Rising from the ashes

History will tell us that 2008 was the year of the credit crunch, the biggest financial crisis since the 1930s and one that may yet give us a long-tailed global recession, perhaps the worst since that Great Depression.

But here's a thing.

Bare statistics about the volumes of corporate bond issuance in the first quarter of 2009 reveal that they have set a never before seen record of around $350bn.

And according to the credit strategy specialists at Barclays Capital, the record books may need to be opened for study again as figures for the first half of 2009 could also be hitting highs.

A study by analysts Puneet Sharma and Aziz Sunderji concluded that while there was a breather in corporate issuance in April – which was, as much as anything, to do with the fact that most companies go into a closed season to report their first-quarter numbers – the statistics could yet show that the market has taken off again in the second half of the second quarter.

"Treasurers tend to come to market en masse in May and June before the summer lull sets in," said Sharma and Sunderji.

"Analysis of the past eight years of issuance data suggests that May and June are the most voluminous months.

"Anecdotally, treasurers look to obtain financing in late spring, early summer, before capital markets shut down in July and August."

While the credit market has undeniably been closed to many companies, the Barclays analysts have identified a number of reasons for the heavy volumes recorded so far this year – even if the market has been propped up by appetite for what is widely regarded as the recession-proof utilities sector.

"Demand for non-financial corporate bonds continues to be high and corporates are using the current favourable environment to get refinancing and general corporate financing needs out of the way," Sharma and Sunderji explained. "Most of the issuance that got stuck in the pipeline in the fourth quarter of 2008 came to market in the first quarter of 2009. If the market continues to stay open, lower-rated corporates are likely to seize the opportunity to lock in funding."

For non-financials, corporate bond issuance so far in 2009 dwarves the equivalent data for recent years.

Not so the financials.

The analysts said that the current year data was unsurprisingly depressed compared with previous years' figures, even with government guarantees providing key support for those financials testing the market.

"The subordinated financials capital market are essentially shut," said the report. "Although investor appetite for subordinated bank debt has returned in the secondary market, banks are focused on increasing quality of capital rather than the range of innovative instruments that were used extensively pre-credit crunch."

But even with the global cuts in interest rates, large volumes of issuance in a difficult market have unsurprisingly affected spreads.

Barclays' data indicates the the average coupon on new issues of non-financials has been hitting more than 6%, the highest monthly peaks since 2002 and on a quarterly basis as high as any time in the last decade. In 2005, for instance, average coupons over some periods came in at less than 3.5%.

It was those sorts of returns, said consumer-facing fund manager M&G, that was driving demand for corporate bonds from retail investors pouring money into the asset class.

M&G fund manager Richard Ryan said it was a consequence of government intervention.

"That is exactly what the UK government and the Bank of England want to see happening," he said. "People will look elsewhere for returns and credit markets will step up to the plate and buy debt where the banks do not."

So will the first-quarter rush convert to a record half-year too?

A first ever $3.75bn offering on the corporate bond market by Microsoft, underwritten by JPMorgan and Morgan Stanley, indicated something of the extraordinary times.

"This deal shows a continuation of the flight to quality that started last December," said James Lee, fixed income strategist at Calvert Asset Management. "Portfolio managers are trying to invest an abundance of cash in this fixed-income rally."

Robert Lea is City correspondent of the London Evening Standard.

INVESTMENT-GRADE BONDS

DEAL PRICING DATE	DEAL TYPE	ISSUER	MATURITY DATE	COUPON	TRANCHE VALUE	DEAL TOTAL VALUE	BOOKRUNNERS
14/04/2009	Corporate bond investment-grade	Rio Tinto FInance (USA) Ltd	May 2014	8.95%	$2,000m	$3,500m	Deutsche Bank, JPMorgan, Morgan Stanley, Credit Suisse, RBS, SG Corporate & Investment Banking
30/04/2009	Corporate bond investment-grade	Nokia Oyj	May 2019	5.375%	$1,000m	$1,500m	Bank of America Merrill Lynch, Barclays Capital, Credit Suisse, JPMorgan
06/05/2009	Corporate bond investment-grade	Volkswagen International Finance NV	November 2010	3.75%	$2,322m	$3,981m	Intesa Sanpaolo, BBVA, Citi, DZ Bank, SG Corporate & Investment Banking

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