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Strategy Flash – Uruguay

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# Uruguay Strategy Flash

**Today Uruguay announced a tender offer to repurchase part of its global and local UI curves, as a liability management operation surrounding the issuance of a new 2045 global UI bond, and a re-tap of the global UYU 2033.**

## Uruguay announces the issuance of a global UI 2045 bond

Today Uruguay announced a tender offer to repurchase part of its global and local UI curves, as a liability management operation surrounding the issuance of a new 2045 global UI bond, and a re-tap of the global UYU 2033. The new issuance is poised to have the usual structure of the UI bonds, sinking in three equal installments in the last three years. The bonds up for exchange or repurchase are, on the global UI curve, the 2027s, and 2028s. In addition, the administration is tendering some of its local UI notes, maturing on Jun-24 and May-25, respectively. Furthermore, the tender offer on the local side also includes the Monetary regulation bills of the BCU. The tender offer commenced at 8 am EST, May-8th, and will end at 12 pm (noon) EST May-8th for non-preferred tenders and 2 pm EST May-8th for preferred tenders. The settlement of the offer is scheduled to occur on Tuesday, May-14th. 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 UI global bond due 2045, and the recap of the UYU33, which will be announced by 4:00 pm EST today. On the local side, the offer will start once the allocation of the global bonds is determined (near or around 4:30pm today), and last until Friday (May-10th) until 2:00pm.

**Figure 1: The administration’s tender offer**

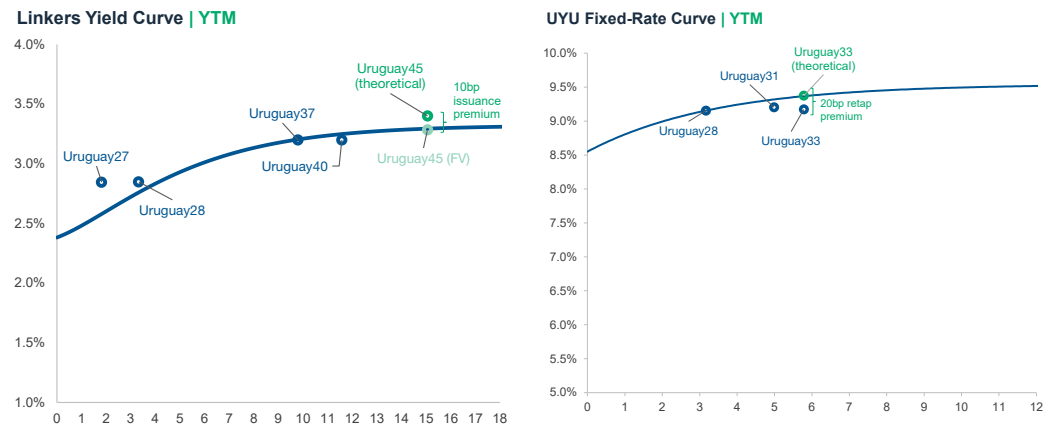
	Amount Outstanding (in corresponding currency mn)	Amount Outstanding (USDmn)	Purchase Price (in corresponding currency, per 1000 in principal amount)
<b>Global UI bonds</b>			
URUGUA27	9915	943	1030
URUGUA28	32848	2217	1050
<b>Local UI notes</b>			
Series 13 (May-25)	4220	319	1023.78
Series 27 (Jun-24)	1147	39	1013.81
<b>LRM notes</b>			
5/20/2024	11903	309	998.75
5/31/2024	13944	362	996.26
6/3/2024	10647	276	995.59
6/5/2024	10208	265	995.15
6/12/2024	12562	326	993.60
6/21/2024	9838	255	991.59
6/26/2024	9169	238	990.50
7/3/2024	9826	255	988.95
7/5/2024	8366	217	988.51
7/10/2024	8749	227	987.40
7/12/2024	11808	307	986.96
7/19/2024	10609	275	985.42
7/26/2024	8959	233	983.88
7/31/2024	6200	161	982.78
8/2/2024	8763	228	982.38
8/9/2024	12816	333	980.80
8/30/2024	9025	234	976.20
9/6/2024	10735	279	974.67
9/25/2024	10612	276	970.53
10/4/2024	11033	286	968.58
10/18/2024	9472	246	964.18
11/1/2024	4038	105	962.50
11/15/2024	6473	168	959.48
12/27/2024	8869	230	950.45
1/17/2025	11734	305	945.96
1/29/2025	15680	407	943.40
2/7/2025	10401	270	941.49
3/7/2025	17332	450	935.54
4/25/2025	14031	364	925.18
4/30/2025	10781	280	924.15
5/2/2025	4947	128	923.73
6/25/2025	8737	227	912.44
10/1/2025	8467	220	892.22
12/30/2025	3628	94	873.93

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

Looking at the current bond curve for UYU and UI securities, we find an issuance for a 21-year maturity in the UI curve is likely to launch around 3.4% and should have a FV of around 3.3%, offering 10bp in primary market premium. We expect a slightly wider premium for the UYU33 retap.

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**Figure 2: We estimate that the new UI45 could launch at 3.4%, offering 10bp of juice relative to its FV**



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 linkers. Even as the attractiveness of the issuance will finally depend on the specifics of the offer, 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 anchored during the coming months, as with significant agriflows still to come, the USDUYU is bound to experience some pressure to the downside during 2Q24. So, with solid exports and a relatively anchored FDI account, the 1H24 should continue to be positive for the FX. However, the 2H24 could be tricky for the exchange rate, as agriflows dry up, and with the election cycle generating some additional volatility, in addition to FDI flows losing further steam. In terms of inflation, while the current headline index paints a very favorable picture, we still believe that structural inflation stands near the 6-7% mark, over market consensus, and the trend should tend to converge to these levels in the medium run. Compounding our view with our estimation of the real rate offered by the new issuance, we find that currently linkers edge nominals slightly. In addition, CPI-indexed securities provide a better hedge against a regime change in the upcoming elections, as an FA administration will surely be much less concerned about keeping inflation

inside the BCU's target than the current government coalition. Finally, in this issuance, technicals also favor the linker side, as with the UYU33 quoting over-par, the retap looks less attractive than the new, CPI-linked security.

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