



SHCP

SECRETARÍA DE HACIENDA  
Y CRÉDITO PÚBLICO

# Debt Management Strategy

2015 Roundtable on Treasury Markets and Debt Management

November 2015

# 1. Public Debt Management Strategy

---

## Two Main Objectives

### Direct

*(intertemporal funding at an adequate cost-risk trade off)*

**1**

**Cost**

**2**

**Risk** (refinancing, exchange rate, interest rate)

**3**

**Permanent access to several funding sources**

**4**

**Ability to withstand a wide range of stress scenarios**

**Funding terms and conditions**

**Option to issue**

### Indirect

*(strategic role of the yield curve – externalities)*

**1**

**Promote the development of the local and foreign debt markets**

**2**

**Yield curve as a benchmark for other issuers**

**3**

**Develop a liquid yield curve**

**4**

**Short and long term instruments**

## 2. Global Financial Markets Conditions

---

- 1** To cope with the 2008-2009 crisis fiscal and monetary policies provided unprecedented stimulus to support aggregate demand.
- 2** Significant portfolio adjustment towards emerging markets (push and pull factors).
- 3** Emerging markets have been strongly influenced by US interest rates and changes in global risk appetite.
- 4** Low and uneven growth among regions will continue to induce FX volatility.
- 5** Global conditions and lower growth in China have put pressure in commodity prices and some emerging markets.

### 3. Debt Management Challenges and Opportunities

---

#### Macroeconomic Dynamics

- ✓ **Strategic role of the yield curve for aggregate demand management**  
(externalities)

**Regular business-cycle**  
*(incentives well aligned:  
separability principle)*

vs

**Crisis/crash**  
*(incentives may differ)*

- ✓ **Links between monetary policy and public debt policies**
  - Risk free vs. risky debt (spreads pricing/ratings)
  - Role of the central bank and firewalls
- ✓ **Public debt sustainability (stress testing, etc.)**
- ✓ **Local (national) currency debt**

### 3. Debt Management Challenges and Opportunities

---

#### Global Portfolio Reallocation (pull-push factors)

- ✓ **Increasing role of foreign investors**
  - *Diversification of the investor base*
  - *Improved price dynamics*
  - *Increased tail-risks (liquidity buffers are needed)*
- ✓ **Key role of global benchmarks**
- ✓ **Increased correlation in investors' risk appetite**

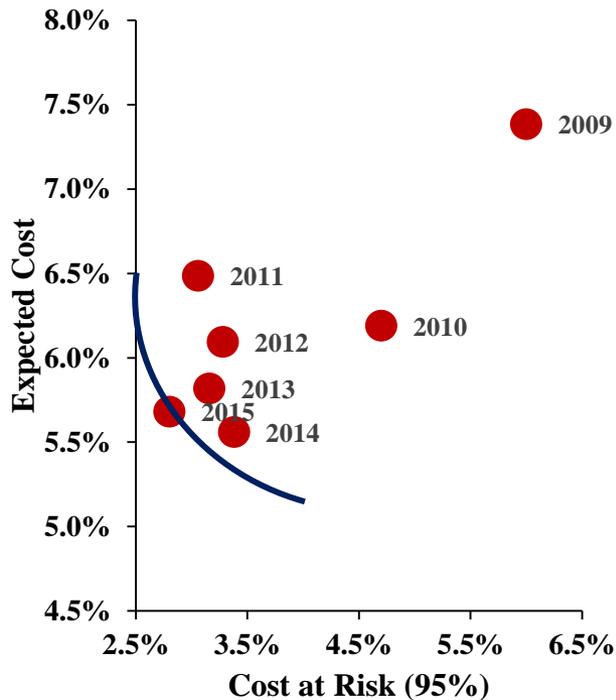
#### Liquidity

- ✓ **Regulatory challenges** (*derivatives, capital ratios, etc.*)
- ✓ **Buy and hold investors**
- ✓ **Market-makers**

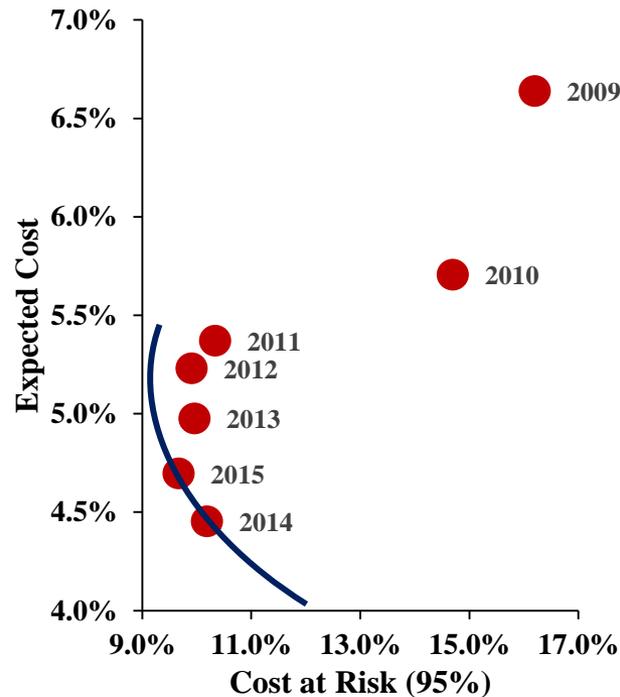
# 4. Issuance Strategy

Mexico's debt management strategy takes into account the trade-off between expected cost and risk to optimize its debt portfolio.

