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Argentina Flash Report

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Massa pulls another rabbit out of the hat

- **The government announced a USD1bn buyback of dollar bonds …**
- **… To quench the FX stability and muddle through in 1Q**
- **We prefer short-term bonds, although we see medium-term macro risks running unabated**

Economics Minister Sergio Massa announced this morning that the central bank will repurchase more than USD1bn in dollar bonds in the local secondary market as of today. The measure has already been published in the Official Gazzette, allowing the monetary authority to carry out the transaction on behalf of the Treasury. The buyback would comprise dollar bonds under foreign and local law, although Massa said that it would focus first on the repurchase of the short-dated notes such as the dollar bonds maturing in 2029 and 2030. The financing for the operation will come from international reserves, even though Massa did not specify this clearly. The minister also promised to take further actions to improve Argentina's debt profile in the short term.

As we argued in Argentina Economics and Strategy: "The new elephant in the room" 12 January, the government would need to secure at least USD1.7bn in external financing to maintain FX stability. **Although Massa did not make it explicit, the main objective of the buyback is to assure this goal, threatened in recent days due to the renewed jump in the parallel FXs.** In fact, the announcement comes amid recent rumours of external financing for a total amount of USD1.7bn from Brazil and China to finance infrastructure works related to the energy sector. The total amount of the buyback is not yet clear, as Massa did not specify whether he was referring to market or face value. Due to the low level of reserves, we believe that the minister was referring to the nominal amount of the buyback, so the total amount of the operation would be around USD330mn at current market prices. If this and the new external lending is confirmed, we believe that the government would be able to muddle through in 1Q, although sustained import controls will be needed on the FX side to avoid losing reserves and complying with the NIR target committed with the IMF.

We see value in the 29s and the 30s, although the repurchase does not dissipate by any means medium-term risks. The announcement would deepen the overperformance of Argentine bonds relative to other credits due to the repricing of global risk at the outset of this year. In this context, short-dated notes would benefit the most, as we see a further disinversion of the yield curve seen so far this year. As of yesterday, the 29s and the 30s had gained 21.5% on average YTD versus 16.5% for the rest of the curve. In spite of the announcement, macro fundamentals remain extremely fragile, given the buildup of short-term ARS debt and the overvaluation of the official FX. The risks we flagged in "The new elephant in the room" remain valid and the buyback would only delay FX pressures temporarily unless the government can repress imports further and/or tap additional external sources, particularly as the negative impact of ongoing dry season on agricultural inflows intensifies. Hence, we still think there is a high probability of a new bout of FX and financial instability as we get close to May-June-July, where the bulk of ARS Treasury debt matures.

On top of this, in the past Massa has made announcements of external funding with non-IFI creditors that did not

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materialise. If this is again the case, FX pressures could resume soon.

Bottom-line, we see medium-term macro risks running unabated. Bonds can extend their recovery to the upper thirties price zone but we think that the 40s will become a profit-taking level. We prefer short-term bonds from a tactical positioning given that these concentrate Blue Chip Swap (BCS) transactions and will be the object of government intervention.

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