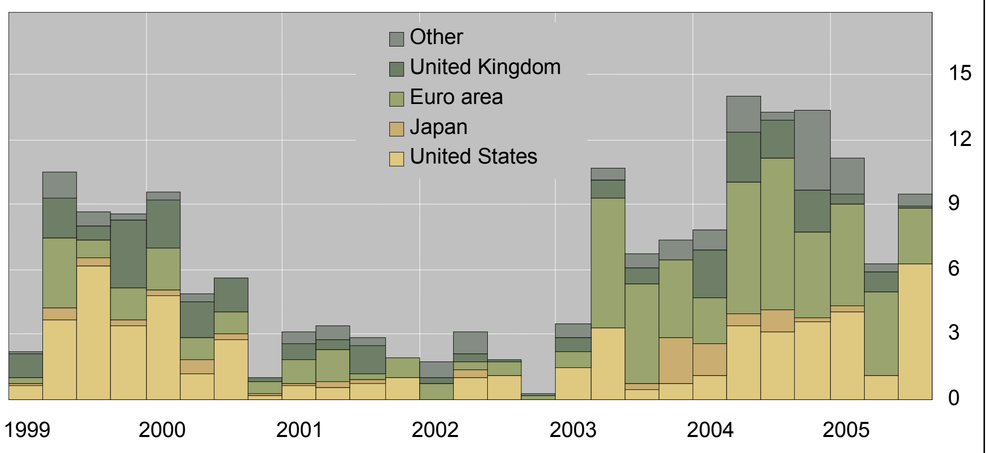


[1] Gross announced and net issuance of bonds and notes.

Sources: Dealogic; Euroclear; ISMA; Thomson Financial Securities Data; BIS. Graph 3.4

Announced issuance of non-investment grade[1] international bonds by developed country entities

In billions of US dollars, by nationality of issuer



[1] Issuers rated BB or lower.

Sources: Dealogic; BIS. Graph 3.5

decline in borrowing in the previous quarter, when the high-yield debt market had contended with the ratings downgrades of General Motors and Ford to junk status and secondary market spreads had widened significantly. By early July, however, spreads on the Merrill Lynch high-yield spread index had narrowed back to late-March levels, and thereafter reached as low as 325 basis points on 29 July. In general, the appetite for riskier, higher-yielding debt returned to the market, and lower-rated issuers took advantage of the improvement in financing conditions, even if issuance was still below the levels witnessed in 2004.

… in part due to increased LBO activity

One reason for the large increase in high-yield issuance during the quarter was greater leveraged buyout (LBO) activity. Specifically, Sungard Data Systems Inc completed a two-bond package as part of an $11.3 billion buyout by private equity investors. The deal, at the time the largest LBO since RJR Nabisco in 1989, was financed by $5 billion in loans, $3 billion in bonds and the remainder in cash. Both bonds were rated B– by Standard & Poor's.

Emerging market borrowing on track for record-breaking year

Emerging market issuance stays at an elevated level …

Borrowers in emerging market countries put in another strong quarter in the international debt market. Gross issuance of bonds and notes fell slightly relative to the first two quarters of this year, but it was still above the levels reached in the past few years, including last year's record-breaking performance (Graph 3.6).[3] There is a strong seasonal pattern in borrowing by emerging market entities in the international market, with third quarter issuance

[3] Excluding the Republic of Argentina's repackaged issues totalling $35.6 billion from the first quarter of 2005. Further details on Argentina's debt exchange can be found in this chapter in the *BIS Quarterly Review*, September 2005.

typically 14% lower than the yearly average. In fact, on a year-over-year basis, gross issuance was up by 32% in the third quarter of 2005.

