International Bond Markets

The Bond Market comprises of

- Domestic Bond Market: Bonds issued locally by domestic borrower usually in domestic currency
- Foreign Bond Market: Bonds issued in local market by foreign borrowers, usually issued in local currency
- Euro Bonds: Bonds that are sold outside the countries in whose currencies they are denominated. These bonds are not traded in any one bond market

International bond markets comprise of foreign bonds and euro bonds.

Examples of bond issuances

- Domestic bond: General Motors issues a bond in the U.S. for placement in the U.S. domestic market, that is, to investors residing in the U.S.
- Foreign bond: Korea electric, a foreign corporation, issues bonds in the US for placement in US alone.
  - The issue is denominated in the currency of the intended investors, US$.
- Eurobonds: General Motors, a foreign corporation, issues bonds in a major financial center to be placed internationally.
  - The issue is underwritten by an international syndicate of securities houses.
  - The issue is denominated in any currency, including the currency of the borrower’s country of incorporation, USD. If the bond is issued in USD, then the bonds are NOT sold in the US during the primary offer.

Foreign Bonds
Examples are:
- Yankee Bonds: Foreign Bonds sold in the U.S.
- Samurai Bonds: Foreign Bonds sold in Japan
- Rembrandt Bonds: Foreign Bonds sold in the Netherlands
- Bulldog Bonds: Foreign Bonds sold in the U.K.

Yankee Bonds

- Yankee bonds must be registered under the Securities Act of 1933, which means the issuer must disclose to U.S. standards. These bonds are usually rated.
- By issuing in the U.S., foreign borrowers gain access to the largest, most liquid capital market in the world.
- The U.S. capital market is unique in that it supports very long term (>10 years) and below investment grade (Junk) issues
- In many markets, the domestic bond market is virtually non-existent.
Eurobonds

- Bonds are typically placed in
  - Western Europe
  - Middle East
  - Asia
- Most often issued in USD or Euros
- Maturity 10 years or less
- Not rated, or highly rated (no Junk)
- Mostly non-U.S. investor base
- Typically do not support call provisions
- Not traded in any one country (but effectively most trading occurs in London)
- Are very similar to all public debt instruments, except that the Eurobond market is almost entirely free of official regulation
- Because they are not registered with the SEC, they cannot be sold to US investors at the time of issue (40 day wait)
- Borrowers in the Eurobond market tend to be very well known and have high credit ratings
- Studies have shown that in times when the relative Euro-US interest costs differs substantially, US firms can borrow more cheaply using Eurobonds than U.S. domestic bonds (Kim and Stulz, 1981).
- The major drawback of Eurobonds has been liquidity
- Liquidity of a bond issue is primarily a function of issue size
- Not being able to sell to US investors can severely hamper the size of the issue
- Investors charge higher interest costs on less liquid bonds
Global Bonds

- This is a security that is placed simultaneously in multiple markets and which can efficiently trade and settle within and across each market.
- In 1989, the World Bank issued the first Global Bond: 1.5 USD billion 10 yr
- The bond was the largest ever fixed-rate issue at the time, and was placed in both the U.S. domestic and Euromarkets.
- The distinguishing feature of the bond was that it was fully registered, so it could be traded across markets (Euro, domestic)
- In 1992, the first corporation used Globals to raise capital, and since then this has become the method to conduct large debt offerings
- Within the last 5 years, global bonds have become the most preferred method to conduct large corporate debt offerings
- Linkages have been set up that allow cross border transactions as well.
- Registration Requirements: Issuer complies with SEC disclosure and registration if part is placed in U.S.

An example of a global bond

- **Issuer Name:** Wal-Mart
- **Issue Date:** August 5, 1999
- **Bond Issue Details:** Three Tranche Issuance
  - US $ 1250 million 2 year bond
  - US $ 1250 million 5 year bond
  - US $ 3250 million 10 year bond
- **Purpose of Issue:** The proceeds from the global issue is to be used for refinancing the short-term borrowing used for acquiring Asda, a U.K. retail chain.
- **Cited Advantages:** The news articles relating to this story mention Wal-Mart’s high name recognition and the liquidity of the proposed bond issue, as key features of securities, bond investors in different markets are interested in.
- **Placement of Bond:** Information obtained from Wal-Mart indicates that the bonds were placed in the U.S., Europe, Asia and the Middle-East.
- **Investor Base:** Wal-Mart mention that almost the entire bond issue was placed with institutional investors (money managers, pension funds, banks/trust and insurance companies) with less than 1% placed with high net worth individuals.