AsianBondsOnline Annual Bond Market Liquidity Survey

Introduction

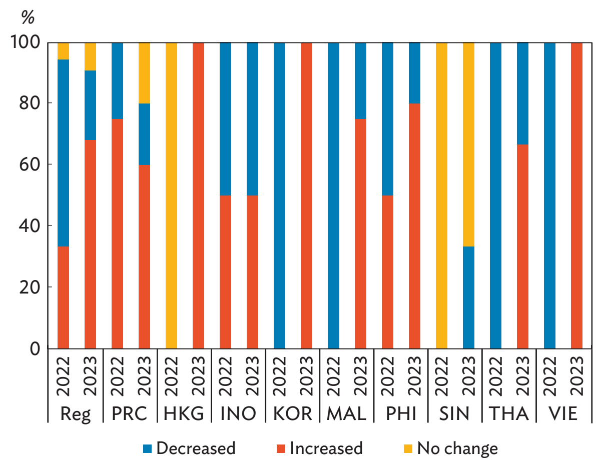
***AsianBondOnline* conducts an annual local currency (LCY) bond market liquidity survey to gather information and insights from market participants on overall bond market developments and liquidity conditions in emerging East Asia.**[6] This includes identifying various market-driven and macroeconomic factors that have contributed to the conditions in each bond market. The survey also includes an assessment of current market infrastructure and policies and regulations in place that may help relevant stakeholders in identifying areas for improvement to further develop and deepen LCY bond markets in the region.

The 2023 liquidity survey was conducted online in December 2023 among bond market participants in emerging East Asia. These included bond traders, brokers, fund managers, research houses, bond pricing agencies, and supervisory institutions. The survey was structured to assess both the quantitative and qualitative aspects of LCY government and corporate bond markets in the region. The quantitative section included metrics such as bid–ask spreads and transaction sizes. Meanwhile, the qualitative section includes a rating system on the level of development of each bond market in terms of market infrastructure and regulations. The survey also included a section on the respondents' interest and participation in the sustainable bond market, along with factors that affect the trading of sustainable bonds.

Overall Liquidity Conditions

The 2023 survey noted improved liquidity conditions in most LCY bond markets in the region compared to the previous year. Around 68.2% of respondents reported an increase in liquidity, compared to the corresponding number of 33.3% in 2022 (**Figure 26**). LCY bond markets experienced increased liquidity in 2023 due to relatively improved financial conditions, especially in the second half of year, with the United States (US) Federal Reserve signaling the end of its rate-hiking cycle. The possible ending of domestic monetary policy tightening across the region, and even easing in some markets, also contributed to increased trading activity. For example, central banks in the People's Republic of China (PRC) and Viet Nam cut their respective policy rates in 2023 (Table B in the *Developments in Regional Financial Conditions* section) to support economic growth.

Figure 26: Liquidity Conditions by Economy in Emerging East Asia



HKG = Hong Kong, China; INO = Indonesia; KOR = Republic of Korea; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; Reg = Regional; SIN = Singapore; THA = Thailand; VIE = Viet Nam.

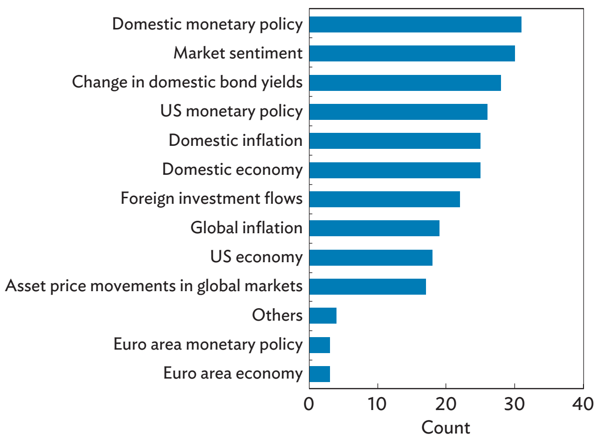
Note: Figures refer to the share of survey respondents indicating either "no change," "decreased," or "increased."

Source: *AsianBondsOnline* 2023 Local Currency Bond Market Liquidity Survey.

