

3. The international debt securities market

Both gross and net issuance of international debt securities partially rebounded in the fourth quarter of 2001 from the steep decline of the third quarter. This may, in part, reflect a transfer of issuance to the fourth quarter from the third due to the disruption of capital markets by the attacks of 11 September. Interesting differences in issuing behaviour emerged along lines of nationality and currency at the end of 2001. Issuers of bonds and notes in both US dollars and pounds sterling exhibited a strong preference for straight fixed rates, while euro- and yen-denominated issues were tilted towards floating rate structures. An increase in net issuance by US nationals was due largely to a drop-off in repayment rates, but a surge of announcements was behind the sharp net increase in European issues. At shorter maturities, net issuance of international money market instruments remained negative in the fourth quarter, but the commercial paper subcomponent turned positive. Emerging economy net issuance recovered slightly, but remains deeply depressed from the levels of 1999 and 2000. As noted in the Overview, on balance, credit conditions in international securities markets appear to have eased over the course of the fourth quarter, but only by comparison to the severe conditions that existed in late summer.

Differences arise in issuance patterns by region and currency

International securities issuance rebounds ...

Net issuance of international debt securities in the fourth quarter increased by 53% to \$270 billion, bouncing back sharply from the steep and perhaps aberrant decline of the third quarter (Table 3.1). Still, net issuance remains 13% below the average quarterly level for 2000. Announced issues of bonds and notes in the fourth quarter increased by 16% to \$487 billion (Table 3.2).

... after being disrupted in the third quarter

There is substantial seasonal variation in gross issuance of international bonds and notes on a monthly basis, with September typically being one of the highest issuance months and August the lowest. As illustrated in Graph 3.1, September announcements of international bonds and notes were 27%, or \$53 billion, below their expected level based on seasonal factors. This agrees with anecdotal evidence that issuance was disrupted by the 11 September terrorist attacks. Conversely, announcements in October, November and

Main features of net issuance in international debt securities markets

In billions of US dollars

	2000	2001	2000	2001				Stocks at end-Dec 2001
	Year	Year	Q4	Q1	Q2	Q3	Q4	
Total net issues	1,243.5	1,071.1	312.9	328.4	295.5	177.0	270.1	7,247.5
Money market instruments ¹	152.1	- 79.3	46.6	2.2	- 26.2	- 45.6	- 9.8	397.5
<i>Commercial paper</i>	55.2	26.9	23.3	22.3	10.1	- 12.0	6.5	243.1
Bonds and notes ¹	1,091.3	1,150.4	266.2	326.2	321.6	222.7	279.9	6,850.0
<i>Floating rate issues</i>	359.2	306.1	90.7	86.4	72.0	75.0	72.8	1,745.2
<i>Straight fixed rate issues</i>	715.4	808.5	166.1	236.0	239.0	142.2	191.2	4,833.7
<i>Equity-related issues</i>	16.7	35.7	9.4	3.8	10.5	5.5	15.9	271.2
Developed countries	1,163.1	995.2	302.8	314.0	256.1	164.0	261.0	6,287.5
<i>United States</i>	467.2	483.6	125.9	153.3	121.2	94.8	114.4	2,225.8
<i>Euro area</i>	559.9	429.2	138.9	147.1	100.6	66.0	115.5	2,572.5
<i>Japan</i>	- 25.8	- 12.2	- 5.4	- 4.0	2.3	- 6.8	- 3.7	260.0
Offshore centres	15.0	20.8	3.1	7.3	5.4	4.6	3.5	90.1
Emerging economies	42.8	39.1	- 0.7	8.9	28.4	- 2.6	4.4	486.5
International institutions	22.6	16.0	7.6	- 1.8	5.5	11.0	1.2	383.4
Private sector	975.6	807.7	253.1	267.0	219.2	121.7	199.8	5,418.8
<i>Financial institutions²</i>	802.8	642.0	203.5	222.7	161.3	102.3	155.6	4,352.2
<i>Corporate issuers</i>	172.7	165.7	49.6	44.3	57.9	19.3	44.2	1,066.7
Public sector ³	245.3	247.4	52.2	63.2	70.7	44.4	69.1	1,445.3
<i>Central government</i>	52.6	38.0	- 3.6	9.2	23.3	- 2.3	7.9	515.6
<i>State agencies and other</i>	192.7	209.4	55.8	54.0	47.5	46.7	61.3	929.6
<i>Memo: Domestic CP⁴</i>	255.9	- 130.3	124.9	- 57.0	- 63.1	- 49.2	39.1	1,918.9
<i>of which: US</i>	208.3	- 161.2	42.5	- 63.1	- 67.9	- 58.5	28.3	1,440.9

¹ Excluding notes issued by non-residents in the domestic market. ² Commercial banks and other financial institutions.

