

### NTMA Funding

Tuesday, 20 July 2010

The National Treasury Management Agency was back this morning tapping the market for a further €1.5bn in the seventh of its eleven scheduled monthly (January-November) bond auctions for 2010. Recent debt sales from 'peripheral' issuers such as Spain and Portugal have shown that investors are prepared to buy up the bonds, but require an elevated yield to do so, and that was the case with Ireland this morning, particularly in relation to the longer-dated issue.

The NTMA almost invariably hits the top of its target size range but the risk was that borrowing costs would rise compared with the previous auctions for the two bonds on sale this morning as fresh bad news has emerged since then concerning Ireland's ability to cut its budget deficit. If worries expressed by the IMF and Ireland's Economic and Social Research Institute last week weren't bad enough, yesterday Moody's downgraded Ireland's credit rating on its debt by one notch to Aa2, though it did also change its outlook from negative to stable. And this latter move clearly boosted demand for the bonds this morning. Indeed, the average yield on the 2016 bond was 2bps lower and with a higher bid-cover ratio than when it was sold last month. However, since the 2020 issue hasn't been auctioned since April and a lot of water has gone under the bridge since then, it was no great surprise that the average yield was significantly higher (85bps).

Two bonds were offered at this morning's auction, the 4.60%, Treasury 2016 and the 5.00%, Treasury 2020 issues. The overall total amount of the two bonds offered in the auction was in the range of €1bn to €1.5bn. It was decided to issue a total of €1.5bn, as the total bids received amounted to €4.959bn, or 3.3 times the maximum amount on offer in the auction. A total of €750m of the 4.60%, Treasury, 2016 bond was issued where the total bids received were 3.6 times the amount allocated, while €750m of the 5.00%, Treasury, 2020 bond was also issued where the total bids received were 3.1 times the amount allocated. The average yield on the 2016 bond was 4.496% as against 4.521% in June while the average yield on the 2020 bond was 5.537% as against 4.688% in its last outing in April.

Today's auction brings the total funds raised from the bond market to date to €16.5bn, or 83% of the NTMA's bond issuance programme of €20bn for 2010. Another €1.6bn has also been raised in the retail market. With 90% of its long-term borrowing programme completed Ireland is in a strong funding position. In fact, as the NTMA pointed out last Friday, the Exchequer is fully funded through the first quarter of 2011 when the maturity profile of the agency's short-term borrowing is taken into account.

Given its comfortable funding position, the NTMA could have easily skipped today's auction if it wanted to. However, as we've pointed out on numerous occasions recently it is not about the sovereign, but more about sending out the right market signals to leave the door open for the domestic banks to raise required funding. Sorting out the banks' funding issues is now the '*main game in town*'. Market focus will now turn to Friday and the results of the EU's bank stress tests.

All things considered, we think the NTMA will be fairly pleased with this morning's results. Irish economic fundamentals are clearly improving and we feel the risks to GDP growth are tilted to the upside rather than the downside. Indeed, we continue to believe that Ireland may surprise a few international commentators with the speed of the recovery. But, the Government must continue to deliver on the tough fiscal measures to sort out the public finances. If it can continue to stand tall, then there is no reason why bond investors won't reward the country with lower yield spreads over Germany again in the months ahead.

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20/7/10