

World Bank breaks new ground with debut 3 year euro

World Bank extends global issuance outside dollar market with Eu1.5bn three year, achieving the tightest pricing seen for a non-sovereign borrower in the sector

The World Bank reinforced its unique position among supranationals this week by achieving the tightest ever pricing on a three year bond by a non-sovereign issuer in the euro market. It is the borrower's inaugural benchmark bond in the currency and its first outside the dollar market since 1998.

The Eu1.5bn transaction, increased from Eu1bn on the back of a book of Eu2.5bn, was priced at 5bp over Bunds, the equivalent of mid-swaps less 18.25bp. The previous record was set by KfW, which priced a three year at less 14bp.

The pricing is also 1bp through EIB's trading levels and probably 2bp to 3bp through where EIB would print a new issue.

"The end cost result was a little better than we were expecting," said George Richardson, principal financial officer at the World Bank in Washington. "We ended up with swaps less 18.25bp pricing. As the Obl is around less 22bp, this is a really good result. We would have had to issue 10 year dollars to beat that number and we don't think it would have been by much."

The investors who sponsored the deal have already been rewarded since the spread quickly tightened to 4bp over Bunds.

But the World Bank's rationale for spreading its wings outside the dollar market was not just a matter of cost. They were keen to cater to their loyal central bank investor base, which has been unable to buy them in euros before and in any European currency since they issued global Deutschmarks in the 1990s.

"What we had in this deal that a 10 year dollar would not have achieved was the record number of central banks that participated," said Doris Herrera-Pol, head of capital markets at World Bank Treasury. "Nineteen central banks came in, taking more than Eu1bn of the issue and in the end, we had 70% of the deal placed with central banks and other official institutions. We also had 70 tickets, which is a much larger number than we would have had in a dollar bond."

The aim was not just to sell to central banks. The World Bank wanted to expand its account base into European banks, fund managers and pension and insurance money and this was achieved with some 14% sold to banks, 10% to fund managers and 6% to pension and insurance funds.

"We are particularly pleased with the involvement of European fund managers and pension funds and retail banks in Switzerland, Italy and the Benelux," said Richardson. "Many of these investors would probably not have bought a dollar bond, so it was nice to include them."

ABN Amro, Deutsche Bank and HSBC won the mandate for this inaugural euro benchmark. The issuer was keen to focus on European banks as they are the ones that bring retail targeted flow business to issuers.

Deal brings visibility

According to Richardson, this deal has brought them a lot of new business and a lot more visibility. "Our overall borrowing programme is better off in terms of cost than if we would have continued on the path of the annual US dollar bond," he said.

The timing of the transaction was perfect, coinciding with euro government yields in their highest range for five years.

The deal did have its critics, one saying that if the World Bank was serious about the euro market it should have done a five year or 10 year, another describing it as just another Eu1 .5bn three year. But the detractors were outnumbered by bankers praising the issue for its trophy-like quality, for the supreme quality of its book and for this borrower's ability to price tighter than any of its peers in both euros and dollars.