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Ireland Borrowing Costs Fall in 600 Million-Euro Sale (Update1)
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(Updates with date of next treasury bill sale in sixth paragraph.)

By Louisa Fahy

Aug. 26 (Bloomberg) -- Ireland's short-term borrowing costs fell in a sale of 600 million euros (\$761 million) of treasury bills two days after its credit rating was cut by Standard & Poor's.

The Dublin-based National Treasury Management Agency sold 200 million euros of securities due Feb. 14, 2011, at an average yield of 1.978 percent, 48 basis points lower than at an Aug. 12 sale. It also sold 400 million euros of April 18, 2011, debt at an average yield of 2.348 percent, down 46 basis points. Both securities were oversubscribed.

Irish bond yields soared yesterday after S&P cut the country's rating to AA- amid concern that the rising cost of supporting banks will swell the budget deficit. S&P increased its estimate for recapitalizing the banking system to as much as 50 billion euros from 35 billion euros previously. While the government has spent almost two years on an austerity drive to trim the country's deficit, the cost of supporting Anglo Irish Bank Corp. has undermined sentiment.

"The very high bid-to-cover ratios and lower borrowing costs are eye-catching," said David Schnautz, a fixed-income strategist at Commerzbank AG in London. "It suggests some investors do see value in Irish securities after the recent sell-off. What I find encouraging is that the NTMA decided to stick to the amount it planned to sell even though they could have issued more given the strong demand."

Investor Bids

Investors bid for 10.1 times the Feb. 2011 securities and 4.1 times the April 2011 debt. That compares with 3.6 times and 3.1 times at the Aug. 12 sale, respectively.

Ireland will hold its next auction of treasury bills on Sept. 9, the treasury agency said today. It is scheduled to hold its next bond sale on Sept. 21.

The premium investors charge to hold Irish 10-year debt over the German equivalent, Europe's benchmark, remained at a record 344 basis points today. It has widened 108 basis points since the start of the month.

"This morning's Irish treasury bill auction result was better than expected," analysts at Dublin-based fixed income specialist Glas Securities said in an e-mailed note. "While the cover is very strong, more importantly the average yield is significantly better than the last treasury bill auction."

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