IFR LATIN AMERICA CAPITAL MARKETS BRIEFING

REGION BENCHMARKS

Bond	Mid-Market	Variation
Brazil23s	90.25	+25ct
Mex 22	102	+50ct
Boden 15	92.1	+10ct
Vene 22	104.3	-30ct

Source: Thomson Reuters

CDS BENCHMARKS

Contract	Level	Variation
Brazil 5-yr	162bp	-4bp
Mex 5-yr	111bp	-3bp
Arge 5-yr	2100bp	-100bp

Source: Thomson Reuters

MOST TRADED BONDS

Bond	Mid-Market	Variation
Gerdau17s	11.25	+75ct
OGX2018	17.25	+50ct

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

URUGUAY is well prepared to weather any potential volatility, but is ready to access the external bond markets if opportunities arise, according to the country's head of public credit Azucena Arbeleche.

"We're in a comfortable financial position, so there is no need to tap the market," said Arbeleche. "Having said that, we're always looking at opportunities. I wouldn't say that we wouldn't do something for the rest of the year. If you look at our history, we're in the international markets at least once a year."

Uruguay has been weighing options amid rising rates and continued outflows from EM funds. The stabilization of US Treasuries over the last week may still present opportunities to lock in still attractive funding costs before yields move up further.

"The overall picture is that rates are going up," said Arbeleche. "However, from a historical perspective, we are still significantly low in term of US Treasury yields and in terms of spreads."

Before the back-up in US rates and the subsequent turn in sentiment toward EM, Uruguay bonds, particularly the inflation-linked local currency instruments, benefited from the broader scramble for yield, while the rarity value of dollar instruments also bolstered that curve.

Indeed, with Uruguay's dollar 2022s trading at 3.40% or 93bp over, the sovereign still enjoys attractive pricing prospects. Unsurprisingly, the longer-dated 2045 have sold off to trade Monday at 85.00 or 5.07%.

However, accessing the market may be a tougher proposition in this environment. Aside from the broader retreat from EM, Uruguay is likely to face questions about monetary and fiscal policies that strategists argue have sent the peso lower and imposed substantial losses on foreigners holding local currency debt.

With enough cash In hand to finance debt payments over the next year, public credit can afford to bide its time. It also has about US$2bn worth of contingency lines with multilaterals if further volatility closes markets to EM issuers. Such a move would not be seen as negative as it was already part of the sovereign's strategy, argued Arbeleche.

Earlier in the year, Uruguay became the first sovereign to pre-pay IDB loans and participate in the bank's new resource reallocation program that allows government to access contingent credit lines. This made sense not only because the rates on the loans were above the sovereign's cost of funding, but also because a contingent credit line reduces the country's cost of carry as coupon payments are not required until it is drawn.

Uruguay has recently topped up its SEC shelf and completed roadshows in Lima, Bogota and Santiago. The two events were not related, but are part of the sovereign's efforts to be ready for any windows going forward.

Recent investor meetings in the Andean region was attributable to interest from local accounts during the sovereign's last international foray in November 2012, when it issued a total of US$854m in new 2045s as part of a cash tender and exchange to mop up shorter-dated and more expensive euro and dollar bonds. As this was an extension of the 2045 deal, the same leads, BNP Paribas and Citigroup, were chosen to take the sovereign on the road, said Arbeleche.

The recent SEC filing to issue up to US$4.9bn in new debt was part of the sovereign's efforts to maintain certain size thresholds on the US shelf. Now that it has six Bs behind it, Uruguay can arguably consider a broader set of financing options after spending years shrinking its exposure to dollar liabilities to please the rating agencies and shed its junk status.

According to Arbeleche, 59% of the sovereign's debt is now denominated in local currency, putting it way ahead of its original 2014 target of 45%. Furthermore, rollover risks had diminished considerably with average maturities of 11 years and just 3% of its debt maturing over the next 12 months, she said.

However, the sovereign was criticized for imposing capital controls in June and the subsequent weakening of the currency amid rising inflation concerns. The policy mix of the central bank and the government is being questioned, making some analysts even fret about Uruguay's longer-term ability to keep its investment grade.

