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Credit Markets

Bond Deals Look to Pick Up --- Highly Rated Firms Are Poised to Re-Enter Market

By Romy Varghese

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Highly rated companies should sell a healthy amount of bonds in September.

But because many already have tapped the market, next month's tally of U.S. investment-grade corporate bonds mightn't be as impressive as it could have been. With investor demand for corporate debt expected to stay solid, financing costs will remain low for high-grade firms.

"Even though spreads [risk premiums] have come in materially, investors still see this as a fairly attractive market," said **Lorenzo Newsome**, chief investment officer of Xavier Capital in Largo, Md.

August is typically quiet, but not this time: About \$57 billion in U.S. dollar-denominated high-grade bonds have been sold this month, compared with \$31 billion last August, according to data provider Dealogic.

Market participants expect \$60 billion to \$70 billion in new bonds in September, when it could have been more than \$80 billion. Since credit markets froze last September, the tally was only \$21 billion, but \$85 billion was sold in September 2007.

Companies will be looking ahead to fund their needs for 2010. For some, capital expenses are back on the table, as well as exploring acquisitions and other ventures.

"As the markets have recovered and the broader financing environment has continued to improve, a growing number of issuers have begun to resurrect capital-expenditure plans," said Jim Merli, head of fixed-income syndicate, Americas, at Barclays Capital.

Also driving the new supply of bonds will be those who buy back their outstanding paper, said Jim Probert, head of investment-grade debt syndicate at Bank of AmericaMerrill Lynch.

Over the past two weeks, MeadWestvaco Corp. and R.R. Donnelley & Sons Co. have sold new notes due in 2019 and 2016, respectively, to fund buybacks of notes maturing

by 2012. Triple-B-rated Cardinal Health on Thursday launched a \$1.2 billion tender offer for debt maturing between 2011 and 2016. MeadWestvaco is considered investment grade by Moody's Investors Service, but junk by Standard & Poor's, while R.R. Donnelley has high-grade ratings by Moody's, S&P and Fitch Ratings.

Meanwhile, investors moving out of stock portfolios and traditional bond buyers continue to swamp new deals. Risk premiums have dropped to near the lowest levels seen over the past six months, to 2.54 percentage points over Treasurys, according to a Merrill Lynch index on high-grade corporate bonds.

Treasury Prices Decline

Despite Solid Auction

Treasury prices fell despite decent demand in a \$28 billion, seven-year-note auction.

While bond prices improved from lows early in the session, traders said there wasn't much follow-through buying following the auction. Yields have fallen back to the low end of the recent trading range, making bonds less attractive, traders said.

Such scant buying also forced dealers that have bet on a strong seven-year auction to sell bonds to cover long positions, wagers of further gains in bond prices. A rebound in U.S. stocks in afternoon trade also stole flows away from Treasurys.

Late Thursday in New York, the 10-year note was down 7/32 point, or \$2.1875 per \$1,000 face value, at 101 12/32. Its yield rose to 3.462% from 3.438% late Wednesday, as yields move inversely to prices.

-- Min Zeng

AUCTION RESULTS

Here are the results of the Treasury auction of seven-year notes. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

| | |
|--|--------------------|
| Applications | \$76,722,492,500 |
| Accepted bids | \$28,000,031,500 |
| Accepted noncompetitively | \$52,942,500 |
| Foreign noncompetitively | \$0 |
| Auction price (rate) | 99.424898 (3.092%) |
| Interest rate | 3% |
| Bids at market-clearing yld accepted | 46.29% |

Cusip number 912828LL2

Notes are dated Aug. 31, 2009, and mature Aug. 31, 2016.

Dow Jones [Newswires](#)

EXTRA CREDIT: High-Grade Supply Set To Slow In September

By Romy Varghese

A DOW JONES NEWSWIRES COLUMN

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Highly-rated companies should sell a healthy amount of bonds in September.

But since many have already tapped the market, next month's tally of U.S. investment-grade corporate bonds may not be as impressive as it could have been. With investor demand for corporate debt expected to stay solid, financing costs will remain low for high-grade companies.

"Even though spreads (risk premiums) have come in materially, investors still see this as a fairly attractive market," said **Lorenzo Newsome**, chief investment officer of Xavier Capital in Largo, Md.

August is typically quiet, but not this time - about \$57 billion in U.S. dollar-denominated high-grade bonds have been sold so far this month, compared with \$31 billion last August, according to Dealogic. Issuers, mindful of having been frozen out of the market last year and fearful of rising rates in the benchmark Treasury market, took advantage of low rates and got their funding needs covered.

As a result, market participants expect \$60 billion to \$70 billion in new bonds in September, when it could have been over \$80 billion. Because credit markets froze last September, the tally was only \$21 billion, but \$85 billion was sold in September 2007.

Companies will be looking ahead to fund their needs for 2010. For some, capital expenses are back on the table, as well as exploring acquisitions and other ventures in their industries, a sign that the economy is slowly emerging from the deepest recession in 80 years.

"As the markets have recovered and the broader financing environment has continued to improve, a growing number of issuers have begun to resurrect capital expenditure plans," said Jim Merli, head of fixed income syndicate, Americas, at Barclays Capital.

Also driving the new supply of bonds will be those who buy back their outstanding paper, said Jim Probert, head of investment-grade debt syndicate at Bank of AmericaMerrill Lynch.

"Absolute funding costs are very attractive now and by pre-funding maturing debt they are protecting themselves against the possibility of another dislocated market," he said.

About \$2.4 trillion in U.S. dollar-denominated high-grade corporate bonds mature next year through 2014, excluding callable bonds based on their first call date, according to Dealogic.

Over the past two weeks, Meadwestvaco Corp. and R.R. Donnelley & Sons Co. have sold new notes due in 2019 and 2016, respectively, to fund their buybacks of notes maturing by 2012. Triple-B-rated Cardinal Health Thursday launched a \$1.2 billion tender offer for debt maturing between 2011 and 2016. Meadwestvaco is considered investment-grade by Moody's Investors Service, but junk by Standard & Poor's, while R.R. Donnelley has high-grade ratings by Moody's, S&P and Fitch Ratings.

Meanwhile, investors shifting out of disappointing stock portfolios and traditional bond buyers continue to swamp new deals. Risk premiums have dropped to near the lowest levels seen over the past six months, to 254 basis points over Treasurys, according to a benchmark Merrill Lynch index on high-grade corporate bonds.

(Romy Varghese covers credit markets for Dow Jones Newswires. She can be reached at 215-656-8263 or at romy.varghese@dowjones.com)