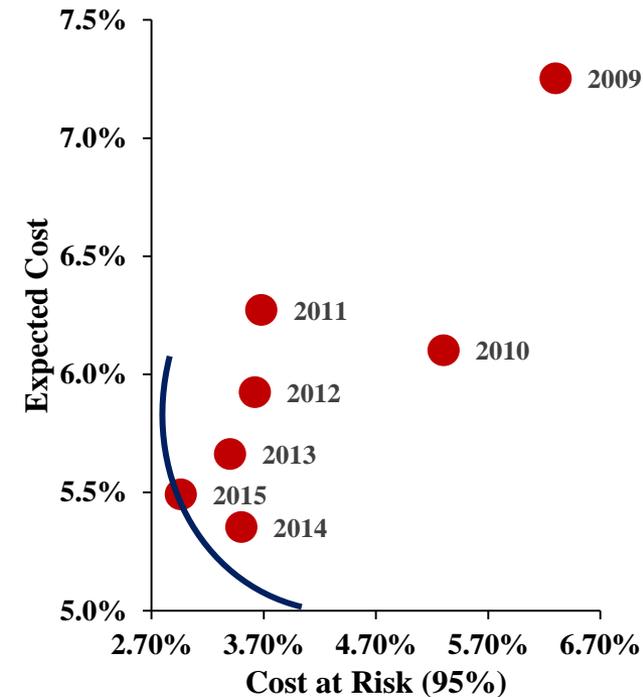
**Local Debt  
Risk-Cost Trade Off**



**External Debt  
Risk-Cost Trade Off**



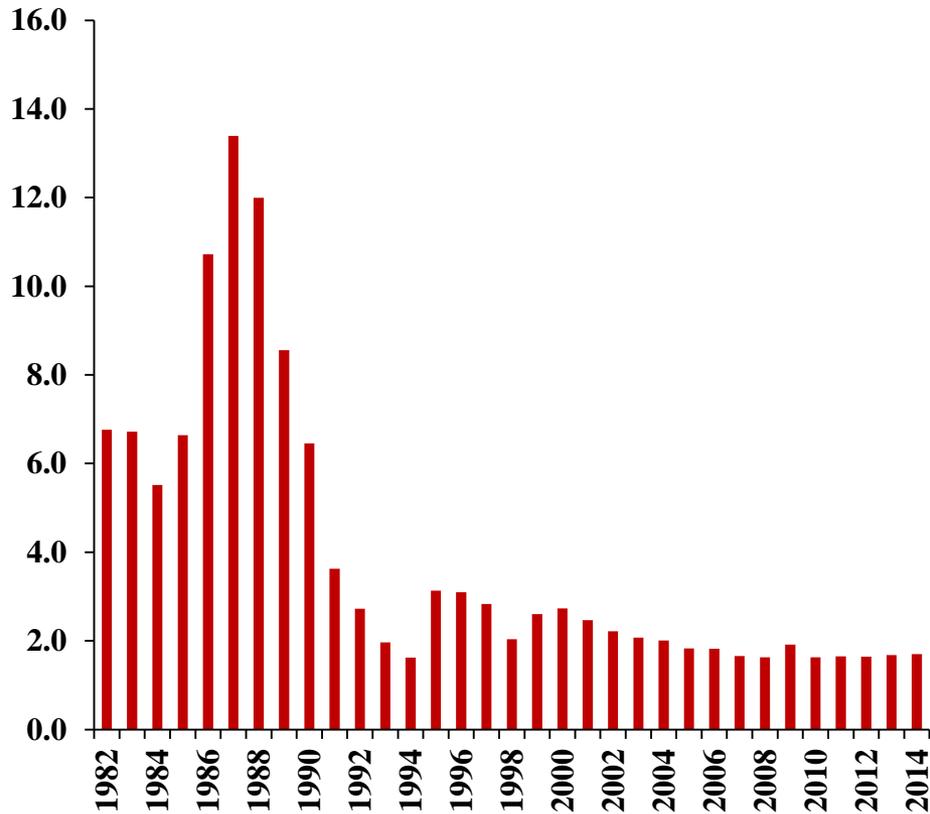
**Total Debt  
Risk-Cost Trade Off**



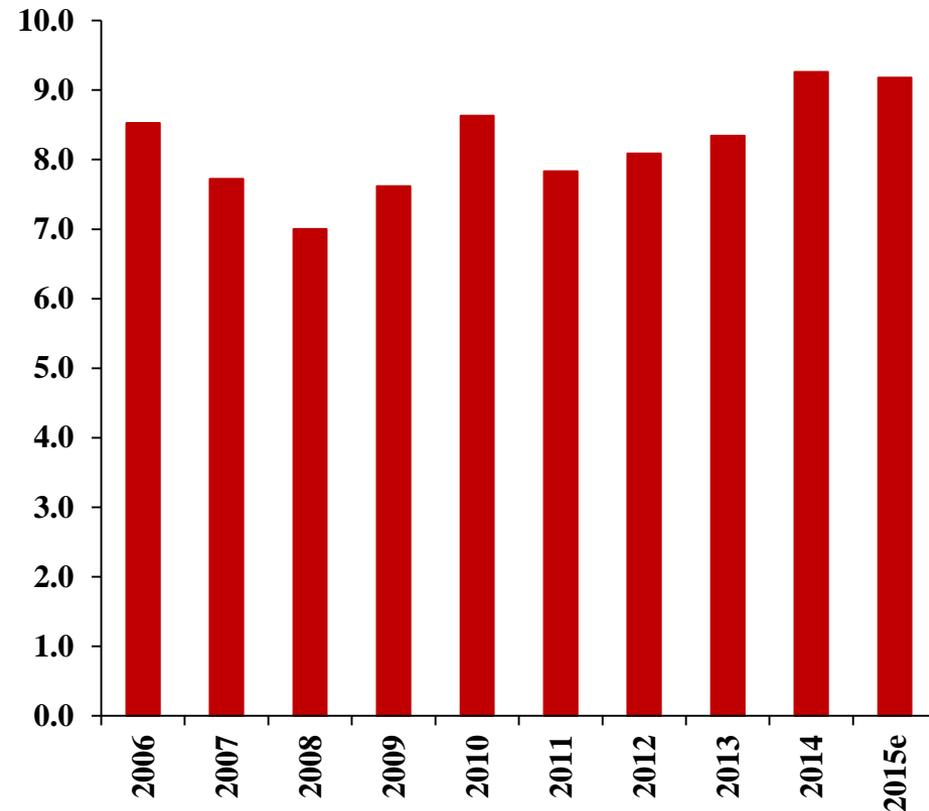
# 4. Issuance Strategy

The Federal Government has sought to reduce costs and lower portfolio risks through an adequate mix of currencies, debt instruments and maturities.

