



Growing Asia's Markets

Asia Securities Industry & Financial Markets Association

Tokyo 2017 Asia Securities Forum

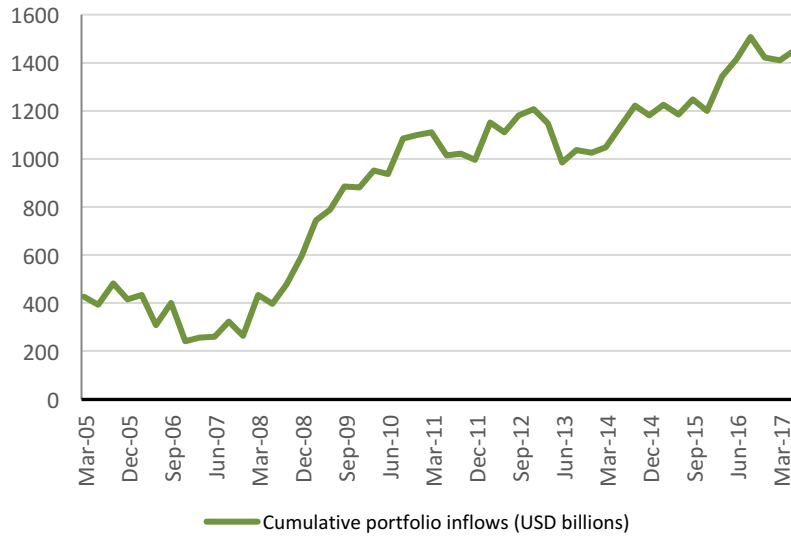
Regulatory Challenges in a World of Rising Rates

