FOREIGN EXCHANGE

Borrowers Struggle to Raise Funds as Emerging Markets Tumble

After raising a record sum in the international bond markets last year, emerging-market firms and governments are now cutting back

Some emerging-market currencies have gone into free fall, with Argentina's peso down 50% respectively against the dollar.
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By Joe Wallace and Manju Dalal
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The steep falls in emerging markets have hurt the ability of developing-world companies and governments to issue bonds overseas, making it harder to pay back existing debt and putting potential pressure on economic growth there.

After a record 2017, emerging-market debt issuers raised less money abroad in June, July and August than in any summer since 2013 and the so-called taper tantrum, when concern that the U.S. was rolling back monetary stimulus triggered a selloff across bond markets.

The current falloff underscores the changing dynamics for emerging markets, which benefited from years of central bank stimulus and a recent period of synchronized global growth. Now, U.S. interest rates are rising and the dollar is surging, making debt more expensive at a time of heightened concern over trade protectionism and domestic problems in giants like Turkey and Argentina.

Emerging-market companies raised $28 billion in bonds outside their home market, mainly in dollars, this summer, a fall of more than 60% from last year, according to data-provider Dealogic. Governments raised $21.2 billion, a decline of more than 40%.

> New deals are being postponed or canceled and issuers coming to market are paying more for their dollar debt. This week, Papua New Guinea plans to issue a bond that will be a key test of investors' appetite for risk in emerging markets.

Investors and bankers expect issuance to stay subdued for the rest of the year.

"You would expect volumes to be lower than in 2017, when all the stars aligned," said Samad Sirohey, head of debt capital markets for central and Eastern Europe, the Middle East and Africa at Citigroup. But "the last four months have been really subpar," he said.

In early August, Indonesian property developer Intiland Development pulled an up to $250 million three-year bond deal despite offering a juicy yield of 11.5%. Theresia Rustandi, the company's corporate secretary, said they withdrew the deal because of unfavorable market conditions.

Those coming to market may have to pay more. Last week, China Petrochemical Corp, also known as Sinopec, set out to raise $3 billion in debt but ended up with $2.4 billion as investors demanded a higher return from China's largest oil refiner.

Sinopec didn't return calls seeking comment.

The concern is that a falloff in credit growth will impact economic growth while making it more difficult to pay off outstanding debt. Asian companies, for instance, have $38 billion worth of publicly issued dollar-denominated debt coming due this year, according to Dealogic.

To be sure, most analysts believe that even if bond markets remain weak during the rest of the year, most developing countries and companies should be able to ride it out. For a start, the maturity of hard-currency debt in emerging markets has lengthened in recent years, reducing the urgency which borrowers must repay or refinance outstanding debt. Issuance in some developing countries has held up well, including parts of Asia. Some companies and countries also raised their money at the start of the year, expecting rates to rise, which may have front loaded issuance in 2018, bankers say.

But if conditions remain stressed for longer, there would be a high risk of default in areas such as Turkish banks and the Argentine government, said William Jackson, an emerging-market specialist at Capital Economics.

Last week, MSCI's Emerging Markets stock index fell into bear market territory, commonly defined as a fall of 20% below its recent peak. Some currencies have gone into free fall, with Turkey's lira and Argentina's peso down 41% and 50% respectively against the dollar since the start of the year.

In bond markets, yields on hard-currency emerging-market debt have risen from 4.5% to 6% this year, according to the Bloomberg Barclays EM USD Aggregate index, which includes dollar-denominated sovereign, quasi-sovereign and corporate bonds. Investors in hard-currency emerging-market debt have recorded a negative return of 3.7% this year, according to the index.

Charles Robertson, global chief economist at investment bank Renaissance Capital, said emerging-market companies are more exposed to the international bond market than they were during the financial crisis, when risk appetite also dried up and emerging markets struggled to raise cash.

That is because banks in developed economies have scaled back syndicated-loan operations outside their home markets, forcing some firms in poorer countries to turn to public bonds instead.

Loans tend to involve close relationships between bankers and firms, so the cost of borrowing doesn't necessarily rise as much as it does in the bond market at times of stress, said Mr. Robertson.

—Christopher Whittall contributed to this article.

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