

3. The international debt securities market

New issuance in the international debt securities market slowed somewhat in the second quarter of 2004 relative to the first, but remained at a strong pace overall. Issuance was supported by a recovering global economy and the easing of concerns about the implications of a tightening of monetary policy in

Main features of net issuance in international debt securities markets								
In billions of US dollars								
	2002	2003	2003			2004		Stocks at end-Jun 2004
	Year	Year	Q2	Q3	Q4	Q1	Q2	
Total net issues	1,011.4	1,472.4	351.4	303.9	458.9	521.0	347.5	12,332.0
Money market instruments ¹	1.7	75.4	3.7	-32.9	49.2	35.0	2.6	596.0
Commercial paper	23.7	83.3	13.3	-25.4	48.7	9.0	-3.4	414.9
Bonds and notes ¹	1,009.7	1,397.0	347.7	336.8	409.7	486.0	344.9	11,736.0
Floating rate issues	198.8	392.4	74.1	98.0	153.4	154.4	167.9	3,112.7
Straight fixed rate issues	800.8	983.7	273.0	234.5	240.6	338.5	169.5	8,267.4
Equity-related issues	10.2	20.9	0.6	4.3	15.7	-6.9	7.5	355.9
Developed countries	945.5	1,365.9	318.1	281.6	435.2	486.0	316.7	11,002.0
United States	330.7	275.6	30.5	91.2	98.2	126.4	6.9	3,200.3
Euro area	479.1	768.8	208.7	124.8	223.4	232.7	214.8	5,306.0
Japan	-22.7	-1.0	-1.8	-3.7	7.9	6.3	11.0	283.1
Offshore centres	8.1	16.3	4.0	0.4	9.1	0.9	5.0	137.4
Emerging markets	36.9	66.9	13.9	19.5	18.8	24.1	18.7	676.2
Financial institutions	833.2	1,188.6	248.2	256.4	409.8	417.3	282.1	9,082.4
Private	697.9	984.8	199.5	209.8	349.5	339.8	234.6	7,675.4
Public	135.4	203.8	48.7	46.6	60.4	77.5	47.5	1,407.0
Corporate issuers	55.3	113.3	33.9	22.0	40.9	7.4	10.8	1,495.9
Private	44.5	95.3	31.1	18.3	37.2	-0.0	7.2	1,249.1
Public	10.8	18.0	2.8	3.7	3.7	7.5	3.5	246.8
Governments	102.0	147.3	54.0	23.0	12.3	86.2	47.6	1,237.2
International organisations	20.9	23.2	15.3	2.4	-4.2	10.0	7.0	516.5
<i>Memo: Domestic CP²</i>	-99.1	-41.7	-26.6	-36.6	7.5	58.4	-10.6	1,928.4
<i>Of which: US</i>	-91.4	-81.3	-41.9	-22.3	-1.5	47.8	-26.8	1,309.7

¹ Excluding notes issued by non-residents in the domestic market. ² Data for the second quarter of 2004 are partly estimated.

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

Table 3.1

Gross issuance in the international bond and note markets							
In billions of US dollars							
	2002	2003	2003			2004	
	Year	Year	Q2	Q3	Q4	Q1	Q2
Total announced issues	2,099.3	2,884.1	755.9	656.9	712.3	982.3	792.6
Bond issues	1,164.8	1,609.7	424.6	343.6	405.0	569.5	429.5
Note issues	934.5	1,274.4	331.3	313.3	307.3	412.8	363.0
Floating rate issues	602.5	963.8	233.6	241.2	257.6	337.9	321.5
Straight fixed rate issues	1,454.0	1,832.2	505.7	388.9	428.1	627.1	453.1
Equity-related issues ¹	42.8	88.1	16.6	26.8	26.6	17.3	17.9
US dollar	985.0	1,169.5	282.2	285.8	268.6	355.8	258.3
Euro	806.3	1,288.9	369.7	271.8	316.9	478.7	398.6
Yen	88.3	102.9	26.0	24.5	29.0	29.0	33.5
Other currencies	219.7	322.9	78.0	74.8	97.7	118.7	102.2
Financial institutions	1,631.5	2,281.2	569.7	536.2	593.8	786.6	623.6
Private	1,360.9	1,913.8	467.7	451.1	506.5	659.1	531.9
Public	270.6	367.4	102.0	85.1	87.3	127.5	91.6
Corporate issuers	211.6	271.0	78.3	67.0	68.8	62.0	73.6
Of which: telecoms	46.2	54.8	9.5	8.0	14.1	11.6	8.5
Private	187.5	220.7	69.9	53.6	56.5	52.7	61.2
Public	24.2	50.3	8.4	13.4	12.3	9.4	12.4
Governments	171.8	239.4	79.2	39.0	39.6	109.9	64.7
International organisations	84.3	92.5	28.6	14.7	10.1	23.8	30.7
Completed issues	2,098.3	2,865.2	728.0	684.1	735.3	934.0	792.6
<i>Memo: Repayments</i>	<i>1,088.6</i>	<i>1,468.2</i>	<i>380.3</i>	<i>347.3</i>	<i>325.6</i>	<i>447.9</i>	<i>447.7</i>

