

3. The international debt securities market

In spite of worsening financing conditions in June, net issuance in the international debt securities market rebounded during the second quarter of 2002 as a whole. For the quarter, net issuance amounted to \$344 billion (Table 3.1), an 11% increase from the previous quarter. The growth in the

Main features of net issuance in international debt securities markets								
In billions of US dollars								
	2000	2001	2001			2002		Stocks at end-Jun 2002
	Year	Year	Q2	Q3	Q4	Q1	Q2	
Total net issues	1,237.8	1,348.8	370.8	224.8	339.4	310.2	344.0	8,634.7
Money market instruments ¹	152.1	-78.9	-26.2	-45.6	-9.3	-7.8	7.5	423.4
<i>Commercial paper</i>	55.2	26.9	10.1	-12.0	6.5	5.5	1.8	266.8
Bonds and notes ¹	1,085.6	1,427.7	397.0	270.4	348.8	318.0	336.5	8,211.3
<i>Floating rate issues</i>	354.6	391.6	98.7	93.8	95.9	61.0	74.4	2,076.8
<i>Straight fixed rate issues</i>	714.3	996.4	287.6	170.5	237.5	253.7	247.9	5,824.4
<i>Equity-related issues</i>	16.7	39.7	10.7	6.2	15.3	3.3	14.1	310.1
Advanced economies	1,158.1	1,260.8	327.2	210.1	323.8	286.3	325.3	7,582.6
<i>United States</i>	464.5	597.2	155.4	114.3	136.9	138.8	117.5	2,638.7
<i>Euro area</i>	558.2	551.5	126.9	87.4	149.3	128.4	151.2	3,261.2
<i>Japan</i>	-25.8	-10.1	1.1	-6.5	-1.8	-9.3	3.2	272.4
Offshore centres	14.7	27.0	8.1	5.4	6.4	4.5	-0.1	103.0
Emerging economies	42.1	44.7	29.9	-1.8	7.9	11.5	12.0	528.6
International organisations	22.9	16.3	5.7	11.1	1.3	8.0	6.8	420.6
Private sector	970.4	1,003.3	267.5	156.4	252.0	193.1	285.9	6,463.4
<i>Financial institutions²</i>	798.1	800.3	200.7	133.6	196.4	178.9	243.5	5,242.7
<i>Corporate issuers</i>	172.3	202.9	66.8	22.8	55.6	14.2	42.5	1,220.7
Public sector ³	244.5	329.3	97.7	57.2	86.2	109.1	51.3	1,750.7
<i>Central government</i>	52.6	60.5	32.1	-2.3	11.6	45.1	7.2	629.1
<i>State agencies and other</i>	191.9	268.7	65.6	59.5	74.6	64.0	44.0	1,121.7
<i>Memo: Domestic CP⁴</i>	255.6	-139.6	-63.1	-49.8	30.7	-73.0	-58.5	1,828.4
<i>of which: US</i>	208.3	-161.2	-67.9	-58.5	28.3	-63.3	-57.0	1,320.6

¹ Excluding notes issued by non-residents in the domestic market. ² Commercial banks and other financial institutions.
³ Excluding international organisations. ⁴ Data for the second quarter of 2002 are partly estimated.

Sources: Bank of England; 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							
	2000	2001	2001			2002	
	Year	Year	Q2	Q3	Q4	Q1	Q2
Total announced issues	1,703.8	2,306.5	639.8	465.8	554.1	606.5	582.0
Floating rate issues	518.2	643.6	163.1	157.1	168.7	141.8	165.0
Straight fixed rate issues	1,129.1	1,590.7	458.0	297.6	359.1	455.1	396.3
Equity-related issues ¹	56.5	72.2	18.7	11.1	26.3	9.6	20.7
US dollar	791.8	1,131.9	332.2	247.0	243.6	310.8	260.4
Euro	581.7	841.9	217.0	145.7	221.3	228.4	235.5
Yen	129.1	125.3	38.8	32.5	26.2	16.4	25.9
Other currencies	201.2	207.5	51.7	40.6	62.9	51.0	60.1
Private sector	1,319.5	1,676.6	451.0	327.0	420.9	416.7	438.2
<i>Financial institutions²</i>	<i>1,087.6</i>	<i>1,335.4</i>	<i>349.8</i>	<i>276.0</i>	<i>325.7</i>	<i>353.1</i>	<i>364.1</i>
<i>Corporate issuers</i>	<i>231.9</i>	<i>341.1</i>	<i>101.3</i>	<i>51.0</i>	<i>95.2</i>	<i>63.6</i>	<i>74.2</i>
<i>of which: telecoms</i>	<i>119.3</i>	<i>134.6</i>	<i>30.2</i>	<i>15.9</i>	<i>38.0</i>	<i>11.8</i>	<i>14.5</i>
Public sector	315.1	555.2	165.9	118.7	118.4	163.8	122.5
<i>Central government</i>	<i>92.9</i>	<i>130.8</i>	<i>58.2</i>	<i>13.4</i>	<i>17.9</i>	<i>59.3</i>	<i>29.0</i>
<i>State agencies and other</i>	<i>222.2</i>	<i>424.4</i>	<i>107.6</i>	<i>105.3</i>	<i>100.5</i>	<i>104.6</i>	<i>93.5</i>
International organisations	69.2	74.8	22.9	20.1	14.8	26.0	21.3
Completed issues	1,705.6	2,306.3	630.2	478.1	568.4	587.9	579.2
<i>Memo: Repayments</i>	<i>619.9</i>	<i>878.6</i>	<i>233.2</i>	<i>207.7</i>	<i>219.6</i>	<i>269.9</i>	<i>242.7</i>