Domestic monetary policy stances continued to be the most prominent factor that affected bond market liquidity in the region in 2023 (**Figure 27**)**.** This was most evident in the PRC and Viet Nam, which had the region's highest shares of respondents citing domestic monetary policy as the top factor. The People's Bank of China and the State Bank of Vietnam both cut their respective policy rates in 2023 to support economic growth and stabilize weak property markets. Market sentiment was the second-most important domestic driver of bond market liquidity in emerging East Asia, as market participants

[6] Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

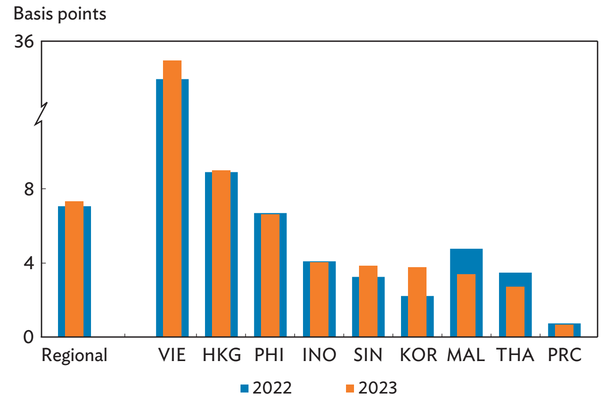
Figure 27: Factors Affecting Bond Market Liquidity in Emerging East Asia in 2023



US = United States.

Source: *AsianBondsOnline* 2023 Local Currency Bond Market Liquidity Survey.

Figure 28: Average Bid–Ask Spreads for On-the-Run Government Bonds



HKG = Hong Kong, China; INO = Indonesia; KOR = Republic of Korea; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; SIN = Singapore; THA = Thailand; VIE = Viet Nam.

Note: The regional bid–ask spread refers to the average spread of the nine markets of emerging East Asia.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

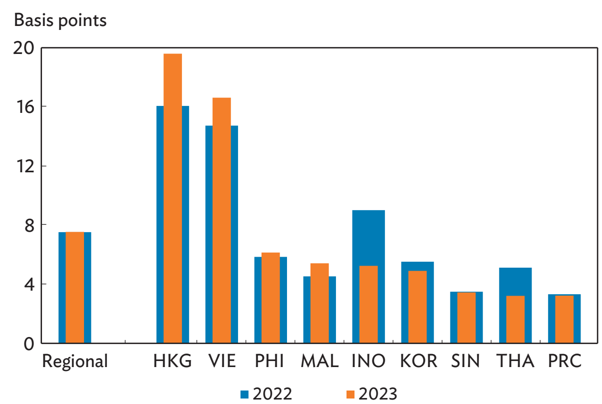
will time their trade based on expectations of changes in the monetary policy stances of domestic central banks and the Federal Reserve. US monetary policy is the most important global factor affecting bond market liquidity in the region.

Government Bond Markets

Liquidity

Government bond bid–ask spreads narrowed in most emerging East Asian economies amid improved financial conditions. Data compiled by *AsianBondsOnline* showed that the region's average bid–ask spread for on-the-run government bonds was largely unchanged at 7.4 basis points (bps) in 2023 from 7.1 bps in 2022 (**Figure 28**). Similarly, the region's average bid–ask spread for off-the-run government bonds in 2023 was unchanged from the previous year at 7.5 bps (**Figure 29**). Five out of nine markets in the region posted lower bid–ask spreads in 2023 than in the previous year. Across the region, Viet Nam had the largest government bid–ask-spread at 32.0 bps in 2023, up from 29.5 bps in the prior year on decreased issuance of government bonds. Notably, most member economies of the Association of Southeast Asian Nations posted narrower bid–ask spreads in 2023 than in 2022, reflecting improved liquidity amid strengthening financial conditions facilitated by stabilized inflation and the ending of monetary policy tightening in regional economies.

Figure 29: Average Bid–Ask Spreads for Off-the-Run Government Bonds



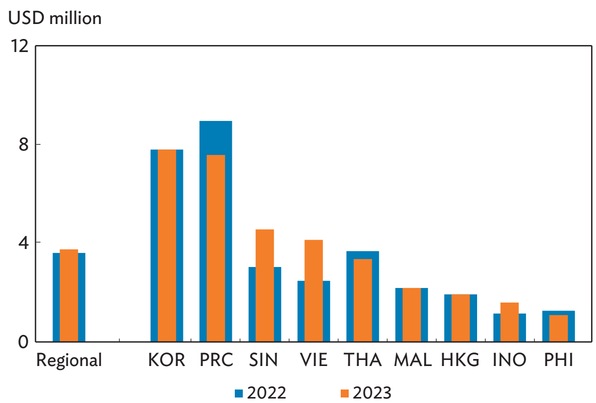
HKG = Hong Kong, China; INO = Indonesia; KOR = Republic of Korea; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; SIN = Singapore; THA = Thailand; VIE = Viet Nam.

