



**Asia-Pacific
Economic Cooperation**

2009/FMM/009
Session: Plenary 2

How to Increase Bond Market Liquidity – an AsianBondsOnline Survey

Purpose: Information
Submitted by: Asian Development Bank



**16th Finance Ministers' Meeting
Singapore
12 November 2009**



Plenary Session 2: Facilitating Finance to Sustain Growth

How to Increase Bond Market Liquidity—An AsianBondsOnline Survey

Prepared for the 16th APEC Finance Ministers' Meeting

Singapore

Office of Regional Economic Integration

12 November 2009

Contents

1. **How to Increase Bond Market Liquidity—An AsianBondsOnline Survey** – Asian Bond Monitor November 2008, www.asianbondsonline.adb.org/

Asian Development Bank

How to Increase Bond Market Liquidity—an *AsianBondsOnline* Survey

Previous editions of the *Asian Bond Monitor* have published an *AsianBondsOnline* survey of the various measures of market liquidity across the region. This survey was updated in August and September 2008, just before the collapse of Lehman Brothers and the global financial crisis. Over 40 fund managers, traders, analysts, and operations experts in Asia, Europe, and the United States (US) responded to questions about specific markets. Respondents were asked to make qualitative judgments on the effectiveness of certain initiatives in raising liquidity for government and corporate bond markets. Participants were also surveyed on their usage of derivative markets and repurchase agreement markets. They were asked to respond using a scoring system ranging from 4 ("very important" to 0 ("don't know", "not applicable"). A score approaching 4 means that most of the participants felt attention is needed. A lower score means that market participants assign less importance. In the data for 2006 and 2007 collected from previous surveys (See *Asia Bond Monitor*—April 2008), there was little overall change for most categories of questions regarding measures for improving market liquidity.

On questions concerning government bond market reforms, there was little difference between responses for 2007 and 2008 for four out of the six questions we asked. However, there was a distinct drop in importance given to the questions regarding (i) increased availability of hedging products, and (ii) mandatory bid-ask spreads by market makers. The rating for the first—increased availability of hedging products—dropped in importance from 3.5 in 2007 to 3.0 in 2008. The rating for the second question—mandatory bid-ask spreads by market makers—fell from 2.5 to 2.0, suggesting that respondents were largely indifferent to the importance of requiring mandatory bid-ask spreads by market makers for government bonds. Growing volatility and more recently, outright deterioration of market conditions was likely behind the indifference.

More surprising, however, were responses on corporate bonds. Scores dropped by as much as a full point on some questions—the importance of increasing investor diversity, increased availability of hedging products, importance of increasing tax incentives, and the importance of greater multilateral issuance. This likely reflects the fact that many segments of the corporate bond market have become largely illiquid.

Bond Bid-Ask Spread

These results show that the government bond market is less liquid this year than previously, as bid-ask spreads widened in most emerging East Asian markets. PRC; Hong Kong, China; and Indonesia were notable exceptions. Corporate bond bid-ask spreads, on the other hand, contracted this year compared with previous years for all except Viet Nam and Thailand. The collapse of market liquidity for corporate bonds was mainly due to fear of rising inflation in the early part of 2008 (2008e) and outright financial panic in the middle of the year and later (2008m).

The deviation in government bond bid-ask spread from its average range during the first half of 2008 was also measured in the survey. Spread deviation among most markets held steady with levels of 3–10 times per quarter as compared with 2007 results. Notable exceptions were Singapore and Malaysia. Both countries had an increase in spread deviation from 0–3 and 3–10 times to more than 10 times per quarter for Singapore and Malaysia, respectively.

Table B2-1: **What Market Players Want Improved—AsianBondsOnline Survey**

	Average Score		
	2008	2007	2006
Government Bond Market Reforms			
Increasing diversity of investors	3.3	3.5	3.6
Increased availability of hedging products	3.0	3.5	3.2
Increasing intraday price transparency	3.0	3.1	2.8
Improving repo markets	2.8	2.9	3.2
Improvements to clearing and settlement	2.5	2.7	2.6
Mandatory bid-ask spreads by market makers	2.0	2.5	2.8
Corporate Bond Market Reforms			
Increasing diversity of investors	2.4	3.4	3.5
Increased availability of hedging products	1.9	3.1	3.1
Greater access to credit derivatives	2.4	3.1	3.1
More consistent secondary market pricing	2.3	3.1	3.2
Increasing tax incentives	1.6	2.9	2.8
Credit rating harmonization	2.0	2.8	2.7
Introducing pricing agencies	2.2	2.7	2.6
Greater access to guarantees	1.8	2.6	2.4
Greater multilateral issuance	1.7	2.6	2.3

Legend: 4 = very important, 3 = important, 2 = somewhat important, 1 = not important at all, 0 = Don't know

Source: *AsianBondsOnline*.

Table B2-2: **Local Currency Bond Bid-Ask Spreads (Survey)**

	Government bonds (in basis points)					Corporate bonds (in basis points)				
	2004	2006	2007	2008e	2008m	2004	2006	2007	2008e	2008m
China, People's Rep. of	32.5	7.6	20.0	20.0	15.0	107.5	10.8	96.3	50.0	50.0
Hong Kong, China	3.0	3.0	8.0	4.0	4.0	10.0	6.3	30.0	25.0	25.0
Indonesia	140.8	16.9	42.0	19.7	24.5	227.5	68.8	170.8	66.8	70.0
Korea, Republic of	4.8	1.4	4.5	1.2	1.7	na	3.0	na	na	na
Malaysia	3.5	2.3	1.5	6.7	12.2	20.0	18.8	15.0	5.0	5.0
Philippines	25.0	25.3	10.0	15.8	19.8	57.5	30.0	40.6	38.0	37.5
Singapore	5.5	2.7	3.4	20.0	20.0	20.0	5.5	15.0	na	na
Thailand	7.3	3.0	6.3	14.2	9.8	17.5	10.8	15.0	16.7	16.7
Viet Nam	na	na	20.6	22.5	75.0	25.0	14.9	61.3	68.8	156.3
Japan	0.8	0.6	0.8	3.5	3.5	6.3	6.0	6.3	10.0	10.0

Note: e = early 2008, m = mid-2008

Source: *AsianBondsOnline*.

Table B2-3: Government Bond Spreads—Deviation from Average Range (Survey)

	2004	2006	2007	2008
China, People's Rep. of	na	0-3	>3-10	3-10
Hong Kong, China	0-3	0-3	over 10	3-10
Indonesia	over 10	>3-10	over 10	3-10
Korea, Rep. of	0-3	>3-10	>3-10	na
Malaysia	over 10	>3-10	>3-10	over 10
Philippines	na	over 10	>3-10	3-10
Singapore	0-3	0-3	0-3	over 10
Thailand	>3-10	>3-10	>3-10	3-10
Viet Nam	na	0-3	over 10	3-10
Japan	na			na

Source: *AsianBondsOnline*