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30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Demand for Debt Hits $10Bln

By The Moscow Times

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Demand for a new sale of Russian eurobonds surpassed $10 billion Tuesday with investors promised a yield premium when the five-, 10- and 30-year offering is priced Wednesday, sources close to the deal said.

The Russian government plans $7 billion in foreign borrowing this year, and market sources cited $5 billion to $6 billion as the likely volume for the dollar-denominated placement — the first since a deal in April 2010 that was criticized by investors for aggressive pricing.

Russia hopes to sell the five-year paper at a spread of 235 basis points over U.S. Treasuries, the 10-year bond at 245 basis points and the 30-year eurobond at 265 basis points, financial market sources said.

A source close to the deal said pricing is expected Wednesday.

"All tranches are in strong shape, with some skew toward the longer end," the source said.

Gazprombank estimated that, based on Tuesday morning trading, the announced guidelines for the 30-year eurobond would translate into a yield of 5.99 percent, the 10-year paper a yield of 4.7 percent and the five-year eurobond 3.43 percent.

"These guidelines provide a sufficiently large discount to the market — on average about 20 basis points," said Denis Poryvai, an analyst at Raiffeisenbank.

"Now, the Russian curve trades in the range 250-280 basis points over the Treasuries curve."

In contrast to the 2010 deal, which performed poorly after being priced very tightly, gray market trading suggested short-term investors might be able to turn a quick profit.

The guidance puts the yield premium on the 30-year paper at 120 basis points over similarly rated Mexico and 140 basis points over Brazil, a gap that many traders see narrowing on expected Russian outperformance.

"Investors see this and will buy the Russian paper with an appetite. ... In the medium term, spreads will narrow," said Vadim Khanov, a bond trader with Gazprombank.

Gazprombank said strong demand for the 30-year tenor reflects a deficit of long-term sovereign issues in the emerging market universe.

Russia plans to borrow about $7 billion on international markets each year until 2014, and under current funding plans, the public debt stock will not exceed 16 percent of gross domestic product in 2014.