

By Martin de Sa'Pinto, Senior Financial Correspondent
 Wednesday, April 5th 2011

- Asia corporate bonds expensive- money managers say
- * Investors buy up emerging market corporate bonds for yield
- * Asia HY bonds relatively expensive - Bluebay manager
- * Local currency issues can be even more risky -Bluebay

By Martin de Sa'Pinto

ZURICH, April 6 (Reuters) - Yield-hungry investors who have upped holdings of Asian corporate debt to improve on scant bond returns in developed markets may be getting a poor deal for the amount of risk they are taking, money managers said this week.

Lipper data show usually risk-averse Swiss mutual funds have been gobbling up emerging markets debt, increasing allocations sevenfold since the bottom of the credit crisis as ultra-low interest rates keep a lid on developed market bond yields.

Asian corporate debt issuance has risen sharply from a low base, analysts say, reaching around \$60 billion in 2010 as both local and developed market demand climbed.

This has pushed spreads over treasuries, or the premiums paid for the extra risk, lower.

"Today Asian corporate credit yields are higher than similar-rated debt in developed markets but (these credits are) more expensive than in emerging markets as a whole," said Polina Kurdyavko, a senior portfolio manager at \$40 billion British bond manager BlueBay Asset Management.

"The pick up in spread offered by emerging market corporate bonds over similar rated U.S. bonds is three times higher than a pick up in spread for Asian high-yield corporates excluding Chinese real estate," **she told the Jetfin Emerging Markets conference in Zurich.**

Kurdyavko, whose company was bought by Royal Bank of Canada <RY.TO> in December, said tighter spreads were not justified by better liquidity in Asian corporate credit compared to that in other emerging markets, which include Brazil and Mexico.

IGNORING THE RISKS

Improving liquidity in Asian bond markets and a falling rate of bankruptcies had made Asian corporate bonds more attractive, though yields seemed to overlook a number of prevailing risks.

For example, Chinese real estate-linked bond yields fail to reflect a higher default risk or holding company structures which made risk analysis difficult, said Roel Barnhoorn, head of bond research at Geneva-based ABN AMRO Private Banking.

Also, the tight yields on emerging market debt discount geopolitical risks -- such as political upheaval or the Japanese earthquake and tsunami -- to which the Asian region is most exposed, said Swisscanto fund manager Christian Takushi, whose company manages \$57.4 billion for institutional clients.

Moreover, scant development of bankruptcy laws in India and China could make claims complex in the event of default, which is not priced into yields, said Kurdyavko.

"There are no onshore guarantees to almost any corporate eurobond issuance in China," she said.

"By investing in Chinese corporate bonds you're effectively behind bank creditors and preferred equity holders in the event of default, therefore one can say that you are getting an equity risk but being paid bond returns."

Local currency corporate bond issues, which are gaining a following, have risks of their own. These include lower yields, very low liquidity, being subject to local rules which investors may ignore and the very poor quality of some issuers.

"The corporate spread pick up over respective sovereign in local currency is smaller than for the same corporate credits in hard currency," said Kurdyavko.

"We feel some of the issuers particularly in real estate use this market as a lender of last resort."

(Editing by Jane Merriman)

((zurich.newsroom@reuters.com; +41 (0)58 306 7462; Reuters Messaging:

martin.desapinto.thomsonreuters.com@reuters.net))

Keywords: EMERGING/DEBT