

Comments on “The rise of benchmark bonds in emerging Asia”

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This paper investigates whether government policy can speed up the tipping process in the creation of benchmark bonds. The authors (Remolona and Yetman) examine four emerging market economies in Asia where authorities have actively fostered benchmark bonds – Indonesia, Malaysia, the Philippines and Thailand. The question the authors seek to answer is whether creating de jure benchmarks will lead to the creation of de facto benchmarks. To assess this, they use rankings based on relative yields, bid-ask spreads and the number of days for which quotes are available to assess the liquidity of bonds. They conduct a principal component analysis (PCA), using the loadings on the first PC to measure bond importance in price discovery. The liquidity measures are combined with price discovery measures to identify de facto benchmark bonds. The authors compare those bonds with those which the governments have chosen as de jure benchmarks. Their results show that the de jure benchmarks are often also the de facto benchmarks. The identified highly liquid bonds often have high factor loadings on the first PC of returns on bonds with similar maturities, consistent with them playing an important role in price discovery.

We observe from Table 1 below – which details some stylised facts on selected government bond markets – that the ratio of bond market size to GDP is quite stable for Indonesia and Thailand. The authors do not mention, however, how this is related to their finding on Indonesia and Thailand having the greater success in the establishment of benchmark bonds despite having the smallest number of de jure benchmarks among the four countries (ie Malaysia has seven and the Philippines eight as shown in Table 1 of Remolona and Yetman (2019)). The policy implication is that authorities may benefit from focusing on a more limited number of benchmarks.

Stylized facts on selected government bond markets

Table 1

	Size end-2017 (USD billions)	Size end-2005 (USD billions)	Ratio to GDP in 2017	Ratio to GDP in 2005
Indonesia	155.7	40.7	15.3	13.1
Malaysia	167.2	48.2	53.5	32.5
Philippines	89.1	41.1	28.4	39.9
Thailand	135.8	38.2	29.8	20.2
Japan	9470.9	5827.0	194.3	122.5
United States	17583.9	6846.4	90.2	52.5
United Kingdom	2785.3	801.5	106.0	31.7

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Focusing on the designated benchmark bond issues for Indonesia and Thailand, these de jure benchmarks are often also de facto benchmarks in terms of their liquidity and roles in price discovery. However, these positive results are not uniform. By comparison, advanced economies with more highly developed and widely traded bond markets tend to have fewer benchmarks.

The authors also found that, in exchange for larger gaps between benchmarks along the yield curve, focusing debt raising efforts on a smaller number of issues that could then be re-opened more often and/or in larger amounts could support the creation of benchmarks, with all of the concomitant benefits including improved market functioning and reduced debt servicing costs. An implication is that governments' attempts to establish a full yield curve of benchmarks may be counterproductive, while establishing benchmarks at a smaller number of key maturities would be more successful.

This is a very interesting paper. In the study, the authors could benefit from providing further explanation as to why the four countries are selected. They could also mention and compare the rating of the bonds of the four selected countries and control for the rating. Also, more explanation is needed as to why the factor loading magnitudes are used, ie why were other weighted rankings not used? They could also explain the findings in more details. For example, why do Indonesia and Thailand offer the best results? Is it due in part to their economies and debt levels relative to GDP in addition to the number of de jure benchmarked bonds?

They should also discuss the possibility of the crowding out effect; ie in cases where a country has more bonds in the market with different maturities, if the overall demand is not high enough the bonds with close maturity will become substitutes for one another, leading to a lower chance of a de jure benchmark bond becoming a de facto benchmark bond. Another implication is that countries with a bond market that is growing too fast (as shown in Table 1) face more difficulties in making a de jure benchmark bond a de facto benchmark bond.