

Benjamin H Cohen
 (+41 61) 280 8921
 benjamin.cohen@bis.org

2. The international debt securities market

Net issuance of international debt securities totalled \$265.5 billion in the second quarter of 2000, a slight increase over the previous quarter but 27% below the same quarter a year earlier (Table II.2.1). The somewhat slower pace of issuance in the first half of 2000 relative to 1999 may have reflected the unsettled environment in the financial markets of the developed economies, which were characterised by turbulent equity valuations and high and volatile credit spreads (see overview). During the quarter, heightened uncertainty about the near-term course of US and European interest rates contributed

Table II.2.1
Main features of net issuance in international debt securities markets

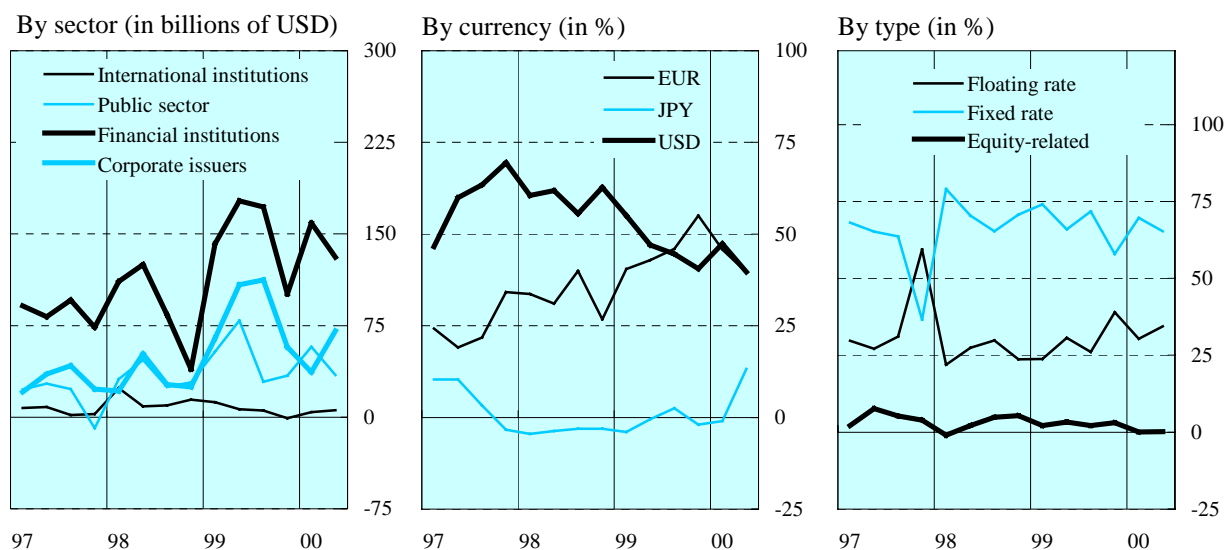
In billions of US dollars

	1998	1999	1999			2000		Stocks at end- June 2000
	Year	Year	Q2	Q3	Q4	Q1	Q2	
Total net issues	681.4	1,219.1	361.9	341.6	208.6	258.9	265.5	5,752.5
Money market instruments ¹	10.2	66.4	- 8.5	22.6	17.3	1.2	23.4	272.9
Bonds and notes ¹	671.2	1,152.7	370.5	319.0	191.4	257.7	242.0	5,479.6
Floating rate issues	173.4	336.2	113.7	83.1	74.7	78.1	83.4	1,369.2
Straight fixed rate issues	492.0	851.8	235.9	251.5	128.1	180.8	181.5	4,152.8
Equity-related issues	16.0	31.1	12.4	7.0	5.9	0.1	0.5	230.5
Developed countries	573.7	1,140.0	332.6	331.1	194.6	231.9	253.4	4,857.1
<i>Euro area</i>	<i>210.9</i>	<i>494.0</i>	<i>144.3</i>	<i>137.4</i>	<i>96.0</i>	<i>114.0</i>	<i>135.9</i>	<i>1,938.5</i>
<i>Japan</i>	<i>- 17.4</i>	<i>2.7</i>	<i>2.4</i>	<i>7.0</i>	<i>- 6.7</i>	<i>- 13.2</i>	<i>- 2.7</i>	<i>314.2</i>
<i>United States</i>	<i>280.0</i>	<i>481.8</i>	<i>139.4</i>	<i>131.5</i>	<i>82.1</i>	<i>87.1</i>	<i>84.0</i>	<i>1,468.8</i>
Offshore centres	10.7	13.5	0.4	2.8	3.1	1.2	3.4	67.3
Developing countries	41.4	41.0	22.3	2.0	12.2	21.6	2.5	450.3
International institutions	55.7	24.7	6.7	5.7	- 1.3	4.1	6.2	377.8
US dollar	410.7	545.2	171.6	141.8	75.4	122.8	108.4	2,741.3
Euro ²	223.8	574.6	152.5	164.8	118.9	113.7	106.2	1,707.8
Yen	- 26.8	- 7.2	- 1.8	8.1	- 1.6	- 2.0	33.0	552.7
Other currencies	73.7	106.4	39.7	26.9	15.9	24.5	17.9	750.7
Private sector	503.3	1,000.2	274.9	307.8	176.2	193.1	223.2	4,242.3
<i>Financial institutions</i> ³	<i>370.1</i>	<i>648.5</i>	<i>165.3</i>	<i>194.1</i>	<i>118.0</i>	<i>157.6</i>	<i>145.4</i>	<i>2,808.6</i>
<i>Corporate issuers</i>	<i>133.2</i>	<i>351.7</i>	<i>109.6</i>	<i>113.7</i>	<i>58.2</i>	<i>35.5</i>	<i>77.8</i>	<i>1,433.7</i>
Public sector ⁴	122.4	194.2	80.4	28.2	33.7	61.7	36.1	1,132.4
<i>Central government</i>	<i>36.4</i>	<i>36.0</i>	<i>21.4</i>	<i>- 3.1</i>	<i>10.7</i>	<i>14.5</i>	<i>10.1</i>	<i>477.8</i>
<i>State agencies and other</i>	<i>86.0</i>	<i>158.2</i>	<i>59.0</i>	<i>31.3</i>	<i>23.0</i>	<i>47.2</i>	<i>26.0</i>	<i>654.6</i>

¹ Excluding notes issued by non-residents in the domestic market. ² For 1998, total of predecessor currencies. ³ Commercial banks and other financial institutions. ⁴ Excluding international institutions.

