Euro investors buy corporates

The market for euro-denominated securities is truly global, with two types of investor: EU-11, or domestic investors, and non-EU-11 investors, notably from the US and Asia, who wish to invest in euro to diversify the currency mix of their portfolios.

In the first quarter of 1999, non-EU-11 investors were slow to diversify into euro. Inevitably, however, these investors will seek to diversify into a bond market that commands approximately 33% of global bond indices.

The bulk of demand for euro assets so far has come from EU-11 investors and professional managers (especially in Switzerland and the UK) of euro portfolios on behalf of either EU-11 clients or the euro part of global bond funds.

In their search for higher yield these investors are proving to be strong supporters of the euro corporate market, suggesting that this market is rapidly developing into a liquid alternative to the domestic US market.

There has been a significant shift by EU-11 investors to create euro-denominated corporate bond portfolios. The driving force behind their expansion and establishment is performance, both absolute (yield enhancement) and comparative (increasing portfolio returns). The demise of convergence and currency plays has forced the investors to add credit risk to their portfolios. Core Dutch, German and French investors represent the more developed group. Their demand is for longer-dated (seven to 15 years) assets for both duration and yield targets (eg, €500m 4.875% North West Water Finance plc due March 2009; and €1,000m 4.625% Réseau Ferre de France due March 2014).

In contrast at shorter maturities there is a combination of retail fund demand (especially Switzerland) and demand from duration-shy non-core financial centres, especially Milan and Madrid.

These investors are looking for yield enhancement but it has exceeded the spread at which their domestic government bonds trade over core euro government curves (eg, BAT Finance)

The demand for corporate paper overrides the geographical origins of the borrower. The market has already seen four issues from UK corporate borrowers and several US names. The hunger for geographic diversification is as strong as that for corporate diversification: non-EU-11 corporates with name recognition are now attractive.

At the start of 1999 the euro market was not pricing corporate issuers competitively compared to the US dollar market. The combination of sluggish demand in the US dollar market and rapid deepening of demand from EU-11 investors for diversification ensured the euro market gave a finer reception.

With the UK political agenda moving towards participation in the euro we see a further broadening of demand for UK corporate names. This sector offers well-managed, listed and broadly held public companies; issuing in euro offers the UK corporate treasurer competitive terms for further investor diversification and balance sheet hedging in their potential reporting currency. ■

PETER CAPEL
Director of Global Origination
ABN AMRO

INTERNATIONAL BONDS

Issuer	Launch rating M	Launch rating S&P	Amount (m)	Coupon (%)	Price	Maturity	Launch Spread (bp)	Fees (%)	Bookrunner
AT&T	A1	AA-	USD2000 USD3000 USD3000	5.625 6 6.5	99.5320 99.7650 98.9360	15 Mar/04 15 Mar/09 15 Mar/29	64 84 94	0.350 0.450 0.875	Salomon Smith Barney Merrill Lynch
BAT	A2	A-	EUR1000	4.25	101.310 99.3750R	14 Apr/04	88	1.875	ABN AMRO Bank Merrill Lynch
Burmah Castrol	A2	A-	EUR400	4.875	99.5120 99.5120R	31 Mar/09	92	0.400	Deutsche Bank HSBC Markets
Capital Shopping	NR	NR	GBP150	5.75	99.2640 99.2640R	05 Mar/09	140	0.375	Barclays Capital Dresdner Kleinwort Benson
ExCel	NR	BBB	GBP130	7.710	100.003 100.00R3	Apr/13	300	ND	Barclays Capital
	NR	BBB	GBP53.56	7.710	84.026 84.0260R	25 Nov/16	500	ND	
NTL Group	Ba3	BB-	GBP330	0	62.110 62.110R	15 Apr/09	525	ND	Goldman Sachs Morgan Stanley Dean Witter
Reuters	Aa3	AA-	GBP200	5.375	99.880 99.880R	26 Nov/04	71	0.275	JP Morgan Securities Warburg Dillon Read
Wessex Water	A3	A	GBP300	5.875	99.1830 100.00	30 Mar/09	135	0.350	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.*