Volatility spurs flight to quality
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Public sector debt issuance has soared this year with some bonds pricing at the tightest levels ever as credit investors turn to some of the safest instruments in volatile markets.

Debt issuance among these high-grade countries and institutions has jumped 46 per cent this year to $876bn, with its overall share of the market rising to 32 per cent compared with 15 per cent in 2007, according to Dealogic, the data provider.

Bankers say the sovereign, supranational and agency issuers are benefiting from a “flight to quality” and a “flight to liquidity”, with other markets, such as asset-backed bonds, slumping dramatically in the tough credit environment.

One of the main beneficiaries in this risk-averse climate has been the European Investment Bank, one of the biggest supranational issuers of bonds, which is considered as safe as most governments because it is unlikely to default.

The EIB last week priced a five-year dollar-denominated bond at its tightest ever level, illustrating the strength of the market for these triple A securities.

The $3bn deal was priced at midswaps minus 30 basis points, with orders rising to $4.4bn in less than three hours.

Bertrand de Mazières, director-general of finance at the EIB, said: “There has not only been a flight to quality but, perhaps more so, a flight to liquidity.”

Spencer Lake, global head of debt capital markets at HSBC, added: “It is a classic flight to quality but it is also a market that is open and liquid while others are very difficult to access.”

The jump in public sector issuance comes in spite of an overall slump in the new issues market, which has fallen 28 per cent this year to $2,733bn compared with the same period in 2007. Corporate, bank and asset-backed bond issuance have all seen falls since the credit crisis began, with the securitisation market slumping most dramatically with only $36bn of these securities issued this year compared with $315bn over the same period in 2007.

Another market that has suffered is the European high-yield bond arena, which has not seen a single issue since July last year.

However, even the triple A rated public institutions have had more difficulty in issuing bonds at longer maturities as many investors are reluctant to lock in prices beyond five years.

More than 80 per cent of public sector debt this year has been for bonds with five years or less to run, compared with 55 per cent during the same period in 2007.

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