IFR LATIN AMERICA CAPITAL MARKETS BRIEFING

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REGION BENCHMARKS

Bond	Mid-Market	Variation
Brazil 21	107.55	Unch.
Mex 20	109.15	Unch.
Boden 15	100.30	Unch.
Vene 27	74.75	-75ct

Source: Thomson Reuters

CDS BENCHMARKS

Contract	Level	Variation
Brazil 5-yr	114bp	+1bp
Mex 5-yr	111bp	Unch.
Arge 5-yr	590bp	Unch.

Source: Thomson Reuters

MOST TRADED BONDS

Bond	Mid-Market	Variation
BanBra 22	101.50	-15ct
BanVor 20	107.50	+25ct

Source: Thomson Reuters

DCM LEAGUE TABLE

Bank	Total US$(m)	No. of deals
JP Morgan	7,342.1	28
BAML	5,630.5	29
Deutsche	5,081.4	21
Citi	4,409.7	13

Source: Thomson Reuters (SDC code: L3)

The Brazilian government's attempt to curtail the appreciation of the local currency by imposing a range of regulatory hurdles to FX trading may have hurt those shorting the dollar in the country, but it could add fuel to the issuance of corporate global real-denominated bonds.

The economics are certainly becoming more compelling as the spread between the global and local sovereign real-denominated bonds reach a historic wide.After the measures were announced, global real-denominated bonds rallied as local fixed-rate sovereign bonds widened.

On Wednesday, the government indicated it could apply margin calls of up to 25% of the notional amount of dollar/real future contracts, among other measures to reduce dollar-short positions in reais. As a result, the dollar/real rate jumped from 1.539 to 1.571.

The local fixed-rate sovereign curve also widened approximately 20bp. Meanwhile, Brazil's global real-denominated bonds tightened across the curve. The 2016s were the outperformers as their yield tightened by almost 40bp in the day. The 2022s tightened by about 13bp and the 2028s tightened 16bp. The shift drove the spread between the global 2016 real-denominated sovereign bond and the local 2015 fixed-rate to a record 584bp.

The move on the sovereign side, used as a gauge for corporate funding costs in Brazil, signals that it may become ever more interesting for Brazilian corporates to fund internationally in their local currency. However, as past deals have shown, not all companies are able to sell real-denominated debt in the global market.

This time may be even more complicated as investors get more skittish about real exposure given the added uncertainty that the latest unexpected move by the local government prompted. That said, though, trading desks in New York had been reporting strong demand for real-denominated debt in the past couple of weeks as global investors sought ways to get exposure to the currency without having to take their money onshore, where it is subject to a financial transactions tax.

Given the jump in the global real-denominated sovereign bonds, it is fair to say that investor interest in global local currency bonds actually increased on the back of the measures. Indeed, Miller Tabak Roberts noted in a research report at the end of the trading session on Wednesday: "Local investors are predicting a pickup in flow to the CME as a result of a big drop in liquidity for real versus dollar contracts locally, and a potential pickup in demand for non-local real exposure."

If they find demand, the price looks good for issuers right now. In fact, even before the recent developments some issuers were rumored to be looking at that market after having spotted the increased investor interest in global real bonds.

A natural candidate to do such an issue is BRADESCO, the second largest private bank in Brazil. The lender is the only one of the three top lenders in the country that has not yet issued a global real bond.

If it chooses that avenue, Bradesco is unlikely to do anything in August. But when it does, it is likely to get funding a lot cheaper than what it pays locally.

It is safe to assume that the issuer would probably choose to issue a five-year, the tenor of choice of most global-real corporate bonds. If that is indeed the case, the sovereign global real 2016 would be used as a gauge. After the developments of Wednesday, the yield on that bond tightened almost 40bp to 7.2%.

Meanwhile, Itau's 2015 global-real bonds closed Wednesday quoted at 106.50, or a yield of 8.8%. Using that 160bp spread to the sovereign's 2016 as a starting point, and adding 25bp for the tenor extension and 25bp of new issue premium, a theoretical new Bradesco global real 2016 bond could price at a yield of 9.3%.

While that sounds high at first sight, that is far below the local funding costs for the bank. For instance, Bradespar, the parent of Bradesco, recently issued a local two-year bond at 106% of the interbank rate DI. The DI closed at 12.4% on Tuesday, so 106% of it would be an effective rate of 13.14%. So at 9.3%, Bradesco would be saving 376bp. Add to that the DI curve widened at least 20bp after the FX measures.

To make the issue even more enticing, if the potential real-denominated five-year bond

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at 9.3% were swapped, it would translate roughly into 150bp over six-months Libor, according to a Brazilian bank treasurer. That could be converted into a dollar fixed rate of as little as 3.3%, not counting all the fees.

Meanwhile, Bradesco's dollar-denominated 2016s are trading at 3.8%. In short, after the recent measures, if Bradesco chooses to issue a global real denominated bond, it will pay 50bp less than it would for a similar dollar bond and it will have the advantage of matching the currency of its liability and its revenue.

Equities

The US$215m IPO of Uruguay's UNION AGRICULTURE GROUP was postponed late Tuesday, reflecting investor concern that the offer was too expensive.

Credit Suisse and *JP Morgan* were lead underwriters for the IPO, which was looking to price 14.3m shares at US$13-$15 in a deal in the US.

Though it played well to the theme of surging global food demand, UAG was an exotic offering with a relatively short track record. The vehicle, which has reported only losses in the three years since it was founded, was being sold largely as an asset play.

Given the current wary attitude among US investors towards Chinese listings and the overall "risk-off" trade, it is hard to escape the conclusion that investors have extended that caution to any smaller foreign company seeking to tap US equity markets.

Several local Latin American IPOs have also been withdrawn lately and it has been much a quieter than expected year for IPOs across the continent.

DCM PIPELINE

Issuer	Size (US$m)	Tenor (years)	Leads
Grupo Elektra	350m	7	BCP, Jefferies, UBS
Vista Alegre	150m	7	BTGP