Juan Manuel Pazos
Chief Economist
+54 11 4898 6606
jmpazos@tpcgco.com

Santiago Resico
Strategist
sresico@tpcgco.com
+54 11 4898 6615

Uruguay Strategy Flash

Uruguay announces the issuance of a global UYU 2033 bond

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Today Uruguay announced a tender offer to repurchase part of its global USD, UYU, and UI curves, as a liability management operation surrounding the issuance of a new 2033 global UYU bond. The bonds up for exchange or repurchase are, on the Global USD curve, the 2024s, 2025s, and 2027s. In the nominal space, the administration launched the tender offer for the two existing securities, the 2028s and 2031s. Finally, in the UI curve, the administration selected the 2027s and 2028s as eligible for the exchange. The tender offer commenced at 8 am EST, Jul-11th, and will end at 12 pm (noon) EST Jul-11th for non-preferred tenders and 2 pm EST Jul-11th for preferred tenders. The settlement of the offer is scheduled to occur on Monday, Jul-17th. In addition to the purchase price, holders will receive any accrued interest for the bonds. The offer does not disclose a maximum purchase amount, which will remain at the administration's discretion. In addition, the offer will be conditioned by the pricing of Uruguay's new issuance, the UYU GBI eligible global bond due 2033, which will be announced by 4:30 pm EST today.

Figure 1: The administration's tender offer

	Amount Issued (in USD)	Amount Outstanding (in correpsonding currency)	Amount Outstanding (USDmn)	Purchase Price (in corresponding currency, per 1000 in principal amount)
Global USD bonds				
URUGUA24	2000	627	627	1000
URUGUA25	500	175	175	1022.5
URUGUA27	2100	1426	1426	993.5
Global UYU bonds				
URUGUA28	834	31603	834	963.75
URUGUA31	1355	51332	1355	933.75
Global UI bonds				
URUGUA27	320	9915	262	1035
URUGUA28	1051	32848	867	1058.75

Source: TPCG Research based on prospectus provided by the Republic of Uruguay

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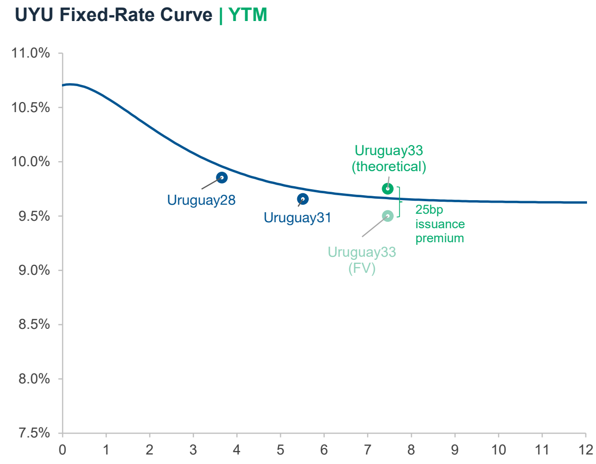
Looking at the current bond curve for UYU and UI securities, we find an issuance for a 10-year maturity should post an FV of around 9.50%. With the tenor already confirmed, IPT puts the issuance rate of the security at 10%. In addition, the administration hinted that they would privilege rate over size, targeting around 1bn. We believe the IPT rate to be somewhat wide relative to our estimation of the FV of the bond. In addition, we find that the total amount issued (including new money and the LMO), should exceed USD1bn by some margin. We estimate the FV of the issuance firstly by looking at the implicit real rate for a 10-year maturity in the global linkers curve. We find that it comes to 3.45%. Thus, considering a 6% inflation rate, the nominal issuance's fair value should come to around 9.5%. The administration pointed out that they would closely monitor the beak-even rate in the issuance, suggesting it should be consistent with the BCU's target range. That strengthens our view that the inflation rate premium implicit in the issuance should hover around the CenBank's upper bound of +6%, which is also consistent with the current yoy rate of +5.98%. All in all, we estimate the FV of the new issuance at 9.5%. Still, we also expect the administration to offer a 20-30bp issuance premium, which would put the final rate of the bond near the 9.7%-9.8% mark, 20bp tighter than the mentioned IPT. Considering that rate, we believe the administration should be able to raise around USD1.25bn, composed of roughly USD1bn in new money, and USD250mn in bond exchanges.