**Financial Cost**  
(% of GDP)



**Gross Financing Needs**  
(% of GDP)

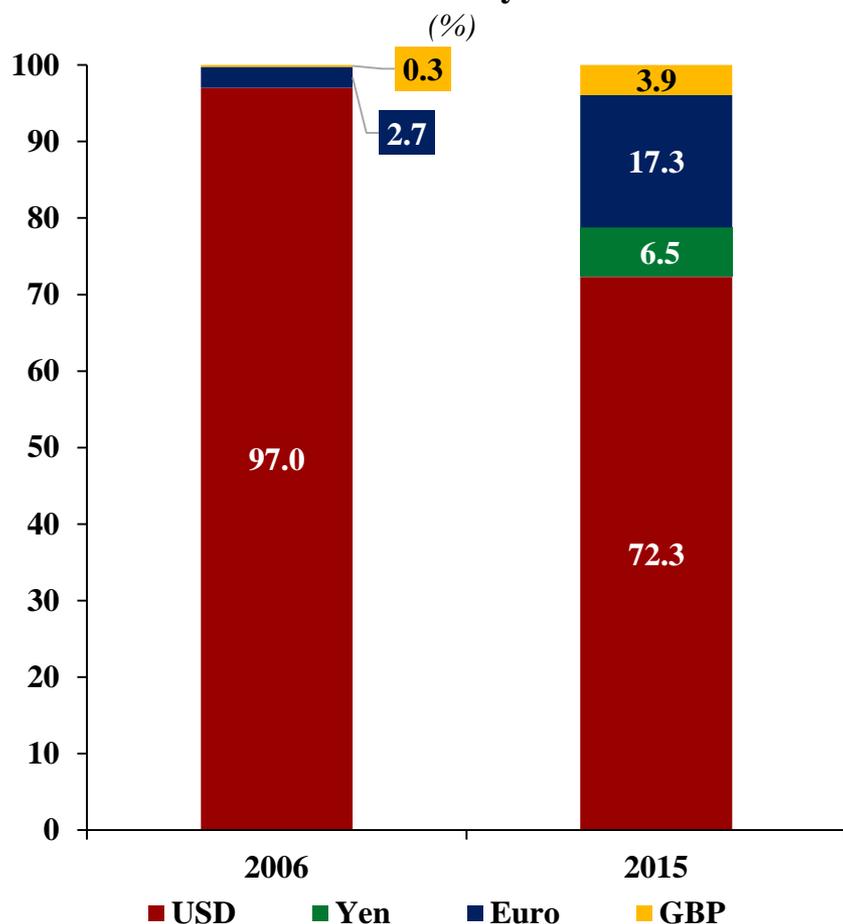


e/ Estimated

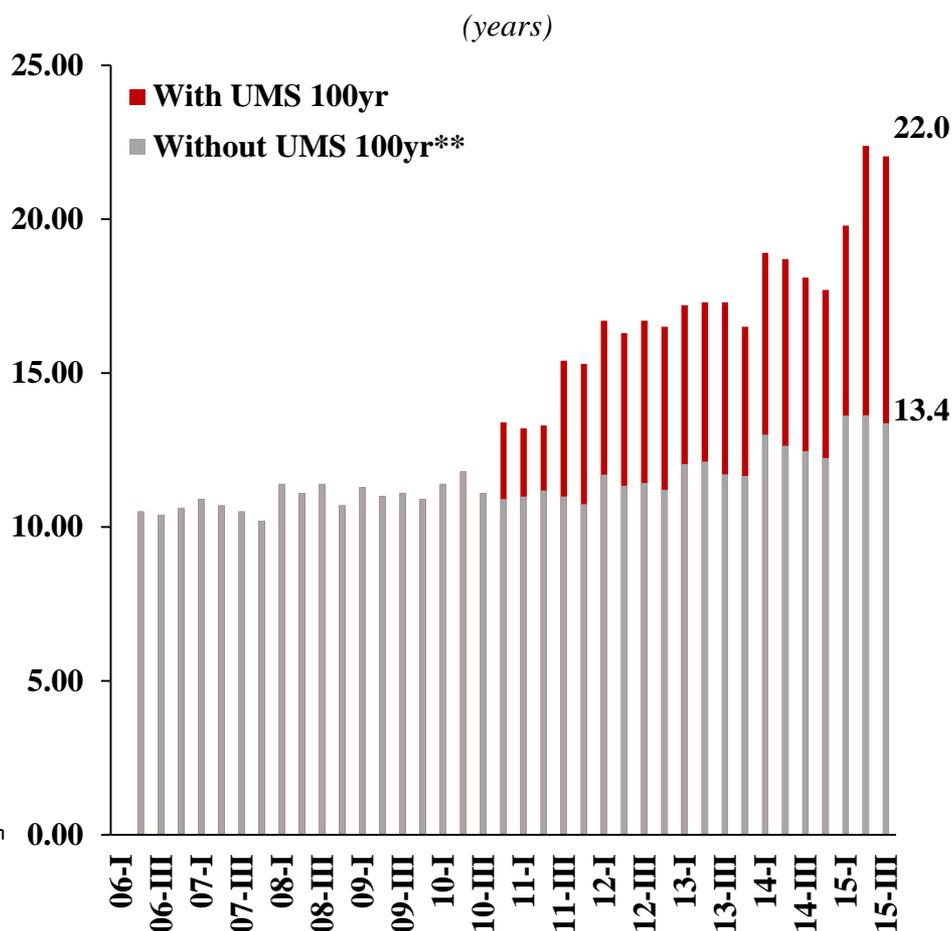
# 4.1. External Markets Strategy

Diversify