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Peru Sells First Euro Bond in Decade as Funding Costs Fall

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- ▶ Peru issued EUR1.1 billion of bonds due January 2026
- ▶ Finance Ministry says it obtained a record low yield

Peru sold its first euro-denominated bond in more than a decade as it looks to diversify its funding sources to take advantage of the lowest yields in almost six months on government bonds in Europe.

The Andean nation issued 1.1 billion euros (\$1.2 billion) of securities due in January 2026 to yield 1.9 percentage points over midswaps, the Finance Ministry said in an e-mailed statement. The initial price target was as much as 2.2 percentage points over midswaps.

Peru, which has already tapped international bond markets twice this year for about \$1.8 billion, needs to finance a fiscal deficit of 3 percent of gross domestic product in 2016, which will be the widest in a decade. The copper exporter has seen its currency tumble 9 percent against the dollar this year, but only 0.4 percent against the euro, increasing the relative attractiveness of issuing in the European currency.

“The guidance is, of course, very aggressive,” said Lutz Roehmeyer, who oversees 1 billion euros in emerging-market debt as director of fund management at Landesbank Berlin Investment GmbH and plans to buy Tuesday’s issue. “There is a lot of cash with investors waiting to be invested. Peru can fund itself cheaper now in euros than in dollars.”

The notes’ yield of 1.9 percentage points compares to a spread of about 1.6 percentage point on similarly-rated Mexican euro bonds due in 2024.

The yield of 2.75 percent is the lowest ever obtained by Peru in the international market, the finance ministry said. Peru has now completed pre-financing of the 2016 budget, it said.

Finance ministry officials met with investors in London, Frankfurt, Paris and Zurich last week. Banco Bilbao Vizcaya Argentaria SA, BNP Paribas SA and JPMorgan Chase & Co. arranged the deal.

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