Spain Sells $6 Billion Debt, Placing Longest Bond Since 2011 (1)
2012-11-08 11:04:04.656 GMT

(Updates with comment in fourth, eighth paragraph, updates yields. See TOP CRIS for more on Europe's debt crisis.)

By Emma Ross-Thomas

Nov. 8 (Bloomberg) -- Spain sold 4.76 billion euros ($6.06 billion) of debt, including the longest-maturity security it has auctioned in more than a year, even as weak demand prompted a slump in prices after the sale.

The Treasury in Madrid beat its maximum target of 4.5 billion euros. Still, demand for a new five-year benchmark was 1.57 times the amount sold, compared with 2.55 when similar debt was sold last month, and the yield rose to 4.81 percent after the auction from an average 4.68 percent at the sale.

Prime Minister Mariano Rajoy is keeping investors guessing as to whether he will seek a European bailout that would allow the ECB to start buying Spanish bonds. Central bank policy makers meet in Frankfurt today as Rajoy presses the ECB to go beyond the rules it has set for itself and say how much it would intervene to cut borrowing costs if he did ask for help.

"We're in something of a stalemate, which is fine for now, but going into 2013 with the new supply, there's a risk the market forces Spain into a bailout," Harvinder Sian, a senior fixed income strategist at Royal Bank of Scotland in London.

Yields Rise

Spain's 10-year benchmark bond yield rose to 5.834 percent at 11:45 a.m. in Madrid, from 5.693 percent yesterday. That's down from a record 7.75 percent on July 25, the day before ECB President Mario Draghi first signalled the bank's willingness to intervene in markets when he pledged to do whatever it takes to defend the euro.

The current five-year benchmark, which matures in July 2017, fell after the auction, pushing the yield to 4.642 percent. The yields on the three-year and 20-year bonds also surged after the securities were auctioned.

Spain sold 731 million euros of bonds maturing in 2032 today at an average yield of 6.328 percent, compared with 4.777 percent when they were last sold in October 2010. The debt agency hadn't sold such long-dated debt since May 2011, when it placed 30-year bonds.

"Few would have predicted as recently as July that Spain would be selling 20-year paper this year," Nicholas Spiro, managing director of Spiro Sovereign Strategy, said in an email. “Not only did the Treasury exceed its target today, helping it fulfil its funding requirements for this year, but it did this at a time when the Rajoy government is less and less disposed to apply for a bond-buying program.”

Planned Issuance

The Treasury had already sold 95 percent of its planned 2012 issuance before today’s sale, according to the Economy Ministry. Still, Rajoy’s plans may change as the European Union and private economists expect Spain to miss its deficit target this year.

The Treasury auctioned three-year bonds at an average yield of 3.66 percent, compared with 3.956 percent at a sale last month. Demand for the three-year bonds, which would probably be targeted in any ECB bond-buying, was 2.83 times the amount sold, compared with 1.98 last month.

Rajoy, who has been deliberating whether to seek a rescue for more than three months, said on Nov. 6 he needs to know how much the nation’s borrowing costs would fall if he asked the ECB to buy its bonds. It wouldn’t make sense to commit to new conditions if bond buying didn’t narrow the spread between Spanish and German 10-year yields, which has already fallen in the three months since the ECB first announced its plan, he said.

That gap was at 446 basis points today, down from a record 649.8 basis points on July 25.

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