IFR LATIN AMERICA CAPITAL MARKETS BRIEFING

REGION BENCHMARKS

Bond	Mid-Market	Variation
Brazil23s	89.35	unch
Mex 22	102.1	+30ct
Boden 15	92.35	+1.35
Vene 22	104.6	+2.10

Source: Thomson Reuters

CDS BENCHMARKS

Contract	Level	Variation
Brazil 5-yr	163bp	-7bp
Mex 5-yr	111bp	-2bp
Arge 5-yr	2900bp	-100bp

Source: Thomson Reuters

MOST TRADED BONDS

Bond	Mid-Market	Variation
OGX2018s	14.9	-30ct
Petbra23s	270bp	-11bp

Source: Thomson Reuters

DCM LEAGUE TABLE

Bank	Total US$(m)	No. of deals
JP Morgan	7,374.1	23
Citi	6,726.2	27
BofA Merrill Lynch	5,264.0	22
HSBC Holdings PLC	4,626.5	14
Deutsche Bank	4,155.0	17

Source: Thomson Reuters

PARAGUAY might have to wait until 2014 before moving forward with a US$300m 10-year global depositary note as the new government of president-elect Horacio Cartes, the tobacco magnate who won the poll in April, was still preparing to take the reins of power later this year, Central Bank President Jorge Corvalan, told IFR in a phone interview.

Barring delays resulting from the political process, however, the country is looking to become a frequent issuer in the international debt markets, and the GDN, an instrument designed to give foreigners access to the local currency market, should be one of several deals to emerge from the landlocked Latin American country in years to come.

Citigroup has the mandate for the GDN issue and had been expected to bring the sovereign to market as soon as April this year.

"Other than the GDN, the government wants to be in the capital markets every two years. So, we see us coming again with a dollar bond in 2015 as we came with a very successful trade this January," said Corvalan.

In January, the sovereign issued a new 10-year dollar bond, marking its first international bond in recent years. The 4.625% final yield was seen as an impressive result and defied expectations in coming inside Bolivia's own 10-year, which was trading around 4.80%–4.90% at the time.

Paraguay's 2023s has since widened to 5.40% in a market that is less receptive to off-the-run credits like this one. Indeed, the risk-off backdrop in the face of widening in US Treasury yields has raised doubts in bankers' minds over whether or not a Double B EM sovereign like Paraguay could even access the dollar markets at the moment, yet alone a local-currency GDN.

Earlier in the year, Corvalan argued that the substantial spread differential between where the dollar bond was trading and the higher returns offered in local currency would act as an incentive, although rival bankers wondered if a small GDN issue would sit well with investors, who were now putting a premium on liquidity.

"Our goal, in addition, to lengthening our yield curve, is to encourage more private-sector companies to come to the markets," Corvalan said.

Several Paraguayan corporations took advantage of the QE-induced liquidity surge to tap dollars over the last few years, but with mixed results. In June 2012, the country's largest bank, Banco Continental Paraguay, was forced to pull a US$200m five-year bond on the day of settlement after the ouster of President Fernando Lugo raised questions over whether or not a negative material development had taken place. Once the dust settled, it returned last October to price a US$200m five-year bond at par to yield 8.875%.

Telefonica Celular del Paraguay, or Telecel, also came in December 2012 when it issued a US$300m 10-year non-call five at par with a coupon of 6.75%, coming tight to initial price discussions of low 7s. Corvalan expects another Paraguayan financial institution to try its hand at the dollar market this month or in August.

BANCO DO BRASIL broke the lull in Brazilian issuance yesterday to print an upsized €700m five-year bond, the country's first large-core currency bond since May.

A euro deal was seen as guaranteeing greater certainty of execution and, hence, was a better option to test the international buy-side's appetite for Brazilian risk, say bankers. A dollar deal for any Brazilian issuer is greater gamble at time when US investors remain risk-averse in the face of a potential unwinding of QE and are increasingly taking a negative view on growth prospects in region's largest economy. "This is good catalyst for issuer to see how the market reacts [to Brazilian names]."

