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Strategy Flash – Uruguay

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Uruguay Strategy Flash

Last week, the Ministry of Economy and Finance (MEF) and the Central Bank of Uruguay (BCU) jointly carried out an operation for the issuance and exchange of public securities in the domestic market, resulting in a total issuance of roughly USD0.9bn in Treasury Notes, including exchanges and new money.

The administration tapped local markets for USD0.9bn

Last week, the Ministry of Economy and Finance (MEF) and the Central Bank of Uruguay (BCU) jointly carried out an operation for the issuance and exchange of public securities in the domestic market, resulting in a total issuance of roughly USD0.9bn in Treasury Notes, including exchanges and new money. This represents 2.5 times the base amount tendered during the operation, highlighting the solid demand for Uruguayan domestic paper. Pension funds and local insurance companies spearheaded the demand, accounting for good part of the operation. UI Indexed Notes totaled 22% of the issuance (nearly USD201mn), while UYU Notes represented another 12% (USD106mn). The remaining 66% came in the form of UP Indexed Notes, as their issuance amounted to USD593mn, split into two different securities. Of the issuances, 77% (USD693mn) were exchanged for BCU LRM Notes and short-term Government Treasury Notes, with the government decompressing the maturity profile further, while the remaining 23% (USD207mn) were paid in cash, in either UYU or USD. Of the exchangeable securities, LRM notes due 2023 were eligible, in addition to UI Indexed treasury notes due 2023, 2024 and 2025. Finally, one Indexed UP Note due 2025 was open to the exchange, completing the picture. All in all, the government closed a successful issuance, with all re-tappings obtaining lower yields than in previous auctions, and with most issuances being made above their par value.

Figure 1: The demand for Uruguayan paper continues to be strong.

USDmn	Tendered Amount	Offered Amount	Issued Amount	Yield	Bid to Cover Ratio	Coupon
UI Indexed TN due 2029 (Series 31)	100	268	200	3.10%	2.68	3.25%
UYU TN due 2029 (Series 10)	102	230	106	10.38%	2.25	10.50%
UP Indexed TN due 2040 (Series 3)	148	401	296	2.11%	2.71	2.20%
UP Indexed TN due 2047 (Series 5)	148	350	296	2.14%	2.36	2%

Source: TPCG Research based on MEF

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With this, the administration was able to secure substantial financing sources early on in the year. GFN's for 2023 are estimated at USD4.1bn. The government's strategy for funding mainly relies on bond issuances, which should represent 90% of the financing sources for the year, amounting to USD3.7bn, in a context where the administration is trying to capitalize the always solid demand for Uruguayan paper. Last week's issuance mostly funded 2023 amortizations, as most exchangeable notes were due in 2023. Total amortizations for the year are expected to come at USD1.8bn, while the administration exchanged USD700mn in notes last week. In addition, the operation yielded some additional cash (nearly USD200mn) to fund the budget. With this operation, the administration has now issued nearly USD1050mn in local notes since the start of the year, of which USD900mn came from this special auction, while the remaining USD150mn came from the normal operations within the framework of the MEF's issuance calendar. This amounts to nearly 30% of the expected issuances for the year, with the administration replicating last year's strategy of moving early and securing substantial funding from local sources early on in the year.

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