Arizona Daily Star®
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Published: 05.07.2005

Yielding over 10%, Mexico peso bonds selling well abroad

By Adriana Arai
BLOOMBERG NEWS

Mexico is finding more buyers for peso bonds in New York, Toronto and Luxembourg than in Mexico City.

OppenheimerFunds Inc., AGF Funds Inc. and KBC Conseil-Service are among international investors that own three-quarters of Mexico's $6 billion of 10- and 20-year fixed-rate peso bonds. Foreign investors own 2 percent of the government debt that matures in a year or less.

International buyers are attracted to yields of more than 10 percent and prospects the peso will gain as Mexico's economy becomes more intertwined with the U.S. The lack of interest among domestic investors reflects concern about the country's history of high inflation, devaluation and default.

"For a foreigner, locking in a yield of 10 percent is psychologically a good deal," said Marcos Ramirez, 42, head of treasury and investment banking at Santander Central Hispano SA's Mexican unit, the nation's biggest peso bond dealer. "For us locals, who have seen rates of 40, 30 and 20 percent, there's that Latin fear that something could go wrong."

On Tuesday Mexico sold 16.7 billion pesos ($1.5 billion) of bonds maturing in as long as 10 years. As recently as five years ago, the country didn't sell fixed-rate bonds with maturities of longer than 30 days. The country's 9 percent peso bond due in 2012 rose for a second day Wednesday, adding 0.7 centavo to 92.71 centavos, paring the yield to 10.4 percent at 6:25 p.m. New York time.

Karel de Cuyper, who oversees 400 million euros ($520 million) of bonds at Luxembourg-based KBC Conseil-Service, said high yields relative to countries such as Hungary prompted him last year to buy peso bonds with maturities of as long as 18 years for the first time.

Local debt sold by Mexico and Hungary carries an A credit rating from Standard & Poor's. Hungary pays about 7 percent, or 3.5 percentage points less than Mexico, to borrow in its domestic currency over 10 years.

Mexico's is "a very appealing yield in the single A area," said Cuyper, who manages bonds from about 30 countries, including Mexico. "Economically, Mexico is a good story."

The increased confidence among international investors shows how far Mexico has come since the 1994 peso devaluation led the U.S. to organize $50 billion of credit lines for the country, helping avert a default and collapse of the banking system.

Santander's Ramirez, then in charge of the trading desk of Banco de Desarollo Nacional Financiera, the nation's development bank, said he left his wife and 2-month-old baby at home to spend the night at the office after President Ernesto Zedillo's devaluation Dec. 20, 1994, caused bonds and stocks to tumble. By March 1995, the yield on the 28-day government bill climbed to as high as 83 percent.

"It was such a big blow," said Ramirez. "I remember looking at our baby and asking myself: What kind of country will this generation inherit?"

Mexico, which devalued its currency three times and defaulted on debt once since 1982, won its first investment-grade rating in March 2000, helped by increased exports and foreign investment after the North America Free Trade Agreement took effect in 1994.

The country's credit rating was raised again by Moody's Investors Service and S&P this year after President Vicente Fox halved the annual inflation rate to 4.4 percent and reduced the budget deficit in each of his first four years in office. The economy grew 4.4 percent last year, its fastest pace in four years.