… as borrowers continue to face favourable financing conditions

The turmoil in the US credit markets in the spring had minimal spillover effects on emerging markets, and, therefore, there was little reason to expect emerging market issuance to surge along with the rebound in US high-yield issuance during the third quarter. To be sure, the financing environment was very positive, with secondary market spreads declining steadily throughout the period. By 3 October, spreads on JPMorgan Chase's EMBI+ index (excluding Argentina) had narrowed to a historical low of 235 basis points, 69 basis points lower than at the start of the third quarter. But with many issuers having already met a large proportion of their borrowing requirements for the year before the third quarter had even begun, there was less need to bring supply to the market. Indeed, as noted in the Overview, the start of the fourth quarter saw a sharp drop-off in borrowing by emerging market entities.

From a regional and sector perspective, two key features of last quarter's activity stand out. First, gross issuance of international bonds and notes increased on a quarterly basis in Asia-Pacific, Latin America and the Middle East and Africa, but declined significantly in emerging Europe (by 55% to $8.9 billion). Net issuance by emerging markets overall declined by only 1.9% to $15.3 billion, but there was almost zero net issuance in emerging Europe, where it fell sharply from $14.9 billion in the previous quarter. Second, governments and financial institutions, which normally account for the bulk of issuance from emerging markets, scaled back their borrowing in the third quarter. In fact, governments actually retired more debt than they issued, with net issuance of –$2.9 billion. Corporates, on the other hand, increased their presence in the international debt market, with gross and net issuance of $11.6 billion and $6.1 billion, respectively.

Corporates are the fastest growing sector in emerging markets

Most of the focus in Latin America was on Brazil. In particular, the Federative Republic of Brazil had a very active third quarter. First, the government announced in late July that it would exchange all outstanding Brady bonds for US dollar-denominated eurobonds. The face value of the new securities is $4.5 billion and they have a maturity of approximately 12 years. This was followed up in early September with the announcement of another US dollar-denominated bond in the amount of $1 billion, which has a maturity of almost 20 years. Soon after, the Brazilian government completed a large real-denominated issue on the global market (see below).

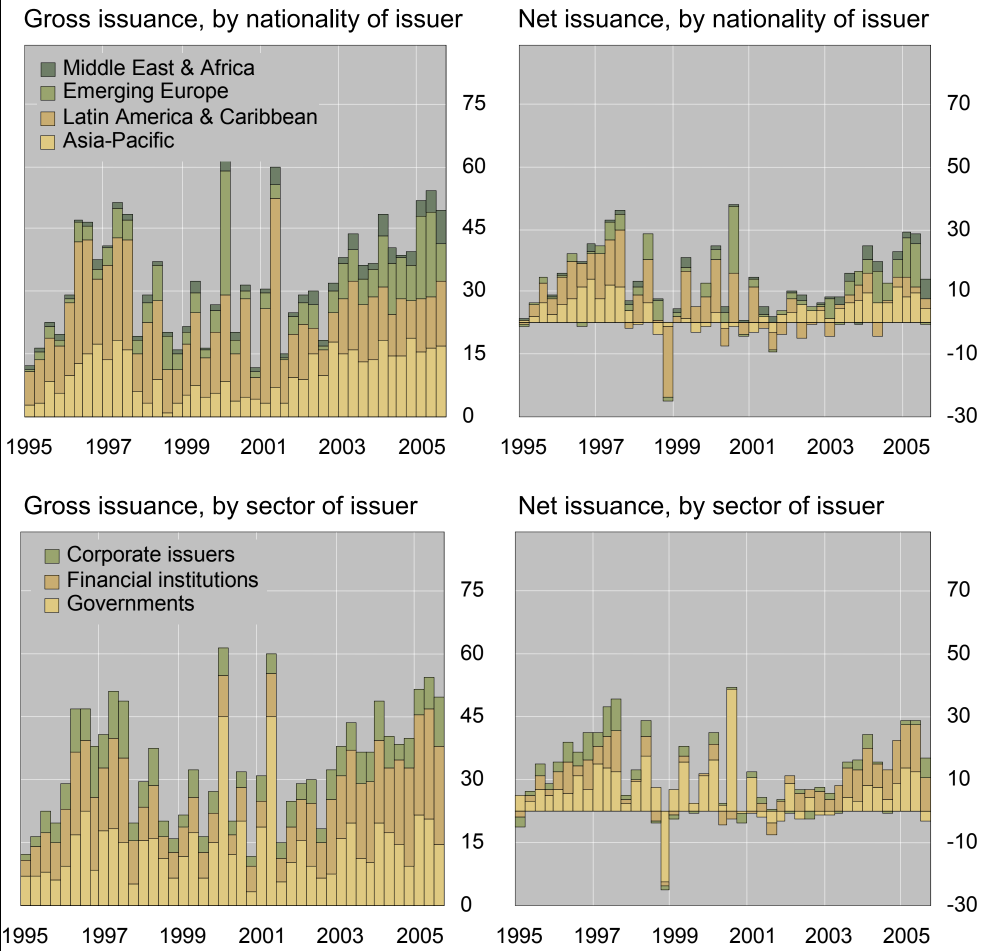
The government of Brazil is very active …