¹ Convertible bonds and bonds with equity warrants.

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

Table 3.2

the mature economies. New issues exceeded repayments by \$347.5 billion, which was appreciably less than the \$521 billion in net issuance seen in the first quarter of 2004 and just below the \$351 billion recorded 12 months earlier (Table 3.1). Net issuance by US entities declined sharply, resulting in a slowdown in global dollar issuance despite increased use of the dollar by non-US borrowers. Low-rated and emerging market borrowers were especially active, as were Japanese borrowers. Preliminary data suggest that most of these trends continued in July.

Markets in the second quarter focused on the extent and consequences of the shift to a tightening cycle in US monetary policy. Data releases in April and May seemed to point to a relatively rapid pace of tightening, while in June further data announcements, augmented by public statements by Federal Reserve officials, suggested that the pace of tightening would not be as rapid as had been expected. Many borrowers, particularly lower-rated corporates from the industrial countries and borrowers from European and Asian emerging economies, rushed to take advantage of market conditions that were still receptive ahead of the phase of turbulence expected to accompany the US policy shift. Other borrowers, notably higher-rated corporates from the United

States, chose to reduce new issuance in view of the uncertain outlook. A rise in the share of floating rate debt in overall issuance signalled a willingness on the part of borrowers to accommodate investors' uncertainty over the path of interest rates in the near future.

US issuance declines

US net issuance falls sharply ...

Net international issuance by borrowers based in the United States fell from \$126 billion in the first quarter of 2004 to less than \$7 billion in the second. This reflected a decline in gross issuance, which after growing sharply in the first quarter returned to the pace seen during much of 2003, together with a surge in scheduled repayments. The decline in net issuance incorporates the cancellation of some \$20 billion of international bonds issued by WorldCom, as part of the completion of the Chapter 11 restructuring process by the renamed MCI Inc (bondholders were compensated with a combination of shares and notes). Domestic US issuance slowed as well, with net issuance declining from \$186 billion in the first quarter to \$121 billion in the second according to Bloomberg figures.

... especially among financial institutions ...

Most of the decline in US activity occurred among financial institutions, whose international net issuance fell from \$122 billion in the first quarter to \$22 billion in the second. The two large mortgage issuers, in particular, reduced their borrowing sharply in the second quarter after expanding aggressively in the first. The uncertain outlook for interest rates during the

Net issuance of international debt securities by region and currency¹

In billions of US dollars

		2002	2003	2003			2004	
		Year	Year	Q2	Q3	Q4	Q1	Q2
North America	US dollar	297.2	220.3	27.2	74.4	80.7	99.3	-26.5
	Euro	40.3	52.0	6.3	14.9	14.6	14.3	20.5
	Yen	-7.0	-1.9	-1.8	-1.2	0.6	1.3	1.6
	Other	12.3	25.1	7.6	6.0	9.6	12.0	12.6
European Union	US dollar	68.8	149.5	29.9	42.0	37.6	42.0	56.0
	Euro	463.6	749.4	212.9	118.5	211.4	224.9	184.4
	Yen	-26.6	-8.9	-3.2	-3.4	2.2	1.0	4.3
	Other	86.7	117.2	27.4	17.4	43.7	34.0	36.2
Others	US dollar	53.3	98.2	21.0	26.0	31.0	33.1	23.3
	Euro	18.9	32.9	14.5	6.9	6.2	37.8	16.3
	Yen	-9.6	6.6	1.9	-2.3	9.1	2.7	9.0
	Other	13.6	32.2	7.7	4.8	12.3	18.7	9.7
Total	US dollar	419.3	467.9	78.0	142.4	149.4	174.4	52.9
	Euro	522.8	834.3	233.8	140.3	232.2	277.0	221.3
	Yen	-43.3	-4.3	-3.1	-6.9	11.8	5.0	14.9
	Other	112.5	174.5	42.8	28.1	65.5	64.7	58.5

¹ Based on the nationality of the borrower.

