

Bond indices and the euro

European institutional investors have been reviewing the new euro corporate bond indices which became available during the past year. Bond indices are already key tools for the US investor in corporate bonds, including Yankees. For the European fund manager, the choice of suitable benchmarks is part of preparations for the move into credit, as an alternative to government bonds. If indices matter to those with the money, they certainly matter to those who want to borrow it.

Investors use bond index systems for performance benchmarks, risk management, relative value analysis and as reference assets in swaps, options and structured bonds. In a young and growing market, such as euro corporate bonds, they are useful tools for tracking fast

changes in character and components.

A broad market index for euro-denominated bonds would typically include all fixed-rate issues over a minimum par value from sovereigns, quasi-sovereigns and corporates. It is the parent for a family of sub-indices divided by sector, maturity and credit rating. These family trees help investors fine-tune allocation within the credit class. The major bond index providers also deliver analytical tools to explain past performance and inform future decisions.

For a corporate bond fund manager, performance relative to peers will always be important. The mandate will often involve beating a particular index benchmark. That might be a 'risk-free'

government index. Index systems can offer a fairer criterion: a specific sub-index that matches the permissible universe defined by the mandate criteria.

For a brief sketch of seven systems (Barclays, Lehman, Merrill Lynch, JP Morgan, MSCI, Reuters, Salomon SB) see Table 6 on:

<http://www.bankofengland.co.uk/eu10ch2.pdf>

Development is constant, so ask for details (eg, one of the most popular features of the Merrill Lynch Global Index System is the facility for downloading from Open Bloomberg into Excel. Below are a few lines of 'Euro Corporates, 7-10 year, A rated' as at 4 May 1999). Transparency of selection rules, calculation methods and individual bond pricing are the hallmarks of the best systems. Make sure your bonds are, or will be, included and therefore visible: the result is likely to be improved primary and secondary market demand. ■

CRISPIN SOUTHGATE
European Credit Strategist
Merrill Lynch

Cusip	Descript	Ticker	Coupon	MtyDate	Rating	Price	ParAmt	ModDurTW	YldTW	Currency	Country	%Index
EC006865	BAT INTL FINANCE	BAT	5.375	July 28, 2006	A3	104.39	1000	5.711	4.643	\$DMY	UK	2.229
EC009098	PARIBAS	BNKPAR	5.625	August 7, 2008	A3	104.47	600	6.883	5.006	\$EUR	FRA	2.619
EC0062662	AKZO NOBEL NV	AKZO	5.375	November 17, 2008	A2	105.51	1000	7.253	4.643	\$DMY	NV	2.219
	ALCATELALST			February 2000		98.58	1000		4.556		F	2.000

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
Aggregate Industries	NR NR	GBP110	6.25	99.230 99.230R	8 Jul/09	190	0.500	HSBC Markets Warburg Dillon Read
Boots Co	A1 A+	GBP300	5.50	99.294 99.294R	26 May/09	92	0.375	Warburg Dillon Read Greenwich NatWest
British Telecommunications	Aa1 AAA	GBP600	5.75	99.8310 99.8310R	7 Dec/28	110	0.625	Barclays Capital
Gallaher Group	Baa2 BBB+	GBP300	6.625	99.792 99.792R	21 May/09	200	0.500	Dresdner Bank AG Goldman Sachs
International Endesa BV	Aa2 AA	EUR500	3.50	101.351 99.726R	1 Jun/04	34	1.875	Banque Nationale de Paris
McDonald's Corp	Aa2 AA	EUR300	3.375	100.867 99.292R	4 May/04	36	0.1875	Merrill Lynch & Co Société Générale
Nippon Telegraph and Telephone Corp	Aa1 AA+	EUR750	3.75	100.815 99.240R	15 May/06	40	1.875	Deutsche Bank AG Paribas

* 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.