ON-THE-GROUND EXPERTISE IN LATIN AMERICA

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As an economic region, Latin America is growing rapidly, and with that growth comes opportunity for investors and debt issuers alike. However, accessing these opportunities in the most effective way is another matter. Scotiabank's Managing Director and Head of Latin America Debt Capital Markets ("DCM"), Juan Fullaondo, discusses the intricacies of debt issuance and investment in the region, and the difference that local, on-the-ground expertise makes when accessing these markets.

The dynamics of debt in a growing region

Infrastructure investment has been a long-recurring theme in Latin American DCM. Total infrastructure spending in Latin America is expected to reach US$142.5 billion in 2019 and US$175.8 billion in 2020, based on the current pipeline of 1,711 large-scale projects with a combined value of US$829.2 billion. Though some typical risk factors remain, favourable demographics and a generally supportive legislative environment have helped drive this growth.[1] Moreover, private investment has been trending towards an increasing proportion of this infrastructure spending.[2]

While areas of growth in DCM can be found across the Latin American region, Fullaondo sees notable potential in Peru, Chile, Colombia and Mexico, which make up the Pacific Alliance bloc of countries, plus Brazil.

"Mexico has a very stable economy, and I think we're particularly going to see growth there," says Fullaondo. "All these economies are as cyclical as any other, but I expect to see a lot of activity in this region overall."

On a sector and industry basis, Fullaondo believes there will be considerable investment in the oil and gas space, as well as in telecommunications and toll road infrastructure.

"I think industrials, telecoms and everything that is related to commodities or to the commodities cycle are sectors that are going to be very active through the next couple of years."

The importance of scope and expertise in an investment banking partner

While the expansion of DCM in Latin America represents considerable opportunities for issuers and potential investors, these markets are made up of transactions that can be increasingly complex in nature. The issuers may be in Latin America, but the majority of bond market participants remain in the traditional large capital markets of the United States and Europe. Consequently, currency issues are almost automatically a consideration; depending on the nature of the transaction, even three or more currencies may be involved. Furthermore, debt issuers have individualized needs with respect to tenor, product structure and other variables.

The quality and expertise of the investment banking partner then becomes a key differentiating factor for issuers and investors. In addition to acting as the underwriter for the debt issue, the investment bank plays a key role in advising on the transaction, offering solutions pertaining to the optimal deal structure most beneficial to the client. A globally focused operation, on-the-ground DCM specialists in the relevant markets and broadness of product offering are potentially critical factors for the investment banking partner to navigate a successful debt issue.

For example, in Fullaondo's experience it's not uncommon for a Latin American client to have interests in several countries within the region, while completing a debt issue for a largely U.S. and European participant market. This creates a multiple-currency, cross-border transaction at the outset. In such a scenario, an investment bank with both local regional professionals and a global network lends an important edge.

"You can see complex transactions from every angle now," says Fullaondo. "You see them in infrastructure, you see them in asset-backed securitizations, you see complexities in all different sorts of asset classes. However, I think the infrastructure side is one where we're going to be seeing many complex structured issues coming over the next few years."

The advantage of market leadership

As Scotiabank's Head of Latin America DCM, Fullaondo represents a global bank that has the region in its DNA, with operations in Latin America and the Caribbean going back 125 years. Scotiabank currently has approximately 35,000 employees in Latin America, with recognized leadership in the investment banking industry as well as its retail-level operations.

Moreover, Scotiabank holds a robust competitive position among other major global banks in Latin American DCM. In the past year alone, in debt issues underwritten and advised, Scotiabank has rocketed up into the top 10 and top 5 global banks for all Latin American bonds and cross-border Latin American bonds, respectively, all while maintaining an attractive fee structure.

2019 LATIN AMERICAN DEBT CAPITAL MARKET ISSUES UNDERWRITTEN/ADVISED – ALL BONDS[3]

Manager	Rank	Rank Change	Volume (MM, US$)	Issues	Fees	Market Share (%)
Banco Santander	1	^3	8,937.44	76	0.206	10.52
Banco Itau BBA	2	^1	8,156.46	73	0.09	9.6
Bradesco BBI SA	3	^3	8,012.21	44	0.275	9.43
JP Morgan	4	^1	6,650.67	30	0.164	7.83
Bank of America Merill Lynch	5	^5	5,925.53	28	0.22	6.98
Citi	6	v5	5,920.40	33	0.248	6.97
Scotiabank	**7**	**^4**	**5,886.86**	**41**	**0.084**	**6.93**
Morgan Stanley	8	^9	3,638.22	14	0.201	4.28
HSBC	9	v7	3,403.90	26	0.19	4.01
Banco BTG Pactual	10	^5	3,229.22	35	–	3.8

2019 LATIN AMERICAN DEBT CAPITAL MARKET ISSUES UNDERWRITTEN/ADVISED – CROSS-BORDER BONDS[4]

Manager	Rank	Rank Change	Volume (MM, US$)	Issues	Fees	Market Share (%)
JP Morgan	1	^2	6,650.67	30	0.164	13.45
Bank of America Merrill Lynch	2	^3	5,873.26	26	0.22	11.88
Citi	3	v2	5,389.94	26	0.248	10.9
Morgan Stanley	4	^5	3,750.72	15	0.201	7.59
Banco Santander	5	^1	3,286.46	21	0.206	6.65
Scotiabank	**6**	**^14**	**2,831.68**	**15**	**0.084**	**5.73**
HSBC	7	v5	2,503.72	15	0.19	5.06
Goldman Sachs	8	^4	2,502.45	15	0.333	5.06
BNP Paribas	9	v2	2,389.09	13	0.233	4.83
Bradesco BBI SA	10	^4	1,670.63	11	0.275	3.38

“I think a great advantage that Scotiabank has vis-à-vis our competitors is our local presence,” says Fullaondo. “We are very agnostic with respect to accommodating clients’ best interests. If it's more efficient to tap local markets we’ll do that, and if it’s more efficient to tap international markets we'll do that as well. At the end of the day we provide a full menu: our focus is on recommending the most favourable and efficient financing solutions for our clients.”

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1. Infrastructure Insight: Latin America, GlobalData, November 2018.
2. Eduardo Cavallo, Andrew Powell, Building Opportunities for Growth in a Challenging World – 2019 Latin American and Caribbean Macroeconomic Report, Inter-American Development Bank, 2019.
3. Bloomberg League Tables, as of July 11, 2019
4. Bloomberg League Tables, as of July 11, 2019

For more information on Scotiabank’s Latin American debt capital markets solutions, please contact:

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