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Liquidity is flush in Asia

Foreign funds keep flowing into Asia



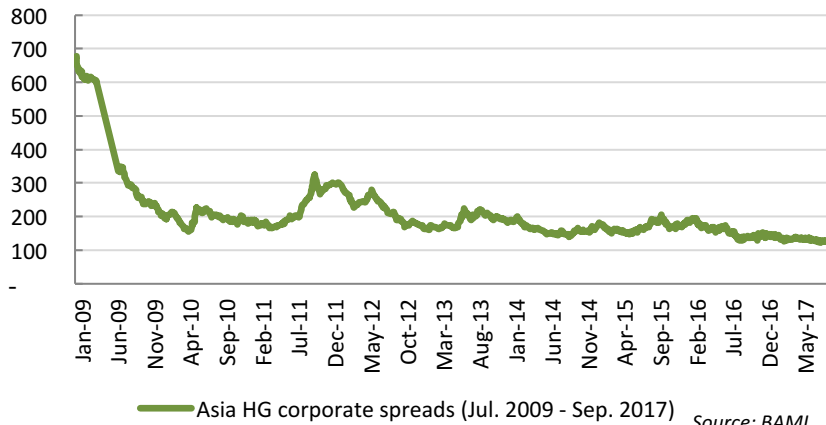
Source: CEIC

Stock prices are soaring



Source: Thomson Reuters

Borrowing costs are falling



Source: BAML

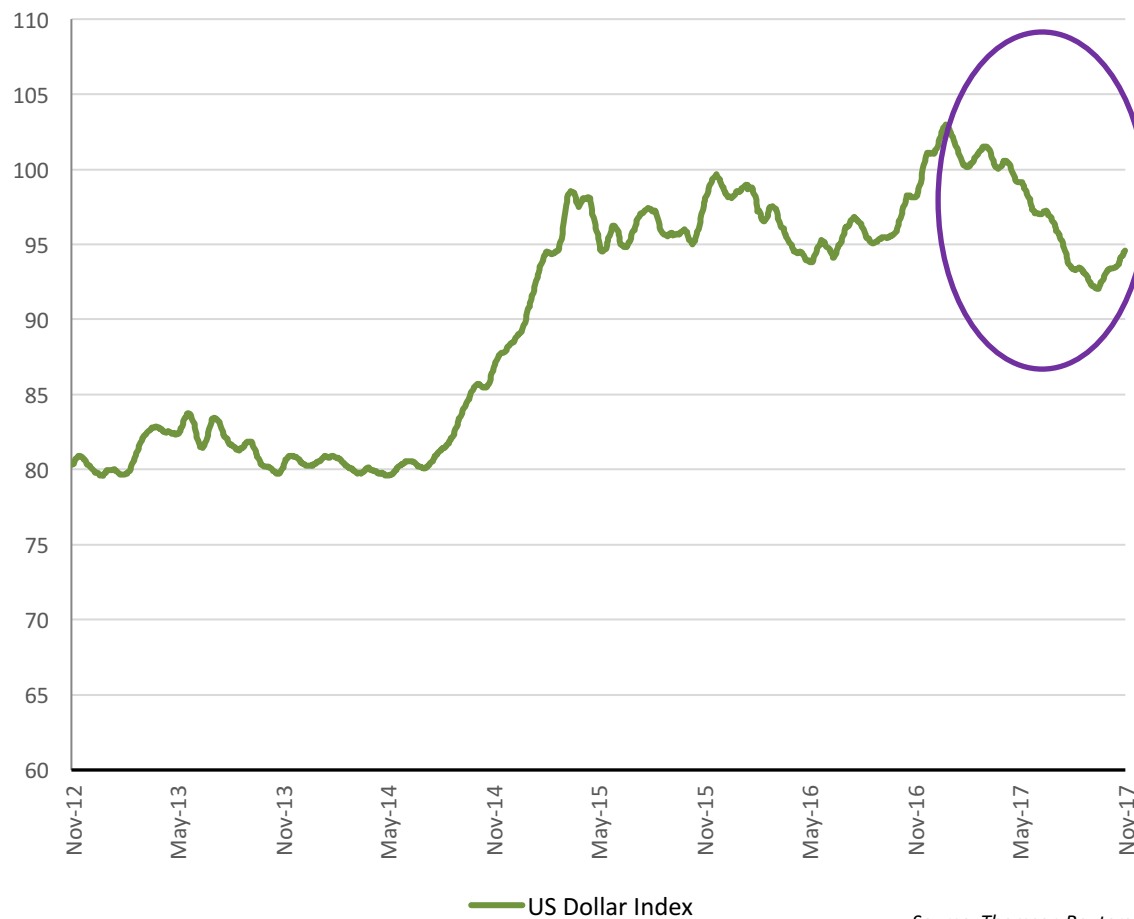
Asian exports are rebounding (sort of)



Source: Thomson Reuters

What's holding up risk appetite?

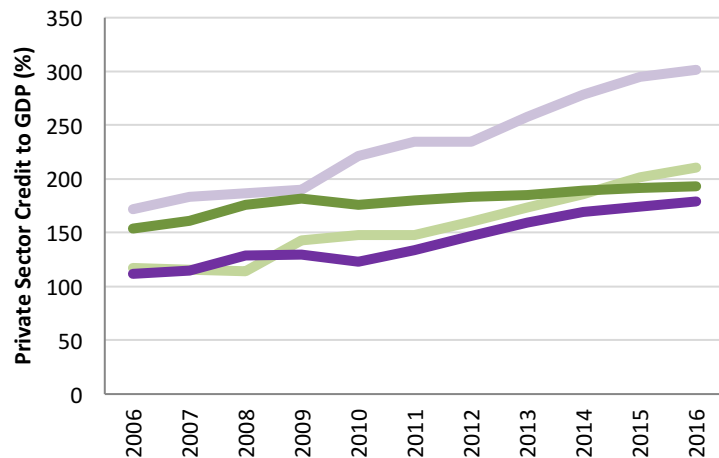
Falling USD driving demand for Asian assets