… as are several Mexican entities

Several Mexican issuers were also present in the international market in the third quarter. Even though gross issuance of bonds and notes ($1.6 billion) was much smaller than that by Brazilian entities, net issuance was relatively high at roughly $1 billion. Southern Peru Copper Corp, a Mexican firm operating in the United States, issued two US dollar-denominated bonds, one with a maturity of 10 years ($200 million) and the other with a 30-year maturity ($600 million). The relatively long maturity of the latter bond was indicative of a more general extension of maturity in deals by Latin American entities during the quarter; for instance, the average maturity of fixed rate issues by Latin American corporates increased from 10.5 to 13.2 years. The second largest Mexican deal during the quarter was actually a peso-denominated eurobond

International debt securities issuance by emerging market entities[1]

In billions of US dollars



[1] Excluding issuance by the Republic of Argentina in the first and second quarters of 2005.

Sources: Dealogic; Euroclear; ISMA; Thomson Financial Securities Data; BIS. Graph 3.6

issued by a telecoms company, América Móvil SA de CV. The bond has a face value of five billion Mexican pesos ($466 million) and 10¼ years until maturity.

Chinese and Korean financial entities complete large bonds

The countries in Asia-Pacific that issued the most paper in the international market were China and Korea. Sovereign issuers of both countries were the subject of positive ratings actions during the quarter: Standard & Poor's upgraded China from BBB+ to A– on 20 July and Korea from A– to A on 27 July; Fitch put Korea on review for upgrade on 19 September. Yet the largest issues were not completed by the central governments. The Export-Import Bank of China and China Development Bank issued 10-year US dollar-denominated bonds for $1 billion each. The latter also completed a $500 million bond during the quarter. The largest issue from Korea was a five-year US dollar-denominated bond in the amount of $750 million by the Korea Development Bank.

The Philippines government accesses global markets once again …

In mid-September, the Republic of the Philippines completed a 10⅓-year US dollar-denominated bond for $1 billion. This completed the government's funding programme for 2005. Evidently, the Philippines government had little difficulty accessing global capital markets this year, despite political and fiscal problems and several negative ratings actions. In fact, secondary market spreads on Philippines government debt narrowed during the quarter. The issue noted above was launched at a spread of 430 basis points over the 10-year US Treasury bond, which is roughly in the range where Philippines government debt had been trading just prior to the deal, according to JPMorgan's EMBI+ index.

… while the Republic of Poland cuts back on its borrowing

In emerging Europe, much of the decline in issuance can be traced to Poland and Turkey. In recent quarters, the Republic of Poland had been very active in the international debt securities market. During the third quarter, the government issued only one euro-denominated medium-term note with a face value of €750 million. Three of the five largest deals in the region were by Russian firms, two of which were US dollar-denominated bonds by the financial entity Gazstream SA.

Gross issuance of bonds and notes in the Middle East and Africa rose from $4.9 billion in the second quarter to $7.1 billion in the third quarter. Moreover, as of September, net issuance had already surpassed last year's total by $1.3 billion. Egypt and Qatar each accounted for about one third of gross issuance in the region. In Qatar's case, this consisted solely of two US dollar-denominated bonds issued by Ras Laffan Liquefied Natural Gas Co Ltd.

