

New issue supply may decrease in 2021 following 2020 surge – LatAm Primary Market Outlook

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There is some question as to whether 2021 can match this year's Latin American new issuance, but investors remain positive about the region's issuers, despite the effects of the COVID-19 pandemic, according to several market sources. Mexico is expected to be an active sovereign, borrowing along with corporates throughout the region who have weathered this year well and can continue to recover.

Latin American borrowers issued USD 134.1bn internationally this year in 176 tranches, as of 28 December, according to *Debtwire* data. The total included USD 80.7bn from 88 high-yield and split-rated transactions. This represented an increase of 22% from 2019, when total issuance was USD 109.91bn from 168 deals, including USD 71.18bn from 101 high-yield and split-rated transactions.

New issuance in 4Q20 reached USD 22.2bn from 32 tranches (USD 16.2bn high-yield and split-rated, from 20), compared to USD 19.85bn from 33 tranches in 4Q19 (USD 14.21bn high-yield and split-rated, from 22).

Bank of America (BofA) Global Research expects USD 110bn in issuance from the region in 2021, it said in a report published 1 December.

Supply is expected to be slightly lower in 2021, despite that “both sovereigns and corporates will benefit from tremendously favorable technicals,” Gustavo Medeiros, deputy head of research for Ashmore, told *Debtwire*. “To the extent that quite a lot of the large corporations in the investment-grade space, both in the US and the emerging markets (EM), front-loaded a lot of their issuance – and as a matter of fact they borrowed much more than they need – they'll have to issue much less in 2021, as they have too much cash on their balance sheets.”

The case for Latin American sovereigns was similar, as COVID-19 caused significant shocks to economies, leading governments to tap international markets in 2020, more than in 2019, to cover urgent funding needs, according to an EM buy-side source.

Mexico, Dominican Republic, Peru and Chile were the main drivers of sovereign issuance in 2020, according to BofA. It counted gross sovereign new issuance at USD 55bn in 2020, up from USD 35bn in 2019.

This year, 14 LatAm sovereigns issued at tenors of 30 years or longer, up from nine in 2019, according to *Debtwire* data. Sovereigns issued a total of USD 58.41bn in new bonds in 2020, compared to USD 35.66bn in 2019.

On the corporate side, lower interest rates have also been probably the most important driver of new issuance, particularly liability management exercises, while net issuance has been negative for the

PROPRIETARY

Latin America

Government
Mexico

Issuer

Atento S.A.



Issuer

B2W Companhia Digital



Issuer

Companhia Siderurgica Nacional



Issuer

Eldorado Brasil Celulose SA



Issuer

Federal Government Of Mexico



Issuer

Gerdau S.A.



Issuer

Government Of Brazil



Issuer

Government Of Chile



Issuer

Government Of Dominican Republic



Issuer

Grupo Arcor



Issuer

LatAm Primary New Issuance



Issuer

Lojas Americanas SA



Issuer

Marfrig Global Foods SA



Issuer

Mastellone Hermanos SA



Issuer

Pan American Energy LLC



Issuer

Petroleo Brasileiro SA



past four to five years, Anne Milne, head of Global Emerging Markets Corporate Credit Research at BofA, told *Debtwire*.

LatAm corporate issuance, including banks and quasi-sovereign companies, was USD 74.51bn in 2020, according to *Debtwire* data, compared to USD 74.25bn in 2019.

“The key drivers of additional issuance across the region were diverse, but included raising liquidity in the first part of the year as a cushion against any coronavirus-related business shocks, and liability management to take out short-dated bonds and replace them with longer-dated bonds at low interest rates,” Milne said. “There were a handful of first-time issuers, many of them from the utility and infrastructure sectors.”

Mexico to lead sovereigns

Low interest rates and high-risk appetite constitute favorable conditions that will keep the market open to governments in 2021, the EM buysider said, noting that in some cases, overexposure could lead to insolvencies.

“Low rates are part of the reason we are bullish on EM credit into 2021, even though the fiscal damage from the pandemic will take a long time to repair,” BofA Emerging Markets quant analyst Jane Brauer and Emerging Market strategist Lucas Martin told *Debtwire* in a written response to questions. BofA forecasts LatAm sovereign gross debt issuance of USD 45bn and net debt issuance of USD 37bn in 2021.

“Sovereign net issuance should be between USD 30-USD 35bn,” Bruno Rovai, a Macquarie LatAm sovereign analyst, told *Debtwire*.

“Our global view is that developed market economies will maintain supportive policies, giving room to EM to tap on the hard currency debt market without significant hiccups,” Rovai said. “The baseline view on fiscal and growth dynamics can change depending on vaccine deployment in LatAm, which could bring continued mobility restriction, lower growth recovery, and larger fiscal stimulus if largely delayed.”

Brauer and Martin expect lower deficits next year compared to 2020, similar levels of amortizations, and continued preference for local currency financing for countries that have deep enough domestic markets.

A key driver will be the fiscal consolidation in 2021, which in part will be determined by the recovery of economic activity, according to Rovai, who believes that the real GDP growth bounce next year will improve tax revenues.

“Further fiscal stimulus will be more targeted, mostly on the spending side,” Rovai said. “That said, we expect the majority of sovereigns to shave their budget deficit by more than a half into the next year.”