Source: Thomson Reuters

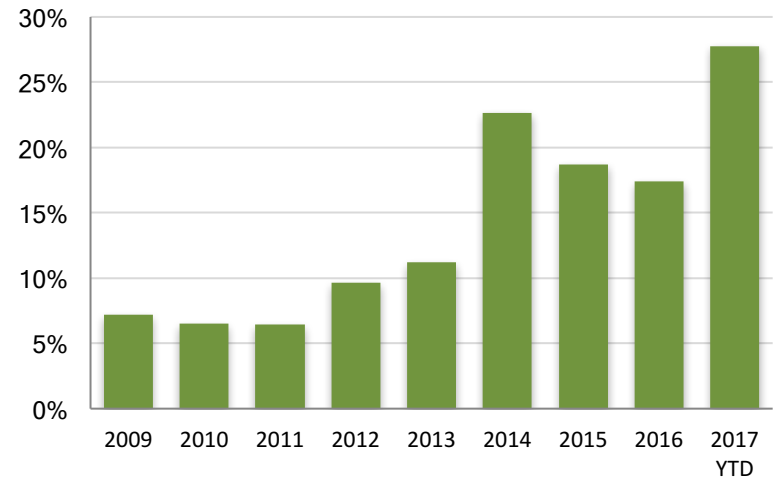
Markets have become more vulnerable

Borrowers have gorged on cheap debt



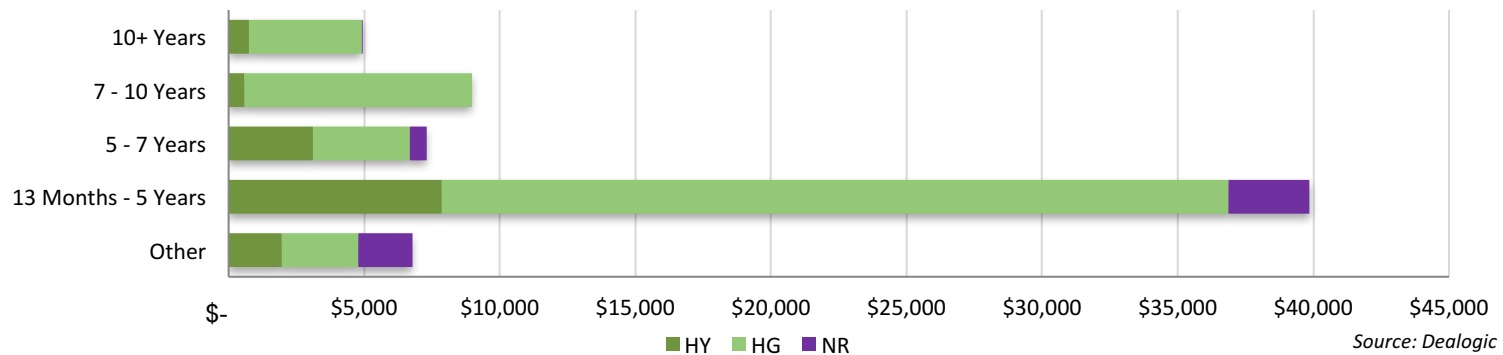
China (light green), Hong Kong (purple), South Korea (dark green), Singapore (blue-purple). Source: Bank for International Settlements (BIS)