funding sources and extend average maturity

Government Debt Breakdown by Currency\*  
(%)



Average Maturity of External Government Debt  
(years)



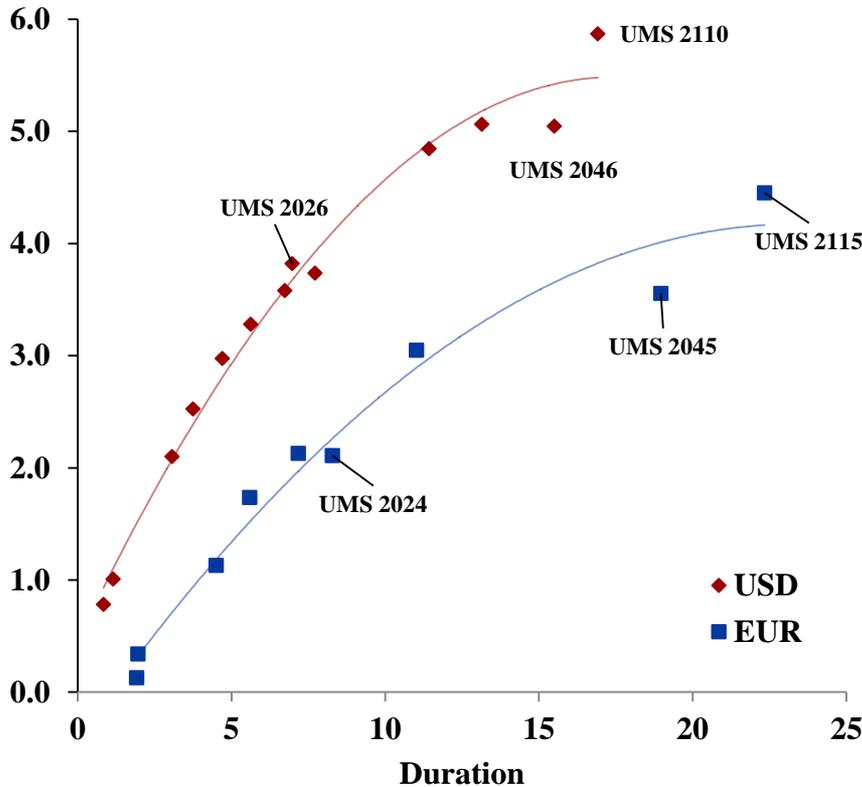
\* Considers only market debt.

