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Puerto Rico Forecasts $6 Billion Surplus As Bonds Soar.

NEW YORK (Reuters) – Puerto Rico's benchmark bond surged to a 25-week high on Monday, its busiest trading day since October, after the bankrupt U.S. territory nearly doubled its projected five-year surplus to $6 billion as it recovers from Hurricane Maria.

While the price rise is being taken as a sign the market is beginning to see a recovery path for the storm-ravaged island, analysts remained wary, taking the spike with a grain of salt.

General obligation bonds maturing in 2035 changed hands more than 100 times on Monday and traded as high as 45 cents on the dollar, the bond's highest level since Oct. 3. 74514LE86=MSRB

While still down sharply from the 60-cent range the bonds had occupied before Maria struck on Sept. 20, prices are continuing a steady, month-long climb as the island's recovery prospects improve.

Senior bonds backed by sales tax revenue, so-called COFINA debt, have fared even better, reaching 63.51 cents in light trading on Monday, higher than they were in the weeks before the storm. 74529JAR6=MSRB Bonds issued by the bankrupt Puerto Rico Electric Power Authority (PREPA) also gained ground.

The latest bounce came on the heels of a revised financial outlook – released without fanfare by Puerto Rico's government on Friday – that projected the U.S. territory to accumulate a $6 billion surplus over the next five years.

An earlier version of the so-called fiscal turnaround plan, released in February, had forecast the surplus at $3.4 billion.

"Puerto Rico GO bond prices have more than doubled since their lows earlier in the year and other issues, including COFINAs, PREPAs and even National- and AMBAC-insured bonds, have all participated in this broad rally," Daniel DiBono, manager of municipal high yield evaluations at Thomson Reuters Pricing Service (TRPS), said, noting the revised surplus projections.

Share prices for insurers of Puerto Rican bonds also rose. MBIA (MBI.N), the parent company of National Public Finance Guarantee Corp, was up 4.4 percent on Monday, while shares of AMBAC Financial Group (AMBC.O) gained 6.56 percent.

The fiscal turnaround plan will serve as a basis for creditor restructuring talks in Puerto Rico's bankruptcy, which, with $120 billion of combined bond and pension debt, was already the largest in U.S. government history before Maria trashed the island's infrastructure and killed dozens.

The plan needs approval by a federal board tasked with managing the island's finances. The board was expected to approve the February version of the plan at a meeting on Monday, but postponed the meeting after Friday's revision.

Observers cast a skeptical eye on the rosier projections, unsure the board would go along with them.

Puerto Rico Governor Ricardo Rossello and the board have butted heads for months over what the plan should include.

The new plan creates $3 billion more in cost savings than the February version, including an extra $1.34 billion in tax measures like changing minimum tax rates and reducing incentives.

“While these headlines appear positive, we continue to think there will be a lot of noise before there is any significant resolution in Puerto Rico,” analysts at KBW Research said in a Monday note.

Chris Ryon, a portfolio manager at Thornburg Investment Management in Santa Fe, which does not own Puerto Rican bonds, said he was scratching his head over the spike.

“I guess hope springs eternal,” Ryon said. “I don’t see the numbers working out in that way, that favorably. You have been losing population, saying the recovery is going to really juice their economy. I don’t see that happening.”

Such reservations underscore an ongoing credibility gap for Puerto Rico in the eyes of creditors and lawmakers, spanning multiple gubernatorial administrations.

The island has not published audited financial statements in three fiscal years, and absorbed routine accusations from stakeholders and legislators that it is overstating its crisis.

by Nick Brown

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