

## International Bondletter

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Dear Sir

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Private placings in New York are virtually frozen out: the rise in US interest rates plus the premium demanded of foreigners, has made them too expensive. An original solution - the \$100m 12-year loan for C.N.T. made with American money by Paris-Bas with a f i x e d rate! The medium-term sector of the euro market remains the only one alive for borrowing but the golden days of the 3/8 spread are over. The eurobond market is more dead than ever: investors already standing resolutely on the sidelines because of inflation, now have new reasons for staying short. Monetary turmoil is manifest again because of competitive, beggar-my-neighbour policies in exchange rates. Reflecting these problems the latest straight bond issues are now private placings. In an effort to compete with the medium-term sector we could see long-term issues with f l o a t i n g rates.

The US capital market is now as dear as the eurobond market. For a foreign borrower the minimum cost for a first-class name in New York is 9 1/2%. These high rates have forced the postponement of the French National Railways (SNCF) \$75 million placement (long foretold and officially confirmed last week) which a month ago it had been hoped to get away at around 8 3/4%. Similarly the postponed City of Helsinki would now need to carry a coupon of 9 1/2% to stand any chance of success. This change in trend in US rates is likely to persist now for some time:

- \* The move towards higher rates reflects the US dilemma - the desire to avoid recession without stimulating inflations. Thus: the lax monetary policy of the "Fed" which was intended to counter recession, provoked an excessive rise in the American money supply (currently increasing at an annual rate of 7.1% against the Federal Reserves' self-imposed ceiling of 6%). This had to be checked because inflation is now running at 10% annually and the lifting of the oil embargo is expected to add fresh impulse to the rise in prices. At the same time the monetary ease restored confidence and induced a revival in c o r p o r a t e loan demands: the increase over the year ended March 13 was \$13.7 billion to reach a global total of \$112.4 billion.

The consequence: The prime rate is now at 9% waiting to return to 9 1/2%; 90-days commercial paper, after an increase over the week of 25 basis points, has risen to an average of 8.58% and as a result this has pushed up euro-dollar rates, e.g. 6-months up from 9 1/8 to 9 15/16. US banks are even obliged to borrow more euro-dollars again (global liabilities \$1.6 billion) which is rather ironic since \$3 billion US funds have gone into euro-dollars so far in '74 mainly on arbitrage.