Local currency issuance continues to grow

Local currency issuance by emerging markets rises …

Local currency issuance of international debt securities by emerging market entities grew further in the third quarter, by 10% to $2.1 billion (Graph 3.7). This brought the total amount of local currency issuance in 2005 to $5.5 billion, which is on pace to be a record year by a very wide margin for this segment of the market.[4]

In recent years, Latin American borrowers have been the most active issuers of local currency debt in the international market among emerging market entities.[5] According to the latest figures, Latin America once again accounted for the vast bulk of local currency issuance ($2 billion). This can be mainly attributed to a Brazilian government issue in late September that has a face value of 3.4 billion reais ($1.48 billion).[6]

… driven mainly by the Federative Republic of Brazil's large real-denominated issue

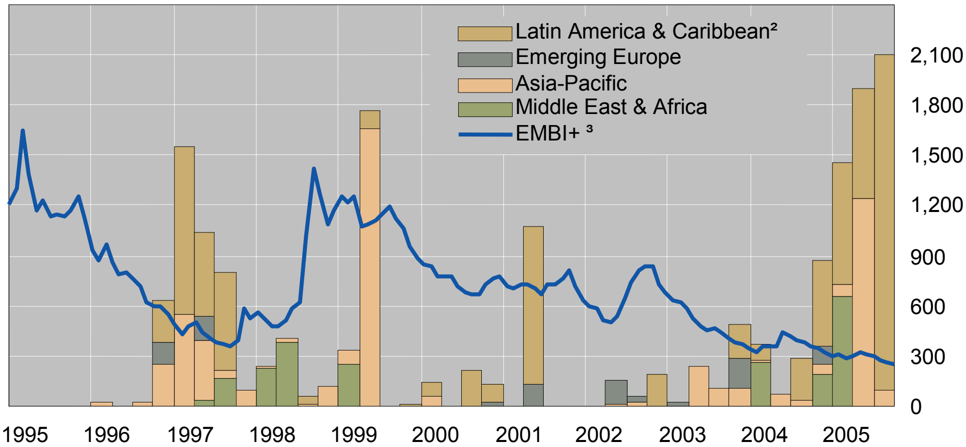
The Federative Republic of Brazil's bond is arguably a major breakthrough for the local currency segment of the international market in general, and the Brazilian government in particular. Notably, it is a large issue with a fixed rate (the coupon is 12.5%) and a long maturity (the redemption date is 5 January 2016). At launch, it was rated B1 by Moody's and BB– by Fitch. About two thirds of the issue was sold to investors in North America, with the remainder

[4] Excluding the Republic of Argentina's repackaged issues totalling $15.7 billion from the first quarter of 2005.

[5] For further analysis of local currency international debt issuance by Latin American countries, see "International government debt denominated in local currency: recent developments in Latin America" on page 109.

[6] The other Latin American local currency issues were by two Brazilian banks and a Mexican telecoms company.

International debt securities issuance in local currency by emerging market entities[1]



[1] Announced issuance by nationality of issuer in millions of US dollars. [2] Excluding issuance by the Republic of Argentina in the first quarter of 2005. [3] Adjusted for Argentina; monthly averages, in basis points.

Sources: Dealogic; Euroclear; ISMA; Thomson Financial Securities Data; BIS. Graph 3.7

going primarily to European investors. Previous real-denominated issues in the international market were much smaller in size or were more complex instruments (ie structured notes). Given its relatively unique nature, there were no obvious benchmarks for pricing. The longest maturity on a fixed rate Brazilian government bond in the local market had been about seven years, and long-dated forwards markets have not developed. Brazilian interest rates had been falling just prior to the deal, as the central bank cut interest rates on 14 September, six days before the deal was announced. In the end, the issue was several times oversubscribed and was priced at a yield of 13.1%. Also, in initial trading, it was reported that the bond had fairly tight bid-offer spreads in comparison to real-denominated structured notes or smaller real-denominated bond issues traded in the global market.