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3. The international debt securities market

The appetite for international debt securities remained relatively robust in the second quarter of 2005 despite turmoil in global credit markets sparked by events surrounding US auto makers. Although the pace of overall gross issuance of international bonds and notes fell slightly, the decline was roughly in line with past seasonal patterns and, in fact, issuance was 27% higher on a year-over-year basis (Table 3.1). Gross issuance by Japanese entities increased and that by nationals from the euro area remained at elevated levels. Global net issuance of bonds and notes declined by 4% during the period, even though it was also higher in most cases than in the second quarter of 2004 (Table 3.2).

After several strong quarters, borrowing by high-yield entities in developed economies fell sharply during April and May, reflecting the heightened uncertainty in high-yield markets following the ratings downgrades of General Motors and Ford, but rebounded strongly in June. By contrast, most emerging market borrowers were relatively unaffected by the turmoil this spring, with gross issuance increasing once again, sustaining the record-breaking trend of borrowing begun in 2003.

Euro area issuance stays strong

In the euro area, both gross issuance ...

Gross issuance of bonds and notes in euros in the international market by euro area entities increased by 1.2% to €418 billion. In fact, quarterly issuance grew by a much larger rate than predicted by historical seasonal patterns – euro area gross issuance is estimated to be, on average, about 16% lower in the second quarter compared to the first quarter (see the box on page 36). When expressed in US dollars, however, gross issuance declined by 4.8% due to the depreciation of the euro vis-à-vis the dollar.

... and net issuance rise, driven largely by German entities

Net issuance of bonds and notes in the euro area actually rose in the second quarter by 2.6%. At $289 billion, it accounted for 61% of total net issuance in the international market during the period. For the second consecutive quarter, net borrowing rose in Germany, reflecting positive economic news about the economy. Net issuance also picked up in Spain, whereas it fell in France and the Netherlands. The decline in net issuance by French entities can be traced to both financial firms and the government; corporates increased net borrowing from –$2.6 billion in the first quarter to $4.7 billion in the second.

Gross issuance in the international bond and note markets

In billions of US dollars

	2003	2004	2004			2005	
	Year	Year	Q2	Q3	Q4	Q1	Q2
Total announced issues	2,885.2	3,300.7	768.7	726.1	822.8	1,074.9	975.7
Bonds	1,610.8	1,786.5	402.5	378.2	435.4	593.9	532.1
Notes	1,274.4	1,514.3	366.3	347.9	387.4	480.9	443.6
Floating rate	962.6	1,257.3	306.4	285.2	328.2	336.9	410.8
Straight fixed rate	1,834.5	1,986.1	444.0	430.3	483.3	723.5	558.2
Equity-related[1]	88.1	57.4	18.3	10.5	11.2	14.5	6.6
US dollar	1,171.8	1,154.4	257.3	255.5	284.4	313.6	299.1
Euro	1,287.8	1,597.8	379.0	350.2	389.8	570.1	530.4
Yen	102.7	111.4	33.8	22.4	25.9	30.5	27.0
Other currencies	322.9	437.1	98.7	98.0	122.6	160.8	119.2
Developed countries	2,620.5	3,010.3	694.7	655.8	752.6	952.0	883.9
United States	739.9	771.9	167.8	169.7	184.7	215.2	176.5
Euro area	1,302.5	1,469.8	358.2	306.1	363.1	531.2	505.6
Japan	48.3	62.0	19.8	12.1	9.9	13.9	14.9
Offshore centres	32.0	41.3	7.0	13.9	13.5	11.7	12.7
Emerging markets	140.2	152.0	36.7	35.0	34.9	82.9	50.2
Financial institutions	2,282.0	2,687.2	603.4	606.5	688.8	840.0	810.5
Private	1,913.3	2,276.5	515.4	500.4	592.8	696.7	674.1
Public	368.7	410.7	88.0	106.1	96.0	143.3	136.4
Corporate issuers	268.2	271.3	72.1	62.3	75.0	58.3	55.5
Private	217.8	231.4	60.6	57.0	60.9	54.9	42.0
Public	50.4	39.9	11.5	5.3	14.0	3.4	13.5
Governments	242.6	245.2	62.9	35.9	37.3	148.3	80.7
International organisations	92.5	97.1	30.3	21.3	21.8	28.3	28.9
Completed issues	2,866.3	3,304.3	796.4	708.9	864.7	1,014.3	998.0
Memo: Repayments	*1,502.6*	*1,752.1*	*456.8*	*405.0*	*439.8*	*521.7*	*524.5*

[1] Convertible bonds and bonds with equity warrants.

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

Unprecedented dollar bond issue by the German government

Perhaps the most notable transaction during the period was the completion of a dollar-denominated bond by the Federal Republic of Germany on 1 June. With a face value of $5 billion, it is one of the largest dollar bonds ever issued by a sovereign or supranational in the international market. The five-year issue was priced at a spread of 12 basis points over the May 2010 Treasury which, when taking into account the relevant swap rates, probably reduced the issuer's funding costs relative to bringing a euro-denominated bond to the market.

Several other euro area sovereigns are active, including Greece

The largest issues during the period were by euro area sovereigns, Greece and Finland, both of whom issued bonds in the amount of €5 billion. The Hellenic Republic completed its five-year bond, which was targeted mainly at non-residents, on 20 April at a spread of 13 basis points over the April 2010 bobl (German federal note). Even though the issue was priced at a lower spread than where Greek bonds had been trading earlier in the year, its reception in the market seemed to be less

