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Mexico Announces New Bond Issue Of US$1 Billion in New York Market

by LADB Staff

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In early January, the Finance Secretariat (SHCP) announced the issue of US$1 billion in 10-year bonds in the New York financial markets. The issue was handled by a consortium led by US-based companies Salomon Brothers and Merrill Lynch. The bonds will pay an interest rate of 9.875%, equivalent to 3.35 percentage points above the US Treasury rate. According to sources at the Merrill Lynch office in New York, the bonds attracted very strong interest from investors, with demand reported almost twice as high as supply.

The credit-rating agency Duff & Phelps immediately gave a relatively favorable rating to the bond issue. The company said its rating was based on Mexico's ability to reduce inflation significantly, to about 27.7%, compared with 52% in 1995. Other factors included a stable peso and the recovery of international reserves in Mexico. The latest bond issue represents a continuation of President Ernesto Zedillo's policy to replace maturing short-term debts with longer-term instruments. In 1996, the Mexican government conducted three separate issues totaling US$2.75 billion, with maturities ranging from five to 30 years. Of the roughly US$9 billion in debt that will come due in 1997, US$5 billion will be refinanced with funds from the Inter-American Development Bank (IDB) and the World Bank, while the remaining US$4 billion dollars is to be refinanced with funds obtained through new debt issues.

Economist Hector Chavez of Grupo Financiero Santander said the Zedillo administration decided to issue the bonds early in the year to avoid the expected volatility in financial markets and interest rates that will probably accompany upcoming congressional and state-level elections in July of this year. "We wanted to take care of our needs as early as possible to clarify our economic plans for 1997," acknowledged deputy finance secretary Martin Werner in an interview with reporters in New York when the bond issue was announced. Furthermore, Chavez said a bond issue early in the year also offers the Zedillo administration more maneuvering room during the crucial election year, since it effectively defers about US$1 billion of the US$1.4 billion in debt maturing this year.

Meanwhile, the SHCP has announced the possibility of issuing another US$325 million in 10-year bonds on the Italian markets at the end of January. According to Jesus Almazan, director of research at Bursametrica consulting, the placement of bonds in a European market is an attempt by the Zedillo administration to diversify its sources of debt, in order not to become to reliant on the US dollar. He said the possible issue on the Italian market will be denominated in lira.

Analysts said other factors considered by the Zedillo administration are projections that the value of European currencies will decline relative to the dollar in the short to medium term. This, in effect, would make repayment of debt issued in European markets less expensive than if funds were obtained through dollar-denominated bonds. Meanwhile, according to market observers, Mexican bonds appear to have attracted strong interest among investors in Hong Kong, Singapore,
South Korea, and other Asian countries, raising the possibility that the Mexican government may conduct a bond issue on Asian markets this year. "Asian investors have a special interest in Mexico because of its extensive relationship with the US," said Ichiro Abe, executive vice president of Daiwa Securities America Inc.

Still, despite a general recovery in Mexico's macroeconomic statistics, some analysts said potential investors remain concerned about the country's potential for social unrest, since a large percentage of the Mexican population has not yet recovered from the 1995 crisis, which followed the devaluation of the peso in December 1994. "The pockets of most people are still empty," said Alfredo Avila-Hesles, director of the Mexico City office of US-based BCP Securities Inc. According to Avila-Hesles, the lack of generalized economic recovery creates further uncertainty about the upcoming elections in July. (Sources: Novedades, El Economista, La Jornada, 01/10/97; Bloomberg Business News, 01/12/96; Excelsior, 01/10/96, 01/13/96; The News 01/14/97)

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