

3. The international debt securities market

Against the backdrop of narrowing credit spreads and generally favourable market conditions in debt markets, net issuance of straight fixed rate bonds and notes surged during the first quarter of 2001 (Table 3.1). Nevertheless, aggregate net issuance in the international debt securities market declined from \$323 billion to \$298 billion over the same period, because of a sharp fall in the net issuance of money market securities. Gross announced issuance of bonds and notes rose to \$578 billion during the first quarter of 2001 from \$438 billion in the previous quarter, while repayments also rose from \$197 billion to \$269 billion over the same period (Table 3.2).

The shift from short-term to long-term funds represented a return to more normal patterns. Net issuance of money market instruments declined from the previous quarter's unusually high amounts as borrowers took advantage of favourable market conditions to lengthen the maturity of their debt. Emerging economies returned to the bond market, and issuance by public sector entities increased. Issuance by corporate borrowers also increased during the first quarter, which may have reflected a shift away from equity issuance because of reduced demand for IPOs. In some instances, lower-rated corporate borrowers looked to the international bond market as a substitute for commercial paper issuance, which was not feasible as a result of credit downgrades and a reduced willingness of banks to provide backup credit facilities.

More favourable market conditions support long-term borrowing

An improvement in market conditions underlined a resurgence in long-term issuance in the first quarter of 2001. As discussed in the Overview (Section 1), the narrowing of credit spreads in long-term debt markets was accompanied by a decline in the general level of interest rates, which brought issuers back to the market. Net issuance of straight fixed rate bonds and notes rose from \$165 billion during the final quarter of 2000 to \$204 billion during the first quarter of 2001, an all-time high. The rise in net issuance of straight fixed rate bonds and notes was associated with a 60% surge in gross issuance to \$422 billion over the same period (Table 3.2).

Net issuance of straight fixed rate bonds and notes reaches a record amount ...

Main features of net issuance in international debt securities markets

In billions of US dollars

	1999	2000	2000				2001	Stocks at end-March 2001
	Year	Year	Q1	Q2	Q3	Q4	Q1	
Total net issues	1,230.3	1,234.6	286.7	319.8	304.8	323.4	298.4	6,514.7
Money market instruments ¹	66.4	86.5	1.3	24.4	14.9	45.9	14.6	346.1
<i>Commercial paper</i>	44.3	49.3	- 0.6	10.6	12.1	27.1	16.1	238.5
Bonds and notes ¹	1,163.9	1,148.2	285.4	295.4	289.9	277.4	283.8	6,168.7
<i>Floating rate issues</i>	334.1	386.6	84.0	110.1	90.0	102.6	73.8	1,607.9
<i>Straight fixed rate issues</i>	798.7	743.9	198.6	181.5	199.0	164.9	204.4	4,317.5
<i>Equity-related issues</i>	31.1	17.6	2.8	3.8	1.0	10.0	5.6	243.3
Developed countries	1,152.9	1,151.7	257.1	303.2	282.2	309.1	283.9	5,602.7
<i>Euro area</i>	507.9	555.0	131.1	149.2	129.7	144.9	133.4	2,288.6
<i>Japan</i>	2.7	- 29.9	- 13.2	- 1.3	- 9.1	- 6.3	- 6.5	268.0
<i>United States</i>	482.2	465.7	91.4	111.8	138.5	124.0	145.7	1,894.2
Offshore centres	12.0	19.1	1.4	3.7	6.8	7.2	7.3	83.0
Emerging economies	40.8	42.1	23.3	6.3	13.4	- 0.9	6.0	458.5
International institutions	24.6	21.7	4.9	6.7	2.2	7.9	1.3	370.6
Private sector	1,010.4	970.3	203.2	276.6	228.7	261.8	237.8	4,849.3
<i>Financial institutions²</i>	656.7	670.7	164.7	185.3	136.1	184.6	146.5	3,189.6
<i>Corporate issuers</i>	353.7	299.6	38.5	91.3	92.6	77.2	91.3	1,659.7
Public sector ³	195.3	242.6	78.6	36.6	73.8	53.6	59.3	1,294.8
<i>Central government</i>	37.2	50.5	33.1	12.7	8.3	- 3.5	6.4	483.3
<i>State agencies and other</i>	158.1	192.0	45.5	23.9	65.5	57.2	52.9	811.5
<i>Memo:</i>								
<i>Domestic CP⁴</i>	341.2	254.3	29.8	72.1	40.2	112.2	- 56.5	1,983.0
<i>of which: US</i>	232.8	208.3	75.3	54.9	35.6	42.5	- 63.1	1,539.0