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

In billions of US dollars

	2003	2004	2004			2005		Stocks at end-Jun 2005
	Year	Year	Q2	Q3	Q4	Q1	Q2	
Total net issues	1,363.7	1,552.2	339.6	303.9	424.9	492.5	473.5	13,392.2
Floating rate	384.2	637.3	161.3	129.7	193.9	99.9	236.8	3,714.5
Straight fixed rate	958.6	921.1	170.6	176.8	235.4	397.1	242.1	9,338.8
Equity-related	20.9	–6.2	7.7	–2.7	–4.4	–4.5	–5.4	338.9
Developed countries	1,282.5	1,432.6	311.3	276.6	397.1	459.3	444.8	11,889.2
United States	258.9	218.5	4.2	34.8	64.1	64.4	45.7	3,306.9
Euro area	733.4	780.8	205.1	139.8	220.4	282.1	289.4	5,878.1
Japan	–1.6	17.4	10.0	1.9	0.4	4.9	–0.6	270.0
Offshore centres	16.5	21.4	4.4	8.5	8.9	2.6	8.0	161.2
Emerging markets	42.3	75.3	15.1	13.0	21.6	28.7	15.2	816.8
Financial institutions	1,105.1	1,302.5	275.0	277.0	365.5	392.2	419.7	9,930.3
Private	907.4	1,087.2	234.7	220.3	316.8	317.4	349.5	8,379.6
Public	197.7	215.2	40.3	56.7	48.7	74.8	70.2	1,550.7
Corporate issuers	108.5	75.7	11.5	12.3	42.9	13.9	10.8	1,504.2
Private	90.1	55.9	5.9	12.6	34.8	21.9	3.4	1,271.1
Public	18.4	19.8	5.7	–0.3	8.1	–8.1	7.4	233.1
Governments	127.6	151.2	44.3	8.8	19.2	84.5	37.4	1,432.7
International organisations	22.5	22.9	8.8	5.8	–2.7	2.0	5.5	524.9

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

than enthusiastic. This may have been due to several factors, including the large amount of issuance by the government already this year, the relative difficulty in placing bonds with mid-range maturities and the increased uncertainty in euro area financial markets following the French and Dutch rejections of the European constitution in springtime referendums. On the upside, the bond issue looked to complete Greece's benchmark funding programme in 2005.

Other large euro-denominated public issues included a €4.5 billion bond by the Republic of Austria and €4 billion bonds by each of the Caisse D'amortissement de la Dette Sociale and Kreditanstalt für Wiederaufbau. The largest non-public issue was completed by German Postal Pensions Securitisations Plc. This SPV issued an asset-backed security in the amount of €3.5 billion collateralised with a portfolio of pension claims.

Net US issuance continues to falter

US financials announce several bonds ...

Borrowing by US entities in the international bond and note market declined by 18% in the second quarter of 2005. On a seasonally adjusted basis, gross issuance by US nationals increased by 8.4%. Financial firms continued to account for the bulk of US activity in the market, with 95% of the share of gross issuance of bonds and notes attributable to this sector. Fannie Mae completed several large issues (see below), as did Federal Home Loan Banks, Global Mtg Sec 2005-A and Wells Fargo.

Seasonality in international bond and note issuance

Jeffery D Amato and Jhuvesh Sobrun

Data on international debt securities reported in the BIS statistics are not adjusted for seasonal effects. For some purposes, however, it may be of interest to know whether there is a large seasonal component in order to improve our inferences about trends and cycles. For instance, in analysing changes in gross issuance on a quarterly basis, it is useful to know what portion may be due to funding activity tied to a particular time of the year and what portion may be attributed to other factors. Seasonality in issuance may arise out of a need to smooth out cash flows due to systematic revenue-expenditure imbalances over the calendar year, while macroeconomic conditions may produce a cyclical pattern in financing activities.

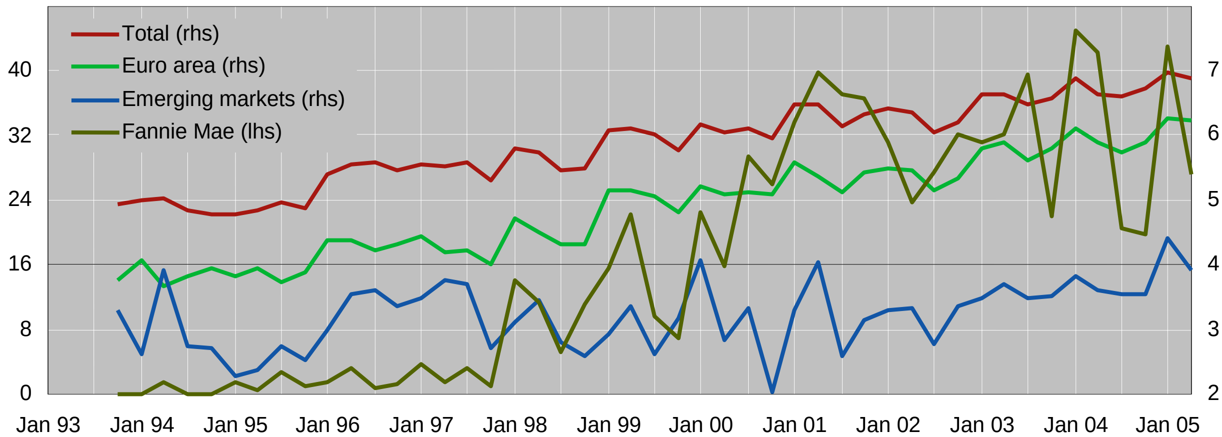
This box provides the first evidence on the degree of seasonality in BIS data on international bond and note issuance. We obtain four main results: in general, there is a high degree of seasonality in gross issuance; issuance tends to be highest in the first quarter and then decline as the year progresses; in some cases, seasonal patterns have shifted over time; and there is weaker evidence of seasonality in net issuance, which points to a seasonal rollover effect in gross issuance.

Methodology and results

We analyse a wide range of BIS quarterly data on gross and net issuance: total; by economic region; by sector; by currency; and for a selected group of the largest sovereign and non-governmental issuers. The BIS database contains data that have been collected according to a unified methodology dating back to the fourth quarter of 1993 (some series exist for a longer time period). To maintain consistency and comparability, this is the starting date used in our analysis. Graph A plots some of the time series on gross issuance. For series exhibiting exponential growth, the data are plotted on a logarithmic scale. Calendar regularities are evident across most of the sample period in the series shown. For instance, euro area issuance has generally been higher in the first half of the calendar year, particularly in the first quarter. In our analysis below, we provide estimates on the quantitative significance of this pattern.

A common method for seasonally adjusting data is the US Census Bureau's X-12-ARIMA procedure. It is employed in the adjustment of many official government statistics, both in the United States and elsewhere. In essence, the X-12 method uses moving averages to estimate the seasonal factors in a data series.① Alternatives to the X-12 procedure exist, but they tend to yield similar results.②

Gross issuance in the international bond and note markets[1]



[1] Each series (originally in billions of US dollars) is expressed in natural logarithms, except Fannie Mae.