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

Graph II.2.1
Net issues of international bonds and notes by sector, currency and type



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

to a greater reliance on short-term, floating rate and yen-denominated issues. Although the risky environment contributed to a slowdown in issuance by borrowers in developing countries, other groups of borrowers, such as telecommunications companies in developed countries, stepped up their activity.

Corporate issuance doubles as activity by banks and state agencies slows

Non-financial corporations more than doubled their net debt issuance in the second quarter to \$78 billion, compared with \$36 billion in the first (Table II.2.1, Graph II.2.1). Announced issues of bonds and notes by these borrowers rose to a record \$140 billion, a 54% increase over the first quarter. Telecommunications companies and firms involved in mergers and takeovers were especially active. One of the largest borrowers was Deutsche Telekom, which announced a \$14.6 billion package comprising eight separate bond issues (denominated in four currencies) on 27 June and \$16.7 billion of bond and note issues during the quarter as a whole. Other large issuers included France Telecom (\$5.9 billion in announced issues during the quarter), WorldCom (\$5 billion), Unilever (\$3.2 billion) and Vivendi (\$1.9 billion).

By contrast, financial institutions and state agencies, which had been at the forefront of new issuance activity in the first quarter, reduced their activity in the second. The US government-sponsored enterprises adopted a relatively cautious funding strategy, amid market uncertainty over the prospects for legislation affecting their status. While the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”) each issued roughly \$22 billion in international bonds and notes on a gross basis in the first quarter, in the second their announced issuance fell to \$16 billion and \$12 billion respectively.

Among private sector financial institutions, much of the decline in net issuance can be accounted for by German banks. These institutions cut their net issuance from \$45 billion in the first quarter to \$34 billion in the second, reflecting a slowdown in the Pfandbrief market after several quarters of very rapid growth. While the current pause may primarily reflect the width of global credit spreads, German issuers have also started to experience competition from similar structures that have been developed in other European countries over the past few years. In Luxembourg, for example, net issuance by resident financial institutions with headquarters outside that country totalled \$2.8 billion, indicating a

growing role for Luxembourg-based special purpose vehicles (SPVs) in the securitisation of assets originated elsewhere in Europe.