“We expect growth to rebound next year, but the recoveries will be incomplete, which is why so many countries will need to do reforms to improve their fiscal sustainability,” Brauer and Martin said.

Mexico is expected to lead the market in 2021, with gross issuance forecasted at USD 13.7bn, according to BofA. The bank expects it to be

Issuer	
Petroleos Mexicanos	
Issuer	
Republic Of Argentina	
Issuer	
Republic Of Ecuador	
Issuer	
Republic Of Peru	
Issuer	
Votorantim Cimentos S.A.	
Other	
MercadoLibre Inc	
Other	
Votorantim Participacoes S.A.	

followed by Chile with USD 5.4bn, Brazil with USD 5bn, Colombia with USD 4.8bn, and Dominican Republic, Peru and Panama, with USD 4bn each.

Argentina and Ecuador may not tap the markets, following their debt restructurings in 2020.

“We expect Mexico will lead the pack as usual – in 2020, this sovereign represented about 30% of LatAm net issuance – and should be followed by Chile and Peru,” Rovai said.

When it comes to sovereign issuance allocation throughout the year, Brauer and Martin expect it to be front-loaded.

“We expect attractive conditions that sovereigns will likely want to lock in, including low [US] Treasury yields and spreads that in many cases are close to their pre-COVID-19 levels,” they said. “In fact, November and December, which are typically quiet months for issuance, have been relatively active in 2020.”

Corporates to come on strong

On the corporate side, low interest rates are a favorable condition for new issuance but given 2020's increased financial needs and higher market activity, quite a few large investment-grade companies will be reducing supply next year. In the high-yield space, the sources expect an opportunistic supply, depending on market conditions.

“We expect strong new issuance in 1H21, as companies refinance upcoming liabilities at low interest rates,” Milne said.

The Mexican government has continued to support Pemex, most recently through an exchange of certain government securities of MXN 95.6bn (USD 4.7bn). “We therefore believe they are likely to be a less-frequent issuer compared to the last couple of years,” Medeiros said.

Another example is Petrobras, where the objective is to keep on reducing net debt which implies that they most likely will keep repaying international bonds before maturity rather than issuing new bonds, according to Ashmore's Medeiros.

“The cost of funding from local sources will be at the lowest it's ever been, so we believe a lot of the large corporations will keep on finding strong funding alternatives in the local debt capital markets as well,” Medeiros said.

BofA's forecast for LatAm corporate gross debt issuance is USD 65bn for 2021, compared to USD 74.4bn this year.

“In 2020, Mexican corporates issued 31%, Brazilian corporates issued 28%. For 2021, we expect a similar trend,” Milne said.

“Investment-grade issuance might be relatively light in the beginning of the year, particularly due to the fact that a lot of companies have high level of cash on their balance sheets, but in the high-yield space, companies can be more opportunistic and take advantage of the market environment, Medeiros said. “If anything, we should see the beginning of the year more concentrated on the high-yield part of the asset class.”

“Weak earnings in sectors with low demand due to the pandemic will weigh on hard-hit companies,” the EM buysider said. “Significant declines in oil prices or the price of commodities, low demand and trade disruptions due to renewed lockdowns could have a negative impact in corporate issuances next year.”

Specifically, the Latin American oil and gas industry will improve from a very weak base, according to a 14 December Moody’s report. Hardwood pulp prices will rebound in 2021 from 2020 and 2019 levels as demand from China recovers, along with improved demand for the Brazilian steel sector following a slump in 2020, the agency said.

CSN is considering issuing bonds to extend its average debt maturity as an additional effort to improve its capital structure. The Brazilian steelmaker is also planning an IPO for its mining unit, potentially leading the management to have to choose to move forward with just one of the two planned operations. Gerdau and Votorantim have bonds due in 2021.

Eldorado Brasil Celulose is preparing alternatives to raise new funds and extend its debt profile next year, which will likely include an international bond sale, once an arbitration between its shareholders is resolved. The producer has a strong concentration of debt amortizations in 2021-22, including USD 350m due in June 2021, according to Moody’s.

“We see a pretty favorable environment going into 2021 in sectors like metals and mining, backed by strong trade with mostly China,” Medeiros said. “The energy space in Latin America is also interesting as it is occupied by very large companies that tend to be backed directly or indirectly by the sovereigns and there’s good value there.”

Medeiros sees some opportunistic space for bonds by the services sector, one of the most affected by the pandemic. Mercado Libre is a candidate to follow Lojas Americanas and B2W, which issued their first international bonds this year.

After attempting a refinancing this year, Atento planned to try again for a new bond to replace its 2022. Marfrig has also indicated a new bond could be on the way.

A deal between Argentina and the IMF could be a trigger for Argentine corporate issuers to regain market access, according to a second buy-side source. Several have 2021 and 2022 maturities to address.

Dairy producer Mastellone is among the Argentine corporates with a maturity in 2021, while its shareholder Arcor recently updated its own global bond program.

“If anyone can issue a bond out of Argentina, it is the first-line companies that have some exports, such as Arcor and Pan American Energy,” the second buy-side source said. “Nonetheless, even they will probably have to wait for something constructive to come out of the negotiations between the sovereign and the IMF.”

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