

Turn of the year effect

Bond markets seem to have escaped the threat of an increase in the major interest rates during the first week of October. The 'steady but ready' stance that is currently being adopted by the Fed and the ECB has tended to keep the rate markets nervous. However, we now believe that, barring major bad news on inflation, any tightening will be off the agenda until the new year.

A calming of nerves

The attention of central banks should now turn to the provision of liquidity and the soothing of market nerves through the turn of the century. Nonetheless, the

trend towards tightening in the world interest rate cycle will return in early 2000. It is widely expected that the general uncertainty about the millennium will mean that investors will limit their activity and will seek the safety and surety of the most liquid and creditworthy issues. This looks sure to be a feature that supports benchmark governments over off-the-run and less liquid paper.

Unfounded fears

However, the fear that corporate bond markets will simply disappear in the final quarter of the year appears to be unfounded. The September supply flood did not materialise (partly because of

the fears of increased rates) and paper is continuing to trickle into the market. We suspect that corporate issuance will continue through the end of November in both USD and EUR. Credit spreads have held their ground and have started to narrow as investors who were waiting for higher yields found the market moving away from them.

A narrowing of spreads

The turn of the year effect has been felt in a split between the strong demand for well-known names with good credit compared to the difficulty of selling anything below an A rating. This is likely to remain a feature of markets beyond the end of this year. However, we do not expect the market to disappear altogether and would anticipate that widening in the spreads for the less liquid issues will be swiftly reversed as we enter 2000 and the government paper is unloaded. ■

ROB HAYWARD
Senior economist
Bank of America

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		Amount	Coupon Price		Maturity	Launch Spread	Fees	Bookrunner
	M	S&P	(m)	(%)			(bp)	(%)	
BG International Finance BV	A2	A	AUD100	7	101.79 100.00R	10 Nov/05		2.00	Dresdner Kleinwort Benson RBC DS Global Markets
Coca-Cola Enterprises	A2	A	GBP175	6.50	99.992 99.992R	7 Jun/21	140	0.625	Deutsche Bank HSBC Markets
Great Universal Stores	NR	A	EUR500	5.125	99.548 99.548R	5 Oct/04	68	0.300	Barclays Capital Morgan Stanley Dean Witter
Imperial Tobacco Finance	Baa2	BBB	EUR650	6.375	100.00 99.818R	27 Sept/06	153	0.400	Merrill Lynch ABN AMRO Bank NV
JM Voith	Baa1	NR	EUR300	6	101.213 99.788R	29 Sept/06	110	1.875	Merrill Lynch JP Morgan Securities
Pearson	Baa1	BBB+	GBP250	7	98.79 98.79R	27 Oct/14	165	0.500	Barclays Capital Warburg Dillon Read
Swedish Match	Baa1	A-	EUR300	6.125	99.28 99.28R	1 Oct/06	141	0.400	ABN AMRO Bank NV
Tate & Lyle Int'l Finance	Baa1	BBB+	EUR250	5.750	99.065 99.065R	6 Oct/06	103	0.400	Credit Suisse First Boston Morgan Stanley Dean Witter

* 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.