

# Profiting from the Europe-Asia market corridor

How issuers and investors approach cross-regional opportunities

*A panel session at The Asset's Asia Bond Markets Summit – European Edition examines how fixed-income market participants approach the capital markets.*

BY DARRYL YU

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HAVING endured a volatile and uncertain 2018, issuers and investors from across the world are looking for new pockets of growth and opportunity outside their respective borders. Most noticeably there has been a drive to spur cross-regional financial flows between Asia and Europe whether it be Europe-based asset managers accessing the onshore Chinese market or Asian issuers planning a euro-denominated bond. These were some of the themes discussed in a panel session at *The Asset's Asia Bond Markets Summit – European Edition* in London where market participants shared their views on how further cross-border interactions could be solidified.

Despite the negative headlines and external factors such as the US-China trade war and Brexit shaping market sentiment, issuers on the panel were still able to meet their fundraising requirements.

Cagamas president and CEO Datuk Chung Chee Leong says that “Cagamas issued bonds amounting to around US\$3-4 billion in various currencies. Strategy-wise, instead of going in and doing a big US dollar public issuance we had to break that down into various private placements in different currencies including Hong Kong dollars, Singapore dollars and Australian dollars.”

It was a similar situation for the European Bank for Reconstruction and Development (EBRD) which was able to maintain investor demand in 2018 by looking at different

currencies to issue in. “We have different investor bases including real money investors who continue to invest throughout the cycles so it doesn't really matter to them if it's volatile, that may mean a flight to quality for them,” says Isabelle Laurent, deputy treasurer and head of funding at the EBRD.

While successful in achieving their fundraising goals in 2018, issuers such as Cagamas voiced interest in increasing engagement with European investors noting that they generally tend to look at different factors compared to their Asian counterparts.

“European investors are a bit more focused on ESG (Environmental, Social and Governance). They also focus more on our credit. In Cagamas' case we are a public-private partnership and some investors have highlighted that they like that shareholding structure,” explains Chung. “Local Asian investors tend to look at the yield.”

This is consistent to what Laurent has experienced in the past when going out to meet with Asian-based investors. “A lot of Asian investors I speak to don't really focus on ESG despite the governmental push in that region for ESG. They are focused on yield.”

Despite Asian investors still lagging behind their European counterparts in areas such as ESG, there is little doubt from the panelists on how influential their role will be in the coming years. “Seven to eight years ago around 80% of all Asian fixed-income issuance went to international investors and the Asian investors were only 20%,” recalls Steve Cook, co-head of EM fixed income and senior corporate portfolio management at PineBridge Investments. Now it's roughly the reverse, according to Cook, with Asian investors making up 80% of investors in Asian fixed-income deals nowadays.

As a foreign investor, the growth in prominence of Asian investors has made Cook's mandate quite challenging at times when evaluating the true value of assets. “As an international investor it's very difficult for



us to dictate what the pricing is if there is such a strong domestic and regional bias," he says.

However, Cook is pleased in general with the investor development coming out of Asia as this also means that more issuers from the region will be angling to tap the fixed-income market. "If I see a new issue from a Chinese issuer and I can't understand it in terms of transparency, I don't need to invest in it as there are plenty of others out there," highlights Cook.

For issuers looking at Europe, the usage of different currencies was cited by the panel as one key way to drive demand. "We go where demand is and we see more demand for exotic currencies from investors. There is a lot of investors in Germany, Scandinavia, the US and the UK who have frontier investor currency portfolios. We have been focusing on issuing to them because their demand has been growing," notes Laurent.

In fact, last March 2018 the EBRD did a US dollar deal linked to Uzbekistani so'm, raising the equivalent of US\$5 billion from investors. "We are trying to appeal to different investor bases and also fund our local currency projects. We have issued in over 40 currencies," shares Laurent.

Cagamas on the other hand is examining the possibility of enhancing their financing

strategy. In the past, the Malaysian-based secondary mortgage corporation has done deals in several currencies that had a favorable swap back into Malaysian ringgit.

"The main factor we need to consider when looking at local currencies is the breadth and depth of the market and the ability to swap to Malaysian ringgit. We consider the pricing when we swap back into ringgit and see which is the cheapest," says Chung. "We are talking about the Formosa, samurai and panda bond markets and even Thai baht because Thailand is the largest local currency market in the Southeast Asian region."

With Asian participation, whether as issuer or investor, on the rise, the next step in the development between Asia and Europe is to make it easier for parties to access either market. "We see Asia as one of the growth opportunities but their markets are generally a challenge to access," highlights Cook. "Partly due to governments not wanting massive capital inflows in the good times and passive capital outflows in the bad times."

Going forward in 2019, panelists were cautious about the future with Chung saying that "the real challenge for us will be pricing in the market and maybe geopolitical and outside factors as well. We will need to expect the unexpected." ■

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PANEL MEMBERS DISCUSS ISSUES AT THE SUMMIT IN LONDON