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

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① See US Census Bureau, *X-12-ARIMA Reference Manual, Final Version 0.2*, Washington, DC, US Census Bureau, 2002, for further details on the X-12 method. ② See B Fischer, *Decomposition of time series – comparing different methods in theory and practice*, Eurostat working group document, 1995, for a description of other seasonal adjustment procedures and their relative merits.

Seasonal factors in gross and net issuance of international bonds and notes[1]										
	Average seasonal factors								F-test for the presence of seasonality[2]	
	Gross				Net					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Gross	Net
Total	1.139	1.072	0.949	0.840	34.735	24.719	–23.557	–35.393	32.252*	10.717*
By region										
Emerging markets	1.060	1.298	0.860	0.772	1.762	3.240	–0.203	–5.022	7.087*	2.171
Euro area	1.214	1.050	0.866	0.874	19.795	13.594	–18.400	–13.588	39.071*	14.373*
United States	1.128	1.037	0.990	0.842	8.243	–4.203	2.966	–7.680	17.676*	2.352
By sector										
Corporates	1.006	1.159	0.954	0.879	–2.483	5.739	–3.868	0.330	6.983*	4.449
Financials	1.151	1.029	0.963	0.857	21.697	10.410	–18.854	–13.421	29.076*	7.322*
Governments	1.328	1.241	0.798	0.636	14.793	3.141	–3.909	–13.336	13.100*	9.656*
By issuer[3]										
France	0.986	0.988	1.006	1.021	–0.019	–0.018	–0.018	0.052	35.997*	2.505
Germany	1.691	1.270	0.766	0.648	1.426	0.284	–0.532	–1.025	8.402*	8.143*

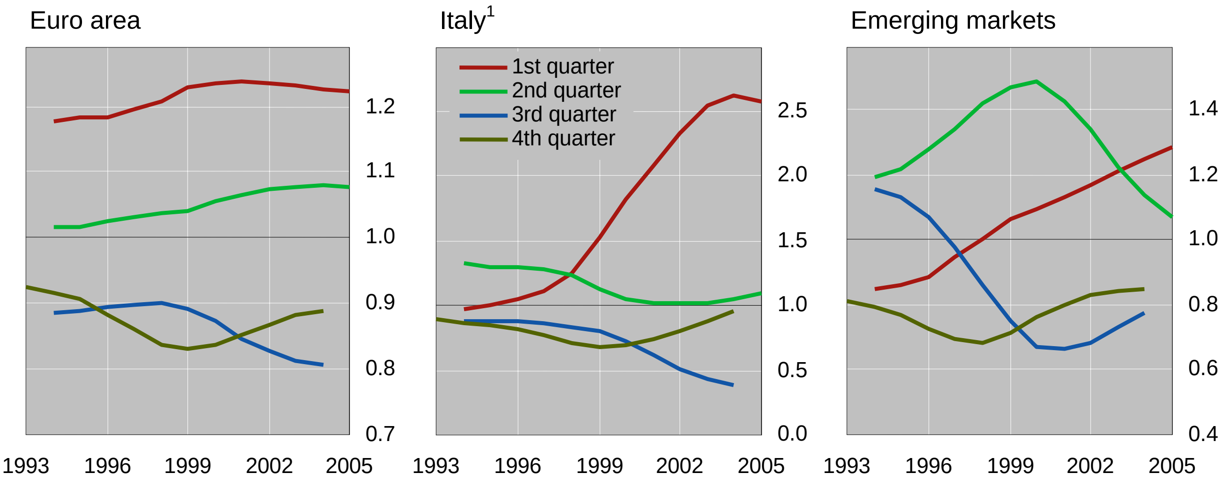
[1] Multiplicative for gross issuance and additive (in billions of US dollars) for net issuance, unless otherwise specified. Sample period is 1993 Q4–2005 Q2. [2] * indicates statistical significance at 0.1% level. [3] Additive seasonal factor estimated for gross issuance, expressed as the exponential of the ratio of seasonal to average gross issuance over the sample period. This helps facilitate comparison with multiplicative factors in other series.

Selected estimates of the average seasonal factor (across the sample) for each quarter are reported in the table.③ Also shown are statistics testing for the presence of seasonality. The null hypothesis of “no seasonality” is rejected at conventional significance levels in most gross issuance series, leading us to conclude that most international debt issuance exhibits strong seasonality.④ Total issuance shows a clear pattern of declining seasonal effects moving from the first to the last quarter of a year. For example, our estimates suggest that first quarter gross issuance tends to be about 14% higher than average in the first quarter, but 16% below average in the fourth quarter. The seasonality found in total issuance is reflected in many of the sub-aggregates as well, notably in the euro area and United States. Similarly, as financial firms are the largest issuers from these regions, we also find first quarter issuance to have been relatively strong in this sector. The strongest first quarter seasonal effect is evident in gross issuance by sovereign issuers from developed and emerging economies. Together this group exhibits 33% above average issuance in the first three months of the year, which then declines sharply as the year progresses. By contrast, emerging market nationals as a whole have tended to issue more international debt in the second quarter.⑤

The nature of seasonality has also evolved over time. Graph B shows time series estimates of the seasonal factors in gross issuance in three cases. While the seasonal pattern in gross issuance by euro area nationals as a whole has been fairly stable since 1993, the government of Italy, one of the largest issuers in the region, increased first quarter issuance markedly around 1999. One possible explanation for this behaviour is a change in Italy’s funding strategy arising from the advent of European monetary union. In particular, since the start of the euro, there have been concerted efforts to achieve greater coordination in public debt issuance by euro area governments. In contrast to the euro area, seasonal issuance patterns have changed considerably across emerging market countries. It is notable that issuers in these countries have been increasingly front-loading issuance in the early part of the year, in line with the patterns found in the euro area and United States.

③ Results for many other series are available upon request. For gross issuance, multiplicative seasonal factors (ie their product equals one) are estimated in most cases, whereas additive factors (ie they sum to zero) are estimated for all net issuance series because they can be negative. ④ The only exceptions are relatively small sub-categories of issuers. ⑤ We also find evidence of seasonality in issuance broken down by currency, which roughly matches the seasonality found in the economic region of the currency.

