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Uruguay Strategy Flash

Uruguay's 2033 UYU - global issuance came out at a 9.75% rate

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Uruguay announced the results of the tender offer and bond issuance submitted yesterday, with the entire operation amounting to USD1.264mn, and with the 2033 bond coming out at a 9.75% rate. Yesterday Uruguay managed to successfully issue the expected GBI-eligible, 10-year tenor, global UYU bond. The total amount of offers to purchase the security amounted to USD1.8bn, which resulted in the administration raising USD1bn in new money, with the rate closing in at 9.75%. This was consistent with our view, which priced the FV of the issuance at 9.5% and added a 25bp issuance premium to estimate the final rate (for additional information, click here). In addition to the new money raised by the administration, the tender offer to swap or sell existing bonds of the USD, UI, and UYU curves resulted in a total of USD264mn. The administration focused solely on the shorter tenors of all curves, as it accepted all preferred tender offers for both the UI27s and the UYU28s. The administration accepted to swap around USD90mn of the UI27s, with nearly 2/3s of the operation corresponding to the UYU28s, for which USD160mn were accepted. However, it did not accept any offers for its longer counterparts, the UI28s and UYU31s. On the global USD curve, the accepted offers were testimonial, amounting to USD4.1mn for the 2024s, USD0.3mn for the 2025s, and USD7.2mn for the 2027s. With this, the operation finally amounted to USD1.2bn, which was also in line with our estimates. Even as demand for the bond was somewhat underwhelming, driven by less interest from local players and a relatively rich closing FX (37.8819), the fact that the administration was able to raise over USD1bn on a nominal bond issuance denotes the existing interest for this type of security in the market.

Figure 1: The administration's tender offer results

	Amount Issued (in USD)	Amount Outstanding (in correpsonding currency)	Purchase Price (in corresponding currency, per 1000 in principal amount)	Principal Amount of tender offers Accepted (in mn of corresponding currency)	Principal Amount of tender offers Accepted (in USDmn)
Global USD bonds					
URUGUA24	2000	627	1000	4.1	4.1
URUGUA25	500	175	1022.5	0.3	0.3
URUGUA27	2100	1426	993.5	7.2	7.2
Global UYU bonds					
URUGUA28	834	31603	963.75	6078	160
URUGUA31	1355	51332	933.75	0	0
Global UI bonds					
URUGUA27	320	9915	1035	978	91
URUGUA28	1051	32848	1058.75	0	0

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

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With the final numbers in hand, we believe the administration still has room to tap international markets once more during 2H23, to cover its GFNs. In the recently published Budget review, the administration estimated financing needs for 2023 at nearly USD4.9bn, composed mainly of a USD0.6bn primary deficit, USD1.9bn in interest payments, and USD2.3bn in amortizations. On the sources side, the administration expected to secure 0.45bn from IFI funding and tap markets for nearly USD4.3bn. Up until the issuance, the government had managed to raise USD1.5bn, coming mostly from an extraordinary auction of local notes held by the treasury at the start of the year, and the scheduled auction calendar of local notes. With the new global issuance, we find the administration's total tap adds up to USD2.7bn, leaving nearly USD1.6bn in issuances up until the end of the year. With the extraordinary auction early in the year having raised

0.9bn, we find the scheduled auction calendar could be able to collect another USD1bn in the entire year. In addition to yesterday's tap, that leaves the administration with a USD1.2bn gap. With this in mind, we believe the administration could try to issue another international bond before the end of the year. Having exhausted the appetite for nominal securities, we believe a new issuance could come in the shape of an UI-linked global bond, or a hard currency USD issuance.

Figure 2: The govt. still needs to tap markets for around USD1.2bn

USDmn	2023	2024	2025	2026	2027
Financing Needs	**4,898**	**4,355**	**4,827**	**4,190**	**4,704**
Primary Deficit	588	234	-26	-60	-16
Interest Payments	1,945	2,043	2,086	2,096	2,135
Principal Payments	2,288	2,109	2,800	2,189	2,608
Change in Financial Assets	78	-31	-34	-35	-24
Secure Financing Sources	**4,898**	**4,355**	**4,827**	**4,190**	**4,704**
IFIs	450	250	250	250	250
Bond Issuance	4,285	3,993	4,464	3,826	4,336
Other (net)	164	112	113	114	118

Source: TPCG Research based on MEF

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With most of the interest in the new UYU33 coming from abroad, we expect most subscriptions to come in USD, turning the Treasury's stance in the FX market to a net supplier of USD. Recently, the administration caved to the protests surrounding the appreciating exchange rate and started selling excess UYU in the FX market to placate the advance of the UYU vs the USD. Even as the BCU faced the same pressures, the administration decided to opt for the more elegant solution, to avoid compromising the CenBank's credibility, as the latter had been advocating for a non-intervention policy in the FX market since late 2022. However, we find this strategy will no longer be available for the administration, as with most subscriptions to the new issuance coming in foreign currency, the treasury will now have excess dollars to pay off its liabilities in UYU, as the bond will be used for general proceeds and government funding. This means that the treasury will be forced to sell the USD in the FX market, changing its stance from net demander of USD to net supplier. And if the administration issues another global bond, then this stance should last at least until the end of the year. With this in mind, we find evidence to support the fact that the FX should continue strong, as the Treasury stance, in addition to more supportive international accounts and BoP flows during 2H should outweigh the effect of a more dovish monetary policy carried out by the BCU.

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We find the final pricing of the bond attractive, as we expect the nominal curve to compress slightly in the short run. As highlighted in yesterday's piece, we believe the macroeconomic scenario going forward should support our long position in local currency and should prove especially beneficial to the nominal space. With the UYU33 having come out at 9.75%, we believe it offers an interesting carry, with a real rate of nearly 3.75%. In addition, the security has compression prospects in the short term, as, once the bond has entered into the GBI index, then ETF demand should appear, forcing the bond to tighten. All in all, we find the deal to be attractive at these levels.

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