

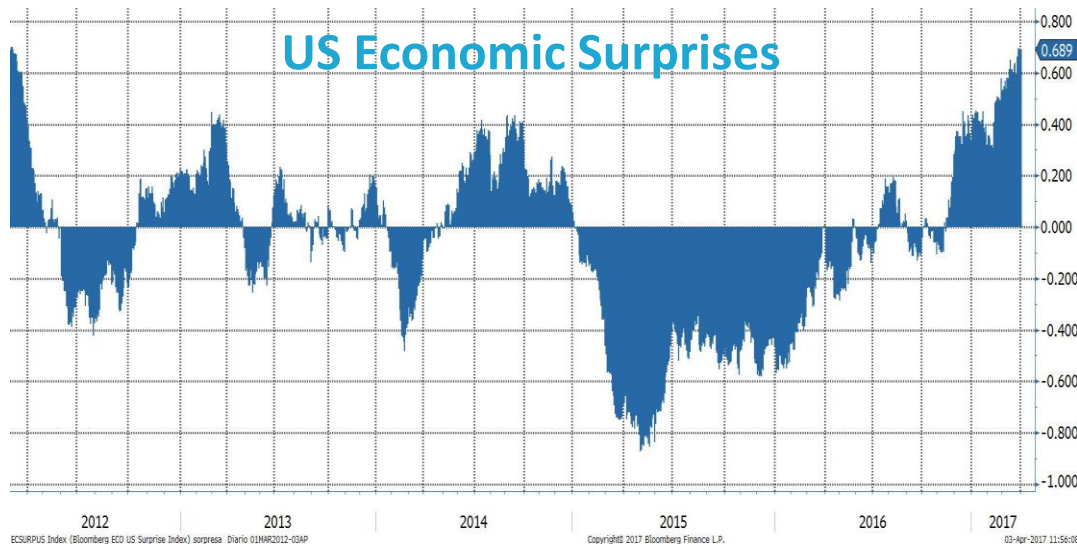
ARGENTINA: Let the games begin (again)



6th Cbonds Emerging Markets Bond Conference,
April, the 6th 2017, London

A better year ahead

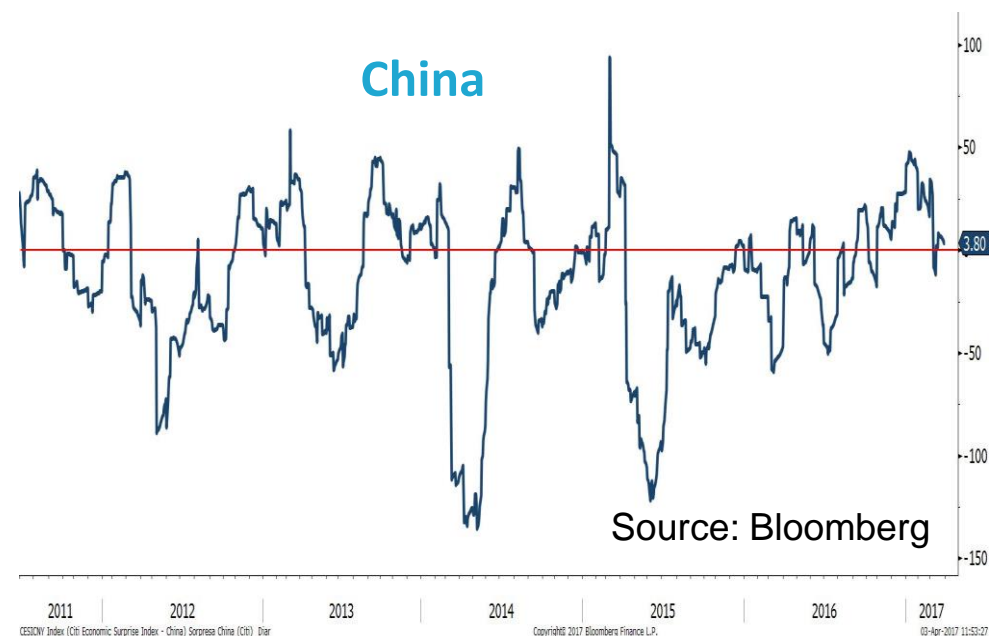
- The **world** will likely accelerate its GDP growth in 2017 to 3.4%, although unevenly.
- **US:** Economic indicators continue to surprise us on the upside with strong job creation and increased consumer confidence based on the Trump Trade.
- A wave of corporate announcements and a strong equity rally is based on imminent announcements regarding health+infrastructure plans and a corporate tax reform.
- **EUROPE:** gaining track, but with a clear disassociation between Central Europe and its periphery (PIIGS). Increasing political risk still poses some threats: undervalued and a long term opportunity in our opinion. ECB tapering its QE plan and raising rates in 2018.
- **JAPAN:** a reflation trade still in place.



