

EM domestic sovereign bonds

Foreigners' participation: stylized cases

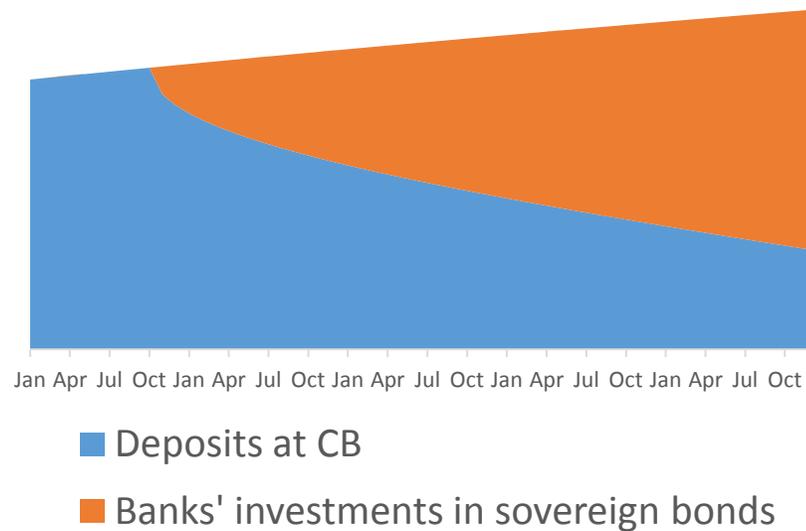
Case 1: creating the market in smaller EMs

- MoF:
 - no preference for bonds over loans
 - seeks a stable set of creditors
 - consolidated demand to reduce financing costs
- Local banks:
 - excess liquidity
 - no propensity to trade bonds
 - aversion to re-openings