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

Table 3.3

quarter may have led to a pause in new fund-raising by financial institutions, in anticipation of a slowdown in activities such as mortgage refinancing. However, net issuance also fell for non-financial corporations, suggesting that these borrowers adopted a similarly cautious stance towards increasing their external finance in the face of the shift in the monetary policy cycle.

The slowdown in issuance by US entities led to a sharp decline in dollar-denominated net issuance on the international market, from \$174 billion in the first quarter to \$53 billion in the second (Table 3.3). North American borrowers actually reduced their dollar-denominated debt by \$26.5 billion in the second quarter. Even without the cancellation of dollar-denominated WorldCom issues, which totalled \$18 billion, there would have been a net decline in dollar-denominated North American debt outstanding, for the first time since December 1993. This development is even more remarkable considering that the share of the US dollar in net issuance by borrowers in Europe and elsewhere actually increased. The pullback by US issuers thus occurred in spite of a receptive global environment for dollar-denominated debt.

... resulting in a fall in global dollar-denominated issuance ...

... despite relatively greater use of the dollar outside North America

Recovery in Japanese issuance continues

The steady return of Japanese borrowers to the international debt market continued in the second quarter, with net issuance rising to \$11 billion and announcements to \$33 billion. Japanese borrowers continued to be heavy issuers of convertible debt, which accounted for 27% of announcements of new bond and note issues in the second quarter, compared with only 2% for global issuance. Most of the new issuance of debt securities was denominated in yen, while net issuance in dollars was negative.

As in the previous two quarters, the most active issuers were corporations and non-bank financial institutions. Private sector banks announced \$4.6 billion in new issues, but most of this went to refinance matured debt. Among the most active non-financial issuers were Nippon Telegraph and Telephone, which announced a €500 million seven-year medium-term note in early June, and the Toshiba Corporation, which announced ¥150 billion in five- and seven-year bonds at the end of June. The Japan Finance Corporation for Municipal Enterprises, a public sector body, issued a €900 million 10-year fixed rate eurobond in late May.

Japanese corporations and non-bank financials especially active

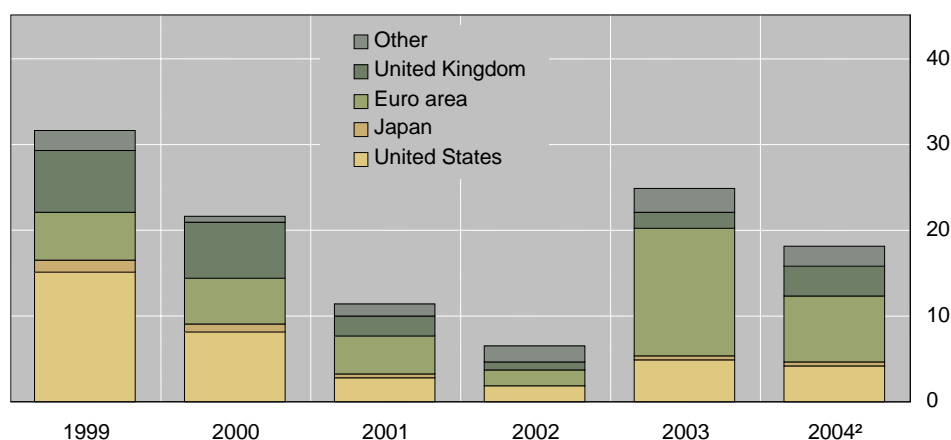
High-yield corporate issuance is strong

Lower-rated borrowers continued to borrow at a rapid pace in the second quarter (Graph 3.1). Announcements of sub-investment grade bond and note issues totalled \$19.8 billion, virtually the same level as in the first quarter. Entities in Europe were especially active, with net borrowing by UK corporates jumping from \$0.7 billion in the first quarter to \$2.7 billion in the second, while euro area corporates increased issuance from \$2.4 billion to \$5.3 billion over the same period. By contrast, issuance by lower-rated emerging market borrowers, both sovereign and private, declined from \$13.0 billion to \$6.0 billion. As was the case with some emerging market borrowers (see

High-yield issuance boosted by European borrowers ...

