TURKEY TAKES CONTROL - Turkey fulfilled its financing needs in November with a well-executed US$750m 10-year tap that rounded off a stellar year for EEMEA's primary issuer. For once, Turkey beat Brazil out of the blocks with a standout January print which set the standard for the rest of the year, putting Ankara firmly in control of its issuance programme – control that it never relinquished. Turkey is IFR's Sovereign Borrower of the Year.

Turkey's first bond of the year should have told the sovereign all it needed to know. The emerging markets were desperate for supply, especially from the higher-yielding, liquid sovereigns, and they wanted it in large size.

The Republic listened to what it was hearing in January, when it issued its largest bond to date – a US$2bn 20-year benchmark to a tumultuous reception as around US$14bn of money clamoured for a stake in the first EM sovereign bond of the year as Ankara, for once, beat Brazil to the punch.

The US$2bn print, with joint bookrunners Citigroup and Morgan Stanley, represented over one-third of the Treasury's total planned issuance for 2005 of US$5.5bn.

The issue was in excess of the initial US$1.5bn on offer and well above talk of a US$750m-$1bn deal suggested earlier in the week of launch when the secondary market was weak and expectations had centred on a more defensive, shorter term offering of five or 10 years duration, or even a euro-denominated issue.

The 7.375% 2025 issue yielded 7.52% (282.5bp over Treasuries), inside price talk of 7.55% area, which was itself reduced from the 7.6% area.

Even when market volatility resurfaced at the end of the year the sovereign took the smart option when deciding to issue, almost certainly, its last bond of 2005.

All possibilities – euros, dollars, new issue, tap – were available, but the sovereign decided that tapping a 10-year bond in the deepest point of its curve was the best bet, given volatile markets.

Turkey triumphed, raising a US$4bn book at a time when the rest of the EEMEA primary market was struggling – printing within six hours of giving a mandate to HSBC and UBS.

Many underweight investors were looking to increase exposure to Turkey, including new, high quality Asian accounts, and seized the opportunity to purchase a rare, liquid EM asset. The US$750m add-on at 6.70% took the 7.25% 2015 benchmark up to US$2.25bn while pre-financing US$550m for 2006.

Turkey issued in size throughout the year, and for good measure added diversity in the form of currency and tenor.

Within four weeks of the initial blow-out US dollar 20-year Turkey returned to the market with its longest euro-denominated bond to date, a €1bn 12-year that attracted a whopping €5.5bn book allowing the Republic to price 5bp inside Turkey's euro curve and around 15bp inside its dollar curve.

The new bonds were priced at 98.337, and carry a coupon of 5.50%, making for a reoffer yield of 5.695%, 224bp over Bunds and 205bp over mid-swaps. This was comfortably inside initial price talk of 215bp over mid-swaps area and at the tight end of revised talk of 205bp–210bp.

The book included a healthy amount of interest from EU convergence funds that started life supporting first-wave accession countries such as Poland and Hungary, but were subsequently starved of new supply from second wave EU accession candidates Croatia, Bulgaria and Romania.

"The front-loaded borrowing programme in 2005 enabled us to raise almost 60% of annual target in the first two months of the year and to monitor the market for appropriate time to launch a new deal," explained Memduh Aslan Ackay, director general of Foreign Economics Relations.

After such a stellar start Ankara was able to bide its time before returning to the market which it did again in June with two more well received issues.

"We tried to sequence our transactions to different investor bases and enjoyed the momentum of previous issue. In this respect, dollar issues preceded euro issues and alternated," said Ackay.

"We hope to increase our euro issuance further going forward with the increasing role of euro accession funds in our transactions," he added. "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."

Picking its spot

First off Turkey watched, waited, and then jumped into the market on June 2 with a 7.0% 15-year US$1.25bn global yielding 7.22% at reoffer. The Republic picked its spot, almost to perfection, choosing the prime time to launch a bond into the top of a rally in EM bonds.