³ Excluding international institutions. ⁴ Data for the fourth quarter of 2001 are partly estimated.

Sources: Bank of England; Dealogic; Euroclear; ISMA; Thomson Financial Securities Data; national authorities; BIS.

Table 3.1

December were on average 13% above their expected seasonal values, making a combined excess of almost \$55 billion. This would suggest that much of the rebound in issuance in the fourth quarter was "make-up" issuance for the aberrantly low level of issuance in September, rather than a fundamental increase in demand for or supply of funds.

On a nationality basis, net issuance by the European Union almost doubled to \$143 billion, while announcements rose 20%. A near tripling of net issuance by the United Kingdom to \$27 billion made a significant contribution to the surge, but issuance by euro area states was also quite strong. Net issuance of the euro area rose 75% to \$115 billion, and announced issues increased by 19% to \$345 billion. Dutch and Italian nationals led the growth in euro area issuance, while German net issuance went up by only 11% from the low level of the third quarter.

EU issuance grows sharply ...

... as US
repayments slacken

International issuance by US nationals, in contrast, fell 8% on a gross basis. A 21% increase in US net issuance to \$114 billion was the result of a similar decline in repayments. Early repayments of US issues ceased almost entirely. Net Japanese issuance continued to be negative, though gross issuance edged up marginally.

The breakdown of issuance by currency largely mirrored national patterns (Table 3.3). Euro-denominated gross issuance rose 38% to \$284 billion, nearly a record high; and net euro-denominated issues doubled from the third quarter. Gross issuance in pounds sterling did hit a record \$78 billion, while net issuance increased by 160%. Dollar-denominated issuance, like issuance by US borrowers, fell slightly on a gross basis, but net issuance rose 22%.

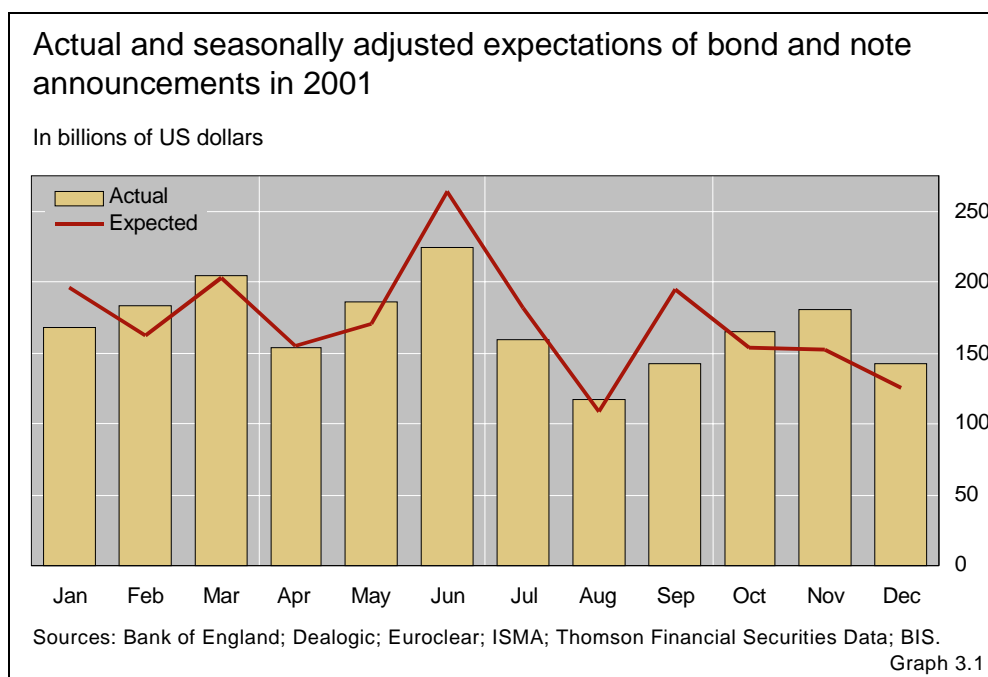
Issuers in dollars
and pounds sterling
prefer fixed rates ...

