

In Challenging Markets, Buy Side Extends Their Counterparty Lists but Concentrates Volumes with Top-Tier

2015 Greenwich Leaders: Asian Fixed Income

Q4 2015

Trading volumes among fixed-income investors declined 9% from 2014 to 2015 for credit bonds, while trading for rates was roughly flat.

Amid this fast-changing marketplace, new research from Greenwich Associates shows that HSBC has established itself as the clear leader in Asian fixed-income trading (including derivatives) with an impressive 11.8% market share. Citi is number two at 8.9%, followed by Standard Chartered at 7.1%, Bank of America Merrill Lynch at 6.3%, and the trio of J.P. Morgan, Deutsche Bank and Nomura Securities, which are statistically tied with market shares of 5.1%–5.3%. These firms are the 2015 Greenwich Share Leaders in Overall Asian Fixed Income (excluding Japan and Australia/New Zealand).

Reductions in Trading Volume and Market Liquidity

The drop-off in Asian fixed-income trading volume is the result of several factors. First, market volatility has reduced trading activity in local currency Asian bond markets that previously represented a strong source of volume growth. Market volatility has also diminished global investor demand for Asian bonds, further slowing trading. Finally, retrenchment by U.S. and European-based fixed-income dealers in the wake of new home-market regulations and capital reserve requirements is having a clear negative impact on liquidity in Asian fixed income. Deep reductions in sell-side inventory levels and the exit of some dealers from the market altogether have made it harder for investors to execute trades and are contributing to the overall slowdown in institutional Asian fixed-income trading volume.

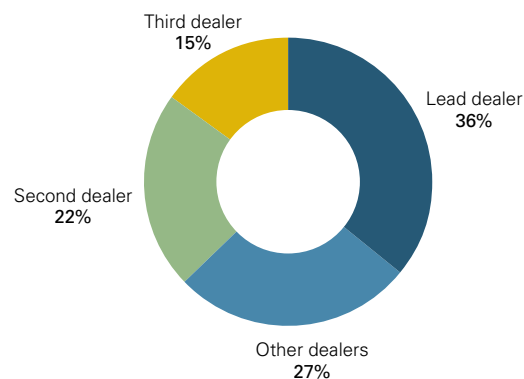
“When we asked the institutional investors participating in our Asian fixed-income study to name the biggest issues facing them in 2015, a lack of liquidity and difficulty completing trades appeared at the top of the list,” says Greenwich Associates consultant Abhi Shroff.

Liquidity shortages are having a noticeable impact on relationships between dealers and their buy-side clients. For their part, dealers are cutting inventories and consolidating client coverage and capital commitment by targeting large or otherwise high-priority accounts. These shifts are coming at the expense of smaller investors and clients that represent less potential profits for dealers. As dealers implement these changes, a large share of institutional fixed-income investors—from 20% to 30% across various products—say they plan to reallocate business away from one or more of their current dealers.

Meanwhile, as part of their search for reliable sources of inventory and liquidity, institutions are forming relationships with new counterparties. U.S. and European banks like Wells Fargo and Société Générale see the pullback of other major dealers as an opportunity for growth, and Australian banks are likewise seeking to increase their presence in the broad Asian market. Also competing for a larger share of their home markets are local leaders like KDB Daewoo Securities and Woori Investment & Securities in South Korea, ICBC, Bank of China and CITIC Securities in China, ICICI Securities and Axis Bank in India, CIMB and Maybank in Malaysia, and DBS Bank—which is looking to expand across key markets in Asia.

Investors increased the average number of dealers used to 8.4 in 2015 from 7.6 in 2014, with the largest increases coming in credit products. At the same time, investors are continuing to channel a high share of their overall trading volume to their biggest and most important dealer relationships, resulting in greater concentration of share in the top tier. On average, institutions in 2015 allocated 73% of total Asian fixed-income trading volume to their top three dealers and 76% in 2014. “The market’s biggest dealers are generally the ones still offering liquidity, so the reality is that many institutions feel they have no choice but to consolidate trading business with their top counterparties in order to become important clients deemed worthy of consistent coverage and capital commitment,” says Greenwich Associates consultant Jim Borger.

Concentration of Wallet: Fixed-Income Investors — Asia ex-JANZ



Note: Based on responses from 825 fixed-income investors in Asia ex-JANZ.
Source: Greenwich Associates 2015 Asian Fixed-Income Investors Study

Fierce Competition in G3-Denominated Asian Bonds

The current competitive landscape reflects changing strategies on the part of the major dealers. With less balance sheet to wield, sell-side firms are narrowing their focus and concentrating on products in which they think they have some competitive advantage. Certain global dealers are pulling back from products like swaps and local currency Asian bonds and focusing on products in which they can take better advantage of their relationships with European and U.S. customers looking to invest in emerging markets debt.