\*\*Excludes UMS, EUR, USD and GBP 100 year bonds.

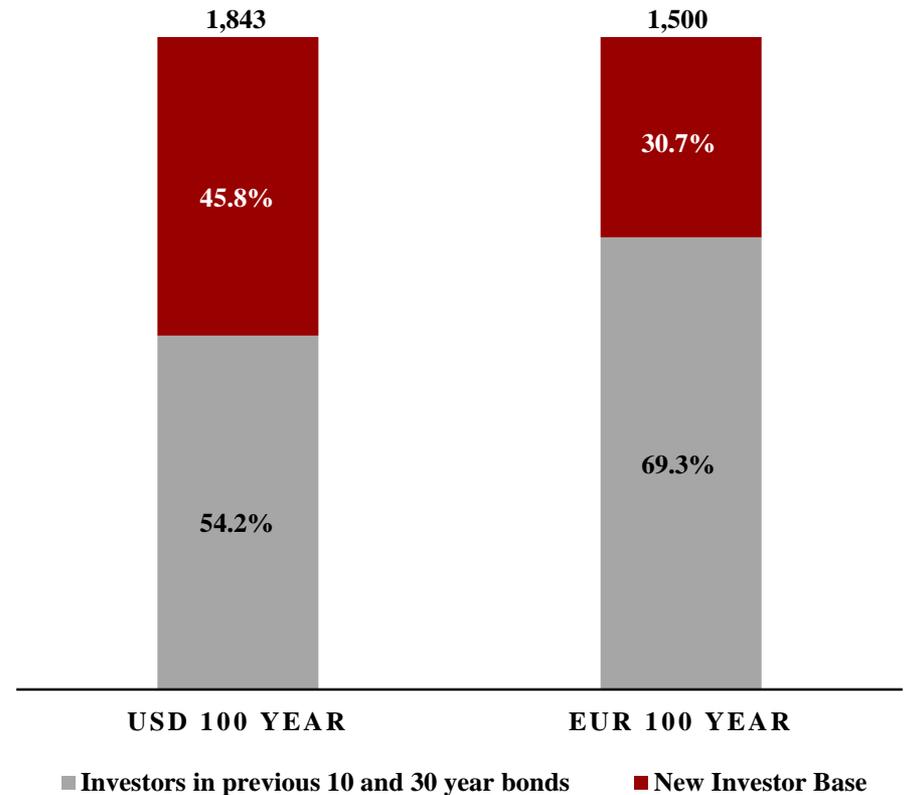
# 4.1. External Markets Strategy

**Maturity extension objectives: lower refinancing risk, increases diversification, broadens the investor base and helps differentiate from other issuers.**

**UMS Yield Curve**  
(%)



**New investors in USD and EUR 100-year issuances\***  
(million)

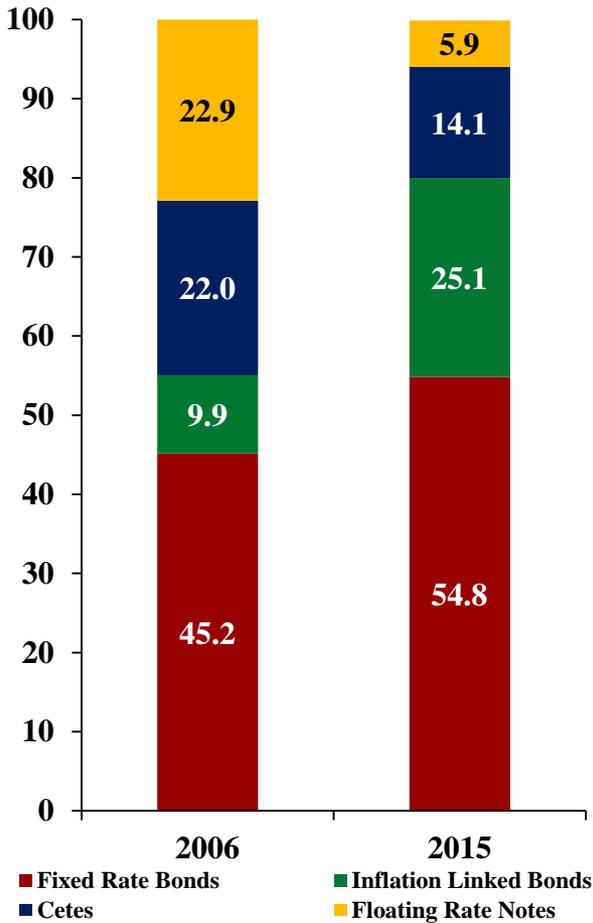


\* Order book compared to immediately prior 10 and 30 year bond issuances in each currency.