A breakdown of fourth quarter issuance by both currency and rate structure reveals interesting differences in borrower behaviour (Graph 3.2). There was a marked preference on the part of issuers in dollars and pounds sterling for fixed rate bonds and notes, while euro- and yen-denominated issuance was weighted towards floating rate securities. The difference suggests that market participants may believe that the interest rate cycle has reached a trough in the United States and United Kingdom and that interest rates at all maturities are likely to rise from now on, while issuers of euro-denominated debt either are uncertain or expect euro area interest rates to

Gross issuance in the international bond and note markets							
In billions of US dollars							
	2000	2001	2000	2001			
	Year	Year	Q4	Q1	Q2	Q3	Q4
Total announced issues	1,707.7	2,025.3	384.5	555.3	564.1	418.8	487.2
Floating rate issues	521.0	554.4	128.6	134.4	134.9	139.1	146.1
Straight fixed rate issues	1,130.2	1,403.3	242.1	408.8	410.9	268.7	314.9
Equity-related issues ¹	56.5	67.6	13.8	12.1	18.3	11.0	26.2
US dollar	794.5	980.1	179.5	261.1	286.1	222.9	210.0
Euro	582.7	721.7	134.8	214.8	191.8	123.6	191.4
Yen	129.1	119.5	19.2	27.5	36.0	32.0	24.0
Other currencies	201.4	203.9	51.0	51.8	50.1	40.2	61.7
Private sector	1,322.6	1,478.7	304.9	412.6	400.9	293.4	371.8
Financial institutions ²	1,090.4	1,173.0	252.4	333.1	308.4	244.5	287.0
Corporate issuers	232.2	305.7	52.5	79.5	92.6	48.9	84.8
of which: telecoms	115.3	133.3	19.6	49.2	29.2	15.9	39.0
Public sector	316.0	472.1	65.1	125.8	140.4	105.3	100.6
Central government	92.9	107.0	4.5	31.2	49.4	13.0	13.3
State agencies and other	223.1	365.1	60.5	94.5	90.9	92.3	87.3
International institutions	69.2	74.5	14.5	17.0	22.7	20.1	14.7
Completed issues	1,709.5	2,023.3	420.3	543.7	553.4	429.0	497.1
Memo: Repayments	618.1	872.9	154.0	217.5	231.8	206.4	217.2

¹ Convertible bonds and bonds with equity warrants. ² Commercial banks and other financial institutions.

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



decline further. Such expectations would be consistent with the yield curves shown in the Overview: strictly increasing in the United States and inverted in the near term in the euro area. Issuers of yen-denominated debt may be unwilling to pay the increasing term premium built into the yen yield curve as they expect short-term interest rates to remain low well into the future.

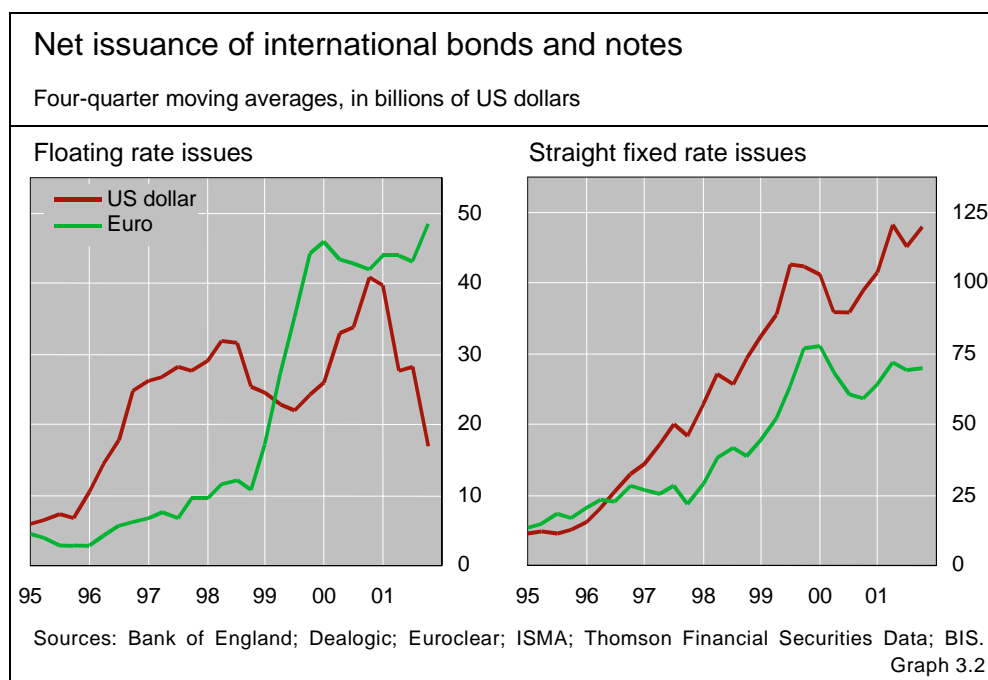
Straight fixed rate net issuance of bonds and notes in dollars rose 43%, while that in sterling doubled. On a proportional (though not on an absolute) basis, much of the rise in net dollar-denominated fixed rate issuance was due to a drop-off in repayments with a small increase in announcements; gross issuance of fixed rate notes and bonds in sterling jumped 134%. Conversely, announcements of floating rate bonds and notes in both dollars and sterling fell sharply (37% and 23%, respectively). Net dollar-denominated issuance of floating rate bonds and notes turned negative for the first time since early 1992. Floating rate net issuance in sterling remained positive, but fell by 14% from the third quarter.