These strategic shifts are making the Asian G3-denominated bond market a highly competitive business. HSBC and Bank of America Merrill Lynch are deadlocked atop this market

with statistically tied market shares of 12.9%–13.6%. With a market share of 11.7%, Citi is third, followed by Morgan Stanley and Nomura Securities, which are statistically tied at 7.4%–8.3%. These firms are the 2015 Greenwich Share Leaders in G3 Asian Credit.

Greenwich Share Leaders—Asian Fixed Income

The list of 2015 Greenwich Share Leaders in G7 Secondary Investment-Grade Credit is topped by Citi and HSBC, which are statistically tied with market shares of 12.5%–13.1%, followed by Morgan Stanley and Bank of America Merrill Lynch, which are tied at 9.0%–10.1%, and J.P. Morgan and Deutsche Bank, with shares of 5.7%–6.8%.

Greenwich Share Leaders — 2015



Overall Asian* Fixed-Income Market Share (825)

Dealer	Market Share	Statistical Rank
HSBC	11.8%	1
Citi	8.9%	2
Standard Chartered Bank	7.1%	3
Bank of America Merrill Lynch	6.3%	4
J.P. Morgan	5.3%	5T
Deutsche Bank	5.1%	5T
Nomura Securities	5.1%	5T

Asian* Fixed-Income Market Share — G3 Asian Credit (354)

Dealer	Market Share	Statistical Rank
HSBC	13.6%	1T
Bank of America Merrill Lynch	12.9%	1T
Citi	11.7%	3
Morgan Stanley	8.3%	4T
Nomura Securities	7.4%	4T

Asian* Fixed-Income Market Share — G7 Secondary Investment-Grade Credit (159)

Dealer	Market Share	Statistical Rank
Citi	13.1%	1T
HSBC	12.5%	1T
Morgan Stanley	10.1%	3T
Bank of America Merrill Lynch	9.0%	3T
J.P. Morgan	6.8%	5T
Deutsche Bank	5.7%	5T

Asian* Fixed-Income Market Share — Domestic Currency Asian Bonds (483)

Dealer	Market Share	Statistical Rank
HSBC	12.8%	1
Citi	8.2%	2T
Standard Chartered Bank	8.1%	2T
Bank of America Merrill Lynch	5.0%	4
Deutsche Bank	3.6%	5

Asian* Fixed-Income Market Share — G7 Government Bonds (115)

Dealer	Market Share	Statistical Rank
Citi	14.2%	1
Barclays	8.6%	2T
HSBC	7.5%	2T
Bank of America Merrill Lynch	6.7%	4T
J.P. Morgan	6.4%	4T
Nomura Securities	6.0%	4T
BNP Paribas	6.0%	4T

Asian* Fixed-Income Market Share — Interest Rate Derivatives (157)

Dealer	Market Share	Statistical Rank
J.P. Morgan	12.4%	1T
BNP Paribas	10.0%	1T
HSBC	9.6%	3T
Nomura Securities	9.0%	3T
Standard Chartered Bank	7.6%	3T

Asian* Fixed-Income Market Share — Credit (683)

Dealer	Market Share	Statistical Rank
HSBC	12.5%	1
Citi	10.2%	2
Bank of America Merrill Lynch	9.3%	3
Morgan Stanley	6.3%	4T
Standard Chartered Bank	5.8%	4T

Asian* Fixed-Income Market Share — Rates (577)

Dealer	Market Share	Statistical Rank
HSBC	11.5%	1
Citi	8.2%	2T
Standard Chartered Bank	7.9%	2T
J.P. Morgan	6.5%	4
BNP Paribas	5.4%	5T
Deutsche Bank	5.2%	5T
Nomura Securities	5.0%	5T
Bank of America Merrill Lynch	4.7%	5T

*Ex-JANZ. Note: Includes derivatives, local currency. Numbers in parentheses are number of responses. Share leaders are based on top 5 dealers including ties.
Source: Greenwich Associates 2015 Asian Fixed-Income Investors Study

In Domestic Currency Asian Bonds, the 2015 Greenwich Share Leaders are HSBC with a market share of 12.8%, followed by Citi and Standard Chartered, which are statistically tied at 8.1%–8.2%, Bank of America Merrill Lynch at 5.0%, and Deutsche Bank at 3.6%.

The 2015 Greenwich Share Leaders in G7 Government Bonds are Citi at 14.2%, followed by Barclays and HSBC, which are statistically tied at 7.5%–8.6%, and Bank of America Merrill Lynch, J.P. Morgan, Nomura Securities and BNP Paribas, which are statistically tied with market shares of 6.0%–6.7%.

J.P. Morgan and BNP Paribas lead the market in Asian Interest-Rate Derivatives, followed by the trio of HSBC, Nomura Securities and Standard Chartered Bank. These firms are the 2015 Greenwich Share Leaders in the product.