Note: The regional bid–ask spread refers to the average spread of the nine markets of emerging East Asia.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

The typical transaction size for government bonds in the region rose slightly, indicating improved liquidity in most regional markets. The region's average transaction size for on-the-run government bonds slightly rose from USD3.6 million in 2022 to USD3.7 million in 2023 (**Figure 30**). Most of the region's markets showed either similar or larger transaction sizes for on-the-run

Figure 30: Typical Transaction Size for On-the-Run Government Bonds

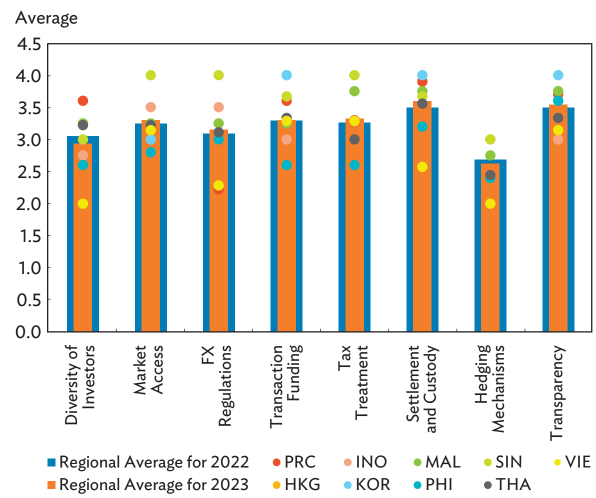


HKG = Hong Kong, China; INO = Indonesia; KOR = Republic of Korea; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; SIN = Singapore; THA = Thailand; USD = United States dollar, VIE = Viet Nam.

Note: The regional transaction size refers to the average transaction size of the nine markets of emerging East Asia.

Source: *AsianBondsOnline* 2023 Local Currency Bond Market Liquidity Survey.

Figure 31: Local Currency Government Bond Market Structural Issues in Emerging East Asia



FX = foreign exchange; HKG = Hong Kong, China; INO = Indonesia; KOR = Republic of Korea; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; SIN = Singapore; THA = Thailand; VIE = Viet Nam.

Source: *AsianBondsOnline* 2023 Local Currency Bond Market Liquidity Survey.

government bonds in 2023 versus 2022. The average transaction size fell the most in the PRC, from USD8.9 million in 2022 to USD7.5 million in 2023, due in part to concerns about the weakened property market and its spillover to economic activities.

Market Development

Based on the responses of survey participants in 2023, the LCY government bond market in emerging East Asia showed a slight improvement in terms of structural factors (Figure 31). Among eight factors, the average score for the region was higher in six aspects compared with the results from the survey conducted in 2022.

Settlement and custody, along with transparency, were rated the highest among the eight structural issues in emerging East Asian government bond market. With an average score of 3.6, government bond markets in the region are perceived to have well-developed settlement and custody services. These allow investors to trade securely and efficiently. The regional mean score for transparency was 3.5, indicating good access to trading information such as auction results and pricing through reliable trading platforms.

Market access, transaction funding, foreign exchange regulations, and tax treatment of government bonds each received stable scores in 2023. For these four aspects, the regional average scores were 3.2–3.3, similar to their respective 2022 levels. Hong Kong, China and Singapore both achieved the highest score possible (4.0) for market access, foreign exchange regulations, and tax treatment as global financial centers. In both of these regional markets, government bonds can be widely traded by investors, with less exchange regulations and low taxes. On the other hand, the Philippines received a relatively low score of 2.6 in transaction funding and tax treatment, as its government bond market has limited diversity in terms of funding sources and relatively higher taxes compared with other emerging East Asian peers. The PRC and Viet Nam received relatively low scores of 2.2 to 2.3, respectively, on foreign exchange regulation.

The diversity of the investor base and hedging mechanisms in government bond markets need further development in emerging East Asia. The average scores of these two structural factors were relatively low compared to other indicators and both declined in 2023. The diversity of investors got an average score of 2.9, while hedging mechanism received an average score of 2.6—both of which were down from last year's levels of 3.1 and 2.7, respectively. Government bond markets in the region continued to be dominated by few market participants such as banks (Figure 5 in the *Bond Market Developments in the Fourth Quarter of 2023* section). There is also a lack of available hedging instruments to mitigate investment risks in most regional government bond markets.