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 first quarter of 2001 are preliminary.

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

Table 3.1

... as low- and medium-rated borrowers return to the market ...

The increase in long-term issuance was due solely to the activities of low- and medium-rated borrowers. Among rated issues, gross issuance in the non-triple-A investment grade class rose markedly from \$64 billion during the final quarter of 2000 to \$126 billion in the first quarter of 2001 (Graph 3.1, right-hand panel), more than reversing the previous quarter-on-quarter decline in announcements in these rating categories. A large portion of the total increase in non-triple-A issuance was due to the activities of telecoms, whose gross issuance surged from \$19 billion to \$49 billion over the same period. This total included the largest ever corporate bond: a \$16 billion issue in six tranches by France Telecom. Also, some firms that had difficulty accessing the commercial paper market (see below) were able to tap the long-term debt markets. DaimlerChrysler, a single-A borrower, for example, floated \$7.5 billion of longer-term debt during the first quarter. Stronger issuance also took place in

the speculative grade category, which witnessed an increase in announcements to \$7 billion during the first quarter of 2001, up from \$3 billion in the previous one. In contrast, gross issuance in the triple-A category declined slightly from \$100 billion to \$94 billion. This occurred despite a surge in gross public sector issuance to \$128 billion, an increase of 70%, due in large measure to \$98.5 billion of issuance by state agencies, a record amount.

At the same time, net issuance of money market instruments in the international debt securities market fell from an unusually large \$46 billion to \$15 billion, with that of commercial paper, the largest component of money market instruments, decreasing from \$27 billion to \$16 billion. These developments paralleled an even larger fall in net issuance in the domestic CP markets. After several years of rapid growth, net domestic issuance in the three largest markets (the United States, Japan and Canada) turned sharply negative during the first quarter of 2001. Contributing factors to the slowdown in net CP issuance were a number of credit downgrades and a reduced willingness of banks to underwrite new issues. Money market funds are the main purchasers of CP, and the amount of lower-rated CP that they can hold is limited by SEC regulations. Credit downgrades below a given threshold can therefore severely curtail the demand for a particular issuer's commercial paper. Such credit downgrades reportedly constrained the ability of some firms to access the CP

... and net issuance of money market instruments declines

Gross issuance in the international bond and note markets							
In billions of US dollars							
	1999	2000	2000				2001
	Year	Year	Q1	Q2	Q3	Q4	Q1
Total announced issues	1,766.8	1,933.5	508.3	484.6	502.4	438.3	578.2
Floating rate issues	483.8	624.3	138.0	157.0	168.3	161.0	142.6
Straight fixed rate issues	1,230.9	1,252.7	356.0	315.7	317.6	263.5	421.7
Equity-related issues ¹	52.1	56.5	14.3	11.9	16.5	13.8	13.8
US dollar	775.4	859.3	216.9	206.6	240.8	194.9	264.8
Euro	677.9	647.8	186.8	153.1	150.7	157.2	221.2
Yen	118.9	204.6	49.2	76.1	51.2	28.1	34.8
Other currencies	194.6	221.8	55.3	48.7	59.8	58.1	57.4
Private sector	1,374.3	1,499.9	374.4	397.5	380.3	347.8	429.2
Financial institutions ²	897.7	1,021.4	276.0	251.5	249.8	244.1	278.1
Corporate issuers	476.6	478.5	98.3	146.0	130.5	103.7	151.2
of which: telecoms	84.3	115.7	24.7	46.7	25.0	19.3	48.7
Public sector	314.7	363.0	113.4	66.7	107.7	75.2	127.6
Central government	94.2	93.0	46.0	18.7	23.7	4.7	29.1
State agencies and other	220.5	269.9	67.5	48.0	84.0	70.5	98.5
International institutions	77.8	70.7	20.5	20.4	14.5	15.3	21.3
Completed issues	1,771.2	1,935.3	474.9	485.2	501.0	474.2	552.9
Repayments	607.3	787.2	189.5	189.8	211.1	196.7	269.1