Time-varying seasonal factors in gross issuance



[1] Additive factors are expressed as the exponential of the ratio of seasonal to average gross issuance over the sample period.

Graph B

The impact of seasonal adjustment on gross issuance data is shown in Graph C, which plots quarterly percentage changes in raw and seasonally adjusted data. There is a close association between the two series, yet it is also clear that seasonal adjustment has smoothed out many of the sharp movements in the non-adjusted data.

Lastly, the table also reports average estimates of quarterly seasonal factors in net issuance. Overall, there is less evidence of seasonality in net issuance compared to gross issuance. For example, on the one hand, a strong seasonal pattern is evident in the euro area, resembling that found in gross issuance, and which is also reflected in the estimates for the German government. On the other hand, net borrowing by US and emerging market entities does not exhibit seasonality.

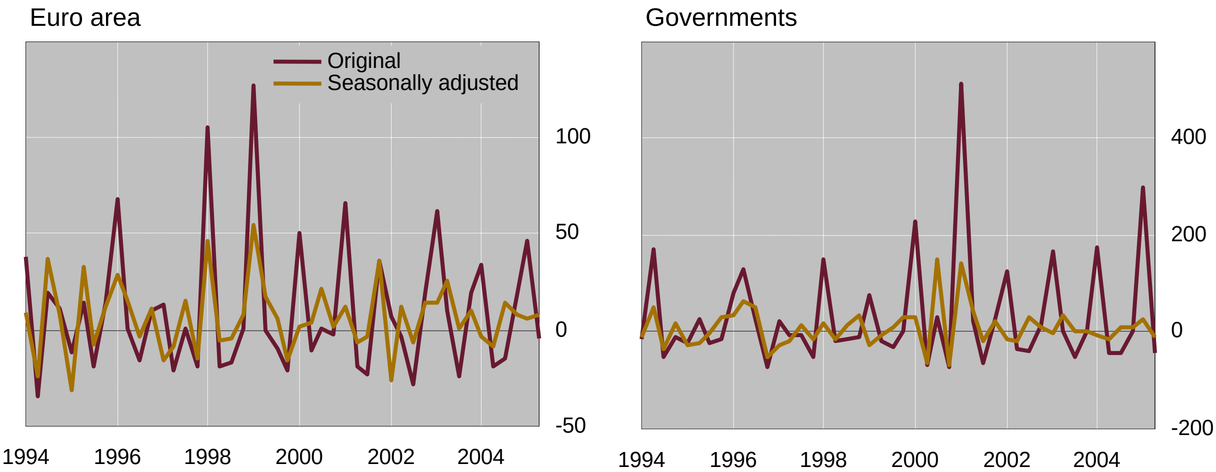
Discussion and conclusions

What explains the estimated seasonal patterns in gross and net issuance? First, holiday conventions are likely to have an impact on market activity. Typically, August and December are quiet months in primary markets since many market participants take holidays at these times; many issuers will not even attempt to place bonds in the markets during these periods.

Second, funding schedules may have to be moulded around a given cash flow pattern of revenue inflows and expenditure outflows. For some issuers, revenues can greatly exceed expenditures in certain periods on a systematic basis, yet fall short at other times. For

Seasonally adjusted gross issuance

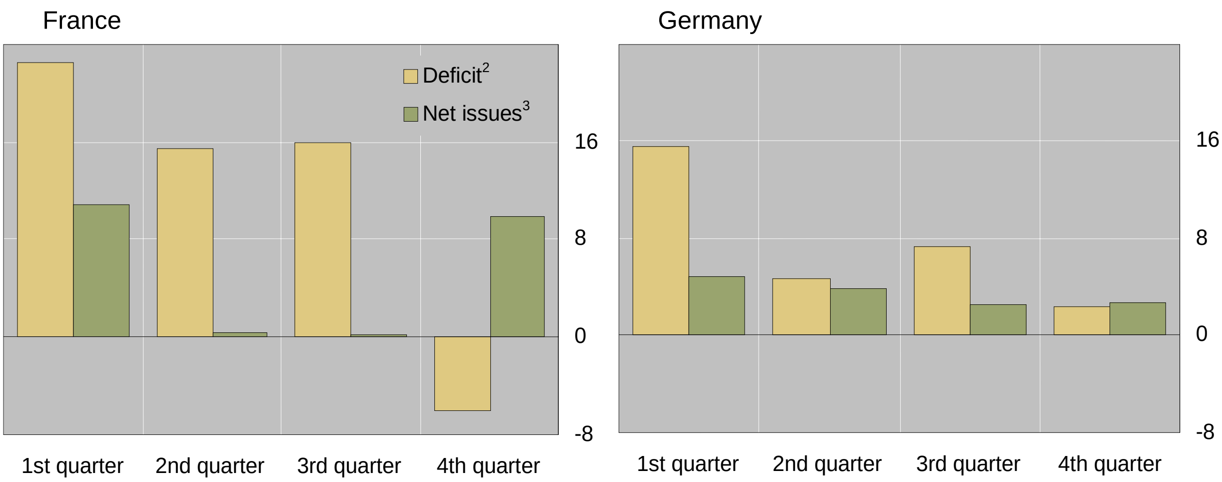
Quarterly changes, in per cent



Graph C

Government deficits and funding

In billions of US dollars; by quarter[1]



[1] Average over 1993 Q4-2005 Q2. [2] Central government expenditures minus revenues. [3] Issuance of international bonds and notes; for France, the values have been multiplied by 10 to facilitate comparison with deficit figures.