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

demand for funds by the private sector was substantially larger than figures for aggregate issuance suggest, because net issuance by the public sector declined markedly. The increase in aggregate private sector issuance was almost entirely due to the activities of European and Japanese borrowers. In contrast, net issuance by borrowers based in the United States declined from \$139 billion to \$118 billion between the first and second quarters. Emerging market borrowers continued to borrow at a moderate rate in the international debt securities market.

Towards the end of the second quarter, there was a marked shortfall of announced issuance in the international bond market compared to the levels that would normally have been expected on the basis of seasonal factors. The shortfall coincided with a widening of corporate spreads (see "Overview" on page 1), indicating a tightening in the supply of funds rather than a lack of demand. There was a particularly sharp fall in gross issuance by investment grade borrowers, which followed a drying-up of gross issuance by non-investment grade borrowers that began in May. In July, credit spreads in the United States and Europe widened sharply (see "Overview"). There was a further decline in announcements by investment grade borrowers in Europe, and essentially a drying-up of issuance by investment grade borrowers in the United States. Most notably, after several months of strong issuance, the major

US finance companies were almost completely absent from the international bond and note market in July.

Decline in public sector issuance offset by private borrowing

A decline in public sector borrowing ...

Net issuance by public sector borrowers fell sharply between the first and second quarters of 2002. At \$51 billion, issuance during the second quarter was 53% lower than the previous quarter's record amount. The drop was fairly evenly spread between US- and European-based borrowers. In the advanced European economies, the decline was attributable to lower borrowing by central governments. In the United States the decline, from \$61 billion to \$37 billion, was accompanied by a \$19 billion fall in completions. Lower gross issuance by the US housing agencies played a role. Freddie Mac's gross issuance in the international markets fell from \$41 billion to \$33 billion and that of Fannie Mae from \$31 billion to \$24 billion. Even so, the largest issues placed in the international bond and note market included two \$6 billion offerings by Freddie Mac and Fannie Mae, the latter of which was priced at a spread of 26 basis points.

... is more than offset by increased private sector issuance

The fall in net issuance by public sector entities in the second quarter of 2002 was more than offset by an upsurge in net issuance by the private sector, up 48% from the previous quarter to \$286 billion. The rise reflected sharply higher borrowing by both financial institutions and non-financial corporates. Net issuance by financial institutions was particularly strong during the second

Net issuance of international debt securities by region and currency ¹								
In billions of US dollars								
Region/currency		2000	2001	2001			2002	
		Year	Year	Q2	Q3	Q4	Q1	Q2
North America	US dollar	377.7	526.4	136.1	105.9	120.9	126.6	93.3
	Euro	44.5	64.4	15.5	7.1	20.9	17.8	15.1
	Yen	17.2	17.5	5.7	6.7	1.8	-3.5	1.7
	Other currencies	17.3	8.3	3.5	-1.0	0.7	3.5	6.2
Europe	US dollar	170.2	56.7	14.2	-0.7	15.6	6.5	43.0
	Euro	411.3	520.1	130.1	79.1	142.2	137.9	133.8
	Yen	40.8	-1.4	3.3	3.9	-2.6	-13.3	-4.7
	Other currencies	88.1	71.1	11.7	11.9	28.1	17.0	30.9
Others	US dollar	61.4	69.8	41.8	11.0	7.7	23.6	13.7
	Euro	14.8	13.0	4.8	0.3	2.9	3.1	7.2
	Yen	-20.3	0.6	4.8	-1.9	0.9	-12.1	5.9
	Other currencies	14.9	2.4	-0.7	2.4	0.3	3.2	-2.0
Total	US dollar	609.3	652.8	192.1	116.2	144.2	156.6	149.9
	Euro	470.6	597.5	150.3	86.5	166.0	158.7	156.2
	Yen	37.7	16.7	13.9	8.7	0.1	-28.9	2.8
	Other currencies	120.2	81.8	14.6	13.3	29.1	23.7	35.0

¹ Based on the nationality of the borrower.

