Growing Asia’s Markets

Asia Securities Industry & Financial Markets Association

Tokyo 2017 Asia Securities Forum
Regulatory Challenges in a World of Rising Rates

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Liquidity is flush in Asia

Foreign funds keep flowing into Asia

Stock prices are soaring

Borrowing costs are falling

Asian exports are rebounding (sort of)
What’s holding up risk appetite?

Falling USD driving demand for Asian assets

Source: Thomson Reuters
Markets have become more vulnerable

Borrowers have gorged on cheap debt

Asia's foreign-currency borrowing on the rise

Bonds are largely short-term

Source: Bank for International Settlements (BIS)

Source: Dealogic
Asia’s emerging markets rely heavily on bank funding

- Borrowers in Asia rely on bank lending more than capital markets. Banks in Asia also intermediate capital markets through activities such as market-making.
- While Europe’s economies have an average bond market equivalent to 11.7% of GDP, Asian economies’ average bond market size is just 6.8% of GDP (ADB Bond Monitor, November 2016).
- Asia faces a spike in repayment in 2019, when $1 trillion of its debt matures (HSBC).
More regulations still loom over the region

Credit to Asia from DM banks is ebbing

- Banks face lower margins globally, but are cutting exposure to high-growth, high-risk Asian markets.
- Global financial institutions may be exiting riskier jurisdictions as regulatory change penalises them for taking risks.
- Unregulated players (i.e. hedge funds) are playing a larger role. However, investment horizon and “price entry/exit point” is very different from banks. They are also less prevalent in Asia.

DM: Euro-area plus Denmark, Sweden, Norway, Switzerland, the UK, Australia, Japan, Canada, the U.S., and Asian financial centres— Hong Kong and Singapore

Source: Bank for International Settlements (BIS)
Most Asian bonds are unrated

Source: Bloomberg
Asia depends on trade, and trade finance depends on Asia

Volumes of Letters of Credit (L/Cs) sent and received by region in 2015

- The global trade finance market is estimated at between $6.5 trillion and $8 trillion; Asia-Pacific accounts for 40% of global proposals (Source: 2016 ADB Trade Finance Survey).
- The region is an area of focus for trade finance. The Asia-Pacific accounts for 76% of export L/Cs.
Funding Asia’s infrastructure gap

• Asia’s infrastructure demand has been estimated at $8 trillion from 2010 to 2020 (Source: ADB).
• The existing gap in infrastructure financing in Asia is a threat to long-term economic growth.

Regional composition of project finance

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<tbody>
<tr>
<td>Americas</td>
<td>53,431</td>
<td>93,742</td>
<td>20,563</td>
<td>24,607</td>
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<tr>
<td>EMEA</td>
<td>88,266</td>
<td>94,539</td>
<td>109,046</td>
<td>16,705</td>
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<td>Asia Pacific</td>
<td>63,725</td>
<td>71,004</td>
<td>85,438</td>
<td>5,284</td>
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<tr>
<td>Total</td>
<td>205,423</td>
<td>259,285</td>
<td>207,714</td>
<td>49,255</td>
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<td>% Bonds vs Loans</td>
<td>33.2%</td>
<td>20.0%</td>
<td>10.74%</td>
<td>11.4%</td>
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Source: PwC, Thomson Reuters

Infrastructure bonds outstanding as a share of gross domestic product

Note: Simple average values for the gross domestic product of all economies in each region are used.
Sources: Bloomberg LP, Dealogic, and World Bank.
Imminent unwinding – a dangerous turning point?

Rising US rates curb appetite for Asian assets

Source: CEIC