Shifting benchmarks

Recent announcements by the US Treasury detailed its intention to retire all outstanding public debt by 2013. The ramifications of this announcement are still being realised but the immediate effect was one of sharply lower Treasury yields.

This was particularly acute at the long end of the curve as long-dated debt, being the most expensive, was to disappear first. Meanwhile in 'euro-land', government net debt issuance is forecast to fall steadily in the future although buy-backs are not expected to commence before 2004-2005. The single major economy continuing to increase its outstanding debt levels as a percentage of GDP is Japan.

Continued use of government bond benchmarks to calculate investment performance by institutional investors will, therefore, result in an increased exposure to Japanese government bonds. This is a direction in which many money managers are reluctant to move given the country's heavy indebtedness and weak credit fundamentals.

This has prompted various parts of the investment community (Pimco, Credit Suisse Asset Management and Warburg Pincus have been named) to ask institutional investors to consider using new benchmarks. This will not just change the weightings of government debt but may also give corporate credit a more important role in fixed income investment portfolios.

Yield curve

For an issuer's bonds to be considered as benchmarks, a number of features need to be present amongst which are a full yield curve, issue liquidity and a regular supply calendar.

The US agency, Fannie Mae, launched its benchmark notes program in January 1998 with other issuers since following suit including Freddie Mac, Ford Motor Credit and, to some extent, the European Investment Bank. The benefits to an issuer of such an approach are clear: the increased desirability of their debt will ensure they achieve a lower cost of funding.

Clearly the development of a wider array of generally accepted benchmarks, will be positive for spreads on those corporate credits which are included and will offset, to some degree, wider corporate credit spreads resulting from lower government yields (the latter due to declining government issuance).

This has already been seen in US agency paper, illustrated by the curve inversion in that paper when the Treasury curve inverted. In some areas, however, reform of investment regulation will need to take place before significant changes in investment patterns can emerge and the move may be slow. When the change begins, such benchmark credits may offer attractive investment opportunities. ■

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INTERNATIONAL BONDS

These are a selection of bonds announced recently. The details, updated to the middle of last month, were supplied by *IFR Securities Data, London* and other sources.

Issuer	Launch rating M	Launch rating S&P	Amount (m)	Coupon (%)	Price	Maturity	Launch Spread (bp)	Fees (%)	Bookrunner
Amazon*(a)*			EUR690	6.875	100	16 Feb/10		2.5	Morgan Stanley Dean Witter
COLT Telecom*(b)*			EUR402.5	2	100	3 Apr/07			Morgan Stanley Dean Witter
Foster's	Baa1	BBB+	EUR300	5.75	99.758	17 Mar/05	*(c)*	0.45	Deutsche Bank Salomon Smith Barney
Reseau Ferre de France	Aaa	AAA	GBP100	6.625	99.76	Mar/05	*(d)*	0.25	Warburg Dillon Read
Textron	A2	A	EUR300	5.625	99.800	14 Mar/05	*(e)*	0.325	Deutsche Bank Warburg Dillon Read
Vodafone	A2	A *(f)*	USD1750 USD2750 USD750	7.625*(g)* 7.75*(g)* 7.875*(g)*	99.842 99.381 98.696	15 Feb/05 15 Feb/10 15 Feb/30	98 128 143*(h)*	0.35 0.45 0.875	Goldman Sachs Salomon Smith Barney
Yorkshire Power Finance	Baa2	BBB+	USD250	8.25(i)	99.751	15 Feb/20	*(j)*		Bank of America Warburg Dillon Read
Yosemite Securities	Baa2	BBB+	GBP200	8.75	99.881	Feb/07	*(k)*	0.625	Salomon Smith Barney

** Equity-linked. (a) Convertible subordinated notes. (b) Senior convertible noted. (c) 86bp over the Obl 134. (d) 70bp over the 8.5% 2005 gilt. (e) 61bp over the Obl 134. (f) Negative credit-watch. (g) The ratings-related coupon step-up feature applicable until ratings confirmation post Mannesman deal. (h) Over 10-year Treasury. (i) Put and call option – after five years at par:yield to option 8.312%. (j) 155bp over five-year UST. (k) 248bp over 7.5% 2006 gilt.*

Launch ratings are from Moody's (M) or Standard & Poor's (S&P). NR = Not Rated. R = fixed re-offer price. Launch spread is over comparable government bond.