Asia's foreign-currency borrowing on the rise



G3 bond issuance as % of total issues. Source: Dealogic

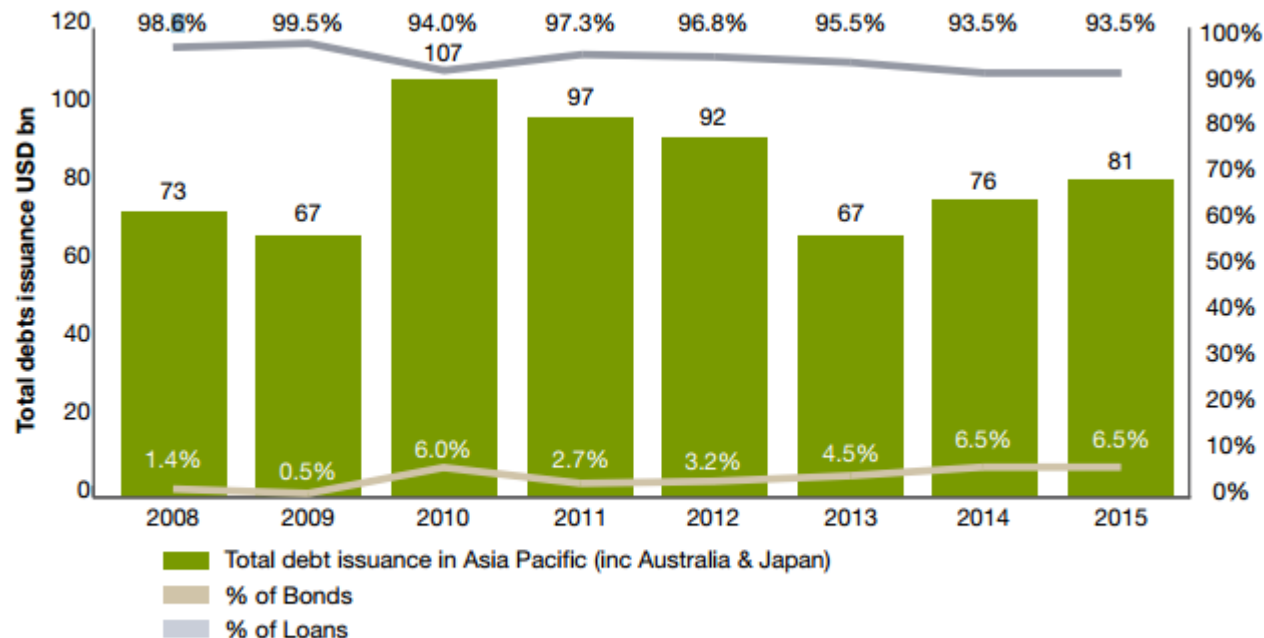
Bonds are largely short-term



Source: Dealogic 4

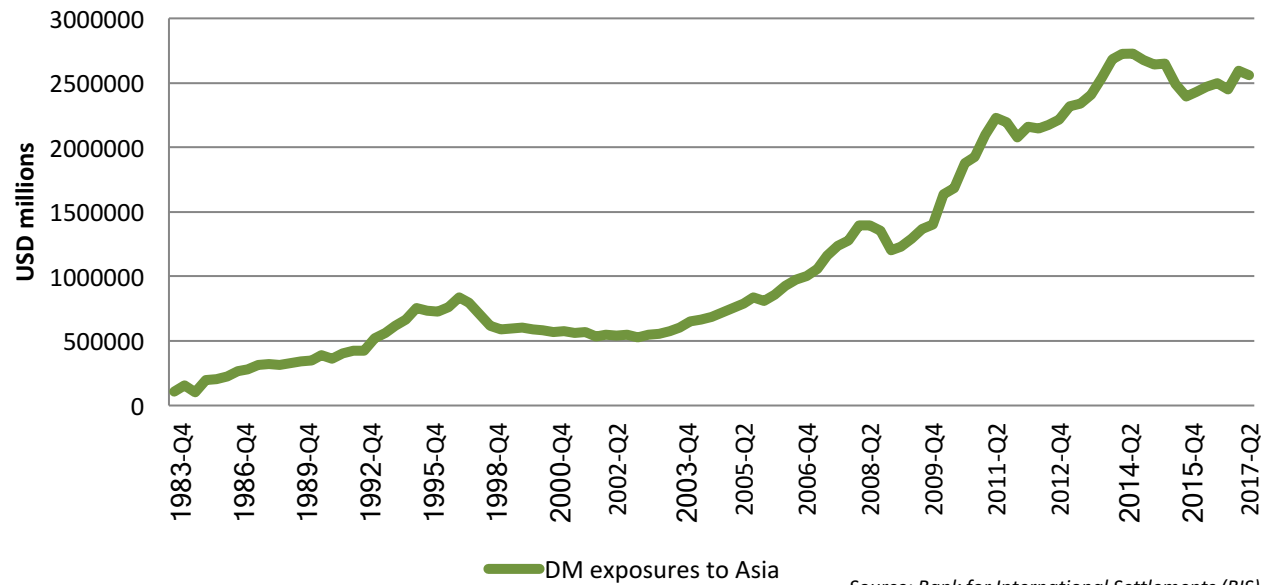
Asia's emerging markets rely heavily on bank funding

- 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

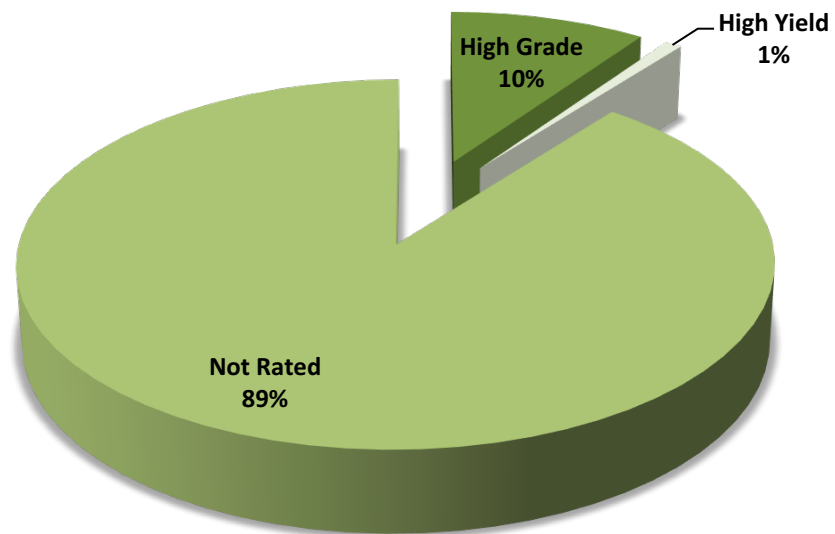


Source: Bank for International Settlements (BIS)

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

- 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.

