

Interview with Christophe Frankel, CFO and Deputy Managing Director of ESM / CFO and Deputy CEO of EFSF

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By David Thomas and Nick Shamim

MNI: "One general operational question - are EFSF/ESM bond issues earmarked for particular bailout countries or purposes ? If so - which country was this week's 3-year tap assigned to?"

Frankel: "No, bonds are not earmarked for specific countries or purposes. We use a diversified funding strategy with a liquidity buffer as a key component to give us some flexibility. All funds are pooled then disbursed to programme countries upon request".

MNI: "Can you give us any indication of the size of your funding needs for the next quarter and the next three quarters?"

Frankel: "Our long term funding target for this quarter is E16.5 billion. Following the tap of 18th April tap, we have now raised E9.5 billion for this quarter.

"For Q3, our long term funding target is E13 billion and E11.5 billion for Q4. This will make a total of E58 billion for 2013 and so far this year, we have already raised E26.5 billion so we are comfortably on track to meet our funding requirements".

MNI: "Apart from the recent 3-Year tap are you considering tapping any other benchmarks?"

Frankel: "As you are surely aware, we have received a request from Cyprus

to step out of the EFSF guarantee structure. We expect Cyprus to officially be allowed to step out on 29 April. This means a change in our guarantee structure and therefore all bonds issued before this date will no longer be able to be tapped.

"There is then a short window of opportunity for us to be able to tap an existing bond before Cyprus steps out but you have to bear in mind that the bond would have to be placed and also settled before the stepping out".

MNI: "Will you be sticking with the pattern of 3-, 5- and 10-year bonds you have been issuing or could you go longer?"

"We have a clearly-defined strategy which is to provide the market with liquid, benchmark bonds and, of course 3, 5 and 10 years are the typical benchmark maturities for our investors. We also find that the 7-year bond is becoming increasingly important. So, here is naturally the deepest demand and this explains our choice of maturities. We are not restricted to any pattern and have in fact already issued at the long end with the placement of 20- and 25-year bonds. Actually these bonds were very well received by the markets and were subsequently tapped due to reverse investor enquiries".

MNI: "The longest issue you have is a 25-year (2037). Would you ever consider doing a 30-year or an ultra-long?"

Frankel: "Yes, the April 2037 bond placed in June of last year is our longest issue to date. We can issue up to a maturity of 30 years and of course we would consider doing that when the investor demand is there".

MNI: "Can you give us some anecdotal or other kind of indication as to the strength of demand from Japanese investors you are seeing at the moment?"

Frankel: "At our inaugural issue in January 2011, it was well publicised

that the Japanese Ministry of Finance purchased over 20% of this issue, which gave a strong signal of their intention to contribute to financial stability in Europe. Since then, we have regularly counted upon them as a key investor in our issues. Their participation rate is relative stable but it, of course, varies in accordance to the maturity offered".

MNI: "What do you think about current core/periphery yield spreads?"

Frankel: "Periphery yields have fallen dramatically. If you think that Ireland 10-year yields peaked at around 14% in July of 2011 and they now stand at below 4% - this shows that the reforms implemented by the countries are bearing fruit and that the market is convinced that the European support strategy is working".

MNI: "Were you happy with the mid-swaps plus 9bp which EFSF paid for its last 5-year issue?"

Frankel: "We were very happy with mid-swaps plus 9bp for this 5 year. This is not only because of the tight spread but also because of the absolute yield level below 1%. In addition to that, we saw good performance of the bond in the secondary market".

MNI: "Will the Cyprus bailout money come via ESM or EFSF? ESM at the moment is only issuing bills, so will Cyprus bailout funds be via bill issuance?"

Frankel: "Whilst EFSF will complete the existing programmes for Ireland, Portugal and Greece, ESM is responsible for all new programmes and will therefore finance the programme for Cyprus. The final schedule is currently being decided but it is possible that bills will be used initially before ESM launches its long-term funding programme. We expect to launch long-term issuance for ESM in the second half of the year".

MNI "What is the ESM funding target for Cyprus?"

Frankel: "The total financial assistance for Cyprus is to amount to E10 billion with about E1 billion to be provided by the IMF and the remaining E9 billion to be financed by ESM. We do not yet have any details of how this financing will be disbursed over the length of the programme".

MNI: "To what extent do you think Japan's stimulus measures have been responsible for the strength of demand for EFSF bond issuance of late?"

Frankel: "As previously mentioned, Japan has always been a strong supporter of EFSF bonds. This support has been relatively stable depending upon the maturities. In general, it is anticipated by market participants that the measures taken by the Japanese government will be beneficial for the whole market".

MNI: "Do you have a precise breakdown for demand from Asian investors, particularly from Japan for the 5-year issue on April 9?"

Frankel: "Asian investors represented 29% of the total amount of the 5-year issue. Overall, Asian investors amount to 23% of all our bonds issued. The difference is explained by the fact that they are particularly present in the shorter end of the curve but less so when we issue longer maturities".

MNI: "Are you looking to tap into the Japan market specifically? Would you consider doing a 'Samurai' issue ?"

Frankel: "We are permanently monitoring the market and would be ready to look at such opportunities in the future. However, for the time being our strategy is based on benchmark issuance in euro only".

MNI: "What is your general impression of funding conditions of late?"

"Since the beginning of the year, the abundant liquidity has led to funding conditions undeniably improving and this impact has been felt by all countries in the euro area. However, I also think that this is a sign that the markets are confident in the wide range of reforms that have taken place and will continue to take place at both national and European level".

MNI: "Were you impressed that the impact of Cyprus on financial market conditions was relatively so muted? How do you explain that?"

Frankel: "It is true that Cyprus has had a minimal impact and has not derailed the markets. However, I think that the markets understood that Cyprus is a very specific case and that the amounts required for the financing of the programme are relatively limited".