

Asian local currency bond markets open new funding frontiers

Standard Chartered · Jeslin Joseph · 2026-10-15 · English original

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- Asia's fast-developing bond markets offer SSAs and other issuers a growing source of low-cost funding from largely new investors.
- Issuance is increasing rapidly, especially in Greater China where the Southbound Bond Connect Scheme gives eligible mainland investors access to bonds traded in Hong Kong.
- Asia's capital markets are likely to become still more important over five to 10 years.

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When the International Finance Corporation (IFC) issued its first public green Wonton bond in May 2026, building on its inaugural Wonton issuance in 2025, the transaction was significant not for its size but for the precedent it confirmed. At HKD 6 billion (approximately USD766 million), the three-year issue raised just a fraction of the IFC's USD20 billion funding programme for fiscal year 2026. Strategically, though, it unlocked a new low-cost liquidity pool.

Local investors represented 87 per cent of the order book, according to the IFC. And the bond's coupon was a low 2.917 per cent. For local investors, read Hong Kong and China's substantial pool of banks, as well as life insurers, pension funds and securities houses. Taken together, they're a sleeping liquidity giant that's only now awaking.

For borrowers, including sovereign, supranational and agency (SSA) issuers, this is leading to lower borrowing costs, a more diversified group of investors and more efficient use of capital. The size of the market, especially in China and Hong Kong, is growing rapidly. As it does so, tenors are lengthening and investors are beginning to accept lower-rated credits. With robust momentum, the signs are that this is just the start.

In part, this is an overdue reflection of China's trade clout as a top-three partner for 157 countries and regions. Increasing China trade creates a greater appetite for renminbi. Beyond that, though, borrowers are locking in cheap Chinese funding costs while diversifying their investor base into China and Hong Kong. In the rest of the region, local borrowers are connecting with international investors keen to lift exposure to a region accounting for a growing proportion of global GDP and offering access to an increasingly diverse range of financing markets and products.

For SSAs, this is a chance to use capital more efficiently at a time when funding requirements are increasing. Illustrating just one area of demand for Asian SSAs, the 11 ASEAN countries' investment needs for expanding and modernising electricity grids are estimated at over USD300 billion from 2025 to 2040, a 72 per cent increase compared with 2009 to 2024.

Fast growth, new investors

In the first half of 2026, bond issuance across Asia, excluding Japan and Australia, in G3 currencies, comprising US dollars, euros and yen, increased by a modest 6.8 per cent to USD120.2 billion. However, issuance in China's offshore and onshore local currency bond markets exploded, rivalling G3 issuance for the first time. Offshore, renminbi (CNH) issuance grew by 82 per cent to CNY 317 billion (approximately USD47 billion), while HKD issuance grew by 112 per cent to HKD 362 billion (approximately USD46 billion). Both offshore figures exclude certificates of deposit. Onshore, the smaller Panda market grew by 79 per cent to CNY 160 billion (approximately USD24 billion).

While 2026 has seen rapid growth in local currency issuance, 2025 was the breakthrough year, when a series of SSA landmark issues pushed the market's boundaries, often setting precedents for others to follow. Notably, in February the Asian Infrastructure Investment Bank's (AIIB) three-year, HKD4 billion (approximately USD514 million) sustainable development Wonton bond, with Standard Chartered as joint lead manager, was a landmark transaction in the development of Hong Kong's international local currency bond market.

This bond tapped a new investor base, attracting new institutional investors. Many of them were local Hong Kong bank treasuries, eager to buy short-term paper with their surplus liquidity.

Since then, China and Hong Kong's bond markets have developed still further. For instance, in May 2026 Pakistan issued its first Panda bond. The CNY1.75 billion (approximately USD258 million) three-year sustainable development bond was 95 per cent guaranteed by the Asian Development Bank and AIIB. While Egypt's 2023 Panda bond had already opened the door to lower-rated international issuers, Pakistan's issuance demonstrated the growing depth of demand among Chinese investors for international sovereign credits. But the emergence of China's bond markets is no accident. The Southbound Bond Connect Scheme, launched in 2021, allows mainland Chinese investors to invest in offshore bonds through the Hong Kong bond market. Since then, the channel has developed further, with measures introduced in July 2026 to increase quotas by 60 per cent and develop a repo market covering HKD and RMB bonds.

The types of institutional investors allowed to invest through the scheme have also been widened. Effectively, a small Chinese regional bank or pension fund can now access a broader universe of international issuers through Hong Kong, allowing investors to diversify beyond the domestic bond market.

Gradual innovation outside China

Beyond China, the growth trend is less pronounced, but even so there is an increasing range of currencies and themes, including sustainability bonds and sukuk. Notably, Thailand has established itself as a pioneer in sovereign sustainability-linked financing. In 2024, it became the first sovereign issuer in Asia to launch a sustainability-linked bond, raising THB30 billion (approximately USD880 million) through a 15-year issuance linked to national climate objectives. In September 2026, Thailand followed this with a second sustainability-linked bond, raising THB25 billion (approximately USD750 million) and becoming the first sovereign issuer in Asia to embed biodiversity targets within a sustainability-linked financing framework. These transactions, in which Standard Chartered played a leading role, demonstrate how Asian sovereign issuers are using local currency capital markets not only to raise funding, but also to align financing strategies with long-term sustainability and development goals.

The trend is visible elsewhere in ASEAN. In 2025, Indonesia became the first sovereign in Southeast

Asia to issue a CNH-denominated global bond, demonstrating how issuers are increasingly turning to renminbi markets to diversify funding sources and broaden their investor base. Meanwhile, Singapore's Green Singapore Government Securities (Infrastructure) bond programme illustrates how governments are using domestic capital markets to finance long-term infrastructure investment and sustainability priorities, offering a potential model as countries across the region seek to mobilise capital for major infrastructure requirements.

In July 2026, Malaysia launched a USD1.5 billion global sukuk, with oversubscription from international investors leading to record-low spreads for Malaysia's global sukuk issuances over US Treasuries. While not a local currency bond, the Islamic bonds connected Malaysia to more than 140 high-quality international investors, many of them Middle Eastern institutions. As joint lead arranger and bookrunner, Standard Chartered helped to connect Malaysia with these international investors. The dual-tranche sukuk had 5.75-year and 10-year tranches, priced at spreads of 15 basis points (bps) and 25 bps respectively.

India is another fast-developing Asian market. The Reserve Bank of India introduced a dollar swap facility in June, designed to encourage borrowers to raise dollar-denominated debt with a lower cost of hedging. Even before this, the country's Export-Import Bank had opened 2026 with a USD1 billion dual-tranche issue, including the first 30-year USD bond from an Indian institution.

Further growth likely over five years

Just a few years ago, the potential of Asian bond markets for issuers was widely accepted in theory. Over the last two years, though, that theory has become reality far more quickly than anticipated. Given the momentum, ongoing reforms, low borrowing costs and China's huge pool of investors, these markets are likely to become much more material for borrowers over the next five to 10 years.

Expect SSAs from Asia and elsewhere to continue turning to the region. At a time when they're under pressure to make more efficient use of capital, issuing in Asia is becoming an important way of doing so.

Source: <https://www.sc.com/en/news/asia-local-currency-bond-markets-charles-corbett/>