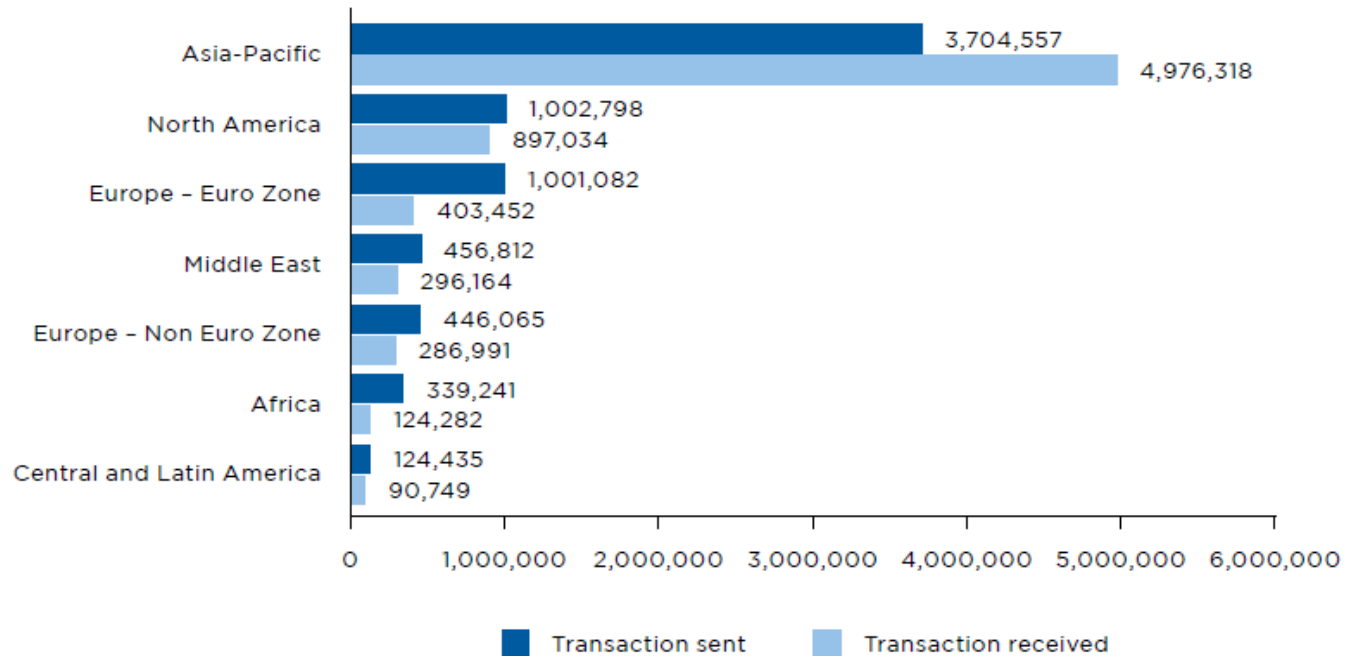
Most Asian bonds are unrated



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



Source: ICC Global Trade and Finance Survey 2016

- 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

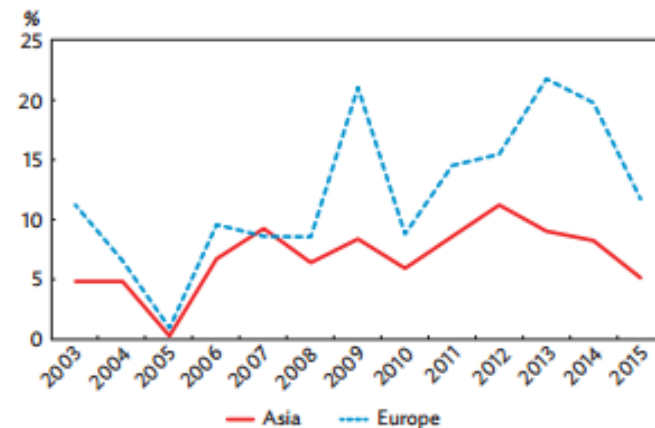
- Asia's infrastructure demand has been estimated at \$8 trillion from 2010 to 2020 (Source: ADB).
- The existing gap in infrastructure financing in Asia is a threat to long-term economic growth.