In June, capital controls were imposed on non-residents owning nearly half the

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outstanding local sovereign debt and are now required to deposit 50% of their investments with the central bank. Such rules did not apply to investors wishing to rollover existing bonds into new maturities, said Arbeleche. "We are not seeing additional inflows because of the measures we adopted, but non-residents didn't sell their securities," she added.

A weaker currency, higher inflation and the imposition of capital controls has hurt foreign accounts playing domestic currency bonds, especially because of the limited scope for hedging such risk. Ultimately, such unease could spill over into the sovereign's dollar curve.

BERMUDA has hired *Barclays* and *JP Morgan* to arrange investor meetings in the US and Europe ahead of a potential international dollar bond issue, according to one of the lead managers.

The Aa3/AA–/AA– rated sovereign will be in New York tomorrow, Boston on Thursday, Los Angeles on Friday before wrapping up in London on Monday. Last month, Fitch downgraded Bermuda's long-term issuer default rating to AA– from AA, with a negative outlook, citing constraints in sustaining higher debt levels due to a narrow revenue base and under-developed local capital markets.

The firm, however, underscored the country's strong external creditor position with large external assets in the hands of re-insurance, fund administrators and trust management industries. Bermuda was last in the international debt markets in June 2012, when it priced a US$475m 10-year at par to yield 4.138% or 250bp over Treasuries. The bonds were trading yesterday at a wide bid-offer of 4.63%–4.37%.

Equities

Books are covered for GRANA Y MONTERO's re-IPO of up to US$389m, due to price after market close.

The Peruvian engineering and construction company has set an expected price range of US$19.70–$23.50 per ADS, or the equivalent of about S11.00–S13.00 per common share, based on the exchange rate on July 5 when its shares were trading on the Lima Stock Exchange at S10.80 each, or the equivalent to US$19.35 per ADS. The offering is 100% primary.

The borrower is offering 16,279,070 ADSs, representing 81,395,350 common shares, while also giving the underwriters the option to purchase up to 2,44,860 additional ADSs to cover overallotments. The issue will be 100% primary and will include a 15% greenshoe option. Each ADS will represent five common shares. Global co-ordinators are *Credit Suisse*, *JP Morgan*, *Morgan Stanley* and *BTG Pactual*, with *BBVA Continental*, *Credicorp Capital* and *Interbank* coming in as co-managers.

The Fibra asset class, or Mexican REIT, continues to grow as FIBRA SHOP prepares to launch a Ps5.8bn (US$440m) IPO today, as well. The deal will be 36% secondary with three sponsors selling stakes and 64% primary, according to an ECM banker on the trade. More Fibra filings were expected this and next week for autumnal pricings, said an ECM banker.

Bank of America Merrill Lynch and *BTG Pactual* will lead the international book, while *Actinver* and *Banorte* will be local leads.

Mexican low-cost airline VOLARIS will likely delay launch an issuance of up to US$400m in ADSs until September if market conditions allow, according to an ECM banker. Each ADS will comprise 10 certificados de participation ordinarios, which, in turn, represent one Series A share of common stock.

Leads are *Deutsche Bank*, *Morgan Stanley* and *UBS*. Volaris began operations in 2006 and, in 2010, saw investment funds Discovery Americas, Blue Sky Investments and Indigo take ownership stakes in the company.

Elsewhere, Brazilian car rental company UNIDAS is planning an IPO, which may price this autumn, depending on market conditions. The company is heard to have chosen *Banco Espiritu Santo*, *Bank of America Merrill Lynch*, *Bradesco*, *BTG Pactual* and *JP Morgan*.

"Anything out of Brazil is highly dependent on how the market shapes up," said an ECM banker. "We are seeing the supply much more weighted towards Mexico right now, but there will be some filings coming out of Brazil soon."

Last week, Brazilian car rental, ethanol equipment and logistics provider OURO VERDE filed a preliminary prospectus for an IPO, with size yet to be determined. Timing could be as early as September. *Itau* is lead left with *Credit Suisse* on as stabilizing agent along with *Santander* and *HSBC* acting as bookrunners.