



## **ANALYSIS-Global guaranteed bonds top \$100 bln, signaling thaw**

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NEW YORK, Dec 3 (Reuters) - Bond sales backed by the U.S. and European governments have soared to \$100 billion, marking the end of a drought in debt issuance that may ease the 16-month-long global credit crisis.

U.S. firms are on pace to sell more than \$37 billion in bonds using a week-old FDIC program, outpacing most analysts' estimates for issuance. And across the euro and sterling market, at least 21 guaranteed deals worth more than 50 billion euros (\$63.3 billion) have priced since October, according to IFR, a Thomson Reuters publication.

The burst of sales has cracked open one section of the debt markets that has been shut due to high borrowing costs and tighter credit conditions since the U.S. subprime mortgage and housing collapse last year.

The hope is that these sales will kick start regular corporate bond sales such as investment-grade bonds and even high-yield junk bonds which are yielding more than 22 percent -- a sign of what investors demand to take on the risk of holding those securities.

"It's not a proxy for corporate debt, but it's providing cheap funding for these institutions that need it," said Greg Habeeb, a portfolio manager at Calvert Asset Management in Bethesda, Maryland, where he oversees about \$7.5 billion in assets. "Hopefully, everything starts to get better, or at least stop declining."

While corporate bond spreads have soared to historic wide levels amid a year-long U.S. recession and widespread fears of rising defaults, the new sales are providing access to capital for banks. Those financial institutions, in turn, may begin to provide more loans to consumers in 2009 to help restart global growth.

Goldman Sachs' inaugural \$5 billion sale last week has rallied and been followed by a spate of bigger sales of bonds guaranteed by the Federal Deposit Insurance Corp.

The yield gap, or spread, for Goldman's 3.25 percent notes due in 2012 has narrowed 11 basis points to about 189 basis points over Treasuries since it priced last week, traders said.

*Rod Olea, a Beverly Hills, California-based director of fixed income at City National Asset Management, said his firm is "dipping our toes back into the credit markets" due to government-backed debt.*

*"It's like a government agency, it's got enhanced yield -- and it's better than corporate bonds."*

*Olea is using cash to buy FDIC-backed bonds and is considering sales of Treasuries and agency debt to fund purchases.*

Wells Fargo plans to price \$6 billion in bonds later Wednesday, according to IFR. GE Capital and the Royal Bank of Scotland also have new government-backed bonds in the works.

Bank of America sold \$9 billion on Monday, and GE also has \$139 billion of bonds in the pipeline to take advantage of the cheaper funding, the company said in November.

Meanwhile, corporate bond sales are beginning to follow. Hewlett-Packard and Caterpillar Inc were among companies that sold bonds this week.

"CROWDING OUT"

The FDIC's program follows a similar British plan put in place in October to help fill a financing gap for banks shut out of the corporate bond market.

One concern is new sales may benefit financial firms at the expense of industrial companies that also need to raise funding. Those firms may find it harder to price new bonds as the market gets saturated with new deals.

"There is a risk of a crowding out effect," said Eirik Winter, head of Citigroup's debt capital markets in London.

Another worry is the roughly \$900 billion of U.S. and European debt due to mature in 2009, which is putting the squeeze on companies that need to borrow at high costs.

U.S. high-yield bond spreads, for example, widened to a record 2,020 basis points on Dec. 1, and have been trading at distressed levels of over 1,000 basis points since September, according to Merrill Lynch & Co data.

Agencies and supranationals also are ramping up their budgets and traditionally hit markets early in the year.

"Investors are keen to buy new senior deals that are not covered by government guarantees," Winter said. "A lot of investors would probably prefer to take a wider margin on non-guaranteed debt because to a certain extent, the guarantees are implicit."

Winter said a month ago "pride would have played a greater part and some banks would not have used the guarantee, but pride has gone right out the window," he said. "It's more about access and surety of execution." (Additional reporting by Al Yoon and Lynn Adler in New York; Natalie Harrison in London, Editing by Chizu Nomiyama)

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