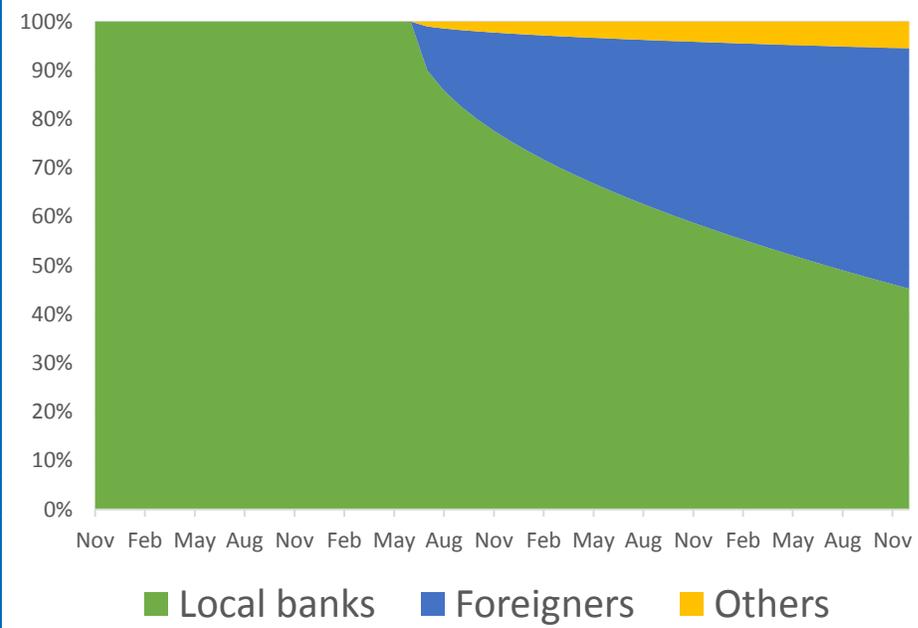
“AUCTIONED” LOANS

Case 1: creating the market in smaller EMs

Excess liquidity fueled the creation of local bonds



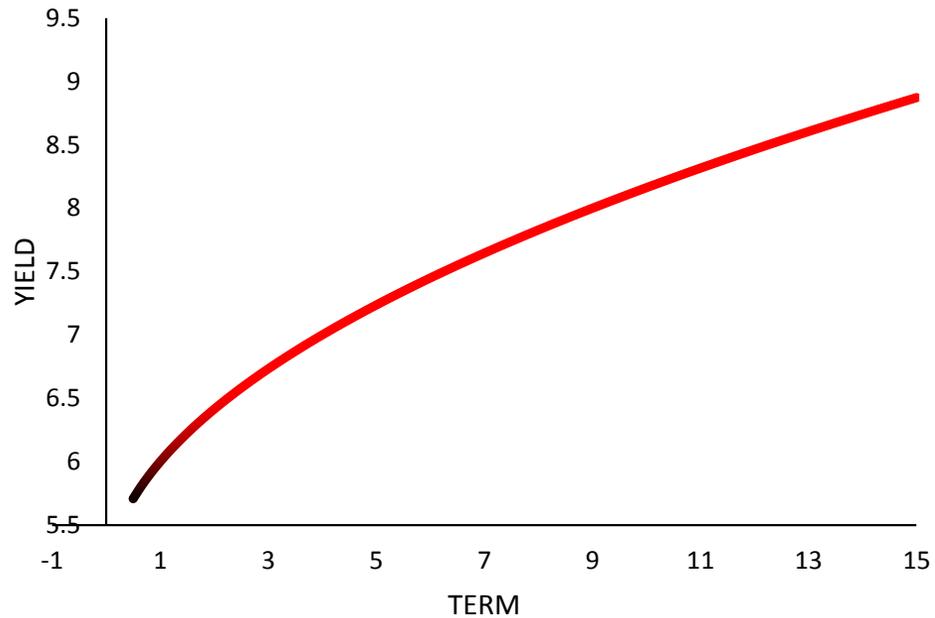
Foreigners become key players



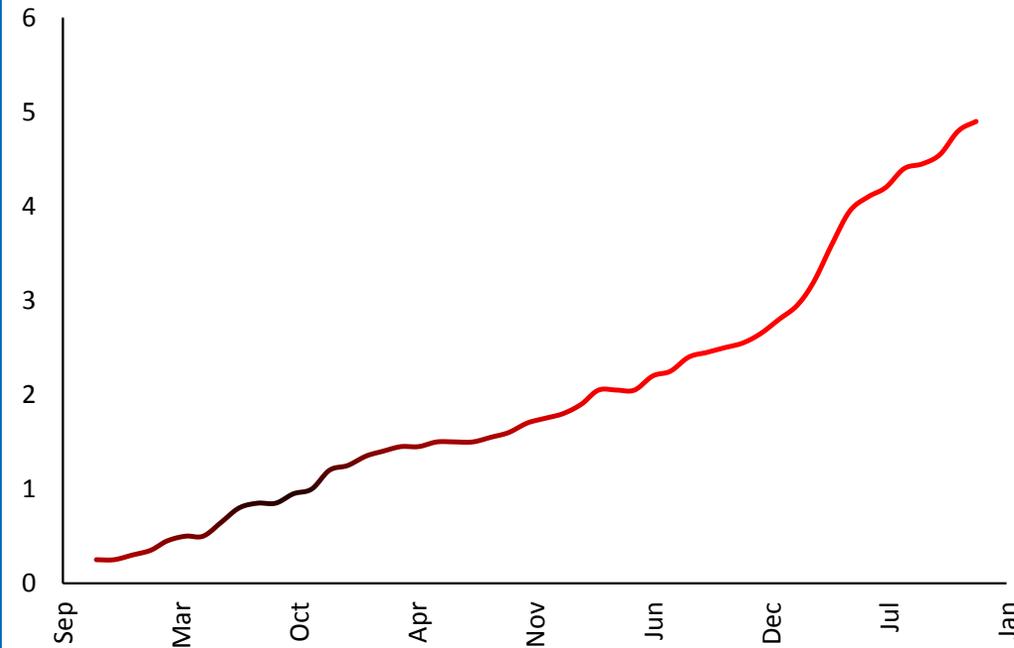
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Case 1: creating the market in smaller EMs

Localization of investors on the curve



Duration of issued bonds



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Case 1: creating the market in smaller EMs

- Macro- and micro-level consequences:
 - Sovereign curve isn't a local benchmark
 - The curve is very segmented
 - The shape of the curve is distorted
- Foreigners' impact:
 - changes in infrastructure
 - higher propensity to trade
 - standardization of bonds

Case 2: push or pull

- Foreigners: benchmark-driven VS unconstrained
 - Trading ideas or benchmark-replication?
- Survey-based:
 - JP Morgan GBI-EM client surveys
- Model-based:
 - “Emerging Market Portfolio Flows: The Role of Benchmark-Driven Investors”
by Serkan Arslanalp and Takahiro Tsuda

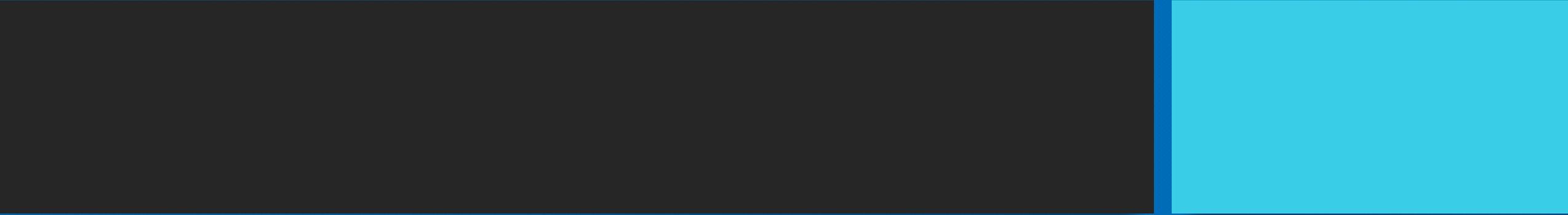
Case 3: propensity to trade

- Locals' dilemma: where to invest the proceedings?
- Foreigners: high level of activism even in benchmark-driven investors
- Authorities of some EMs recognize the leading role of foreigners in price discovery

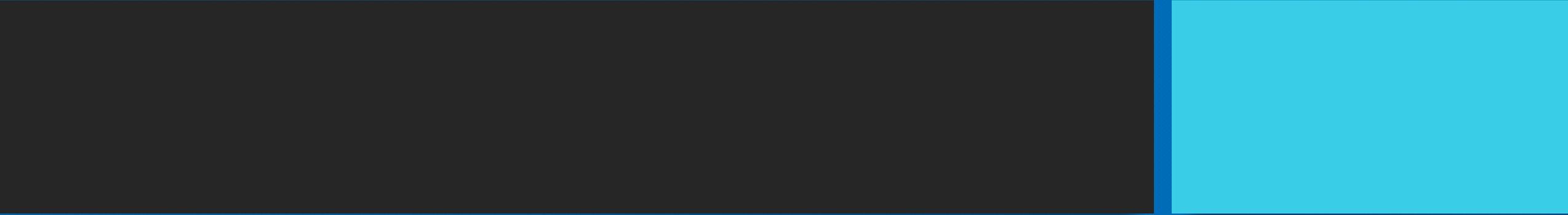
Case 3: propensity to trade

IFRS statements

- HFT: held for trading (FVTPL)
 - Proxy for the high-turnover position
- AFS: available for sale
 - Proxy for longer-term investments
- HTM: held to maturity
 - Proxy for immobilized positions



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