Sources: IMF/IFS; BIS calculations. Graph D

instance, in some countries, tax laws cause revenues to be much higher during certain months of the year. Graph D shows that average quarterly central government deficits in France and Germany have been largest in the first quarter and smallest in the fourth quarter. To the extent that these governments use the international market to fund deficits, we would expect net issuance to be typically higher in the first quarter and lowest in the last quarter. Indeed, the results for Germany support this conjecture, whereas the estimates for France, if anything, indicate that net issuance has been relatively high in the fourth quarter. In fact, the total amount of net issuance in the international market by the French government has been a small fraction of the average annual deficit, which suggests that the Agence France Trésor looks to domestic markets for most new net borrowing. This highlights one obstacle in trying to explain seasonal patterns in international debt securities issuance, namely, that this market is only one of a number of possible sources of financing for many issuers.[⑥]

Third, regardless of the type of issuer, risk-averse debt managers may desire to front-load issuance in the budget year. Many issuers typically set annual targets for issuance of longer-term marketable debt in advance. To reduce the risk of being left short at year-end, debt managers will try to fulfil a relatively large proportion of their annual target early on in the year even if the actual timing of their funding needs is evenly spaced throughout the calendar. In particular, this may provide one explanation of the large positive first quarter seasonal factor estimated for many sovereign issuers, as the fiscal year of most governments coincides with the calendar year.

Finally, the stronger evidence of seasonality in gross versus net issuance suggests that there is a seasonal rollover effect in gross issuance, eg debt tends to mature at certain times of the year. For instance, some issuers have created a pattern of having debt come due only in January and July.

[⑥] In addition, we have focused our attention on longer-term securities (bonds and notes), whereas there may also be strong seasonal effects in the issuance of international money market instruments.

... but US net issuance declines

Net issuance of bonds and notes by US entities declined by 29% to $45.7 billion during the quarter; however, this was well above the $4.2 billion in net issuance in the second quarter of the previous year. Net issuance of all debt securities (bonds and notes plus money market securities) fell by a wider margin, from $72.2 billion to $49 billion (see Table 12A in the Annex). The presence of US non-financial corporations in the international debt market has continued to shrink, with negative net issuance on all debt securities in the amount of –$3.9 billion from this sector in the last quarter.

From a longer perspective, the US presence in the international debt securities market has not been as strong over the past couple of years as in the past. Coming out of the last recession, many US firms concentrated on reducing leverage and improving their balance sheets. The reduction in net issuance in the much larger domestic market was also mirrored in the international market. It is also apparent, however, that issuance by US corporates on the international market has yet to rebound, even if the credit cycle may have already turned as gauged by domestic activity (see the Overview).

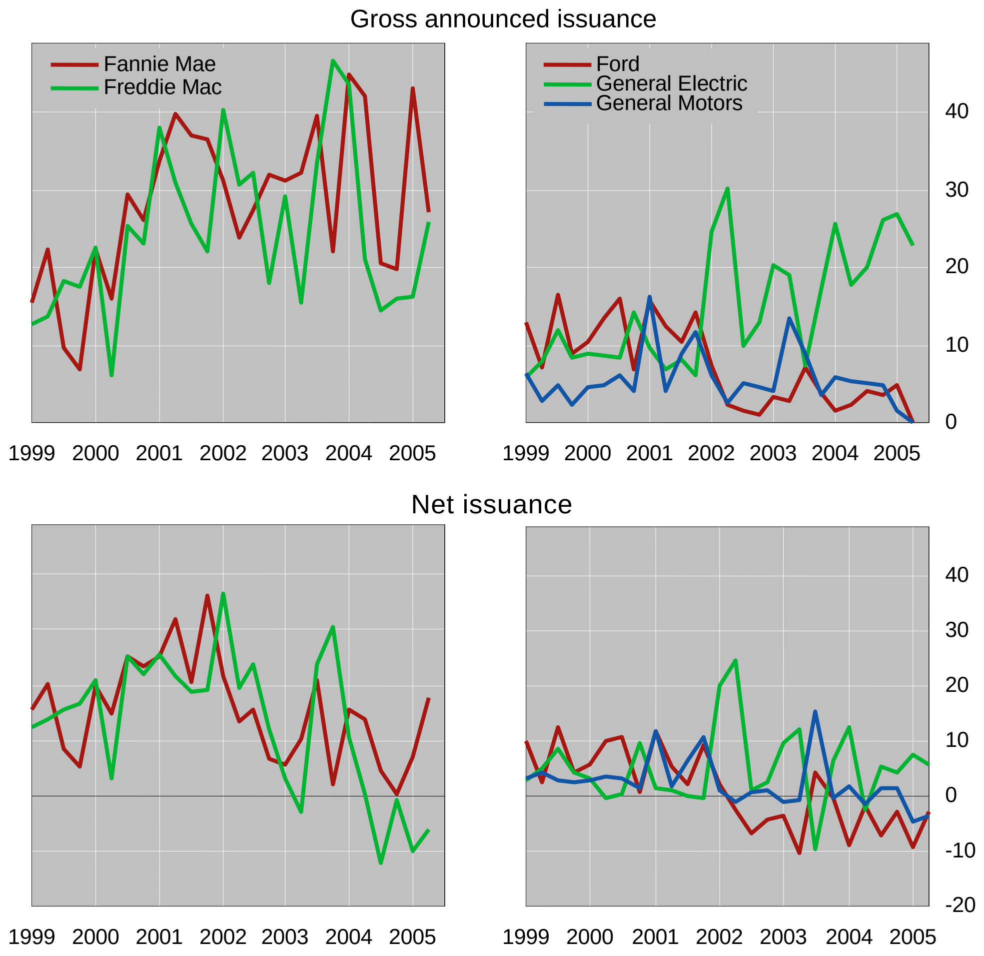
US activity in the international market is shrinking …

The picture is inevitably more diverse at the individual issuer level. For instance, the funding activities of the two largest US issuers in the international market, Fannie Mae and Freddie Mac, have diverged recently. On the one hand, Fannie Mae brought several large bonds to the market in the second quarter, with gross issuance of $27.1 billion and net issuance of $17.8 billion (Graph 3.1); by contrast, net issuance by Freddie Mac was negative (–$6.1 billion). Financial restructuring has been taking place at both of these

… as the presence of Fannie Mae and Freddie Mac diverges …

International debt securities issuance by selected US issuers

In billions of US dollars



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

government-sponsored enterprises in response to the revelation of accounting irregularities at the two firms. Even so, Fannie Mae regularly continues to tap international capital markets.

... and the roles of GMAC and Ford diminish

Two of the other large US issuers in the international market, General Motors (GMAC) and Ford, have also been experiencing financial difficulties, albeit of a different nature. Beset by negative earnings surprises and ratings downgrades by the major agencies, neither of these issuers was active in the international debt securities market in the second quarter. In fact, the presence of these firms in this market has been diminishing since 2002, with net issuance often coming in negative, especially in the case of Ford (Graph 3.1).

