Treasury announces local currency issuance calendar for US$7 billion

Ongoing efforts to seek increased non-resident participation investment

Cristóbal Gamboni / Hermann González / Waldo Riveras / Jorge Selaive

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The issuance calendar published May 10th by the Ministry of Finance does not necessarily mean the issuance of less debt than that authorised in the Budget Act. However, we estimate an effective fiscal deficit of around US$8 billion, which would mean that borrowing required for this year would be US$10.5 billion at most, US$1 billion less than the limit authorised by the Act.

To the US$7 billion announced as issued in the domestic market will be added auctions of US$2 billion of domestic peso bonds at 5 and 20 years, in which foreign investors can participate directly. After around 22% was allocated to non-residents in the last auction in January, we expect a somewhat higher participation in view considering composition and term of the issuance. This aspect will determine the market reaction to this announcement.

Additionally, we expect around US$2 billion of debt to be issued in foreign currency, which we expect to be announced in the next few months, most likely in July/August.

The announcement of Treasury issues of US$7 billion, in contrast with the US$9 billion of space for indebtedness announced in January, relates not to a change in amounts, but to the portion of these issues that will be carried out through the central bank (from May to October). The remaining US$2 billion will be issued in a similar way to the bond to finance Codelco (state-owned copper mining company) at the beginning of the year (18 January, US$1.5 billion), that is to say simultaneously in the domestic and international markets.

According to the information published, the US$7 billion announced for the domestic market would be at 5-, 20- and 30-year terms, with half being issued in pesos and the other half in UF (*Unidades de Fomento*, CPI-adjusted units of account). The difference relative to what was announced in January is in the US$2 billion worth of peso-denominated bonds, which will be open to participation by foreign investors and of which US$1 billion is at 5 years and the other US$1 billion at 20 years (Table 1). Foreigners' preference for longer term bonds could lift their holdings relative to that seen in the issue at the beginning of the year when only one five-year domestic peso bond was open to placement. Indeed, this would allow the entry of foreigners into the primary/sovereign debt market to be increased, and possibly with space reserved for them, allowing a somewhat higher allocation than that achieved at the beginning of the year (approximately 22%). This last aspect, with some agents hoping for a substantially higher allocation than that of last January and other expecting similar ratios, will probably determine the effect of this announcement on interest rates.

Table 1. Issues in domestic currency announced for 2017 (US$ millions)

	January 2017			May 2017			Difference		
Term	Pesos	UF	Total	Pesos	UF	Total	Pesos	UF	Total
5 years	2,000	1,300	**3,300**	1,000	1,300	2,300	-1,000	0	**-1,000**
10 years	-	-	**-**	-	-	-	-	-	**-**
20 years	1,750	1,200	**2,950**	750	1,200	1,950	-1,000	0	**-1,000**
30 years	1,750	1,000	**2,750**	1,750	1,000	2,750	0	0	**0**
Total	**5,500**	**3,500**	**9,000**	**5,500**	**3,500**	**7,000**	**-2,000**	**0**	**-2,000**

Source: Ministry of Finance, BBVA Research

We estimate that it will be necessary to issue public debt for a total of US$10.5 billion this year, less than the limit of US$11.5 billion authorised by Congress in the Budget Act. According to the Ministry of the Treasury's statements during the budget debate, the US$11.5 billion upper limit on indebtedness allowed by the Budget Act assumed US$9 billion to finance the deficit, US$1 billion for sovereign funds, US$1 billion for *bonos de reconocimiento* (former pension system bonds) and US$0.5 billion for loans from multilateral bodies.

We maintain now, as we did then, that this amount allows a financing margin, since this year's fiscal deficit is estimated at around US$8 billion. For September a deficit of around that figure was already being estimated, and now, even though the 2.25% growth projection for 2017 contained in the Budget Act is seen as unattainable (BBVA: 1.6% with a downward bias), higher copper prices are helping to sustain a deficit that leaves a financing margin of around US$1 billion (the price of copper in the Budget Act was: US$2.20/lb. BBVA: US$2.54/lb.). **In this way, gross debt would reach 24.7% of GDP at year-end, somewhat reducing the rate of growth in debt, a point that has been criticised by the rating agencies.**

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