Joint bookrunners JPMorgan and Lehman Brothers secured a full book within 30 minutes and closed it after two hours, with final demand put at US$6.25bn. While some bankers were shocked at the degree of interest, there was a technical bid that was more than sufficient to underpin the new issue as some had gone a little too short ahead of the EU No votes in France and the Netherlands.

The Treasury wasted little time in printing again as joint leads CSFB and Deutsche Bank secured an impressive book of €1.65bn for the Turkey's €650m seven-year bond that was announced and launched on June 22.

The bond has a 4.75% coupon and was priced at 98.84 to yield a 4.95%, the lowest cost of financing ever for Turkey, 212.2bp over 5% July 2012 Bunds. Once again the Turkey bond was at the tight end of revised talk of 4.95%–5%, down from initial guidance at 5% area.

The proposed issue was for up to €750m with €650m seen as appropriate given that the book was secured, the leads said, stressing that €750m was never the target. Some were surprised,

however, since Turkey was just US$200m shy of the 2005 Eurobond issuance target of US$5.5bn.

The sovereign was clearly focusing upon price rather than size, according to a banker away from the deal, who suggested the issuer had considered the option of either €650m at 4.95% or €750m at 5% and plumped for the former.

An EM investor who did not participate in the deal gave a backhanded compliment by claiming the yield on offer was far too little for his taste with Turkey euro issuance "hardly a real EM credit when it yields below 5%". The bond, however, attracted decent crossover money as well as retail and Turkish accounts given the ongoing EU convergence story while it still delivers a reasonable return in comparison with Eurozone interest rates and yields.

The bond slipped in the secondary market after launch, with traders reporting US$30m of bonds changing hands the day after launch. But the new bonds recovered, to trade at 98 1/2–5/8 at the end of launch week. Indeed the new bonds outperformed the Turkish curve as retail buyers picked up paper.

With financing all but complete for 2005 the Treasury was again able to sit tight again before choosing November 17 for its final visit to the dollar market with joint arrangers HSBC and UBS. It completed euro issuance by taking its July bond to E1bn on December 5 through Dresdner KW and JP Morgan.

One day only

The Treasury did not have an unblemished record in choosing its moments, however. An opportunity was missed to issue new euro-denominated bonds in the wake of the EU accession talks' green light on October 3, though to be fair that issuance window

lasted at best one day only while Brazil was notably quicker off the mark when it announced in Asian trading a tap of its outstanding 10-year bond in early November.

Some disappointment has also been expressed at Ankara's failure to embark on the liability management programme the Treasury has talked about for more than a year to tidy up its curve. Several banks have discussed possibilities but the matter was put on the back burner as the Treasury focused on raising new funds.

Under an exchange auction short-dated, high coupon bonds would be exchanged for longer-dated, lower coupon paper as the Republic now has the scope to issue much longer-dated bonds, which it did not have previously.

New possibilities lie ahead with Akcay stating that the issuance of lira-denominated Eurobonds "is a viable option for Turkey, especially for maturity extension and cost savings in the domestic market". However, he also stressed that this is a new instrument with an unproven record.

Similarly the question of Islamic bond supply has resurfaced. "Investors in the Gulf region represent a market niche, which has not been tapped so far. In order to attract these investors in addition to our conventional bond issues, we have a developed an instrument called 'rent

certificates'. In order to issue such instruments, a draft law has been prepared and its enactment process is under way," said Akcay.

Securing flexibility

Turkey rode the EM wave of 2005 with considerable skill. Building upon its stellar start to the year, an increasingly market-savvy Treasury took full advantage of the flexibility it had secured. Subsequent visits to the market were well timed and well executed in both euros and dollars as investors lapped up each opportunity to purchase rare, liquid EEMEA sovereign paper.

"A substantial decrease in the borrowing cost was experienced in the last two years, along with a threefold increase in the average maturity," said Akcay.

With Brazil already pre-financing US$3bn Turkey is set to be the primary EM sovereign issuer in 2006 when a similar US$5.5bn issuance target is anticipated. Having raised its game in 2005, investors expect another commendable performance in the Eurobond market while the Treasury will continue to consider the benefits of alternative financing including inaugural Islamic and global lira offerings.

By Richard Jory