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Eurobond Delay Could Be Expensive

By The Moscow Times

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A delay in placing a sovereign Eurobond means that Russia risks failing to cash in on favorable bond market conditions that have driven down yields to historic lows.

Bureaucratic wrangling has held up Russia's borrowing plans, postponing a dollar Eurobond placement for at least three months, Deputy Finance Minister Sergei Storchak has told Reuters.

Markets and investors had expected Moscow to soon raise as much as $7 billion, or the whole of the 2013 borrowing plan, on international markets.

But jostling between the ministries in charge has put a halt on the plans for now.

"We have not yet chosen them (lead managers). We are still in the process of negotiations with the Economic Development Ministry," Storchak said in an interview.

"They (Economy Ministry) have not supported our approach on the organization of this process. When are we going to come to an agreement — I don't know."

For many cash-strapped governments, such as several eurozone countries, such a delay could be disastrous. But for Russia, which runs a balanced budget thanks to high oil prices, the only penalty could be just a higher yield paid to investors.

Russia's level of sovereign debt, at around 10 percent of the gross domestic product, does not compare to that of Greece's more than 160 percent, or Japan's 200 percent.

For now, markets have shrugged off the change of plans, as analysts said there are plenty of other issues to choose from and the delay will not impact Russia's healthy fiscal stance.

"I would have been worried if Russia's state finances were in a precarious state, in a position like Ukraine and they thought they couldn't get the bond away," said Werner Gey Van Pittius, emerging market portfolio manager at Investec Asset Management.

The longer Russia waits, however, the greater the chance that it will have to pay a higher yield, as improving investor sentiment globally leads to less demand for the safe-haven U.S. bonds that provide a benchmark for Russia's Eurobonds.

"If there's a pick-up in the American economy, the yields on U.S. Treasuries will be higher and higher going forward," said Dmitry Dudkin, fixed income analyst at Uralsib in Moscow.

"Dramatically higher yields are highly unlikely, but something in the area of 2.5 percent for 10-year Treasuries is achievable. That will put additional pressure on Russian government debt."

Yields on Russia's benchmark Eurobond maturing in 2030, the so-called Russia-30, hit a historic low of 2.5 percent last month. On Friday, the bond traded at 3.09 percent, with a rise in yields in the last few days following a general movement in the U.S. Treasuries.

"If you look at the longer horizon, the graph of Russia-30 for instance, yields below 3 percent, or 3 percent yields, were never seen before," Dudkin said.

"So the quicker they launch (the issue) the better. It is a pity (for them) that they are delaying it."

In March, Russia raised $7 billion in Eurobonds in the largest emerging markets sovereign offering since at least 2000, covering its foreign borrowing plan for 2013.

According to Reuters calculations, Russian companies raised more than $46 billion on foreign markets in 2012.

"We'll be checking market conditions," Storchak, in charge of Russia's debt policy, said. "There is no need to issue at any price."

But the Finance Ministry still wants to place the whole sum in one go.

"We should approve the lead managers, then the lead managers should take a pause to explain their views on tactics," Storchak said.

"Afterwards we will have to decide whether we hold a road show or not... I'm afraid it all will not happen any time soon."

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