


The euro landscape

 Much has been written about the possible effects of the euro on the equity, bond and forex markets. But less attention has been focused on the syndicated loan market in the UK. In our view, the euro and all the forces it unleashes will also affect this important market segment.

By November 1998, the syndicated loan market in the UK had reached new heights with a 55% share of the entire syndicated loan market in western Europe. Syndicated lending volume in western Europe as a whole, however, has been shrinking dramatically. This unequal demand/supply scenario may partially explain why in 1998 the pricing of syndicated loans in the UK rose more strongly than in other western European countries.

If anything, the euro will deepen the liquidity in the banking market and increase competition. But that does not necessarily mean that credit margins, particularly in the UK, will go down

again. This is because the return requirements of the European banks on the continent are also rising, lending capacity is being reduced due to bank mergers, and new loan business volume may go up in 1999 in the euro-zone, driven by the restructuring process in the industry and the M&A finance requirements it triggers.

Industry sector lines

The banks in the euro-zone increasingly allocate their lending capacity along industry sector lines and shift their loan portfolio according to the different risk/returns that syndicated loans offer in each of the different European countries. There are still astonishing anomalies and price differences between the individual regional loan markets.

The euro will make these differences transparent by being the driving catalyst for harmonising structures and price levels within the euro-zone. The nature of the relationships that corporates have

with their core relationship banks and certain domestic habits developed over decades may slow down this harmonisation process, but they will not halt it for long.

The UK will not escape the impact of this harmonisation. Today, non-UK banks are providing more than 70% of the funds for syndicated loans in the UK. This means any major new trends in the lending and pricing policy of banks in the new world of the euro-zone will certainly affect the structures and pricing of syndicated lending in the UK as well.

About 50% of UK exports are to the EU. UK companies will be under significant pressure from European customers to supply euro price quotations. Increasingly, therefore, it may be in the interests of many UK firms to raise euro loan funds in the future as a natural hedge for their currency exposure and as a way of exploiting the deeper pool of liquidity in the euro-zone with its historically low interest and margin levels.

The euro and its knock-on effects will change and harmonise the landscape of syndicated lending in all of Europe – including the UK. For the treasurer of a UK company, these changes bring new and exciting opportunities. ■

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INTERNATIONAL LOANS

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

Borrower	Type	Amount (m)	Term (yrs)	Margin Libor+ (bp pa)	Commit. (bp pa)	Fees Front-end (type)(bp)	Arranger (s)
Akzo Nobel NV	RC	E1000	1	ND	ND	ND	Citicorp Investment Bank
<i>Syndication signed 4 Dec 98.</i>							
Mayflower Corporation	RC	GBP 95	5	162.5(a)	(b)	Co Arr 0.35 Lead Man 0.275 Sen Lead 0.325	Credit Suisse First Boston Greenwich NatWest
<i>Syndication in progress</i>							
<i>Comment: For the acquisition of Dennis Group plc by Mayflower. (a) With ratchet. (b) Paid on RC at lower of 0.5% and half margin.</i>							
Louis Vuitton Moët Hennessy	RC	FRF4000	5	27.5	12.5	Co Arr 15 Lead Man 10 Manager 5	Banque Nationale de Paris Deutsche Bank AG
<i>Syndication in progress</i>							
<i>Comment: For general corporate purposes.</i>							
National Power	RC	USD750	5	25	12.5	Coarr 8.5 Lead man 7.5	Chase Manhattan Barclays Capital
	RC	USD500	(a)	27.5	10	Lead Man 7.5	Citibank Greenwich NatWest
<i>Syndication in co-arranger phase</i>							
<i>Comment: For general corporate purposes. (a) 364 days.</i>							
Northern Ireland Electricity		GBP60	5	37.5	ND	ND	HSBC Investment Bank
<i>Syndication complete</i>							
<i>Comment: For general corporate purposes.</i>							

RC = revolving credit, TL = term loan.