The euro rings some bells

The formal arrival of the euro on 1 January 1999 was a wake-up call for many UK treasurers. While European corporates raced to issue benchmark or inaugural euro-denominated issues, corporates in the UK appeared to be keeping an eye on market developments in a cautious way.

The advent of the euro was a priority topic for many UK treasurers. Their discussions on the subject focused on a number of questions: What is the investor base for the new euro?; Will the euro overwhelm domestic currency issuance?; How will euro pricing compare to DM, FF, sterling and $ pricing?; and Will the euro create the much-heralded level playing field clearly necessary for the development of a European corporate bond market?

Despite treasurers' interest, however, the first corporate UK issuer was not to surface until the end of January 1999 when British American Tobacco (BAT) announced its 2008 transaction.

The announcement of BAT's benchmark €1.7bn transaction was followed by a whirlwind of pre-marketing activity, and the heavily over-subscribed issue was priced on 8 February. While the transaction size and the enthusiasm the transaction attracted from investors, surprised many market participants, few were surprised that BAT chose to launch in euro, since Richard Desmond, BAT's treasurer, is a long-standing believer in the benefits of the single currency, and the monetary union's capital market as a benfit to the corporate treasurer.

The €1.7bn transaction focused UK (and non-UK) issuers (and their bankers) on the magnitude of euro demand for well-marketed corporate credits. To date in 1999, three UK and 31 non-UK corporate issuers have raised approximately €15bn of debt. The most popular maturity was 10 years (with 51% of euro issuance), although approximately 38% of euro issuance had a maturity of less than five years.

Speculation on the investor base for euro-denominated corporate bonds had been that it would mirror that of Deutschmark distribution. Comparing Dresdner Kleinwort Benson's distribution of BAT bonds – as book runners of both the €1.7bn and the DM1bn due 2006 launched in July 1998 – illustrated a definite sea change in distribution.

The DM had been sold primarily to commercial banks versus the euro, which was sold primarily to insurance companies, pension funds and money managers. While the DM and the euro had strong placement in Germany, the UK, Italy and Benelux, the euro also attracted Scandinavian and US offshore accounts. The euro attracted much larger investor order sizes (eg several €100m orders) and several 'first-time' credit buyers.

The BAT transaction is evidence that the euro as a currency of issuance for corporate treasurers has arrived – and the bell is ringing loudly. ■

TERRY WATKINS
Director and co-head of
corporate bond origination
Dresdner Kleinwort Benson

INTERNATIONAL BONDS

These are a selection of bonds announced recently. The details 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
BG	A2	A+	GBP200	5.375	100.207 98.52R	07 Dec/09	93	2.00	Royal Bank of Scotland Greenwich NatWest
Brixton Estates	NR	NR	GBP100	6	99.492 99.492R	30 Dec/10	170	0.55	HSBC Markets Warburg Dillon Read
COLT Telecom	NR	NR	EUR295	2	100	29 Mar/08	ND	2.50	Morgan Stanley Dean Witter
Daimler/Chrysler	A1	A+	EUR600	3.5	101.384 99.634R	16 Mar/04	33	2.00	ABN AMRO Hoare Govett Deutsche Bank AG
Hutchison Whampoa Finance	A3	A	EUR500	5.5	101.388 99.388R	16 Mar/06	170	2.25	Deutsche Morgan Grenfell HSBC Markets
Northwest Water	A1	A+	EUR500	4.875	99.73 99.73R	18 Mar/09	73	0.375	ABN AMRO Hoare Govett JP Morgan & Co Inc
Railtrack	A2	AA-	GBP400	3.5	100 100R	18 Mar/09	ND	2.50	Warburg Dillon Read

** Floating rate note. 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.*