Non-investment grade¹ issuance of international bonds by developed country entities

In billions of US dollars, by nationality of issuer



¹ Issuers rated BB or lower. ² Issuance up to June 2004.

Sources: Dealogic; BIS.

Graph 3.1

below), issuance slowed in May and early June amidst uncertainty regarding the pace of monetary tightening in the United States, but picked up again in mid- to late June as fears of an abrupt increase in US rates eased.

... telecoms firms ...

High-yield issuance was boosted by strong activity in the telecommunications sector. The largest high-yield issue in the quarter was a €1.3 billion 10-year fixed rate instrument issued in April by the Italian telephone directory company SEAT Pagine Gialle. A number of cable television firms brought substantial high-yield issues to market, including Charter Communications of the United States (which issued on the US domestic market), NTL of the United Kingdom, Tele-Columbus and Kabel Deutschland of Germany, and Cableuropa of Spain.

... and private equity

Another important source of high-yield issuance was financing operations related to private equity deals. In June, the private equity firm Blackstone Capital Partners issued \$1.2 billion in 10-year paper to finance the leveraged buyout of Celanese Corporation. Inmarsat, a UK satellite company, issued a \$103 million add-on to an eight-year note issued in January as part of the financing for its LBO.

Borrowers prefer floating rate structures

Floating rate structures were used in 41% of announcements and 49% of net issues of bonds and notes in the second quarter. This was consistent with past patterns, with markets becoming more receptive to floating rate issues during times of rising interest rates. For example, floating rate structures jumped from 17% of net issuance in 1993 to 29% in 1994, and from 27% in 1999 to 33% in 2000.

As in past quarters, financial institutions were disproportionately active in floating rate issuance. Among the more prominent floating rate issuers were US financial institutions, which announced \$59 billion in new floating rate bond

and note issues. In Europe, UK and German financial institutions, which announced \$46 billion and \$42 billion in new issues respectively, were also active in issuing floating rate bonds and notes.

However, non-financial entities also responded to investor demand for floating rate instruments. Announcements of new floating rate bond and note issues by non-financial corporates rose from \$9 billion in the first quarter to \$14 billion in the second. Pemex, the state-owned Mexican oil company, announced a \$1.5 billion six-year floating rate note in early June. Even governments, which traditionally favour fixed rate debt, increased their floating rate offerings. Venezuela and the Kingdom of Thailand each issued \$1 billion floating rate notes in the quarter, while the Hellenic Republic raised €1 billion in a 30-year floating rate bond in May.

