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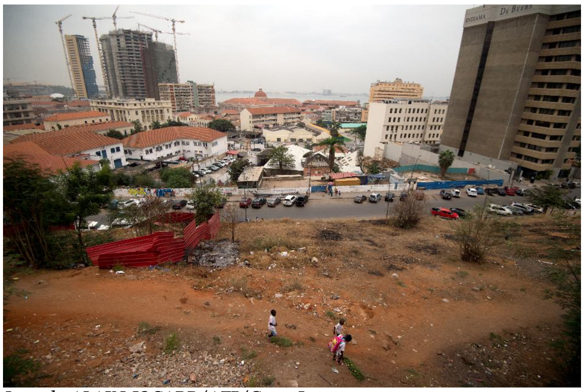
Angola Issues $1.5 Billion Bond As Market Window Inches Shut



Luanda ALAIN JOCARD/AFP/Getty Images

Angola, Africa's second-largest oil producer, has issued a long-awaited $1.5bn eurobond as it tries to shore up its finances, which have been battered by falling commodity prices. The yield on the 10-year paper was 9.5%, as the sovereign took advantage of better market conditions for frontier issuers, ahead of an interest rate rise in the US.

Angola is coming to the end of a two decade-long, oil-fuelled boom—interrupted briefly during the financial crisis—which made it one of Sub-Saharan Africa's most courted investment destinations. The capital, Luanda, became one of the most expensive cities in the world, its $50 hamburgers a potent symbol of the quantities of cash circulating in the upper echelons of the economy.

Now, with oil prices down 40% over the last year, Angola's good times could be over, at least for the short term. Oil makes up around 95% of export earnings and 75% of fiscal revenues.

To fill the hole in its budget, the country is adding around $10 billion to its external debt this year, including $6 billion in bilateral loans from

China. Growth is forecast to slow to 3.5% this year and in 2016, and public spending has been seriously curtailed.

The government has already trimmed its expensive oil subsidies, and may cut back expenditures on public sector wages. This latter has been causing concern for some time. An IMF mission in August warned that public sector wages need to be brought "in line with the new revenue reality of the budget."

"With resources from the oil sector being so scarce at the moment, they need to rely on bilateral loans… and the authorities are very well aware that they need to be smarter in the allocation of resources," says Tiago Dioniso, senior research analyst at Eaglestone Securities in Lisbon, who calls the 9.5% yield on the debt "within expectations."

Public debt is forecast to hit 57% of GDP this year, and the budget deficit should run to 3.5% of GDP, down from 6.5% last year.

Angola is probably the last Sub-Saharan African sovereign to come to market in 2015, capping a weaker year for government bonds. The region's total issuance had been rising steadily, peaking last year at $16bn. This year, the markets have punished previously well-regarded sovereigns, including Ghana and Zambia, for weaknesses in their macroeconomic management, while lower commodity prices have dampened expectations of growth across the continent.

The window for frontier sovereigns could also be coming to a close, as the market expects the Federal Reserve to increase interest rates before the end of the year, creating an uptick in investment grade debt and taking more of the heat out of emerging market assets.

"The reality of coming to market now is that if you look at overall issuance volumes, investors haven't had enough primary inventory coming through. If you combine that with the rate cycle, or the potential rate cycle, it would be sensible and opportune to come to market now," says Adil Kurt-Elli, head of CEE and Sub-Saharan Africa debt capital markets at HSBC.

"Having said that, you've got to weigh it up against the broader backdrop, which is that [emerging market] fund flows have been more outbound than inbound, in anticipation of that rate rise. So it's possible that they're trying to catch that before it becomes something that is so meaningful that it changes the liquidity profile of the market and potentially pricing parameters."