

Corporate Bond Market Increasingly Polarizing

Government to Expand Scope of Bond Market Stabilization Fund

By Yoon Young-sil | ⌚ 2020.05.20 10:21

The South Korean government decided to expand the scope of its bond market stabilization fund as the corporate bond market is increasingly polarizing.

The bond market stabilization fund, which is based on financial companies' money and has an upper limit of 20 trillion won, cannot but be conservative in management as profits should be made. The fund covers only corporate bonds with a credit rating of AA- or higher and, as such, the fund's contribution for bond market condition improvement has been rather limited.

According to the Financial Services Commission, the average daily net issuance of A- and BBB-rated corporate bonds was 2.9 billion won in January and February, 11.6 billion won in March and negative 63.3 billion won in April. The spread between three-year government bonds and three-year BBB- corporate bonds jumped from 674 basis points to 756 basis points from the end of February to May 15. This means the demand for BBB- corporate bonds is much weaker now.

Market participants have pointed out that the bond market stabilization fund has been too passive. The fund has provided 620 billion won for 11 companies since its initial operation on April 1. In other words, its support stood at 3.1 percent of the upper limit in its seventh week.



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