Funding Official of the Year, emerging Europe

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You could certainly excuse Turkish treasury officials for engaging in a hearty bout of congratulatory back-patting at the end of 2005, a year in which they deftly illustrated how to execute an intelligent funding strategy.

The sovereign successfully wrapped up 40% of its external borrowing requirements only two weeks into 2005. Memduh Aslan Akcay, under-secretary for international affairs, who was awarded the title of Funding Official of the Year by Emerging Markets, says that he is "very satisfied with the execution of our 2005 borrowing programme both strategically and technically". "We succeeded in improving our profile in the global investment community, establishing consistency in all of our issuances, continuing to diversify our investor base and ensuring a coherent funding programme," he says.

In addition to the annual borrowing target for 2005 of $5.5 billion, the sovereign raised a further $1 billion in a series of six successful transactions. "While fulfilling our annual borrowing programme, we also aimed to spot open maturities along our existing yield curve. Therefore, 20-year dollar, 12-year euro and 15-year dollar deals offered unique aspects with low borrowing costs, particularly on the maturity front," says Akcay.

Responding to market conditions the sovereign decided to front-load issuance for 2005. "It was a volatile year in the emerging market asset class, although the spread compression continued at a decreasing rate for EM countries," says Akcay. "It was a rational decision to tap the markets when the market was favourable in terms of strategic and financing objectives."

wise decision

It was a decision that paid off. The year opened in style in January with a $2 billion, 20-year deal. The deal raised nearly 40% of the country's initial $5.5 billion external borrowing requirement for the year and stands as its biggest bond to date.

In terms of investors, 350 buyers put up around $13 billion for the first emerging market sovereign bond of the year. The size was increased to $1.5 billion and price talk set at 7.6%, then refined to 7.55% area. US accounts bought 33% of Turkey's new 2025, domestic accounts 27%. Investors in the rest of Europe took 33% and others, including Asian accounts, picked up the remaining 7%.

Akcay explains that one of their major objectives is to issue longer-dated bonds offering liquidity and duration. The front-loaded programme offered to accomplish these purposes while fulfilling almost 60% of their annual borrowing target in the first quarter. To achieve this the sovereign capitalized on the momentum generated by its January 2005 offering and four weeks later brought out a k1 billion, 12-year issue, its first ever euro issue longer than 10 years.

The deal attracted an order book of k5.5 billion. The bonds were priced at 98.337 with a 5.5% coupon to yield 5.695%, 224bp over Bunds and 205bp over mid-swaps. This was comfortably inside initial price talk of 215bp over mid-swaps and at the tight end of the revised 205-210bp guidance. "Although we tapped the euro market with the longest tenor, we were able to execute the lowest coupon Eurobond issuance in Turkey's history," says Ackcay.

It also bodes well for the longer term. Turkey has gradually been realigning its borrowing strategy in favour of euros. Previously, two thirds of deals have been done in US dollars. In 2006, this is likely to be a 60-40% split between dollars and euros. "In order to improve our institutional penetration in euro area we will improve the liquidity of our existing bonds by targeting larger deals and build institutional franchise through targeted marketing," says Akcay.

In June last year Turkey issued a $1.25 billion, 15-year bond via JP Morgan and Lehman Brothers, and three weeks later returned to the euro market with a k650 million, seven-year deal through Deutsche Bank and Credit Suisse First Boston. Two taps, in November and December, represented some strategic pre-funding for 2006 and rounded off the year's funding activities. "The rationale was to lock in lower funding costs before the pressure of US Treasuries and Fed-based rate hikes start building up pressure on spreads. Obviously, that strategy paid off as we see the 10-year Treasuries trade at 4.90-5.00% levels after the sell-off across the board," explains Akcay.

new investors

November's $750 million tap of its 7.25% 2015 bond had an impressive geographical distribution that included high quality participation from Asia. Akcay says that Turkish officials completed a non-deal road show in Asia back in March 2006 and are satisfied with the interest from Asian real money accounts and asset management funds who have a long-term investment horizon.

"We launched our Investor Relations Programme in August 2005 and initiated the Investor Relations Office. This effort truly helps to diversify our investor base as we convey reliable and timely data to many investors," says Akcay.

This will help the sovereign to achieve the 2006 borrowing target of $5.5 billion. The funding strategy consists of tapping the market with liquid benchmark sized transactions which offer the required duration and maturity to entice investors.

The strategy is working. In January 2006 the Republic of Turkey issued a $1.5 billion, 30-year bond to a warm response from investors. Away from international issuance, the sovereign is also planning to utilize the growing appetite from foreign investors for Turkish lira-denominated debt.