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Emerging-Market Companies at Risk With \$400 Billion of Debt Due



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Emerging-Market Companies at Risk With \$400 Billion of Debt Due

(Bloomberg) -- Cracks are deepening for vulnerable emerging-market companies as global borrowing rates surge to the highest levels since the financial crisis, halting refinancing opportunities for \$400 billion worth of debt maturities coming due in the new year.

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As US Treasury yields soar to 15-year highs and borrowing costs skyrocket, companies from developing nations have managed to only rollover a tenth of what they need. What's more, the struggle may be in its beginning stages only as refinancing challenges are likely to worsen once another \$300 billion worth of corporate bonds comes due in 2025.

Money managers and credit-ratings companies say the longer interest rates remain higher, the trickier this situation will get: For high-quality companies, it may take the form of a spike in interest rates, but for some of the lower-rated ones, it can mean failed refinancing deals, that may lead up to defaults or even bankruptcies.

So while some of the better-off firms may be able to dodge a slippery default, there's a corner of this market that remains very vulnerable, according to Sergey Dergachev, a portfolio manager and emerging-market corporate debt chief at Union Investment Privatfonds GmbH.

"I see in particular some corporates out of China, Argentina, Brazil and Ukraine vulnerable to refinance debt in this environment," Dergachev said.

We're already seeing this play out in situations from Colombia to Dubai, where some companies had no option but to cover their upcoming maturities at nearly double-digit interest rates. For instance, Colombia's [Ecopetrol SA](#) had to pay 8.625% and 9% to borrow \$1.5 billion in June, a 4 percentage-point increase in its borrowing costs in two years. Dubai-

percentage point increase in its borrowing costs in the year. Czech-based Shelf Drilling Holdings Ltd. sold \$1.1 billion of bonds last month at 10.125% yield in a refinancing, with the highest coupon rate it ever offered.

Emerging corporates have so far in 2023 defaulted on \$26 billion of debt, taking the total amount of missed repayments during the Federal Reserve's current tightening cycle to \$80 billion, according to data compiled by Bloomberg. This compares with just \$9.3 billion for 2021 and \$9.5 billion in 2020.

"High yield is the area of concern," said Warren Hyland, a money manager at Muzinich & Co. "We are at that point in the cycle when we should expect weaker credit matrix companies to underperform and when funding becomes restrictive, allocation to single B/CCC and frontier markets should be reduced."

Investors can typically find buying opportunities in the distressed world, but even then are a bit skittish. Traders who have bet on emerging-market debt distress to ease this year, leading to bond gains, have been disappointed. The Bloomberg EM USD Aggregate Corporate Index has handed money managers a total loss of 0.6% this year, compared with a gain of 4.3% they've made from a similar gauge of US high-yield company debt. That's pushing investors to tighten their purse strings in the primary market for hard-currency borrowing.

High-Yield Pain

While most of the corporate debt coming due in emerging markets is investment grade, a non-negligible \$110 billion of debt maturities face junk-rated issuers over the next two years. This is where most money managers expect most of the refinancing difficulties and deal failures to happen.

High-yield companies have had a hard time refinancing bonds this year, with only one out of four closed deals coming from junk-rated companies. This group has raised a combined \$11 billion in refinancings, a fraction of the \$75 billion mopped up in 2021. As these companies see their investment appeal being eroded by refinancing pressures, higher-rated firms are benefiting.

"I am very selective now," said Peter Varga, a senior professional portfolio manager at Erste Asset Management GmbH. "Weak names which survived with low refinancing costs will drop out. But I am happy to buy the names where I think the management is strong and can manage eventual slippage in fundamentals."

As access to dollar- and euro-funding sources dry up, lower-rated companies that can find other avenues such as local-currency bonds or bank loans can ride over the refinancing bottleneck, said Arnaud Boué, executive director and senior EM fixed income portfolio manager at Bank Julius Baer & Co. Ltd.

"Over the past years, they have been pro-actively refinancing," he said. "Companies have also access to their local markets or to the loan markets to refinance, and at better levels most of the time. Lastly, they can use their cash position or engage in asset sales to meet the debt maturities."

Issuer competition for liquidity will be fierce in the next two years, especially for lower-rated issuers, given higher country risk premia than in advanced economies, S&P Global analysts said. As the year-end holiday approaches and tensions in the Middle East escalate, the window for debt sales for risky names will be closing soon.

"We still have a few borrowers who are closely monitoring market conditions to find a favorable window for issuance, but pipelines tend to become much more opportunistic from November," said Stefan Weiler, the head of debt capital markets for central and eastern Europe, the Middle East and Africa at JPMorgan Chase & Co. "EM external debt cashflows will be significant over the next couple of years and in the context of a "higher for longer" UST yield environment, some borrowers may find it challenging to re-finance at sustainable rates in the

international bond markets.”

What to Watch

- The world will continue to watch for developments in the Middle East as Israel warned of a “long and difficult” war after it started a widely-expected ground invasion of Gaza.
- Investors will monitor China's official PMI figures, which may show the recovery taking a breather, mainly due to the effects of a holiday.
- Inflation data will be in focus from Pakistan and Sri Lanka to Poland and Turkey as a surge in oil prices is posing upside risks on price growth. Bloomberg Economics says Turkish inflation likely accelerated despite the recent sharp rise in interest rates.
- In Latin America, central banks from Brazil and Colombia will announce interest rate decisions.
- In Argentina, market participants will continue to watch for any policy news from presidential candidates Sergio Massa and Javier Milei ahead of the Nov. 19 runoff vote.
- And, of course, emerging- and developed-market traders alike will closely monitor the Federal Reserve's November meeting and Treasury refunding.

--With assistance from Sydney Maki.

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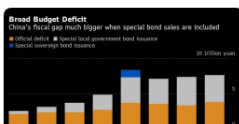


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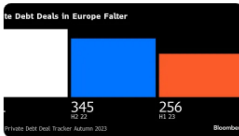


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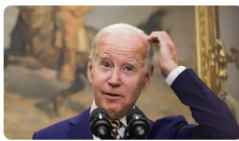


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