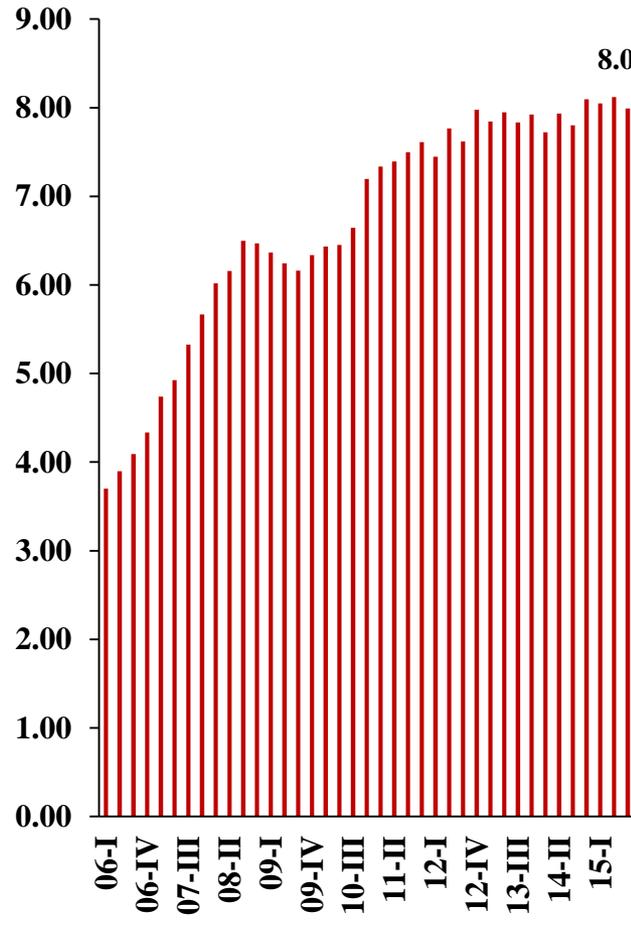
## 4.2. Local Markets Strategy

The relative importance of short-term and floating rate notes has diminished and duration has been increased (between 7-8 years since 2011).

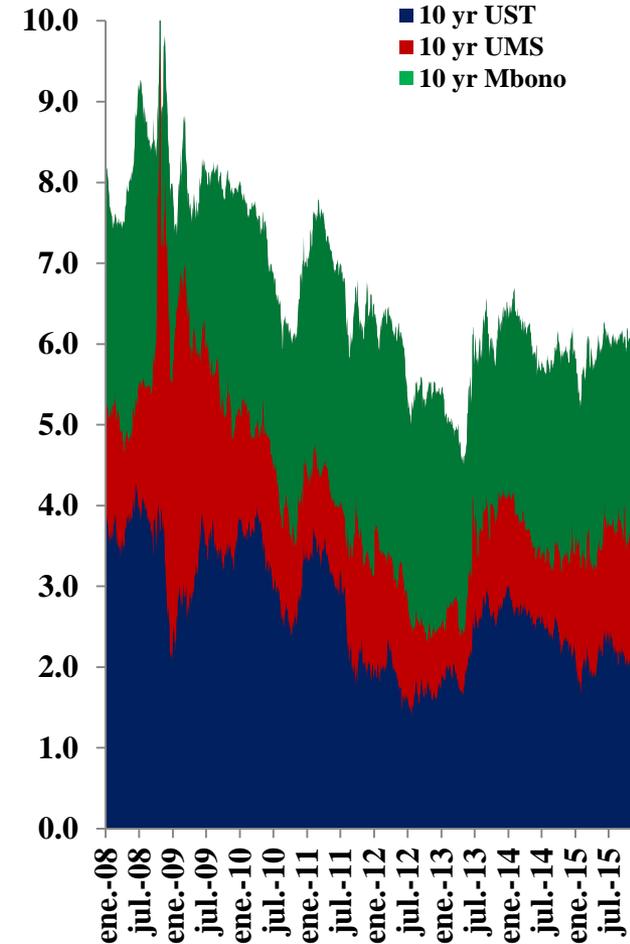
**Composition of Local Government Debt (%)**



