Two steps forward, one step back

FIRST-QUARTER FIGURES SHOW THE WORLD'S DEBT CAPITAL MARKETS HAVE STARTED TO BOUNCE BACK BUT SOME OF ITS BIGGEST SECTORS ARE STILL FEELING THE PAIN, AS **GRAHAM BUCK** REPORTS.

Activity levels in the world's debt capital markets offered a decidedly mixed picture in the first quarter of the year, according to the latest data from Dealogic. In total, global debt capital market volume reached $1.76 trillion in the first quarter of 2010, an overall rise of 3% on Q1 2009.

At $792.5bn, debt capital issuance in the Europe, Middle East and Africa (EMEA) was again ahead of US volume despite an 8% year-on-year decline reducing its global share from 50% to 45%. US issuance in Q1 2010 was $676.9bn, 14% up on Q1 2009. Europe alone managed $782.1bn, a yearly drop of 9%.

Global debt capital market revenue for lending institutions in Q1 reached $5.3bn, a 24% increase on the $4.3bn recorded in Q1 2009. Of this, the Americas contributed $3.0bn – a 57% share and the region's highest percentage since the fourth quarter of 2007. EMEA accounted for $1.8bn, showing little change from Q1 2009, while Asia Pacific revenue dropped 19% to $478m, shrinking its market share to 9%, or the lowest proportion since Q1 2008.

Corporate investment-grade bonds led Europe's decline in business volumes, with only $95.6bn issued during the quarter, a 58% drop on the Q1 2009 figure of $225.9bn. The fall was slightly offset by corporate high-yield volume, which jumped from only $2.0bn to $19.1bn. UK issuers led the field in Europe, with $5.5bn raised in total.

German issuers continued to lead overall debt capital market volume in EMEA, despite a 27% drop to $135.3bn from $184.2bn in Q1 2009. France held on to second place, despite also suffering a year-on-year fall. The UK showed little change and maintained third place.

A $2.8bn debt offering in late March by US/Dutch group Lyondell Chemicals was EMEA's largest corporate high-yield bond of the quarter, while the $5.1bn bond of Swiss drugs group Novartis, also issued in March, was the single largest investment-grade transaction.

Deutsche Bank ranked as the top global debt capital market bookrunner by volume. Deutsche's total of $131.6bn gave it a 7.5% market share, just ahead of Barclays Capital's $130.1bn, JP Morgan's $127.7bn and Bank of America Merrill Lynch's $126.3bn.

Germany was also the biggest single market for covered bond issuance in Q1 2010 with a 20.1% market share ($26.5bn), followed by France with an 18.9% share ($24.9bn). Total global covered bond volume of $132.0bn was more than double the figure a year earlier.

Also showing healthy growth was European sovereign debt capital market volume. It accounted for 162 deals and $156.0bn over Q1, up 9% from $143.7bn in Q1 2009; both figures were records. Domestic auction volume edged up 1% on a year before, reaching $342.1bn.

Europe accounted for 78% of the global sovereign debt capital market in the quarter.

Greece, whose debt load has regularly made headlines this year, headed the list by issuing $24.6bn of sovereign debt. Its $11.2bn (€8bn) issue in late January was the quarter's largest sovereign bond. The total was, however, 37% down from its record quarterly high of $38.9bn reached in Q1 2009.

Three other European countries did reach record quarterly highs: second-placed Belgium, up 14% from its previous high of $13.3bn in Q1 2005; third-placed Spain, 20% above its Q3 2009 high of $13.3bn; and seventh-placed Portugal, 3% more than its Q1 2009 high of $5.2bn. Ireland and the UK, which respectively rank as fourth and sixth-biggest European sovereign issuers, were both significantly below their all-time quarterly records over Q1 2010.

Box 1: Global corporate high-yield bond volume by region

North America	62.0%
Europe	20.7%
North Asia	6.0%
Latin America	4.9%
Other	6.3%

With $15.3bn of business and a 9.8% market share, Barclays Capital led the European sovereign bookrunners in the first quarter, followed by Deutsche Bank with $12.7bn and 8.1%.

The sharp jump in Europe's high-yield bond volume, coupled with a slump in investment grade, was reflected elsewhere. At $93.5bn, global high yield accounted for 5% of total debt capital market issuance in the quarter and was more than triple the $26.6bn raised in Q1 2009 although flat on the final quarter of last year. It accounted for 44% of total leveraged finance volume over the period compared with 39% a year ago.

By contrast, global corporate investment-grade bond volume, which reached $486.0bn in Q1 2009, fell by 47% to $256.1bn and has trailed investment-grade loan volume for the last two quarters.

The utility and energy sector, which led corporate investment-grade bond volume in the first quarter of 2009, contributed to the decline. Volume in the sector fell 47% to $45.7bn via 98 deals in Q1 2010, against $85.3bn via 179 deals a year before. In all, nine of the 10 leading sectors for corporate investment-grade bond volume showed a decline on the same period last year.

Kraft Foods' $9.5bn debt offering in early February to finance its takeover of Cadbury was the largest corporate investment-grade bond to price globally over the quarter.

Global corporate bond volume was also sharply lower at $345.6bn, down 32% from the $511.8bn raised in Q1 2009, while global financial investment grade, including government guaranteed bonds, was also down, with the Q1 total of $384.5bn marking a 13% drop on a year earlier. However, while financial investment-grade issuance in the Americas and EMEA showed year-on-year falls of 23% and 15% respectively, Asia Pacific managed a 12% increase over Q1 2009.

A decline was also recorded for global corporate investment-grade fixed income (corporate investment-grade bonds plus corporate investment-grade loans). At $534.6bn it was 37% down on the $846.4bn issued in Q1 2009. Bonds accounted for 48% of corporate investment-grade fixed income, compared with 57% a year earlier.

Global structured finance volume showed some recovery from the first quarter of 2009, up by 167% from $69.1bn to $184.4bn. Even then, it was a far cry from the peak of the boom in Q2 2007, when a record $793.0bn was raised. The US took the lion's share – at $154.3bn it accounted for 84% of total structured finance volume despite a sharp slowdown in deals eligible for the government TALF (term asset-backed securities loan facilities) support programme, which provided only 14 deals and a total of $9.2bn.

Global covered bond volume was also resurgent. The Q1 figure of $132.0bn was more than triple the $40.0bn recorded for the same period last year. For jumbo covered bonds, the rise was nearly six-fold, jumping from $15.6bn to $92.6bn, the highest volume on record.

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