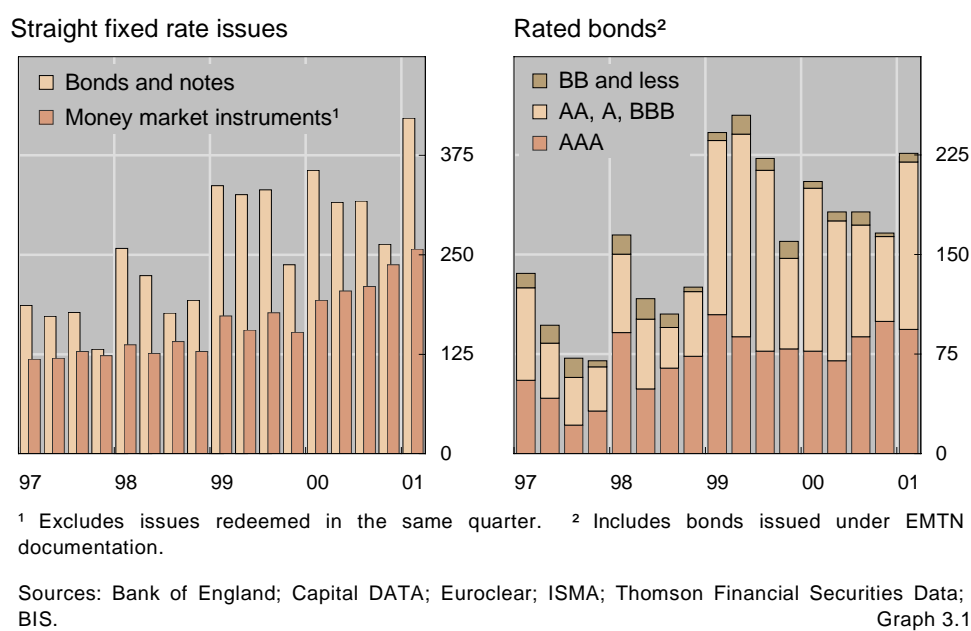
¹ Convertible bonds and bonds with equity warrants. ² Commercial banks and other financial institutions.

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

Table 3.2

Announced issuance by maturity and credit rating

International issuance, in billions of US dollars



market. For example, DaimlerChrysler's short-term rating fell to A2/P2 in late February. At the same time, bank lenders pulled back from credit extension (see the box on syndicated credits on page 21), withdrawing the support of backup credit facilities.

The first quarter of 2001 also witnessed a decline in net issuance by financial institutions. One possible reason for the decline was a large amount of issuance of asset-backed securities in the fourth quarter of 2000, relative to the first quarter of 2001. For example, ABN AMRO originated an asset-backed security amounting to €7.8 billion during the final quarter of 2000.

Emerging market borrowers return

The generally more favourable conditions in fixed income markets extended to the demand for issues by emerging economies, although market participants clearly made distinctions across credit risks. As noted in the Overview (Section 1), secondary market spreads on the issues of investment grade borrowers such as Mexico, Korea and China declined during the first quarter of 2001 while those on lower-rated issues of Turkey, Brazil and Argentina rose. Against this backdrop, total net issuance by emerging economies in the international debt securities market increased during the first quarter of 2001 to \$6 billion from the depressed level of -\$1 billion in the previous one. The rise in net issuance occurred in spite of an increase in repayments from \$15.1 billion in the fourth quarter of 2000 to \$17 billion in the first quarter of 2001, the largest amount for two years.