**Average Maturity of Local Government Debt (years)**

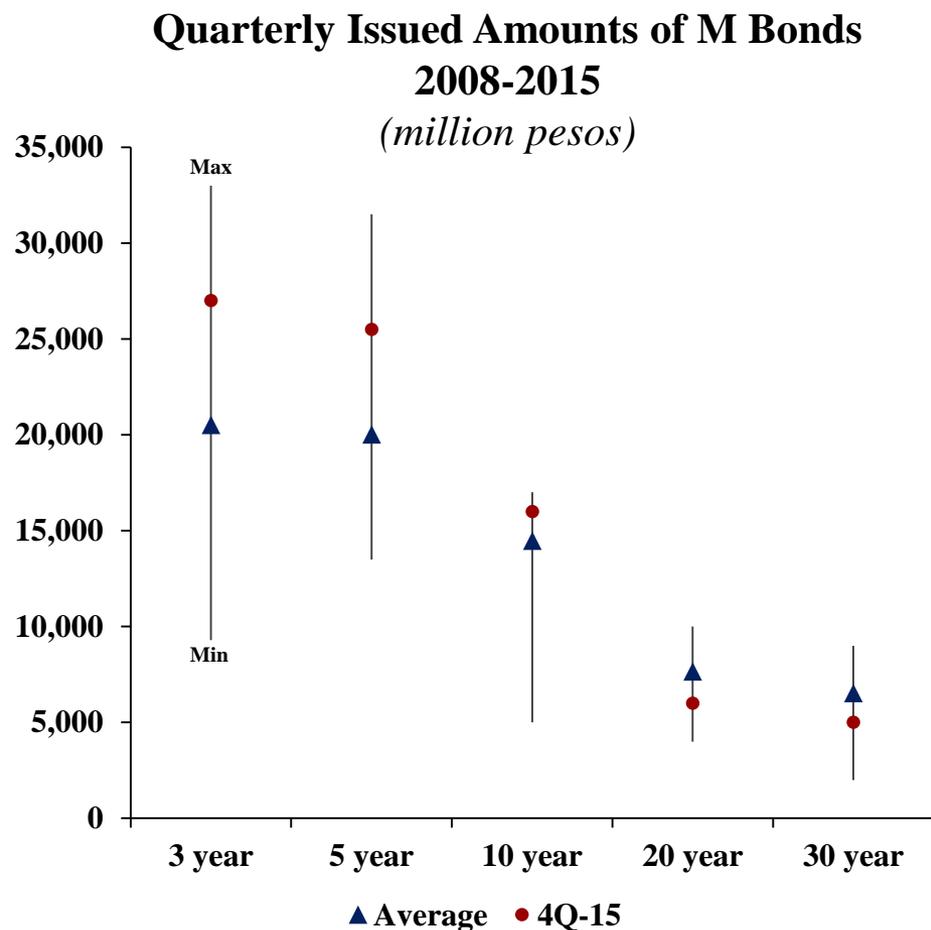
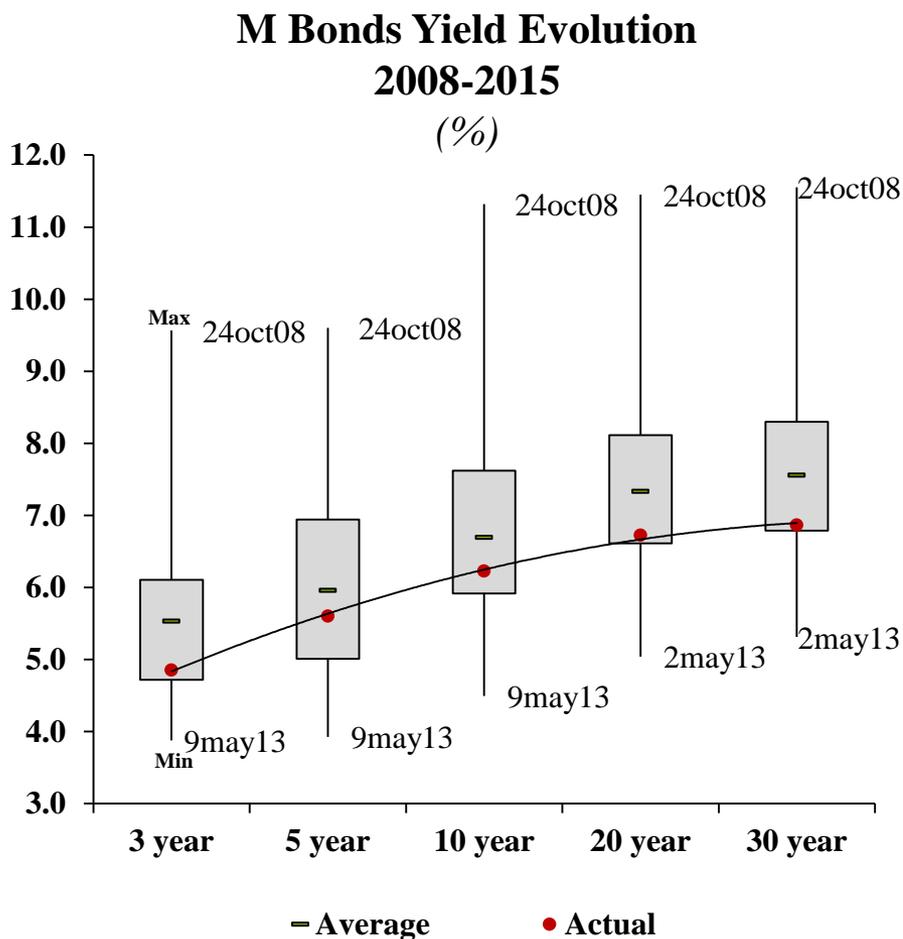