Corporate Bond Markets

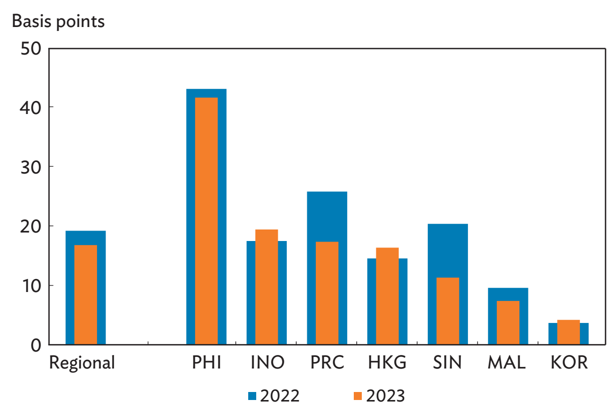
Liquidity

The majority of the participants in this year's liquidity survey noted an active secondary market for corporate bonds in 2023. Survey results indicated that 68% of participants observed an active secondary market for corporate bonds, a slight improvement from last year's response of 64% (**Figure 32**). However, 32% of survey respondents still considered there to be no active trading of corporate bonds in emerging East Asia. The region's corporate bond markets continue to lag government bond markets in terms of liquidity, as they tend to be dominated by buy-and-hold investors.

Similar to the government bond markets, liquidity in the region's corporate bond markets improved in 2023. The average bid–ask spread for the region's corporate bond market declined in 2023 (**Figure 33**). Among markets where data are available, the Philippines continued to register the highest bid–ask spread in the region, as its corporate bond market remained relatively small and comprised only a few major issuers. While in five regional corporate bond markets, bid–ask spreads were stable or declined in 2023, bid–ask spread rose slightly in Indonesia and Hong Kong, China.

The average transaction size for emerging East Asia's corporate bond market marginally rose to USD3.7 million in 2023 from USD3.6 million in 2022. In most regional markets, survey participants noted either an increase or a similar transaction size to that of the previous year's survey (**Figure 34**). The only markets

Figure 33: Average Bid–Ask Spreads for Corporate Bonds

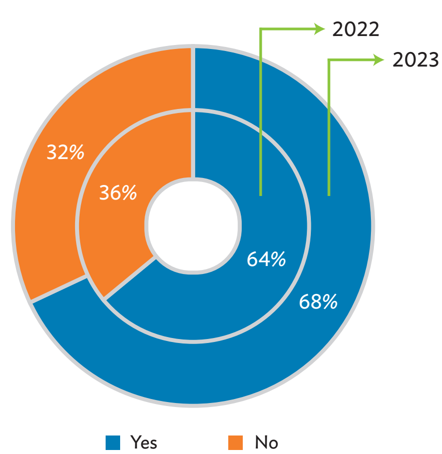


HKG = Hong Kong, China; INO = Indonesia; KOR = Republic of Korea; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; SIN = Singapore.

Note: The regional bid–ask spread refers to the average spread of the seven markets in emerging East Asia, where data are available.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

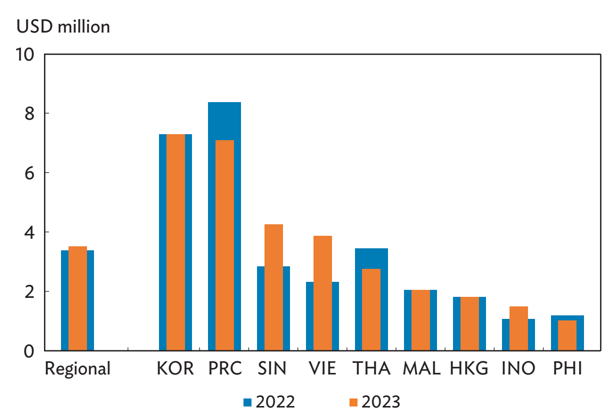
Figure 32: Is There an Active Secondary Bond Market for Corporate Bonds?



Note: Percentages refer to the share of survey respondents answering either "yes" or "no."

Source: *AsianBondsOnline* 2023 Local Currency Bond Market Liquidity Survey.