Net issuance rebounds from the depressed level of fourth quarter of 2000

Net issuance of international debt securities by currency and region¹

In billions of US dollars

		1999	2000	2000				2001
		Year	Year	Q1	Q2	Q3	Q4	Q1
Europe	US dollar	58.2	174.5	37.9	39.3	42.9	54.4	22.7
	Euro	503.0	406.7	113.3	106.8	74.2	112.5	117.6
	Yen	6.4	39.0	4.0	31.0	7.5	- 3.5	- 9.2
	Other currencies	75.2	87.3	20.8	16.0	24.5	25.9	15.6
North America	US dollar	434.5	380.7	73.1	91.1	116.4	100.1	118.1
	Euro	46.3	45.3	7.9	8.7	16.0	12.7	19.2
	Yen	- 1.3	16.7	5.4	4.9	3.4	3.0	2.8
	Other currencies	16.5	15.4	2.5	1.0	3.5	8.4	4.1
Others	US dollar	53.3	63.7	23.7	17.5	14.2	8.3	7.1
	Euro	38.1	14.0	5.5	4.6	1.6	2.3	4.7
	Yen	- 12.2	- 22.4	- 10.3	- 3.8	- 2.9	- 5.4	- 4.6
	Other currencies	12.3	13.7	2.9	2.7	3.4	4.6	0.2
Total	US dollar	546.0	618.9	134.7	147.9	173.5	162.7	148.0
	Euro	587.4	466.1	126.6	120.1	91.8	127.5	141.4
	Yen	- 7.0	33.3	- 0.9	32.1	8.0	- 5.9	- 11.0
	Other currencies	104.0	116.4	26.3	19.8	31.4	39.0	19.9

¹ Based on the nationality of the borrower.

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

Table 3.3

The recovery of net issuance was not evenly spread across regions. Net issuance in Latin America rose, to \$6.3 billion during the fourth quarter of 2001 from -\$2.5 billion in the previous quarter, as did net issuance in non-industrial Europe, from \$1.1 billion to \$2.3 billion. Included in the latter figure was €750 million of new announcements by the Republic of Turkey. In contrast, net issuance in emerging Asia declined from \$0.3 billion to -\$3.4 billion in response to a sharp fall in gross issuance from \$4.9 billion to \$1.9 billion, due in part to a decline of new announcements in the telecoms sector, which were particularly high for China and Malaysia during the fourth quarter of 2000.

As mentioned in the previous *BIS Quarterly Review*, one way for countries facing relatively wide spreads to reduce borrowing costs is to seek funding in a currency with low interest rates like the yen. The first quarter of 2001 witnessed continued flotation in the samurai market by emerging economies. Brazil issued \$669 million of yen-denominated securities during the period; Tunisia and Uruguay floated \$294 million and \$260 million of yen securities, respectively.

Euro issuance gains ground

The first quarter of 2001 saw greater use of the euro as the currency of denomination in the international debt securities market. Net euro issuance climbed from \$128 billion to \$141 billion during the first quarter of 2001 (Table 3.3). There were increases in euro issuance across all regions. At \$19 billion, a record amount, net issuance of euro-denominated securities was

Issuers turn to the euro globally

particularly strong in North America. At the same time, net dollar issuance declined and net yen issuance fell from –\$6 billion to –\$11 billion, an unusually large contraction. Both dollar and yen issuance were particularly weak in Europe.

Seen from a longer-term perspective, the pickup in issuance during the first quarter was a continuation of the recovery which had begun in the fourth quarter of 2000. This in turn had reversed a slowdown during the first three quarters of 2000, after an exceptionally strong 1999. As in 1999, and in contrast to the previous quarter, the pickup occurred at a time when the single currency was depreciating against the dollar. This contrasts with a long-standing empirical pattern of issues favouring the stronger currency.