

TURKEY BRINGS BIGGEST BOND, GOES LONGER IN EUROS

Great 2005 for Turkey

With Turkish banks and companies relying on the syndicated loan market in 2005, it was left to the sovereign to represent Turkey in the international bond market. As **Duncan Kerr** reports, the republic rode out doubts over its EU membership to reinforce its credentials as one of the deftest benchmark issuers around.

The Republic of Turkey's record in the international bond markets in 2005 was impressive. For once, Turkey actually beat its Brazilian sparring partner to the punch by opening the year's emerging market sovereign issuance with a bumper \$2bn 20 year Eurobond on January 13.

In one swoop, it raised over 40% of its \$5.5bn external borrowing requirement for the year — a need that would yield five more deftly timed and executed deals before the markets drew to a close in December.

For the third time running on its dollar issues, the sovereign chose Citigroup and Morgan Stanley as leads.

The 20 year was Turkey's largest international issue, though not its longest — it had sold a \$1.5bn 30 year issue in 2000 and another in January 2004. And with a book of \$12bn, the 20 year made the biggest splash.

The bond's launch was boosted by an unexpected upgrade from Fitch Ratings, from B+ to BB- with a stable outlook.

Fitch remarked on Turkey's strong prospects for continued policy discipline, thanks to political stability, its adoption of a new IMF programme and the expected opening of EU accession talks later in the year. In December, Fitch raised its outlook to positive and Moody's upgraded Turkey from B1 to Ba3.

The republic continued its policy of frontloading issuance with a Eu1bn 12 year issue in February, via Deutsche Bank and UBS.

"Following the European Council decision on the opening of accession negotiations with Turkey, the treasury's aim was to establish a new long term euro benchmark in this strategically important currency for Turkey," said Memduh Aslan Akcay, director general of foreign economic relations at the Turkish treasury in Ankara.

The deal was Turkey's first ever euro issue longer than 10 years, and exemplified European bond investors' ripening love affair with the country — it pulled in Eu5.5bn of orders.

Issuing at 12 years, and hence offering a little more yield, helped Turkey to access a deep bid from European institutional investors and EU convergence accounts which had been short of options since 10 countries joined the EU in May 2004.

"Euro investors are beginning to realise that supply may be constrained, but their willingness to buy credits they would not necessarily have considered in the past shows the increasing sophistication of the euro market," says Martin Hibbert, head of emerging market bond syndicate at Deutsche Bank in London.

Vastly improved position

It is a sign of Turkey's new standing in international markets that the French and Dutch 'no' votes in the summer referendum on the EU constitution, which were interpreted at least partly as a rejection of Turkey's membership claims, caused barely a ripple in its spreads.

By the end of May, Turkey's benchmark 2030 bond was trad-

ing at 380bp over US Treasuries. That was some 120bp tighter than where it had been trading at the height of the emerging market volatility in the second quarter of 2004, although still wide of its record tight level of 307bp in the first quarter of 2004.

While this was partly because the referendum results had already been priced in to Turkey's secondary levels, investors were also bullish on the country's overall performance. Turkey exploited this confidence, pricing a super-tight \$1.25bn 15 year bond via JP Morgan and Lehman Brothers on June 2. Three weeks later Turkey returned to the euro market with a Eu650m seven year deal through Deutsche Bank and Credit Suisse First Boston.

The prospect of EU accession has been of direct and immediate benefit to Turkey.

The republic is on course to meet the Maastricht criteria. Inflation — 70% just four years ago — was down to an annual rate of 8% in September and still falling. The budget deficit is about 3% of GDP and Turkey's debt to GDP ratio is heading for 60%, possibly in 2007. GDP growth was 8.9% last year. This is not a sustainable level, but there are signs Turkey may be growing more steadily after many years of boom and bust cycles.

Investors, historically underweight in Turkey, have been wanting to increase exposure to the sovereign in recent years. This growing demand was perfectly illustrated in the roaring response Turkey received for its \$750m tap of its 7.25% 2015 bond in November, through HSBC and UBS.

Less than six hours after the mandate was announced, the leads smoothly priced the increase to bring the total size to \$2.25bn.

An equally swift Eu350m increase to Turkey's 4.75% July 2012 deal by Dresdner Kleinwort Wasserstein and JP Morgan in December played on this voracious appetite too.

Turkey has gradually been realigning its borrowing strategy in favour of euros over the last couple of years, from a previous 70% bias to dollars.

Last year, the sovereign's euro curve largely outperformed its dollar curve — by as much as 40bp over mid-swaps tighter on such transactions as its 2015 dollar bond and its 2017 euro issue at 227bp over.

Syndicate bankers in London believe — or at least, hope — that Turkey will try to benefit from this pricing differential in 2006 by bringing more of its issuance in euros. ▀



Memduh Aslan Akcay,
Turkish treasury