The Kingdom of Spain, acting through the Spanish Treasury, rated Baa2/BBB+/BBB+ (pos/stab/stab/stab) by Moody’s, S&P, Fitch and DBRS, priced on Tuesday 24th March its third EUR government bond linked to Euro Area Harmonised Index Consumer Price HICP (ex Tobacco). This represents the Kingdom’s third syndicated transaction of 2015 following the launch of new nominal 10-year and 15-year Obligaciones earlier in the year. Due 30 November 2030, the EUR 3.5 billion 15-year benchmark issue carries a 1% annual coupon and was priced at a spread of 138 bps through the 1.95% SPGB due July 2030 to give a real yield of 0.354% and a re-offer price of 109.827%. Placement was through a syndicate of six lead managers: Barclays, BNP Paribas, Caixabank, Citigroup, Credit Agricole CIB and Goldman Sachs. All remaining primary dealers in the Kingdom of Spain government bond market were invited into the syndicate as co-leads.

Background

- The transaction continues the Kingdom of Spain’s Euro Area inflation-linked bond programme as announced in its 2015 issuance strategy.
- The inflation-linked programme has been established with the objective of diversifying the Kingdom of Spain’s investor base and to gradually lengthen the average life of its government bonds.
- The Spanish Treasury has now issued three inflation-linked bonds, with the new 15-year extending their inflation curve out to 2030.
- Despite higher redemptions in 2015, the Kingdom of Spain’s total gross funding for 2015 is expected to be lower than in 2014, at EUR 239.369 billion (of which EUR 141.996 billion in medium- and long-term instruments). Year to date, the Kingdom has issued EUR 49.2 billion of medium and long term funding, equivalent to 34.7% of the stated target.

Execution highlights

- With ECB QE driving yields to new lows, and with both existing inflation-linked Spanish government bonds trading at negative real yields, the Spanish Treasury decided to extend their inflation curve by launching a new 15-year Euro Area Inflation-Linked benchmark transaction. The launch of the new issue was also timed to coincide with Spain’s inclusion to key inflation indices from the end of the month.
- The mandate was officially announced to the market on Monday 23rd March at 5:50pm CET. The following morning, with positive investor feedback in hand, initial price thoughts of ‘high 130bps’ through the 1.95% SPGB July 2030 were released to the market at 10:00am CET.
- With indications of interest in excess of EUR 4.2 billion (including EUR 1.85bn of Joint Lead Manager interest), the orderbook was opened at 11:30am CET with official price guidance of 138bps area through the 1.95% SPGB July 2030.
- By 1:20pm CET the orderbook had grown to EUR 6 billion (including EUR 1.85bn of Joint Lead Manager interest), at which point the spread was fixed at 1.95% SPGB July 2030 less 138bps and it was announced that books would close at 2pm CET.
- The final orderbook totalled EUR 6.7 billion with 160 investors participating in the transaction. The quality of the orderbook was high, allowing the deal to be sized at EUR 3.5 billion.
• The transaction priced at 4:20pm CET, with a spread of 138bps through the 1.95% SPGB July 2030 equivalent to a real yield of 0.354%.

• With this third EUR inflation-linked benchmark, the Kingdom of Spain has successfully extended their inflation curve out to 15-years and further affirms the Kingdom’s presence within the Euro Area inflation-linked market.

Summary of distribution

• The transaction saw strong demand from international accounts who took 79% of the transaction, including notable interest from UK/Irish accounts (27%) as well the US and Canada (17%).

• Fund managers were particularly dominant, representing 49% of the transaction. Banks and Pension and Insurance companies were also prominent taking 20% and 15% respectively.

Summary of terms and conditions

Issuer: The Kingdom of Spain  
Ratings: Baa2/BBB/BBB+/AL (pos/stab/stab/stab)  
Size: Euro 3,500,000,000.00  
Format: Obligaciones del Estado (in dematerialised book entry form), RegS Cat 1, 144A eligible, CACs  
Settlement: 31st March 2015  
Maturity: 30th November 2030  
Coupon: 1.000%, annual ACT/ACT, full first on 30-Nov-2015  
Reoffer Spread: 1.95% SPGB July 2030 less 138bps  
Reoffer Price: 109.827% / 0.354% reoffer real yield  
Denoms/Listings/Law: 1k+1k / Public Debt Market / Spanish Law  
Docs: Standalone  
Leads: BARCLAYS, BNPP, CACIB, CAIXABANK, CITI, GSIB  
ISIN: ES00000127C8
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