Mixed picture in Japan

Gross issuance by Japanese nationals is strong ...

Gross issuance of bonds and notes by Japan increased in the second quarter, from \$13.9 billion to \$14.9 billion. Issuance figures expressed in terms of yen are even higher, owing to the negative impact of valuation effects arising from a 3.2% depreciation of the yen vis-à-vis the US dollar from 1 April to 30 June. Some of the largest Japanese issues were completed by entities with operations outside the country. For example, CIT Group Canada issued five-year and 10-year dollar-denominated bonds with face values of \$1 billion and \$0.7 billion, respectively. Several public finance vehicles also announced large issues, including Japan Finance Corporation for Municipal Enterprises, Japan Bank for International Cooperation, and Development Bank of Japan. All of these offerings have public guarantees.

... but net issuance declines

Even so, despite the increase in gross issuance, net issuance of bonds and notes by Japanese nationals actually became negative during the period (–\$0.6 billion). Most of the new net borrowing by Japanese nationals was done by corporations, but this was more than offset by a large decline in net issuance by financial institutions.

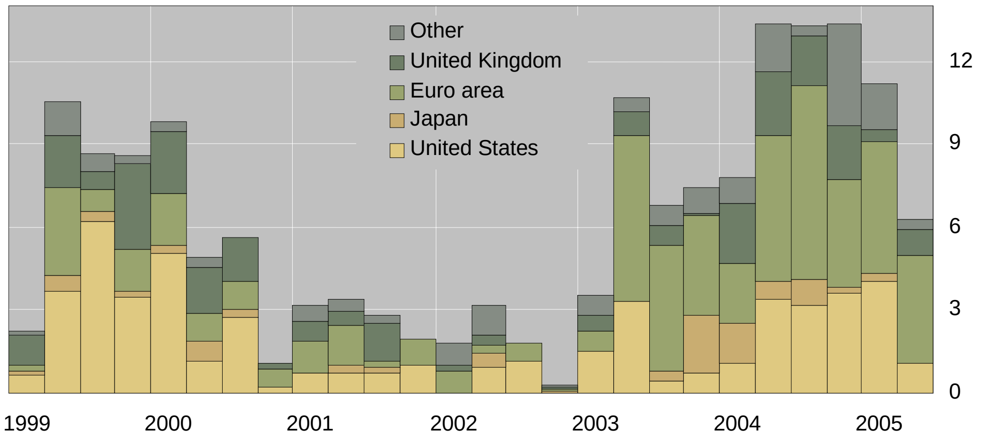
High-yield issuance hit by auto sector turmoil

High-yield issuance is constrained by turbulence in the US auto sector

Borrowing by high-yield entities in developed economies fell by 44% during the quarter, albeit from what had been an unusually high level sustained in the past two years (Graph 3.2). Conditions deteriorated in the wake of turmoil in credit markets in April and May. Secondary market spreads on US high-yield bonds rose precipitously, from 355 basis points on 1 April to 457 basis points on 17 May, and the spread on European high-yield bonds widened by even more. With a large jump in the stock of outstanding high-yield debt following the downgrades of General Motors and Ford to junk status, there was considerable uncertainty about how much new speculative grade issuance could be absorbed, as an anxious and hesitant mood beset the markets (see the Overview in the *BIS Quarterly Review*, June 2005). However, conditions improved markedly in June: spreads narrowed to 385 basis points by month-end and several new issues were brought to the market late in the quarter.

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 3.2

The largest completions in the second quarter were made mainly by entities from the euro area and United Kingdom. These included French issues by Cap Gemini SA and FG4 SA in the amounts of €437 million and €265 million, respectively. The former was launched with a rating of BB+ by Standard & Poor's, while the latter was rated B1 by Moody's. The largest placements by US nationals were, in fact, for operations resident outside the United States. For example, TFM SA de CV, a rail transportation firm operating in Mexico, released a bond with a face value of $460 million. It was announced and completed in the market in mid-April before US high-yield spreads spiked.

European firms are the largest high-yield borrowers in the international market

One of the largest non-investment grade issues (excluding emerging markets) announced in the second quarter points to the growing significance of the market for credit default swap (CDS) indices.[1] It was a fixed rate bond for €500 million by SPV iTraxx, secured on a portfolio of 35 European non-financial bonds whose composition is designed to track the Dow Jones iTraxx Crossover index. The bond, which was rated B+ by Standard & Poor's at launch, will pay a semiannual coupon of 6.25% and is timed to mature at the rollover in the index on 20 June 2010.

Emerging market borrowing maintains rapid pace

Gross issuance of bonds and notes in the international market by emerging market countries surged ahead once again in the second quarter, up by 6% from the first quarter of 2005 and up by 37% over the previous year.[2] The most recent figures are impressive for several reasons. First, and most obviously,