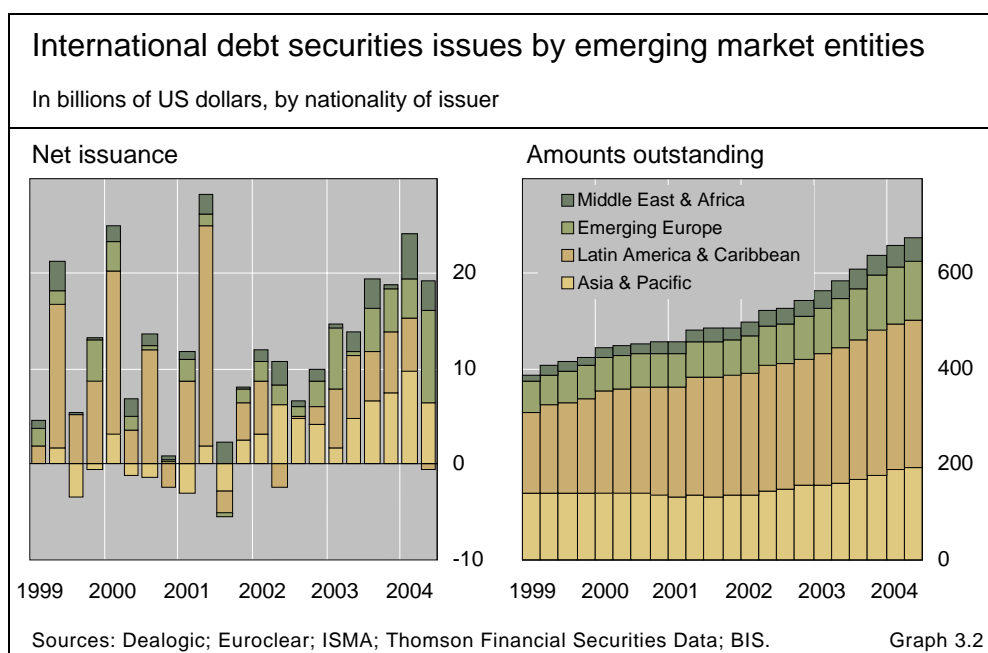
Emerging market issuance remains strong

Despite turbulence in emerging market credit spreads, issuance by emerging economies maintained a healthy pace in the second quarter (Graph 3.2). In parallel with broader trends in the global debt securities markets, net issuance by emerging economies fell from \$24 billion in the first quarter to \$19 billion in the second, but remained above the quarterly average of \$17 billion in 2003. European emerging economies accounted for \$9.6 billion of the total, and Asia-Pacific borrowers for \$6.5 billion. Latin American borrowers, by contrast, reduced outstanding debt by around \$0.5 billion in the second quarter, reflecting both a slowdown in new issuance and an increase in repayments.

The strong US employment figure released in early May caused a widening of spreads and a sharp slowdown of new issuance in May and the first half of June. Even in this period a few favoured borrowers retained market access, with the BBB/Baa2-rated Republic of South Africa issuing a \$1 billion fixed rate 10-year global bond at the end of May.

Borrowing by emerging economies is healthy ...

... despite wider spreads



Issuance activity is high in emerging Europe ...

In emerging Europe, traditionally active international issuers such as Poland, Turkey and Russia were joined by Hungary, the Czech Republic and Slovakia. Borrowing by several of these countries was spurred by their accession to the European Union on 1 May. Slovakia issued a €1 billion 10-year eurobond in May, while the Czech Republic issued a €1.5 billion 10-year note in June. Turkey issued a \$750 million fixed rate global bond in June, with investors encouraged by the scheduling of negotiations for EU entry, progress on the Cyprus issue and an improving current account. In the region as a whole, most issuance was by governments, which borrowed \$6 billion net. However, non-government issuers were also active, particularly in Russia, the Czech Republic and Estonia. Higher energy prices provided a good environment for a \$1.2 billion 30-year note programme announced by Gaz Capital of Russia at the end of April.

In late June, the German government announced that it would issue securities backed by a portion of the bilateral debt owed to Germany by Russia. The transaction, which was completed in early July, comprised roughly \$6 billion in three-, five- and 10-year notes, of which the first two were denominated in euros and the third in dollars. While there were some initial concerns that the issue would disrupt the market for Russian sovereign debt, the widening of spreads that followed the announcement was in fact relatively mild compared with recent spread movements.

... and East Asia ...

Of the \$6.5 billion in net issuance by Asian emerging economies, \$4.4 billion was by private sector entities. Significant net issuance by the non-government sector has been a feature of Asian international securities market activity since late 2001. The most active issuers were from Korea (\$2.3 billion of net issuance in the second quarter) and Taiwan, China (\$2.1 billion), with significant borrowing by both financial institutions and corporates in both cases.

... but not Latin America

Announcements of new issues by Latin American borrowers fell to \$9.7 billion, compared with \$12.1 billion in the first quarter and a quarterly average of \$14 billion in 2003. With repayments running somewhat above their recent pace, the result was negative net issuance, of \$0.5 billion, for the first time since the second quarter of 2002.

Driving the fall in overall net issuance in Latin America was lower net borrowing by governments and significant net repayments by non-financial corporates. The shift among sovereign borrowers was mostly attributable to Brazil, which reduced its outstanding securities market debt by \$1.2 billion in the second quarter after average net issuance of \$1.4 billion over the previous four quarters. In an atmosphere of strong growth and a healthy current account, the Brazilian authorities chose to refinance only part of a \$2 billion matured eurobond with new debt (a \$750 million floating rate note issued at the end of June), repaying the remainder out of foreign exchange reserves. Among the region's other sovereign issuers, Mexico (\$2.8 billion in announced new issues) and Venezuela (\$1 billion) continued to tap international markets in the quarter. The fall in corporate net issuance in Latin America was largely due to net repayments by Mexican and Brazilian corporates, with Mexican firms reducing outstanding international debt by \$2 billion and Brazilian firms by \$1.1 billion.