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

Table 3.3

quarter and, at \$244 billion, was the third highest ever recorded. The largest private sector issue, a \$6 billion offering, was floated by GE Capital Corporation.

The increase in private sector borrowing is almost entirely attributable to the activities of entities based in the advanced European economies. Net issuance by these borrowers rose from \$108 billion during the first quarter of 2002 to \$184 in the second quarter. Private sector borrowing by Japanese entities rose from -\$10 billion to \$4 billion while that of US entities was essentially unchanged. Gross announced issuance by private sector borrowers in the United States actually declined from \$161 billion to \$145 billion over the period.

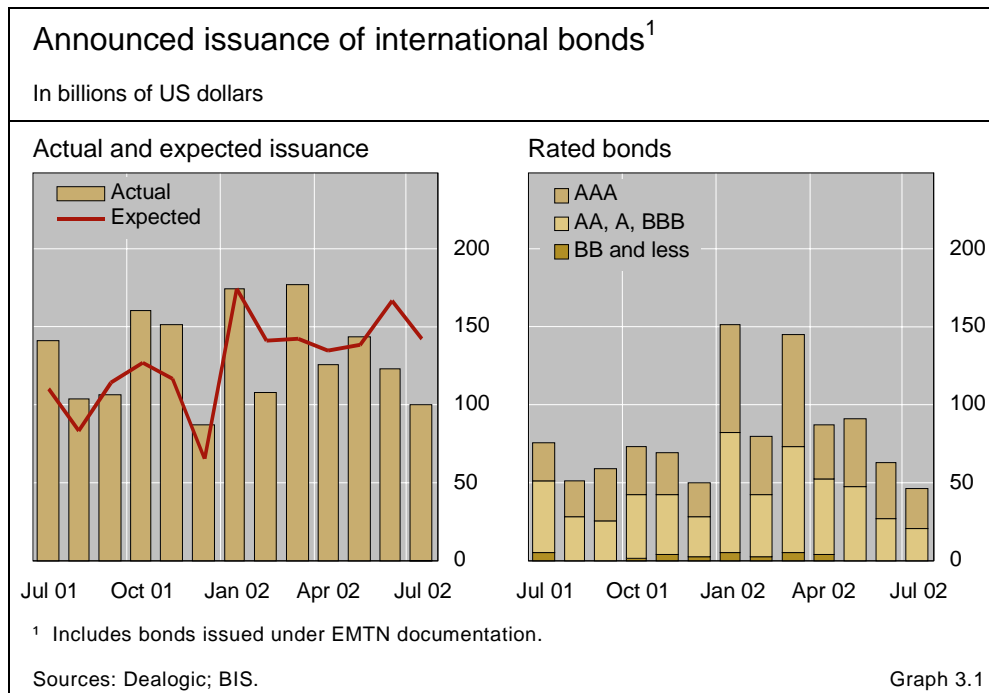
Emerging market borrowers retain access to international debt securities market

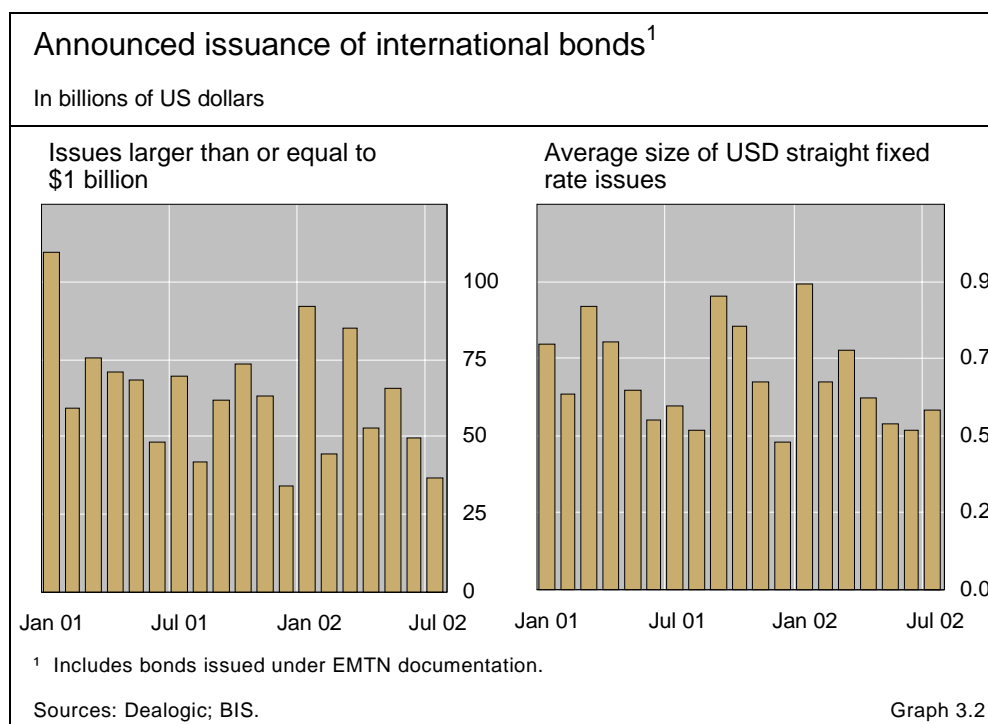
Emerging economies continued to borrow moderately in the international debt securities market during the second quarter of 2002. At \$12 billion, net issuance by emerging market borrowers was essentially unchanged from the previous quarter and slightly above the average quarterly net issuance since the onset of the Asian financial crisis. Gross announced issuance rose slightly, from \$30 billion to \$33 billion. The largest emerging market borrower during the second quarter was Petronas Capital Limited, which floated over \$2.7 billion in three issues.

