A summer shake-out

Global bond markets have been under pressure during the summer months amid fears of further rate hikes in the US and growing signs of economic recovery in Europe. Going forward, we do not believe that US treasuries are yet out of the woods, although European bonds have rapidly approached levels that we consider to be fair value.

Further US tightening

US monetary policy will probably have to be tightened by a further 0.75% in total, since economic momentum will probably be difficult to slow without more intervention from the Federal Reserve. Our view is that this will be taken badly by US bonds. More action from the Fed may well be expected generally, but markets are set to ratchet up expectations as rates rise, which will compound upward pressure on yields. We target a yield on the 30-year US long bond of 6.5% early next year, in advance of what we expect to be the last increase by the Fed. However, this should represent the point of maximum distress associated with the overshooting of rate expectations and we expect the market to recover to 6% by end-2000, helped in no small part by an expected equity market correction as the economy slows.

...and in Europe

Meanwhile, European markets have obviously been adversely affected by the concerns about the US, but also by increasing worries about the pace of economic recovery within Europe itself and the implications for the interest rate policy of the European Central Bank.

Export gains

We feel, however, that these fears are misplaced. Yes, the European economy looks to be getting into better shape, with consumption and investment showing strong increases. Exports should also benefit from the competitiveness gains from the euro. However, crucially, these improvements do not pose an inflation threat and we see no tightening of policy by the ECB until the second half of next year.

This backdrop should help to stabilise euro-land bonds and boost sentiment, especially at the short end, as well as provide a fillip for UK gilts where valuations also look increasingly out of kilter with economic fundamentals, particularly in the two- to five-year sector. ■

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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 M	Launch rating S&P	Amount (m)	Coupon (%)	Price	Maturity	Launch Spread (bp)	Fees (%)	Bookrunner
AMP Group Finance Services	A1	A+	GBP130	6.875	98.900 98.900R	23 Jun/22	185	0.625	Merrill Lynch Warburg Dillon Read
Anglian Water	A2	A	EUR350	5.375	99.735 99.735R	2 Jul/09	95	0.375	Barclays Capital Deutsche Bank AG
British Gas Intn'l Finance BV	A2	A	USD300	6.625	101.257 99.692R	22 Jul/04	90	1.875	Warburg Dillon Read
Granada Group	Baa1	BBB+	GBP250	7	99.780 99.780R	8 Dec/14	175	0.500	Barclays Capital Warburg Dillon Read
Household Finance Corp	A2	A	GBP125	6.250	99.576 99.576R	19 Aug/19		0.625	JP Morgan Securities
Lloyds TSB Group	Aa2	AA-	USD500	*	99.986	15 Nov/09		0.350	Barclays Capital
Pearson	Baa1	BBB+	EUR400	4.625	101.307 99.782R	8 Jul/04	82	1.875	Deutsche Bank AG JP Morgan Securities
Yorkshire Water	A2	A+	EUR500	5.250	100.00 100.00R	26 Jul/06	75	0.350	Dresdner Kleinwort Benson 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.*