Regional composition of project finance

(in USD million)	Loans			Bonds			% Bonds vs Loans		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
Americas	53,431	93,742	92,691	26,563	24,807	19,728	33.2%	20.9%	17.5%
EMEA	88,266	94,539	109,046	19,706	20,574	10,748	18.3%	17.9%	9.0%
Asia Pacific	63,726	71,004	75,438	2,986	4,951	5,284	4.5%	6.5%	6.5%
Total	205,423	259,285	277,174	49,255	50,332	35,760	19.3%	16.3%	11.4%

Source: PFI, Thomson Reuters

Infrastructure bonds outstanding as a share of gross domestic product

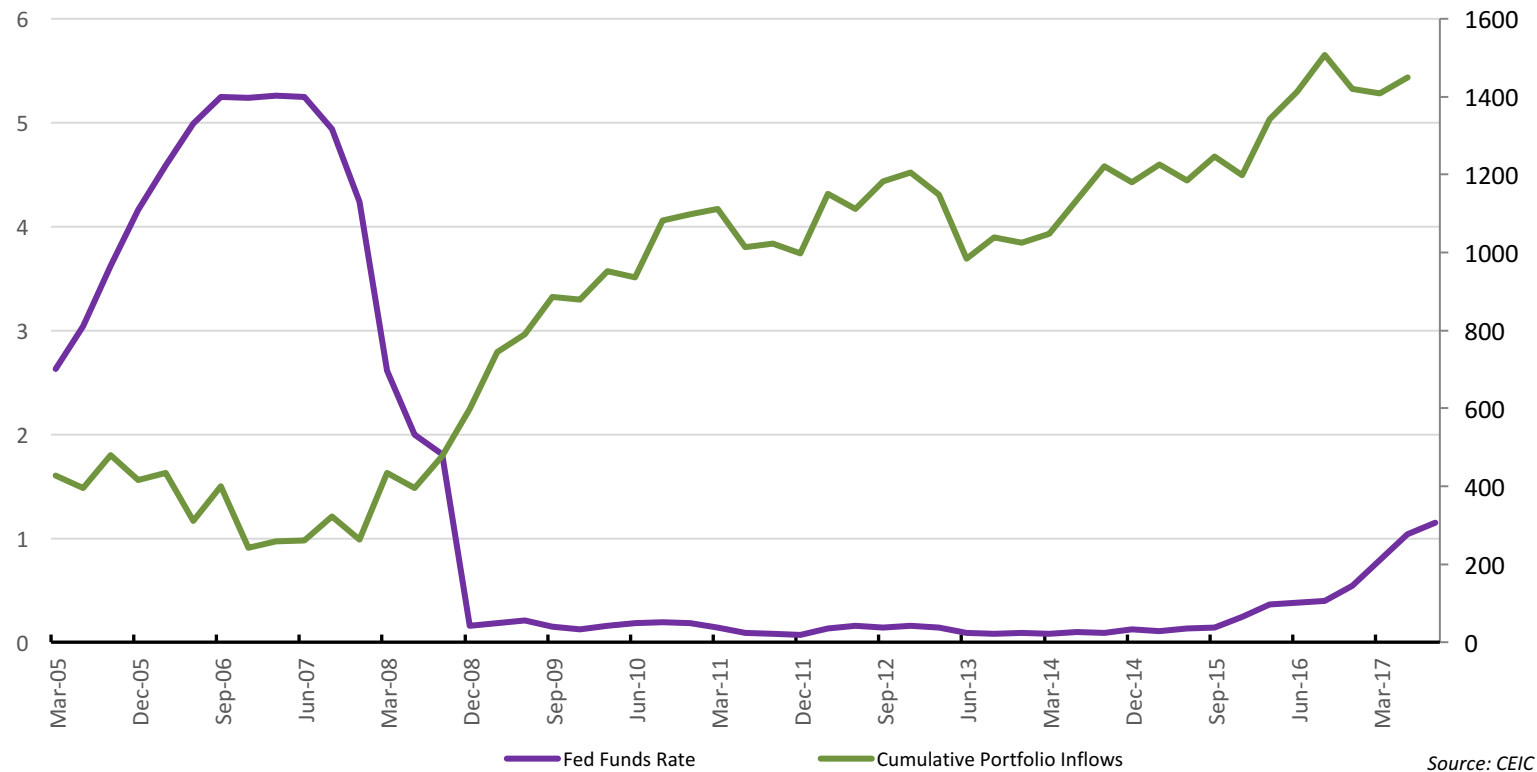


Note: Simple average values for the gross domestic product of all economies in each region are used.

Sources: Bloomberg LP, Dealogic, and World Bank.

Imminent unwinding – a dangerous turning point?

Rising US rates curb appetite for Asian assets



Source: CEIC