

Tech is transforming fixed income in Asia

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The rise of digital bonds and algorithmic trading were a key topic at the HSBC 10th Annual Asia Credit Conference

Asia's fixed income market is adopting cutting-edge technology to realise efficiencies across the trading value chain: execution is becoming more driven by data, liquidity is increasingly handled electronically, while digital bonds have already moved from conceptual possibilities to real-life securities.

Technological progress is happening fast in credit markets, as Asia emerges as a hub for bond market innovation, with longstanding manual processes and securities structures replaced with digital alternatives.

Digitisation in fixed income was the topic of a panel discussion at the HSBC 10th Annual Asia Credit Conference, where senior HSBC executives sat down to share their perspectives on the most significant market innovations.

The rise of digital bonds

Digital bonds are at the forefront of asset tokenisation. They represent the value or contractual rights recorded on a cryptographically secured, blockchain or distributed ledger technology that can be transferred, stored or traded electronically.

In the case of digitally native bonds, they spend their entire lifecycle on-chain: from primary issuance all the way through to maturity redemption. The register on-chain is the definitive legal record.

Sovereigns, supranationals, central banks, financial institutions and corporates are already issuing digitally native bonds. Hong Kong, in particular, stands out for the scale of its primary issuance.

In June, the Hong Kong Mortgage Corporation Limited (HKMC) issued a HKD 12 billion (USD 1.53 billion) inaugural public digital bond – the largest bond of its kind so far¹. The deal comes just less than year after the Hong Kong SAR Government successfully offered HKD a 10 billion (USD 1.3 billion) digital green bond².

Both bonds were issued on HSBC Orion – the bank's proprietary digital assets platform that enables institutional and corporate clients to invest in or issue digitally native bonds.

Institutional investors are attracted to digital bonds because they present operational benefits, such as faster issuance and settlement. A bond issuance in Hong Kong would traditionally have a five-day

settlement cycle. In a digital format, post-trade processes can be completed in a shorter timeframe, which also reduces the period in which counterparties are exposed to each other.

The further adoption of digital bonds will require these on-chain assets to be as easy to use as their conventional counterparts. After all, fund managers will make investment decisions based on factors like price and liquidity, rather than the technology that underpins the market infrastructure.

That is why HSBC Orion is designed to present digital bonds seamlessly alongside conventional bonds, so that they can be traded with minimal input from an investor's technology team.

Automating execution

Looking beyond securities, trade execution is becoming more technologically advanced across Asia, as algorithmic trading becomes embedded in a broader range of workflows. This is because the use of computers to automate the buying and selling of bonds can deliver efficiencies and market access at scale to investors.

But there are obstacles to the widespread adoption of algo trading in Asia. Unlike the US – where there is a standardised market structure, centralised information, and well-established trading infrastructure – Asia's fixed income market is fragmented across multiple jurisdictions, each with their own structure and regulations.

The result is that the region operates according to a hybrid system, said Minjie Yu, Head of Credit Wealth Product Solutions, HSBC. In Asia, credit algos play the role of execution on a day-to-day basis, with human judgement maintaining a critical role in navigating dynamic market conditions and ensuring the right execution outcomes.

Furthermore, credit algo trading needs to be adapted to meet local trading conditions. Mr. Yu described how fixed income trading behaviour in Asia is influenced by a large contingent of retail traders, which creates a strong momentum effect, more flow-driven beta, and greater emphasis on market fairness and oversight than in more institutional markets, like Europe and the US.

The opportunity in Asia is not simply copying what has been built in Europe and the US. It is about taking the best of these models and adapting them to a more diverse and fast-evolving market landscape.

This creates demand for service providers that can combine global scale with regional knowledge, as investors are often looking for access to a range of markets in Asia – from developed markets like Hong Kong and Japan, as well as emerging markets like mainland China, India, and Indonesia.

An innovative future

In short, Asia's fixed income market is being reshaped by two key technological forces: the rise of digital bonds, which are already delivering faster settlements and operational gains; and the growing use of algorithmic trading, which must be carefully adapted to the region's fragmented regulatory environment and distinct trading behaviours rather than simply imported from European and US markets.

“The path forward lies in intelligently combining global innovation with local insight to meet the demands of Asia's diverse and rapidly evolving credit landscape,” said Mr. Chung.