

Euro outshines predictions

A common theme in this column in recent months has been the development of the euro as a currency of capital market issuance. As we reach the halfway stage of the year it is clear that the market has developed at a faster pace and to a greater level of sophistication than most commentators would have predicted six months ago. First, the size of transactions has been remarkable. Among UK corporates, BAT has clearly been the flagship, with a total of more than €4bn issued in the public and private markets. Olivetti/Tecnost and Mannesmann have also launched jumbo issues for €1.5bn and €3bn, respectively. It is clear that the euro will dominate the issuance totals in the euro markets in 1999. Even more interesting is the number of major US issuers who

are starting to consider the euro as a source of liquidity to rival the mighty resource of the US domestic market, and the growing number of major US investors establishing offices in London.

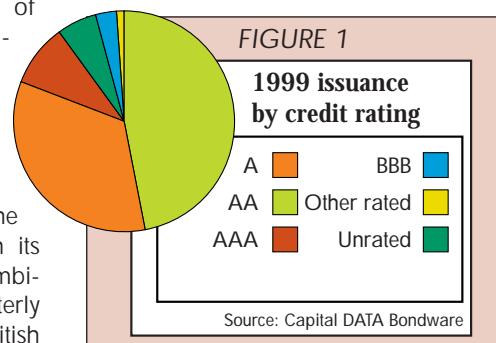
Second, the market has shown a significant appetite for subordinated risk. Many major UK banks, including Abbey National, Halifax, Lloyds, Standard Chartered and the Royal Bank of Scotland, have issued dated subordinated debt for regulatory capital purposes. All the transactions have been very successful in establishing a broad investor base outside the traditional source of UK institutions. British Airways has opened up the European retail investor base with its €300m preferred security. The combination of an attractive 6.75% quarterly coupon and the global appeal of British

Airway's name encouraged strong interest in Europe.

The final pleasant surprise has been the range of credits that euro investors have been prepared to accept. As an average, more than 50% of the corporate issuance has come from single A or weaker unrated credits. AAA issuance has accounted for less than 10%.

The message is clear. The market in euro is moving much more quickly than expected to the point where it will be the equal of the US market in terms of depth, liquidity and sophistication. ■

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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 S&P	Amount (m)	Coupon (%)	Price	Maturity	Launch Spread (bp)	Fees (%)	Bookrunner	
BP Amoco Capital	Aa1 AA+	GBP150	6	99.391 99.391R	30 Jun/04	85	0.300	Morgan Stanley Dean Witter	
British Energy	A2 A-	GBP109.9 GBP163.4 GBP134.6	5.949 6.077 6.202	97.488 95.885 91.835	25 Mar/03 25 Mar/06 25 Mar/16	140 149 190	0.250	Barclays Capital	
Diageo Capital	A1 A+	EUR650	*	100.020	15 Jun/00		0.500	JP Morgan Securities	
DSL Bank	Aaa AAA	GBP125	6	99.367 99.367R	16 Jun/04	86	0.250	Barclays Capital	
KPNQwest	Ba1 BB	EUR340 EUR450	7.125 8.125	99.261 99.261R 99.293 99.293R	01 Jun/09	325 275		Goldman Sachs	
Mannesmann Finance BV	A2 A+	EUR3000	4.750	99.501 99.501R	27 May/09	70	0.250	Commerzbank AG Dresdner Kleinwort Benson Deutsche Bank AG	
Northern Rock	Baa1 BBB+	GBP160	6.750	99.104 99.104R	(a)	180	0.625	Warburg Dillon Read	
(a) Callable at par from 17 Jun 2024 and every five years after that.									
Severn Trent Water Utilities	NR NR	GBP300	6.250	98.380 98.380R	7 Jun/29	155	0.625	Barclays Capital HSBC Markets	

* 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.