Figure 34: Average Transaction Sizes for Corporate Bonds



HKG = Hong Kong, China; INO = Indonesia; KOR = Republic of Korea; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; SIN = Singapore; THA = Thailand; USD = United States dollar; VIE = Viet Nam.

Note: The regional transaction size refers to the average transaction size of the nine markets of emerging East Asia.

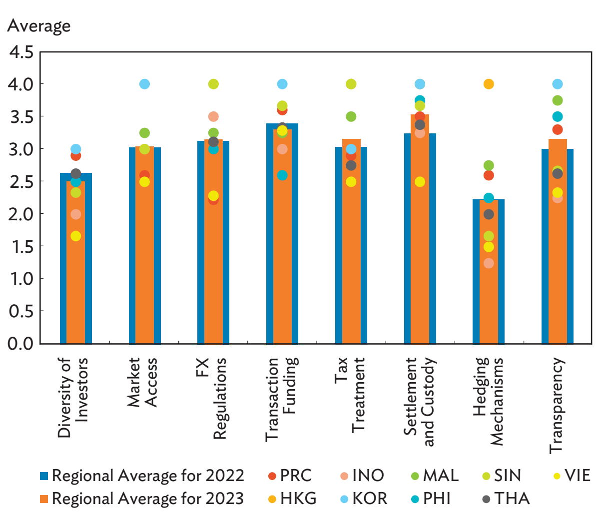
Source: *AsianBondsOnline* 2023 Local Currency Bond Market Liquidity Survey.

where the mean transaction size declined were in the PRC, Thailand, and the Philippines.

Market Development

The 2023 liquidity survey showed similar ratings for key structural factors in emerging East Asian corporate bond markets compared to 2022, and when compared to the region's government bond markets. The majority of the structural factors scored an average of 3.0 or above, while diversity of the investor profile and hedging mechanisms remained the areas that need further development in the region's corporate bond market (**Figure 35**). Among all key structural factors, similar to government bond markets, settlement and custody recorded the highest regional average score of 3.5, a marginal improvement from 3.2 in 2022. Foreign exchange regulations, tax treatment, and transparency all showed marginal improvements in 2023, having reported a slightly higher regional average rating of 3.2 each, while market access retained a regional average rating of 3.0. Similar to government bond markets, emerging East Asian corporate bond markets need to further diversify their investor profile and provide hedging tools for investors. Corporate bond markets in the region recorded a regional average score of 2.5 for diversity of investor profile, while hedging mechanisms scored 2.2. Almost all markets in emerging East Asia continued to lack proper risk management tools needed by investors to effectively manage risks.

Figure 35: Local Currency Corporate Bond Market Structural Issues in Emerging East Asia



FX = foreign exchange; HKG = Hong Kong, China; INO = Indonesia; KOR = Republic of Korea; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; SIN = Singapore; THA = Thailand; VIE = Viet Nam.

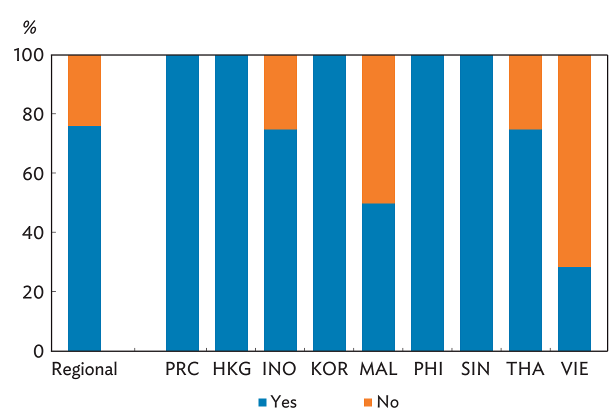
Source: *AsianBondsOnline* 2023 Local Currency Bond Market Liquidity Survey.

Sustainable Bond Markets

Similar to the 2022 survey, the liquidity survey included questions pertaining to the sustainable bond market. This section is meant to guide policymakers and regulators in further developing their sustainable bond markets. It is also intended to aid in the development of environmental, social, and governance (ESG) frameworks and promote sustainable investing in the region. Survey participants were asked about their interest in sustainable bond investments and requested to identify factors affecting sustainable bond investment interest.