Greenwich Share Leaders—Asia Including Australia and New Zealand

For the first time, Greenwich Associates this year determined Greenwich Share Leaders based on a regional cut that includes Australia and New Zealand along with the rest of the Asian region, excluding Japan. This category was added to our annual study to better reflect the way certain global firms structure their Asian businesses.

Using this expanded regional definition, Citi leads in Overall Asian ex-Japan Fixed Income with a market share of 9.7% in trading, followed by HSBC at 8.8% and the trio of ANZ Bank, Bank of America Merrill Lynch and Deutsche Bank, which are statistically tied with market shares of 6.2%–6.3%.

Greenwich Leaders in Australia and New Zealand

The 2015 Greenwich Share Leaders in Overall Australian/New Zealand Fixed Income are ANZ Bank and National Australia Bank, which are tied for the top spot in market share, followed by a three-way tie among Citi, Westpac and Deutsche Bank.

Greenwich Quality Leaders—Asian Fixed Income

HSBC remains far and away the market leader in terms of the quality it delivers to clients in Asian fixed income. Every year, Greenwich Associates asks approximately 825 institutional investors participating in the annual Asian Fixed-Income Investors Study to name the dealers they use for specific products, and to rate the quality of these dealers in a series of product and service categories. Dealers whose client ratings top those of competitors by a statistically significant margin are named Greenwich Quality Leaders.

HSBC claims the title of 2015 Greenwich Quality Leader in Asian Fixed-Income Sales and Asian Fixed-Income Trading. In Asian Fixed-Income Research, Nomura Securities and Citi join HSBC as 2015 Greenwich Quality Leaders.

The 2015 Greenwich Quality Leaders in Australian/New Zealand Fixed-Income Sales are ANZ Bank and Citi. In Australian/New Zealand Fixed-Income Research the title goes to Citi and Deutsche Bank, and the 2015 Greenwich Quality Leaders in Australian/New Zealand Fixed-Income Trading are ANZ Bank, Citi and National Australia Bank.

Consultants Abhi Shroff and James Borger advise on the institutional fixed-income markets in Asia.

Greenwich Share Leaders — 2015



Overall Asian ex-Japan Fixed-Income Market Share (890)

Dealer	Market Share	Statistical Rank
Citi	9.7%	1
HSBC	8.8%	2
ANZ Bank	6.3%	3T
Bank of America Merrill Lynch	6.3%	3T
Deutsche Bank	6.2%	3T

Overall Australian/New Zealand Fixed-Income Market Share (65)

Dealer	Market Share	Statistical Rank
ANZ Bank	15.4%	1T
National Australia Bank	14.0%	1T
Citi	11.4%	3T
Westpac	10.2%	3T
Deutsche Bank	8.7%	3T

Australian/New Zealand Fixed-Income Market Share — Credit (46)

Dealer	Market Share	Statistical Rank
ANZ Bank	14.6%	1T
Westpac	13.7%	1T
Commonwealth Bank of Australia	11.7%	1T
National Australia Bank	11.4%	1T
Citi	9.4%	5T
Deutsche Bank	8.2%	5T

Australian/New Zealand Fixed-Income Market Share — Rates (53)

Dealer	Market Share	Statistical Rank
ANZ Bank	15.5%	1T
National Australia Bank	14.2%	1T
Citi	11.5%	3T
Westpac	9.9%	3T
Deutsche Bank	8.7%	3T

Note: Includes derivatives, local currency. Numbers in parentheses are number of responses. Share leaders are based on top 5 dealers including ties.
Source: Greenwich Associates 2015 Asian Fixed-Income Investors Study

Greenwich Quality Leaders — 2015



Asian* Fixed-Income Sales Quality (825)

Dealer

HSBC

Asian* Fixed-Income Research Quality (825)

Dealer

Citi
HSBC
Nomura Securities

Asian* Fixed-Income Trading Quality (825)

Dealer

HSBC

Australian/New Zealand Fixed-Income Trading Quality (65)

Dealer

ANZ Bank
Citi
National Australia Bank

Australian/New Zealand Fixed-Income Sales Quality (65)

Dealer

ANZ Bank
Citi

Australian/New Zealand Fixed-Income Research Quality (65)

Dealer

Citi
Deutsche Bank

*Ex-JANZ. Note: Numbers in parentheses are number of responses. Leaders are shown in alphabetical order.
Source: Greenwich Associates 2015 Asian Fixed-Income Investors Study

Methodology

Between May and July 2015, Greenwich Associates conducted 890 interviews with fixed-income investment professionals at domestic and foreign banks, private banks, investment managers, insurance companies, hedge funds, corporations, central banks, and other institutions throughout Asia (ex-Japan). Countries and regions where interviews were conducted include Australia/New Zealand, China/Hong Kong/Macau, India, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Sri Lanka, Taiwan, and Thailand. Interview topics included service provider assessments, trading practices, market trend analysis, and investor compensation.

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