Emerging market borrowing surges ahead

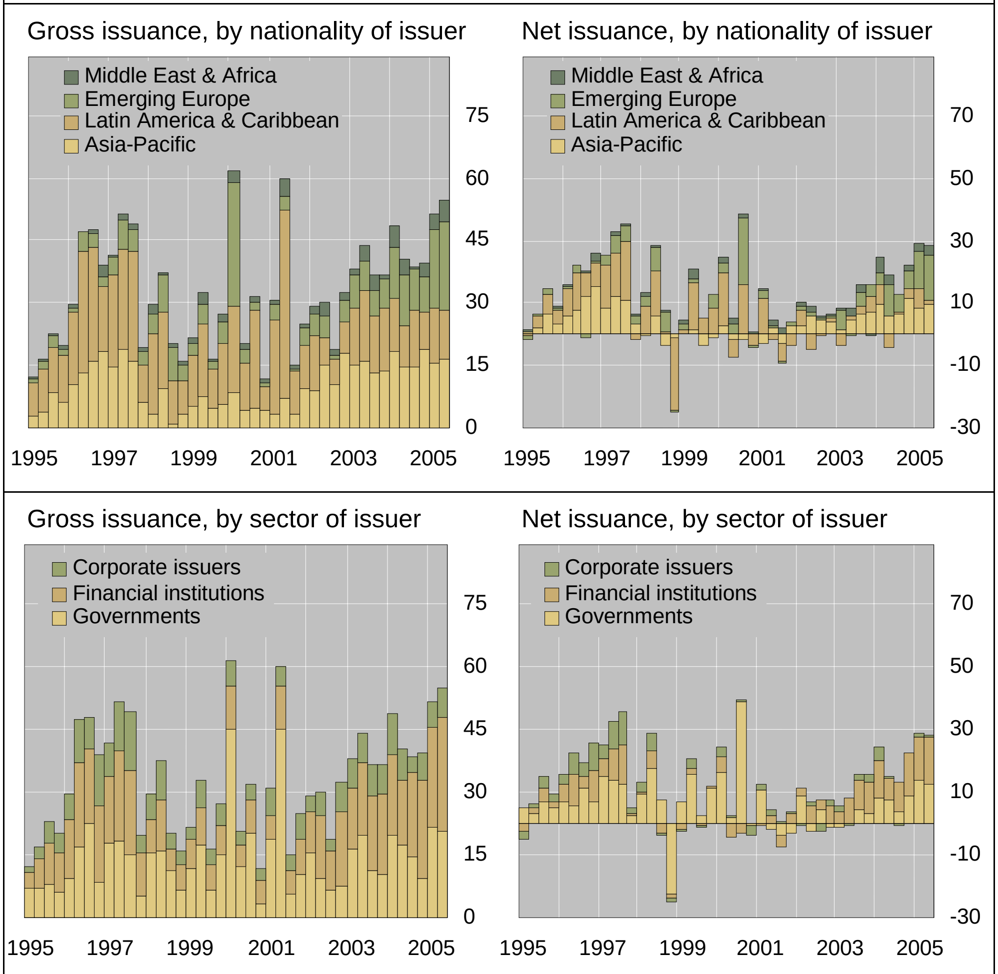
[1] Further discussion of structural developments in the CDS market can be found in the *BIS 75th Annual Report*, Chapter VI.

[2] Excluding the Republic of Argentina's newly exchanged issues totalling $35.6 billion from the first quarter of 2005. See below for further discussion.

the second quarter results extend the record-breaking trend in borrowing on the international securities market by emerging market countries that began early last year (Graph 3.3). Second, the increase compared to the first quarter of 2005 came despite apparent changes in seasonal factors that show a growing amount of emerging market issuance being done in the first quarter of the year, whereas second quarter issuance has persistently declined since 2000 (see the box). Third, although the macroeconomic outlook continues to be strong in many emerging market countries, and would therefore be supportive of further credit expansion, past experience suggests that emerging market borrowers were at risk of being exposed to a potentially large negative swing in investor sentiment emanating from the turmoil in US credit markets. As it turned out, the market reaction was much more muted than in US and European high-yield markets, with spreads on JPMorgan Chase's EMBI+ index widening from 392 basis points on 1 April to 414 basis points on 15 April. By the end of the quarter, spreads had narrowed to what was then a historical low of 304 basis points. Ultimately, with net issuance also increasing in the second

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 3.3

quarter,[3] financing conditions were clearly favourable during the period as a whole, as global investor demand for emerging market debt remained robust.

Poland issues several types of instruments

In general, sovereigns were the biggest issuers in all markets except the Middle East and Africa. Emerging Europe led the way, with gross issuance of debt securities from the region totalling $21.1 billion, 53.6% of it from sovereigns. Following up on a record €3 billion issue in the first quarter, the Republic of Poland has been particularly active in recent months in issuing several types of bonds. In early April, the Polish government completed a euro-denominated medium-term note with a face value of €1.5 billion ($1.89 billion). The new instrument has a maturity of 15 years and was launched at a spread of 37.8 basis points over the 4.25% OAT maturing in April 2019. Then, in early June, Poland issued a samurai bond with a record (for the region's issuers) face value of ¥75 billion ($697 million). Later in the month, the Republic of Hungary also issued two samurai bonds totalling the same amount. Finally, tapping into the new-found demand for long-dated paper, primarily on the part of euro area pension funds, the Republic of Poland issued a 50-year bond in early July (for further discussion on the increased demand for long-duration bonds, see this chapter in the *BIS Quarterly Review*, June 2005).

The Philippines government completes a 25-year bond despite ongoing political turmoil

A total of 175 issues in the amount of $16.3 billion were announced by entities from Asia-Pacific in the second quarter. The Asian sovereigns that brought the largest issues to the international market were the Republic of Indonesia and the Republic of the Philippines. The former issued a 10-year dollar-denominated bond with a face value of $1 billion. More striking was the ability of the Republic of the Philippines to complete a large issue during the quarter in the face of ongoing political difficulties and a deterioration in the country's fiscal situation. To some extent, the country's difficulties were reflected in the secondary market. For instance, after narrowing to a low of 385 basis points in early March, spreads on Philippines government debt widened in late March–early April and were also more volatile over the subsequent period (see the Overview). The government bond issued on 16 May had a maturity of 24.75 years and was priced at a spread of 510.5 basis points over the 5.375% US Treasury bond due to mature in February 2031.

Both gross and net issuance from the Middle East and Africa grew in the second quarter, though this region continues to account for a much smaller segment of the international debt securities market than the other three emerging market regions. Amongst the largest borrowers during the period were banking and financial firms from the United Arab Emirates and Kuwait.

Latin American governments are active ...

In contrast to the regions of emerging Europe and Asia-Pacific, gross issuance by entities from Latin America fell during the second quarter, by 6.9% to $12.1 billion. Still, the governments of Venezuela, Brazil and Mexico each completed large bond issues, in the amounts of $1.6 billion, $1.1 billion and $0.9 billion, respectively.

The second quarter may prove to have been a pivotal period for Latin America in the international debt securities market for at least two reasons.

[3] Excluding repayments in the amount of $48.6 billion in the second quarter of 2005 resulting from the completion of the Republic of Argentina's debt exchange offer.