Figure 2: We estimate the FV of the issuance at 9.5%



Source: TPCG Research based on TPCG Trading Desk

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Strategy-wise, we maintain our OW rating on the LCD side, as we find current macro-fundamentals to be supportive of the local currency side. Inside the space, we maintain our preference for the nominals. Even as the attractiveness of the issuance will finally depend on its idiosyncratic factors, we do believe the class of instrument is attractive, as macro fundamentals have aligned to strongly support the UYU-denominated space in the last months. As we highlighted in our previous reports, we believe the idiosyncratic FX dynamics should remain strong during 2H23, having surpassed the worst of the hit to agriflows due to the drought and with the Treasury turning into a net supplier of USD after the current issuance. The BoP flows of 1Q23 do point in that direction as well. In addition, we believe the CenBank will continue to lower the nominal policy rate, but real rates should continue to stand at attractive levels, triggering a compression of the UYU curve. We also believe the effect of the BCU's more dovish policy should moderate the FX trend, but net-net, it should be outweighed by the aforementioned positive drivers. All in all, with a strong FX, compressing nominal rates, and strong real rates, we continue to believe the macro scenario should be very supportive of the nominal space.

TPCG Analysts & Staff

Research			
Juan Manuel Pazos	**Chief Economist**	**jmpazos@tpcgco.com**	**+54 11 4898-6606**
Paula La Greca	Corporate Research Analyst	plagreca@tpcgco.com	+54 11 4898-6638
Federico Martin	Strategist	famartin@tpcgco.com	+54 11 4898-6633
Santiago Resico	Strategist	sresico@tpcgco.com	+54 11 4898-6615
Sales & Trading			
Juan Manuel Truppia	**Head of Sales & Trading**	**jmtruppia@tpcgco.com**	**+54 11 4898-6659**
Institutional Sales			
Lucia Rodriguez Pardina	S&T Director	lrodriguezpardina@tpcgco.com	+54 11 4898-6614
Agustina Guadalupe	Sales	aguadalupe@tpcgco.com	+54 11 4898-6682
Maria Pilar Hurtado	Sales	mhurtado@tpcgco.com	+54 11 4898-6616
Juan Ignacio Vergara	Sales	jivergara@tpcgco.com	+54 11 4898-1936
Santiago Baibiene	Sales	sbaibiene@tpcgco.com	+54 11 4898-6648
Pedro Nollmann	Sales	pnollmann@tpcgco.com	+54 11 4898-6617
María Ruiz de Castroviejo Salas	Sales	mruizdecastroviejo@tpcgco.com	+54 11 4898-6643
Victoria Faynbloch	Desk Analyst	vfaynbloch@tpcgco.com	+54 11 4898-6635
Trading			
Felipe Freire	Trader	ffreire@tpcgco.com	+54 11 4898-1921
Homero Fernandez Bianco	Trader	hfbianco@tpcgco.com	+54 11 4898-6667
Andres Robertson	Trader	arobertson@tpcgco.com	+54 11 4898-6693
Corporate Finance			
José Ramos	**Head of Corporate Finance**	**jramos@tpcgco.com**	**+54 11 4898-6645**
Corporate Sales			
Camila Martinez	Corporate Sales Director	cmartinez@tpcgco.com	+54 11 4898-6621
Fernando Depierre	Corporate Sales	fdepierre@tpcgco.com	+54 11 4898-6636
Sol Silvestrini	Corporate Sales	ssilvestrini@tpcgco.com	+54 11 4898-6641
Nicolas Iglesias	Corporate Sales	niglesias@tpcgco.com	+54 11 4898-6612
Capital markets			
Nicolás Alperín	DCM	nalperin@tpcgco.com	+54 11 4898-6604
Asset Management			
Ileana Aiello	**Portfolio Manager**	**iaiello@tpcgco.com**	**+54 11 4898-6611**
Claudio Achaerandio	**Portfolio Manager**	**cachaerandio@tpcgco.com**	**+54 11 4898-6618**

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