The deal also puts this currency back on the agenda for LatAm borrowers, validating America Movil's euro trade earlier this week. LatAm borrowers that typically favor dollar financing may see cost advantages in tapping euros amid diverging central bank policies in the US and Europe. While US Treasury yields are moving higher as the Fed talks about withdrawing QE support, poor growth in the euro-zone means the ECB will cap on rates for now.

"My view is that we will have a window opening in the euro and sterling markets in the next few months, with good pricing versus dollars," said a DCM banker at a European bank.

For Latin America, however, bankers only see a handful of potential candidates, namely companies that already have a presence in euros rather than any debut names at this

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point. This includes Brazil mining company Vale, Mexican state-owned oil company Pemex, conglomerate Votorantim and Petrobras, which has already expressed an interest in issuing in both sterling and euros later this year.

A €2.2bn (US$2.9bn) book underscored robust demand for LatAm credits, despite growing buy-side skepticism about the Brazil story. It also allowed the borrower to tighten from initial price thoughts of 4% area and upsize from a minimum target of €500m before pricing at 99.442 with a 3.75% coupon to yield 3.875%, or mid-swaps plus 283.9bp. In all, about 280 accounts participated, with demand coming from fund managers (50%), private banks (20%), banks and financial institutions (15%), as well as insurance companies (10%).

Unsurprisingly, interest was seen mostly in Europe (76%), namely Germany (17%), UK (17%), Switzerland (17%), and France (7%). Other regions participating in the transaction included Asia (9%), North America (8%) and the Middle East (5%).

On a spread-to-spread basis, some bankers saw the 283.9bp flat to slightly wide to the bank's interpolated dollar curve, but, post-basis swap, the borrower would end up paying another 22bp–25bp. That was seen as a cost worth absorbing as a euro tap fits into Banco do Brasil's strategy of diversifying its funding base in a region where it already has a banking presence.

While leads had the new-issue concession at 15bp–17bp, rival bankers were calculating something closer to 30bp. Admittedly, with just one bond outstanding in the euro market, such calculations are difficult at best. "It looked a little cheap, though Banbra 2016s are, perhaps, just trading too tight," said a rival banker. "The 2016s were mid-swaps plus 235bp."

The senior unsecured issue will be listed in Luxembourg and governed under English law. Settlement will be on July 25 2013, while maturity falls on the same date in 2018. *BB Securities*, *Bradesco BBI*, *Deutsche Bank*, *HSBC*, *JP Morgan* and *Santander* were leads.

Loans

Brazilian bank BANCO DAYCOVAL has raised about US$275m through an IFC A/B loan, bringing a total of 12 commercial banks into the transaction. The deal comprised a US$50m-equivalent local currency-linked A loan and a syndicated B loan, comprising two dollar tranches totaling US$184m and a euro-denominated tranche worth €30.5m. Tenors on the syndication were two and three years.

Banks involved in the B loan syndication were *Itau*, *Standard Chartered*, *Banco do Brasil*, *Wells Fargo*, *Banco Bradesco Europa*, *Commerzbank*, *ING*, *Santander*, *Goldman Sachs*, *Oberbank*, *Aka Bank* and *Israel Discount Bank*.

Local Markets

Brazilian retailer LOJAS RENNER is looking to price R$400m (US$215m) in the local market on August 10, with the bonds maturing on the same day in 2018. Use of proceeds will be for capital expenditures.

In Mexico, lender BANCO INTERACCIONES has filed to raise up to Ps1.4bn (US$110m) through a self-led, three-year bond. Local ratings are A/A+ (Fitch/HR Ratings). The deal will come off a Ps10bn five-year debt program. Pricing is expected in August.

LATIN AMERICA DCM PIPELINE

Issuer	Size (US$m)	Tenor (years)	Leads
Ecopetrol	TBD	TBD	TBD
BNDES	TBD	TBD	DB/Itau/JPM
Odebrecht	1800	10	HSBC/Itau/MS
Transelec	TBD	TBD	TBD
Bolivia	TBD	TBD	BAML/HSBC
Gigante	TBD	10	CS/BBVA