Revival of the yen as a vehicle for borrowing

After several quarters in which the amount of newly issued international debt securities denominated in yen more or less matched repayments, the second quarter of 2000 witnessed \$33 billion in net issuance (Table II.2.2). The most active borrowers tended to be from Europe, particularly Germany (\$10.4 billion in net issuance), the United Kingdom (\$8.4 billion) and the Netherlands (\$4.1 billion). As in the international bond market more broadly, telecommunications firms such as Deutsche Telekom and British Telecom were especially prominent. Most of the new yen bond and note issues – \$67 billion out of \$78 billion in gross terms – employed fixed rather than floating rate structures.

While yen interest rates have been below those of other major currencies for some time, turbulence in dollar and euro credit spreads in recent months has increased the attractiveness of the relatively more stable yen market. The surge in yen issuance has also reflected heightened investor interest, both among Japanese investors seeking an alternative to low-yielding government debt and among international investors tracking global bond benchmarks that have become increasingly weighted towards yen-denominated issues.

The increase in yen-denominated borrowing was accompanied by reduced issuance in both the dollar and the euro (Graph II.2.1). Net issuance in the two currencies was virtually identical, at \$108 billion and \$106 billion respectively, though announcements of new dollar bonds and notes exceeded those in the euro (\$187 billion compared to \$150 billion) because of the need to refinance a greater amount of maturing dollar-denominated debt (Table II.2.3).

Table II.2.2
Net issuance of international debt securities by currency and region¹
In billions of US dollars

		1998 ²	1999	1999			2000	
		Year	Year	Q2	Q3	Q4	Q1	Q2
Europe	US dollar	77.6	55.3	25.3	11.8	0.3	32.9	35.6
	Euro	170.7	491.7	132.3	142.3	102.2	99.9	92.6
	Yen	- 9.1	6.2	2.2	7.9	2.5	3.4	32.2
	Other currencies	42.0	77.7	24.2	20.5	12.0	19.5	14.6
North America	US dollar	262.1	435.4	124.0	117.8	72.9	68.6	63.3
	Euro	32.6	45.6	12.1	14.2	7.4	9.1	8.6
	Yen	- 4.1	- 1.3	- 0.5	0.7	0.3	5.1	4.6
	Other currencies	14.6	15.1	11.2	1.8	2.5	2.3	0.8
Others	US dollar	71.0	54.5	22.3	12.2	2.1	21.3	9.4
	Euro	20.6	37.3	8.1	8.3	9.3	4.7	5.0
	Yen	- 13.7	- 12.1	- 3.5	- 0.5	- 4.3	- 10.6	- 3.8
	Other currencies	17.0	13.6	4.3	4.6	1.4	2.6	2.5
Total	US dollar	410.7	545.2	171.6	141.8	75.4	122.8	108.4
	Euro	223.8	574.6	152.5	164.8	118.9	113.7	106.2
	Yen	- 26.8	- 7.2	- 1.8	8.1	- 1.6	- 2.0	33.0
	Other currencies	73.7	106.4	39.7	26.9	15.9	24.5	17.9

¹ Based on the nationality of the borrower. ² For the euro, total of predecessor currencies.

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

Table II.2.3
Gross issuance in the international bond and note markets
 In billions of US dollars

	1998	1999	1999			2000	
	Year	Year	Q2	Q3	Q4	Q1	Q2
Total announced issues	1,186.7	1,772.3	491.1	464.7	355.0	462.2	462.8
Floating rate issues	292.5	488.0	147.3	124.7	104.8	118.5	151.2
Straight fixed rate issues	847.2	1,232.2	325.5	332.3	237.5	332.3	303.0
Equity-related issues ¹	47.1	52.1	18.3	7.7	12.6	11.4	8.6
US dollar	603.1	775.4	222.6	200.0	132.0	190.1	186.9
Euro	335.4 ²	680.3	186.6	179.1	142.2	169.2	150.4
Yen	75.2	118.9	25.6	37.5	36.7	49.2	78.5
Other currencies	173.1	197.7	56.3	48.0	44.2	53.7	47.1
Private sector	857.6	1,377.1	376.2	380.3	282.3	345.5	372.6
<i>Financial institutions</i> ³	595.5	900.6	238.2	243.0	187.3	254.1	232.3
<i>Corporate issuers</i>	262.1	476.5	138.0	137.4	95.0	91.4	140.4
Public sector	227.7	317.4	96.6	66.6	57.7	97.0	69.9
<i>Central government</i>	96.9	94.2	26.0	17.3	17.1	27.3	16.6
<i>State agencies and other</i>	130.8	223.3	70.6	49.3	40.6	69.7	53.3
International institutions	101.4	77.8	18.3	17.7	14.9	19.7	20.3
Completed issues	1,190.8	1,776.7	491.3	461.4	390.3	446.3	430.6
Repayments	519.6	624.0	120.9	142.4	198.9	188.6	188.6

¹ Convertible bonds and bonds with equity warrants. ² Total of predecessor currencies. ³ Commercial banks and other financial institutions.