**Mexico's Yield Performance (USD and Peso)**



## 4.2. Local Markets Strategy

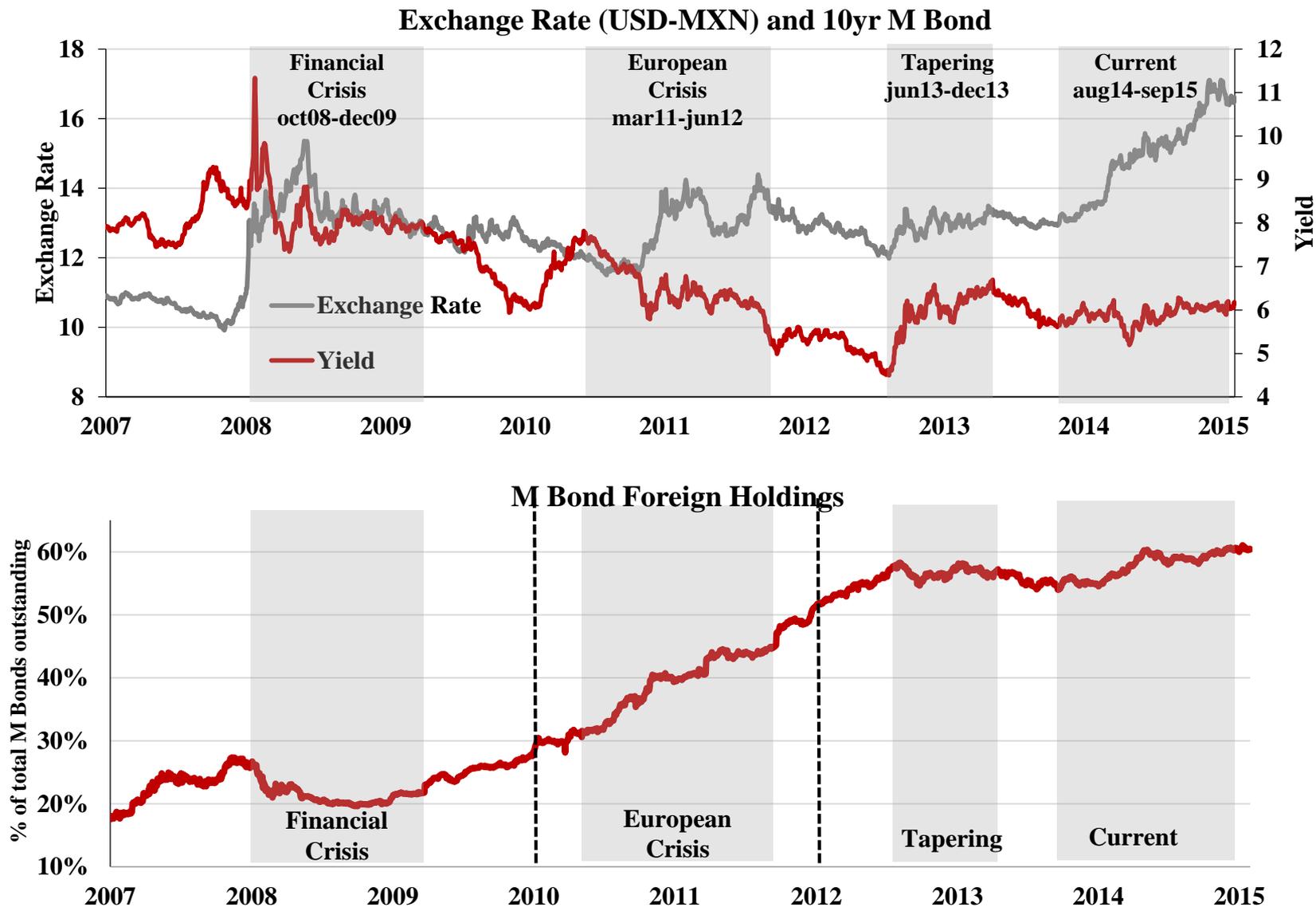
Local debt markets have coped well with complex and challenging external conditions in the last years.



The box limits are the 75th and 25th percentile.

## 4.3. Stress Tests

Foreign holdings of local securities have been resilient to volatility episodes.



## 5. Final Remarks

---

### Debt Management Strategy

- ✓ A sound debt management strategy is a key element of strong macroeconomic fundamentals
- ✓ Importance of flexibility in debt issuance programs (consider market conditions - local and external risk appetite)
- ✓ Debt Managers should maintain a wide range of options regarding funding alternatives (option to issue)
- ✓ Diversify the investor base (look for less correlated investors)
- ✓ Consider the strategic role of the yield curve:
  - Aggregate demand tool
  - First building block in any funding in national currency (corporates and households)
- ✓ Importance to be perceived as a regular and predictable issuer in local currency funding
- ✓ Consider flexible issuance and hedging strategies (timing) in markets where you are not a price setter (funding vs exposure)