Global Financing Guide
March 1994

A rare and valuable Kiwi

Amid the chaos of the international bond markets at the end of the first quarter, very few jumbo-sized deals got off the ground successfully. A notable exception was New Zealand's $1 billion floater brought by Morgan Stanley and UBS. It demonstrated that scarcity value, an improving credit outlook ad a sensibly-sized deal can overcome even the most bearish of markets. Michael Dee, executive director and head of syndicate at Morgan Stanley, explains: "New Zealand did an exceptional job walking the fine line between achieving tight pricing and ultimate success."

New Zealand takes a very sophisticated view of the way it accesses the international markets. Its last major Eurodollar bond, a $500 million fiver-year fixed-rate offering, also via Morgan Stanley, had pioneered the fixed price re-offer system.

A dearth of new issuance had followed the US interest rate rise. But three factors gave New Zealand a better chance than most of launching a successful deal. First, it was an extremely rare borrower – this would be its first floating-rate note since 1986. Second, the country's economy was improving and a package to reduce its budget deficit had been introduced, persuading Moody's to put it on creditwatch for an upgrade. And third, the borrower had just completed a highly successful roadshow with the minister of finance, Bill Birch, and had worked hard to update its investor base on the improving state of the economy.

The leads felt confident enough to bring the deal at $1 billion: "It was the right size. It conferred benchmark status on the issue, and attracted those major investors who were seeking liquidity in the FRN market," says James Garvey, executive director and head of sovereign and supranational marketing at UBS.

Given the state of the market it was important that the deal was launched quickly. Officially mandated on a Monday, it was priced and launched the following day. The coupon of Libor less 1/8% was a couple of basis points tighter than the market would ideally have wanted, but the rarity value compensated for this. Morgan Stanley and UBS had an extremely good working relationship, says Dee: "In distributing such a large and complex transaction – we sold the New Zealand deal into 15 different countries – the close working relationship that developed between the joint lead management team and the borrower greatly enhanced the deal's success."

Many of the bonds were sold to Asian accounts: "Demand for the bonds I Asia was mugh higher than we had anticipated. Listing the bonds locally in Hong Kong and Singapore undoubtedly helped this," explains Garvey. The next day the bonds were boosted by an upgrade of New Zealand's rating to Aaa. Garvey is full of praise for the borrower's contribution to the deal. "The New Zealand debt management office deserves a lot of credit for the success of the issue. The team operate in a highly professional manner, and clearly demonstrated an awareness of the needs of investors."