... and Argentina settles its debt exchange offer

First, as discussed further below, Latin American entities continued to issue international bonds in local currency. Second, the Republic of Argentina's debt exchange offer to eligible creditors (holding approximately 76% of claims) was finally settled in June, following the original announcement in February of this year. A significant portion of the debt to be restructured had been placed in the international market, and under the terms of the offer all $35.6 billion of the new issues have been registered in the global market. Of particular significance is the fact that 44% of the newly issued debt was denominated in pesos.

Appetite for local currency issuance grows

Local currency issuance by emerging markets rises ...

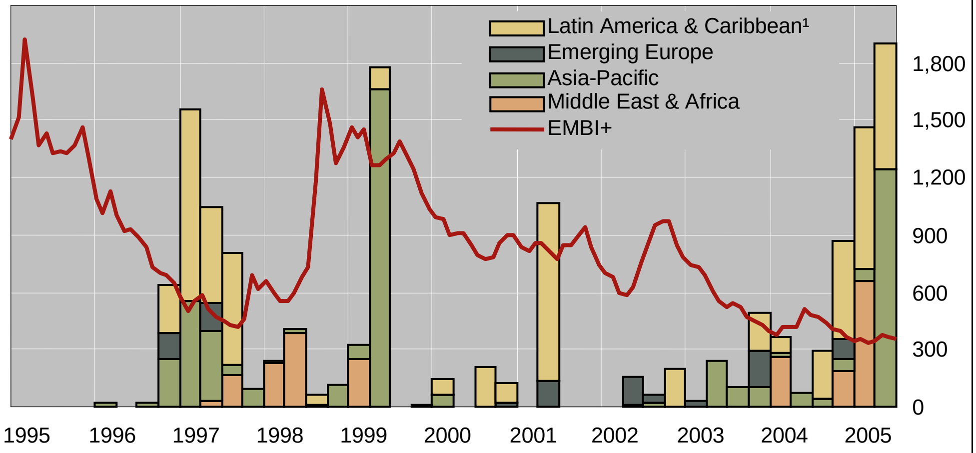
The trend towards greater issuance of international debt securities in local currencies by emerging market entities continued in the second quarter, with the amount of gross issuance in local currency increasing by roughly 30% expressed in US dollars (Graph 3.4). Notably, local currency issuance continued to rise against a backdrop of what would seem to have been unfavourable global conditions, as the second quarter witnessed a general increase in investors' risk aversion arising from the events in the US auto sector. Moreover, this increased willingness of investors to assume local currency risk in emerging market debt has coincided with a significant narrowing of emerging market spreads, similar to the scenario observed in 1996–97, when local currency issuance was also elevated for several quarters (Graph 3.4).

... due to activity by several Brazilian banks ...

Latin America continues to take a leading role in the growth of the local currency segment in the international bond markets. Sovereigns (Uruguay, Colombia and Argentina) and corporates (notably Brazilian banks) alike have been active in this area over the past couple of years. In the second quarter, Brazilian firms came to the international market with several local currency

International debt securities issuance in local currency by emerging market entities

Announced issuance by nationality of issuer, in millions of US dollars



[1] Excluding issuance by the Republic of Argentina in the first quarter of 2005.

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

Net issuance of international bonds and notes by region and currency[1]

In billions of US dollars

		2003	2004	2004			2005	
		Year	Year	Q2	Q3	Q4	Q1	Q2
United States	US dollar	203.5	131.2	–27.0	5.0	51.1	42.2	47.7
	Euro	41.4	48.4	20.2	14.7	7.4	13.7	–3.2
	Pound sterling	11.8	22.5	5.4	10.6	4.7	5.1	1.6
	Yen	1.2	4.8	1.7	1.5	0.3	–1.1	–0.3
	Other	1.0	11.7	3.9	3.0	0.5	4.5	–0.1
Euro area	US dollar	75.9	57.6	25.5	9.8	15.9	15.4	12.7
	Euro	627.6	655.6	157.0	115.4	195.3	236.3	262.1
	Pound sterling	13.9	32.6	12.6	8.2	5.3	12.0	6.9
	Yen	–9.5	3.1	3.8	0.6	–3.0	5.0	0.2
	Other	25.6	31.8	6.1	5.8	6.9	13.3	7.6
Others	US dollar	140.1	183.5	50.4	39.2	46.3	37.4	30.2
	Euro	114.8	219.2	43.4	62.6	47.8	61.1	52.8
	Pound sterling	59.5	79.2	19.1	8.2	29.0	31.5	25.1
	Yen	12.0	19.2	9.5	5.2	0.9	0.1	–6.4
	Other	45.0	51.8	7.8	14.1	16.5	15.9	36.7
Total	US dollar	419.4	372.3	48.9	53.9	113.3	95.1	90.5
	Euro	783.7	923.2	220.7	192.8	250.5	311.1	311.7
	Pound sterling	85.2	134.2	37.1	27.0	39.0	48.6	33.7
	Yen	3.7	27.2	15.0	7.3	–1.8	4.0	–6.5
	Other	71.7	95.3	17.9	22.9	23.9	33.7	44.2

[1] Based on the nationality of the borrower.

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

bonds totalling $660 million, including medium-term notes by three banks (Banco Bradesco SA, Banco Itau Europa SA and Unibanco-Uniao de Bancos Brasileiros SA) and a straight five-year fixed rate bond by Eletricidade de São Paulo SA with a face value of 474.1 million reais ($198.7 million). In addition, as mentioned above, a portion of the Republic of Argentina's debt repackage included local currency global bonds in the amount of $15.6 billion.[4] This more than accounted for the large increase in global issuance in non-G3 currencies in the second quarter (Table 3.3).

... and a large renminbi-denominated issue

Despite several local currency issues by Latin American entities, the largest amount of local currency international debt during the period came from the Asia-Pacific region. Even so, the total amount of $1,238 million in local currency issuance from this region consisted of only two issues, of which by far the larger one was a foreign private placement of a 10 billion renminbi ($1,208 million) floating rate note issued by the Agricultural Development Bank of China. The other bond, denominated in Korean won, was from SKC Inc, a US-based engineering firm that is part of the Korean entity SK Corp.

[4] The peso-denominated portion of the Republic of Argentina's global bond exchange is omitted from Graph 3.3 because it dwarfs in size all other local currency issues dating back to 1995. As the graph reports announced (as opposed to completed) issues, the Argentine issues would have been included in the total for the first quarter of 2005.