Euro-denominated issues tilted instead towards floating rate securities. Net issuance in euros of floating rate bonds and notes jumped 83% to \$64 billion, surpassing both the level of net fixed rate issuance (\$58 billion) and the rate of growth from the third quarter (36%). Yen-denominated floating rate net issues rose 25% from the third quarter, while fixed rate yen net issuance reversed from \$2 billion to -\$5 billion.

Issuance of equity-related bonds and notes also diverged along currency lines. A fivefold increase in net euro-denominated convertible issues brought total equity-related net issuance to a 12-year high of \$16 billion (Table 3.1). Euro-denominated announcements of \$16 billion, more than \$4 billion of which was issued by France Telecom alone, brought total announcements to \$26 billion (Table 3.2). Net issuance of equity-related securities in dollars, however, fell almost 70% from the third quarter.

... while issuers in euros and yen favour floating rates

Issuance of equity-linked securities, especially in euros, surges



Among international bonds and notes, the average maturity of issues in the fourth quarter lengthened to 9.7 years from an average of 7.2 years in the third quarter. The increase in maturity was in part due to the higher proportion of issues denominated in pounds sterling, which typically have a longer average maturity than issues in other currencies. Another factor was the simultaneous shift in preference towards floating rate euro-denominated issues coupled with an increase in the average maturity of that type of issue from 7.4 years in the third quarter to 12 years in the fourth quarter.

Corporate non-financial issuance leads a rebound of private sector issuance

Both public and private sector net issuance rose in the fourth quarter, but gross issuance by the public sector continued to contract (Tables 3.1 and 3.2). Public sector net borrowing in international securities markets rose 56% to \$69 billion, primarily due to a 29% fall in repayments. Issuance by US government agencies continued to make an important contribution to the net rise in public sector issuance in international securities markets. Issuance by international institutions fell 89% on a net basis to just over \$1 billion.

Net issuance by the private sector bounced back by 64% from the third quarter, to \$200 billion, as gross issuance increased by 15%. Still, private sector net issuance remains well below the average quarterly levels of 2000. Corporate issuers led private sector issuance, with a 34% rise in announcements and a 129% spike in net issuance. Many corporate issues were oversubscribed, especially in November and December. In the fourth quarter, financial institutions began to reverse the slide of the previous two quarters, increasing net issuance by 52%. However, US financial institutions deviated from this trend, with a 16% drop in net issuance in the fourth quarter.

