

## **PRESS RELEASE**

**January 7, 2015**

### **KOFIA Releases the OTC Bond Market Trend Analysis for 2014**

**Bond interest rates sank to a record low while bipolarization of the bond market persisted and the demand for new bond products increased.**

The Top 5 News of the Bond Market in 2014

\*The issues were designated referring to a range of documents including annual trend reports published by securities companies.

① Increased Concerns over a Global Deflation

Concerns over the advent of a global deflation was exacerbated with reductions in the global prices of raw material and sluggish economic indices in each country (includes issues such as the risks of a contracted real estate market in China and weak economic recovery in Japan due to increases in consumption tax).

② ‘My Way’ Monetary Policies of Major Economies

While the United States exit from quantitative easing, countries in the Eurozone and China further cut base rate. As for Japan, the Bank of Japan conducted additional quantitative easing.

③ Expectations for the Stimulus Package of Macroeconomic Policies to be Sustained

The inaugural of the new Vice Prime Minister (July, 2014) and the Bank of Korea’s decision to reduce base rates (August and October, 2014) further imbued a sense of expectations for the stimulus package to continue.

④ Prolonged Trend of Bipolarization within the Bond Market

-(Primary Market) SMEs with credit ratings are struggling to secure financing through the corporate bond market as bond issuance is focused only on high grade corporate bonds.  
-(Secondary Market) Corporate bond trading remain sluggish as the trading of KTBs and MSBs are the center of attention.

⑤ Rising Demand for New High-yield Bond Products amid a Low Interest Rate Trend

Demand for new bond products with relatively high returns is on the rise, such as the Separate Taxation High-Yield Fund.

A. (Interest Rates) The bond interest rate remained largely unchanged during early 2014 as a result of mixed factors including the tapering of the US FED and falling internal and external economic indices. However, the rates began to decline since the second quarter amid the expectation for further reduction of base rates and reached a record low\*.

\*KTB (3yr): 2.073%

Despite the FED's exit from quantitative easing (October), countries including China, Japan, and the Eurozone maintained monetary easing, wary of contracted economic indices. The Bank of Korea cut the base rates two times, in August and October (2.50 → 2.25 → 2.00%).

The short- and long-term interest rate spread decreased\* from the previous year, as investor sentiment expecting prolonged economic recession expanded.

\*KTB spread (30yr-3yr): end of 2013 (101.0bp) → end of 2014 (79.6bp)

B. (Bond Issuance) The issuance volume of government bonds increased on the back of monetary easing policies. However the government's effort to reduce debt in the public sector drove down the issuance of public and corporate bonds. As a result, the total issuance of bonds only rose slightly compared to the previous year by KRW 4.6tn to reach KRW 602.1tn.

- (Government Bond) Although there was a large issuance of long-term government bonds backed by the increased demand from long-term investment destinations including insurance companies, the issuance of inflation indexed bond decreased amid the trend of low prices.

\* Issuance of inflation indexed bonds: 2012 (KRW 3.7tn) → 2013 (KRW 1.1tn) → 2014 (KRW 0.8tn)

- (Special Bond) The issuance volume of special bonds decreased as a result of initiatives aimed at cutting debt in the public sector including the reduced issuance of KEPCO bonds following the disposal of property, and the implementation of a policy that limits the amount of public and corporate bonds to be less than 60% of the entity's total debt.

- (Corporate Bond) While the issuance volume of corporate bonds decreased compared to the previous year, the bipolarization between bonds intensified (issuance was concentrated on corporate bonds graded A or above).

\*Proportion of issuance by grades: (graded A or above) 77.3%, (graded BBB or lower) 2.9%

C. (Bond Distribution) The trading volume(exchange and OTC) decreased by 11.5%p to record KRW 6,547.7tn compared to the previous year, as a result of factors such as the reduced interest rate volatility amid a trend of low interest rate.

- (Comparing Exchange and OTC trading) The exchange-traded KTBs in the domestic market increased due to the introduction of the primary dealer system for treasury bonds. Meanwhile, the OTC trading volume remained close to 80% (79.3%).

- (Types of Bond) Bipolarization of traded bonds still pervaded, with KTBs (64.7%) and MSBs (18.6%) taking up most of the share and corporate bonds showing poor performance.