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

Move to floating rate and short-term issues

Another reflection of the recent uncertainty surrounding interest rate prospects for the dollar and the euro has been the increased use of short-term issuance and floating rate securities (Graph II.2.1). In the US dollar market, floating rate issues rose to 25% of net issuance in the second quarter, compared with 24% in the first quarter and 20% in 1999. For the euro-denominated market, floating rate issues were 45% of the total in the second quarter, compared with 39% in the first quarter and 36% last year. Net issuance of money market instruments was also unusually high in the quarter, reaching about 10% of the total in both the dollar and the euro. Volatile swap spreads, which increase the effective cost to borrowers of using swaps to modify the interest rate exposure represented by a given debt issue, seem to have induced borrowers to take steps to reduce their duration risk directly by choosing floating rate structures.

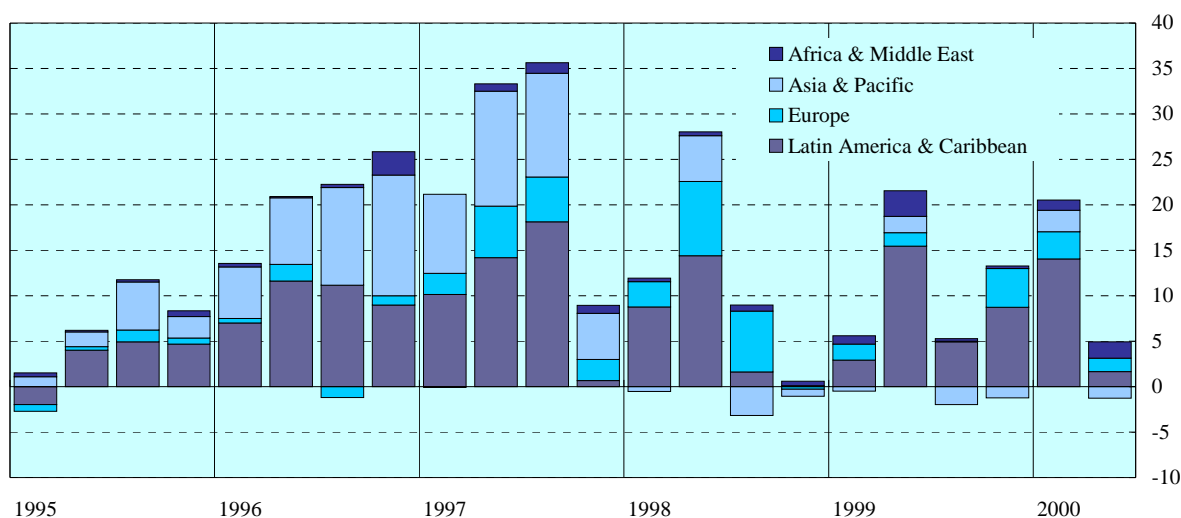
Issuance by developing countries declines

After a burst of borrowing in the first quarter, net issuance by developing countries slowed in the second, with completed new issues of \$19 billion only narrowly exceeding some \$16.5 billion in repayments (Graph II.2.2). Previously active borrowers such as Mexico and Brazil became net repayers of debt. One exception to this pattern was Argentina, which issued \$2.8 billion in net terms, most of it denominated in euros but including a ¥60 billion four-year bond in the samurai market.

The slowdown in developing country issuance occurred despite generally favourable macroeconomic conditions in most, though not all, of the large borrowing countries and an overall fall in spreads on

Graph II.2.2
Net international bond and note issuance of developing countries by region ¹

In billions of US dollars



¹ Based on the nationality of the borrower.

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

emerging market debt. However, spreads widened briefly in May amid the uncertainty over US monetary policy, leading to a pause in issuance by emerging market borrowers. Some governments have nevertheless been able to take advantage of narrower spreads by refinancing existing debt, for such purposes as replacing Brady issues with eurobonds. Early debt repayments by emerging economy borrowers, mostly in Latin America, totalled \$2.4 billion in the first quarter and \$1.7 billion in the second. It is likely that the need for new overseas borrowing by developing countries remains low, given the large amount raised on global capital markets in previous quarters and the persistence of trade surpluses in several countries, especially in Asia.