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Uruguay Strategy Flash

Uruguay's new global CPI-linked issuance came out at 3.4%

Uruguay announced the results of the global tender offer and bond issuance submitted yesterday, with the entire operation amounting to USD1.8bn. The new global UI 2045 bond came out at a 3.4% rate, while the retap of the UYU 2033 was issued at 9.15%.

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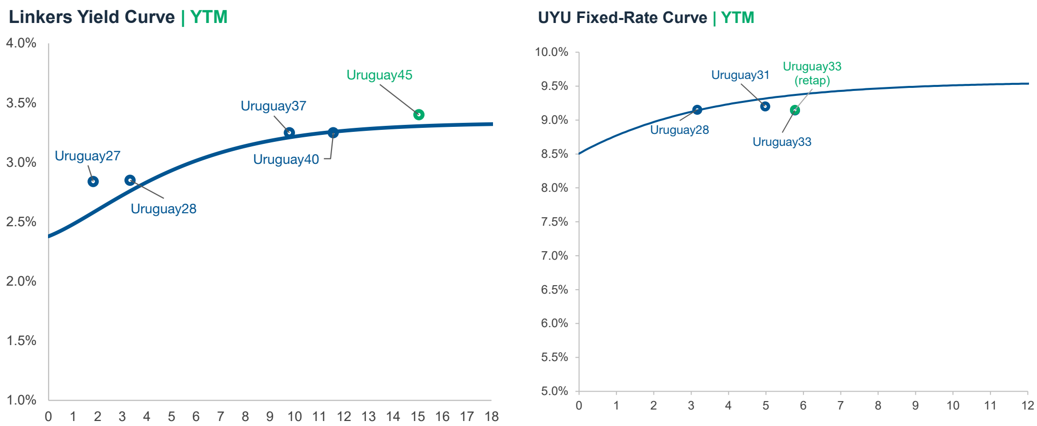
Figure 1: The UI45's launched at 3.4%, while the UYU33's were re-tapped at 9.15%



	Amount Outstanding (in corrpesponding currency mn)	Amount Outstanding (USDmn)	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 UI bonds					
URUGUA27	9915	943	1030	2560	244
URUGUA28	32848	2217	1050	0	0.0

Source: TPCG Research based on TPCG Trading Desk

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In terms of pricing, we find both bonds came out close to their fair values, capping compression prospects, even if the UI security might offer some juice on the back of a stable FX and higher-than-expected inflation. Both the new UI45 and the retap of the UYU33 came out very close to their respective fair values, with the former offering a 10bp premium, while the latter came out in line with its secondary market trading rate. This, in turn, caps compression prospects in the short term, especially on the nominal side, with inflation expectations near lows and the BCU's policy rate already standing in between neutral and dovish territory. In turn, the fact that most demand for the nominals came from offshore showcases there is little juice left in the UYU33's, with the bond being GBI-elegible. In terms of the linker issuance, even if compression is capped, we still find that the CPI-linked security can have some upside. With the performance of the FX continuing to be robust, and inflation BEI's standing at very tight levels, there is room for the REER to appreciate more than initially envisaged, which could yield some additional upside in the medium run in USD. In our view, structural inflation is still closer to the 6/7% mark than to the center of the BCU's target range, especially with the government's current policy bias. Compounded with the strong compression of inflation expectations in recent months, there could be some upside in the linker space in the medium run, in addition to it being a better hedge against a second semester that could be somewhat bumpy, with both elections and the social security referendum poised to take place.

Figure 2: The administration's GFNs suggest a USD1bn international tap in 2H24

USDmn	2022	2023	2024	2025	2026	2027
Financing Needs	**5,140**	**5,263**	**4,438**	**4,827**	**4,190**	**4,704**
Primary Deficit	722	716	243	-26	-60	-16
Interest Payments	1,667	1,896	2,062	2,086	2,096	2,135
Principal Payments	2,604	2,842	2,068	2,800	2,189	2,608
Change in Financial Assets	147	-191	65	-34	-35	-24
Secure Financing Sources	**5,140**	**5,263**	**4,438**	**4,827**	**4,190**	**4,704**
IFIs	571	987	325	250	250	250
Bond Issuance	3,992	4,269	4,015	4,464	3,826	4,336
Other (net)	576	7	98	113	114	118
Net Indebtness Cap	**1,860**	**2,860**	**2,300**	**-**	**-**	**-**

Source: TPCG Research based on MEF

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With the final numbers in hand, we believe the administration would still need to tap international markets again during 2H24 to cover its GFNs. The administration's most recent estimate of its financing needs points at around USD4.44bn for 2024, composed mainly of a USD0.25bn primary deficit, USD2.1bn in interest payments, and USD2.1bn in amortizations. On the sources side, the administration expected to secure 0.325bn from IFI funding and tap markets for nearly USD4bn. This year, the administration's funding strategy did not rely as heavily on tapping the local market early in the year. In the last two years, by May, the Treasury had held extraordinary local auctions in 1Q, which had raised around USD1bn in rollover. It complemented the regular auction calendar, which by 1H had collected USD0.5bn in net new money, totaling about USD1.5bn in gross issuances over 1H. In 2024, on the other hand, the administration did not issue as much local paper, with issuances up until now totaling USD540mn (157mn in UI, USD247mn in UP, and USD135mn in UYU). So, with the new global issuance, we find the administration's total tap adds up to USD2.1bn, leaving nearly USD1.9bn in net financing needs to be raised by the end of the year. Generally, the Treasury's funding strategy relies on a rough 50/50 split between local and international financing. In this context, we expect the scheduled local auctions to provide another USD500mn, which, in addition to the ones held during 1H24 and possibly a set of extraordinary local taps, could contribute USD1.5bn to the funding mix. This leaves a USD1bn gap, which probably means the Government will return to international markets during 2H24. Having already tested the appetite for both CPI-linked and nominal securities, we envisage a new issuance coming in the shape of a hard currency USD bond, even if, given the size, it might opt to retap some of its existing series in more than one space.

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