The aggregate borrowing figures mask large changes in regional borrowing patterns. For instance, net issuance in emerging Asia-Pacific economies rose from \$4.3 billion to \$10.1 billion between the first and second quarters of 2002, mainly because of a large increase in borrowing by South Korean entities. In contrast, Latin American borrowing fell sharply, from

Aggregate issuance by emerging market borrowers remains unchanged ...

... while South Korean borrowing rises sharply





\$4 billion to –\$3 billion, mainly because of a decline in net issuance in Mexico. Brazilian borrowing also contracted over the period, from \$2.7 billion to \$1 billion.

Commercial paper market sees continuing difficulties

The second quarter witnessed a continuation of the contraction in the US domestic commercial paper (CP) market. Net issuance by financial institutions fell 4% to \$1,151 billion while that of non-financial corporates declined 8% to \$170 billion. The total fall in net issuance was \$57 billion. In previous quarters, accompanying increases in straight fixed rate bond and note issuance had indicated a shift in borrowing patterns from short- to long-term financing. In the second quarter, however, straight fixed rate issuance declined (Table 3.2). In contrast, net issuance in the international CP market, a significantly smaller market, was positive at \$1.8 billion.

Credit conditions appear to deteriorate starting in June

Conditions in credit markets in general, and in the international bond and note market in particular, apparently began to worsen starting in June. In contrast to the sizeable increase in issuance in the international bond market that typically occurs between May and June, announced issuance declined by \$21 billion (Graph 3.1, left-hand panel). Lower issuance by borrowers in the advanced economies played an important role. There was a particularly sharp fall in gross issuance by investment grade borrowers in these countries, from \$90 billion to \$63 billion, and a continuation of the absence of non-investment grade issuance. In the first four months of 2002, non-investment grade issuance was approximately 2% of total announcements in the international

Unexpectedly low issuance in June ...

bond market. In both May and June, in contrast, announcements in the non-investment grade class accounted for 0.3% of total announcements.

As noted in the “Overview”, June witnessed the beginnings of a widening in credit spreads in the United States and a continuation of their widening in Europe. The widening of credit spreads and the simultaneous fall in issuance suggest a reduction in the supply of funds to the international bond market towards the end of the second quarter. There is evidence that financial institutions in particular had difficulty raising funds. Straight fixed rate issuance by financial institutions fell from \$80 billion in May to \$59 billion in June while that of non-financial corporates actually rose slightly.

... accompanies a widening of credit spreads

Credit spreads in both the United States and Europe continued to widen during July. Preliminary data show a further fall in announcements in the international bond market, although by less than would have been expected on the basis of seasonal factors. The total amount of large issues placed in the international bond market fell to \$37 billion, the lowest since December 2001 (Graph 3.2). Non-investment grade issuance remained at essentially zero while issuance classified as investment grade declined further in July to \$46 billion, a level not experienced since December 2000. The fall in investment grade issuance was particularly severe in the United States, with essentially no such issuance in July. The major US finance companies were also absent from the international bond market. In both May and June, the three major US finance companies were responsible for \$13 billion in gross issuance; however, in July they essentially withdrew from the market. Nevertheless, July witnessed several large new bond issues. Amongst AA-rated issues were those by Crédit Agricole SA and Credit Suisse First Boston, both for \$1 billion, the latter priced at a spread of 185 basis points.

Issuance falls further in July ...

... as the major US finance companies withdraw from the market