Investors in emerging East Asia continued to exhibit a high level of interest in investing in sustainable bonds. In 2023, 76.2% of respondents said that they or their respective firm intend to trade and invest in sustainable bonds (**Figure 36**). While this represents a high percentage of respondents, it was lower than the previous year's 80%. Among the various factors, the firm's inclusion of ESG criteria as part of its overall objectives was rated as the most cited reason for interest in trading sustainable bonds (**Figure 37, Panel A**). This suggests that firms are increasingly recognizing the importance of ESG investing as a key part of its strategic objectives. Related to this, rising market interest was the second-most cited reason for interest in ESG investing. Among investors who either had no plans or do not invest in sustainable bonds,

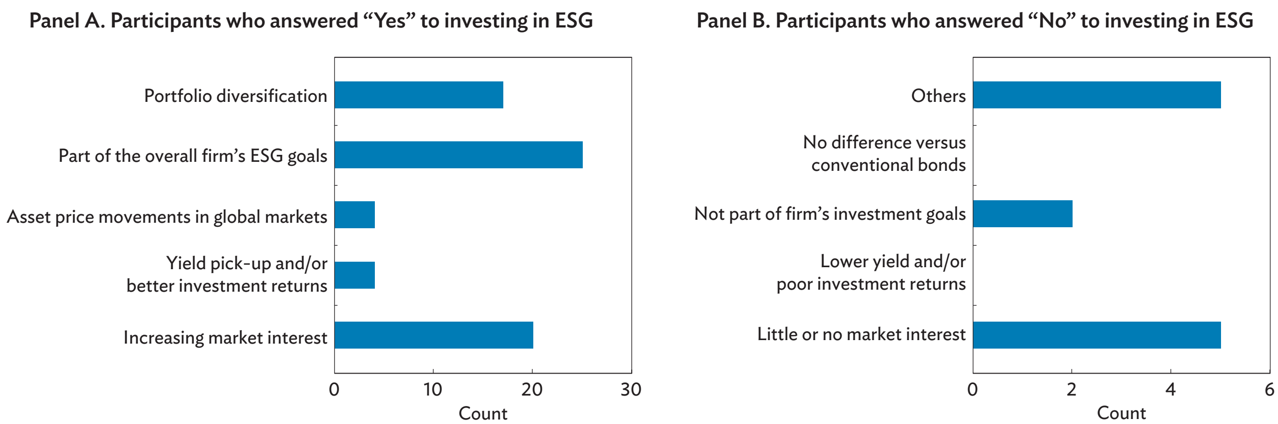
Figure 36: Interest in Trading Sustainable Bonds across Markets



HKG = Hong Kong, China; INO = Indonesia; KOR = Republic of Korea; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; SIN = Singapore; THA = Thailand; VIE = Viet Nam.

Source: *AsianBondsOnline* 2023 Local Currency Bond Market Liquidity Survey.

Figure 37: Factors Affecting Sustainable Bond Investment

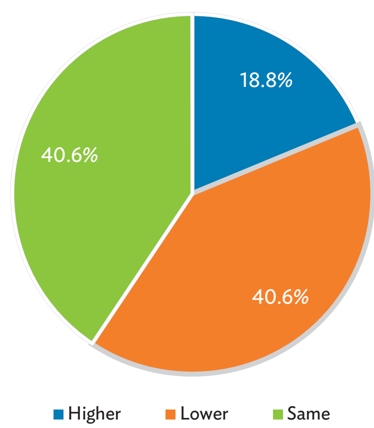


ESG = environmental, social, and governance.
Source: *AsianBondsOnline* 2023 Local Currency Bond Market Liquidity Survey.

responses were evenly split between lack of market interest and other factors (**Figure 37, Panel B**). Among other factors, a commonly cited reason that dampens interest in investing in ESG bonds is the relatively low liquidity of ESG bonds. The exclusion of ESG bonds as part of a firm's investment goals was also cited. In terms of the lack of liquidity and exclusion, governments and regulators can help to improve the depth of ESG bond markets and increase investor education on the merits of ESG investing.

When asked about liquidity, 40.6% of the participants said that sustainable bond market liquidity was roughly comparable to that of conventional bond markets. Another 40.6% noted that ESG bonds were less liquid than conventional bonds, which was higher than in the previous year's survey (**Figure 38**). While sustainable bond markets are relatively smaller than conventional bond markets, efforts should still be made to improve liquidity, as it was cited earlier in this discussion that liquidity is a factor in determining investments in ESG bond.

Figure 38: Sustainable Bond Market Liquidity



Source: *AsianBondsOnline* 2023 Local Currency Bond Market Liquidity Survey.