Corporate issuance jumps

Net issuance of international debt securities by currency and region ¹								
In billions of US dollars								
Region/currency		2000	2001	2000	2001			
		Year	Year	Q4	Q1	Q2	Q3	Q4
North America	US dollar	379.0	401.7	103.3	123.0	96.4	85.0	97.3
	Euro	44.6	64.2	10.8	20.9	15.6	7.0	20.7
	Yen	17.2	16.5	3.2	3.3	5.2	6.4	1.5
	Other currencies	18.6	7.6	8.9	5.1	3.3	-1.5	0.7
Europe	US dollar	171.8	48.3	54.0	24.9	13.1	-2.9	13.2
	Euro	412.5	399.1	104.8	128.3	103.4	57.2	110.1
	Yen	40.9	-2.9	-2.5	-6.0	1.7	4.0	-2.6
	Other currencies	86.7	67.6	23.7	19.0	10.3	11.8	26.5
Others	US dollar	62.5	55.0	4.9	7.7	36.6	9.4	1.2
	Euro	15.1	12.9	2.0	5.4	4.3	0.5	2.7
	Yen	-20.4	-2.4	-4.6	-3.3	4.5	-2.5	-1.0
	Other currencies	15.1	3.5	4.4	0.3	1.0	2.5	-0.2
Total	US dollar	613.3	504.9	162.1	155.5	146.1	91.6	111.7
	Euro	472.1	476.2	117.7	154.6	123.4	64.7	133.5
	Yen	37.7	11.2	-4.0	-6.0	11.3	8.0	-2.1
	Other currencies	120.4	78.8	37.1	24.4	14.6	12.8	27.0

¹ Based on the nationality of the borrower.

Sources: Bank of England; Dealogic; Euroclear; ISMA; Thomson Financial Securities Data; BIS.

Table 3.3

Net issuance of rated bonds continued to slide in the fourth quarter (Graph 3.3). More AAA-rated bonds and notes were issued on a net basis in the fourth quarter than in the third, but issuance of such paper remained below 1999–2000 quarterly average levels. Net issuance of other investment grade securities continued to shrink in the fourth quarter, while that by non-investment grade issuers turned negative. Non-rated securities issuance picked up, probably reflecting the relative increase in issuance by European entities that are less likely to have credit ratings than their American counterparts.

Net issuance of international money market instruments improved in the fourth quarter from the precipitous drop-off of the third, but remained negative (Table 3.1). This was largely due to a return to positive net issuance of commercial paper (CP) in international markets in the fourth quarter. Net CP issuance in the US domestic market turned positive, yet net issuance by US nationals of CP in international markets continued to be negative. Part of the weakness in issuance was due to rating downgrades of some of the traditionally big issuers. These firms found the bond market more hospitable. In both the US domestic and aggregate international CP markets, a strong pickup in net issuance by financial institutions made up for negative net issuance by non-financial corporations.

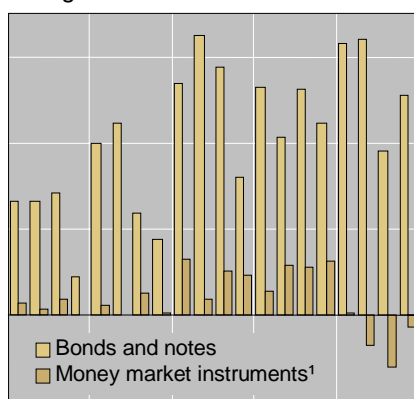
Net money market
issuance remains
negative ...

... but net CP
issuance by
financial institutions
turns positive

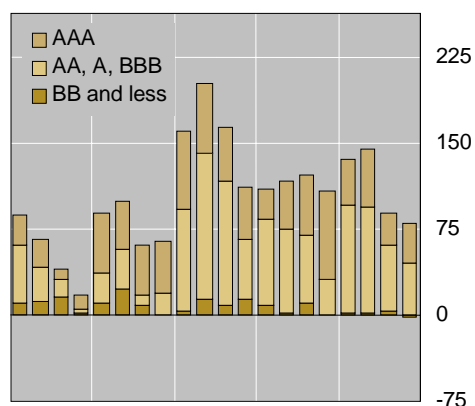
Net issuance by maturity and credit rating

International issuance, in billions of US dollars

Straight fixed rate issues



Rated bonds²



¹ Excludes issues redeemed in the same quarter. ² Includes bonds issued under EMTN documentation.

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

Issuance in emerging markets remains depressed

Net issuance by emerging economies turned positive in the fourth quarter, but at just \$4 billion remains at only a fraction of its average quarterly level in 1999–2000. This was so despite the large decline in risk spreads of emerging market debt noted in the Overview. Gross issuance partially rebounded as well, increasing by 43% from the third quarter to a level of \$21 billion.

Much of the change in net issuance by emerging economies was due to two countries: Mexico and South Korea. A sharp fall in repayments by the Mexican government brought net issuance by Mexican nationals from –\$6.9 billion in the third quarter to zero in the fourth. Private sector issuance boosted South Korea's net issuance from –\$1.3 billion to \$1.6 billion.