Source: Bloomberg

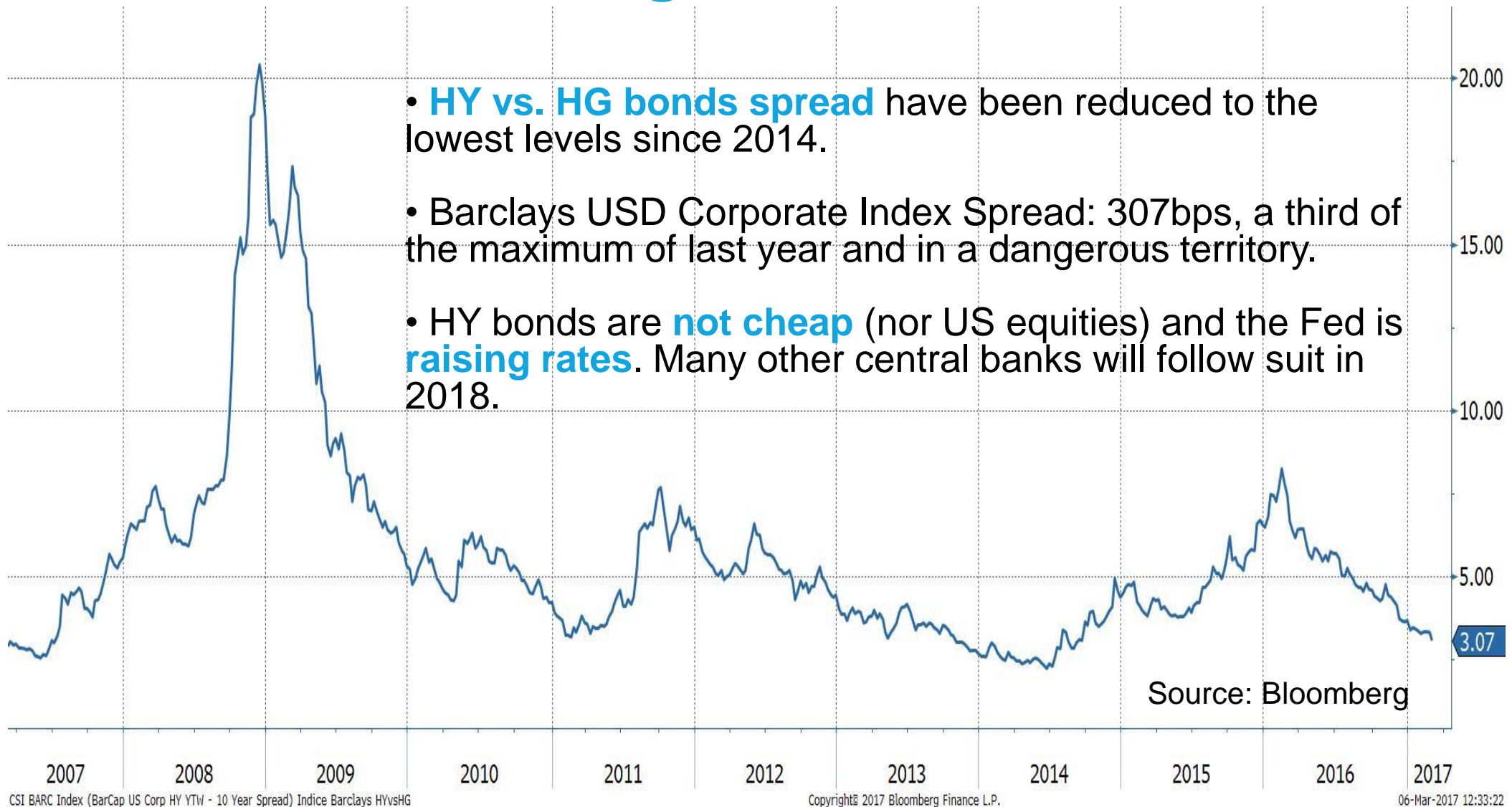
Emerging Markets turn the page

- **EM** heading into the right direction: economics justifies recent prices.
- Partial **commodity prices** recovery.
- After years of suffering loss of purchasing power, a **FX appreciation** takes place.
- Commodity prices still cast a shadow on the recovery of some emblematic exporting-driven economies.
- Russia, Brazil, Argentina returned to a growth path but are still **fragile in its basic fundamentals**.
- **China** economic woes no longer worry on the activity side (nor its financial threat), which helps to put a green signal ahead.



Risk Spread has been shrinking to (dangerous) lows, increasing the risk of a reversal

- **HY vs. HG bonds spread** have been reduced to the lowest levels since 2014.
- Barclays USD Corporate Index Spread: 307bps, a third of the maximum of last year and in a dangerous territory.
- HY bonds are **not cheap** (nor US equities) and the Fed is **raising rates**. Many other central banks will follow suit in 2018.

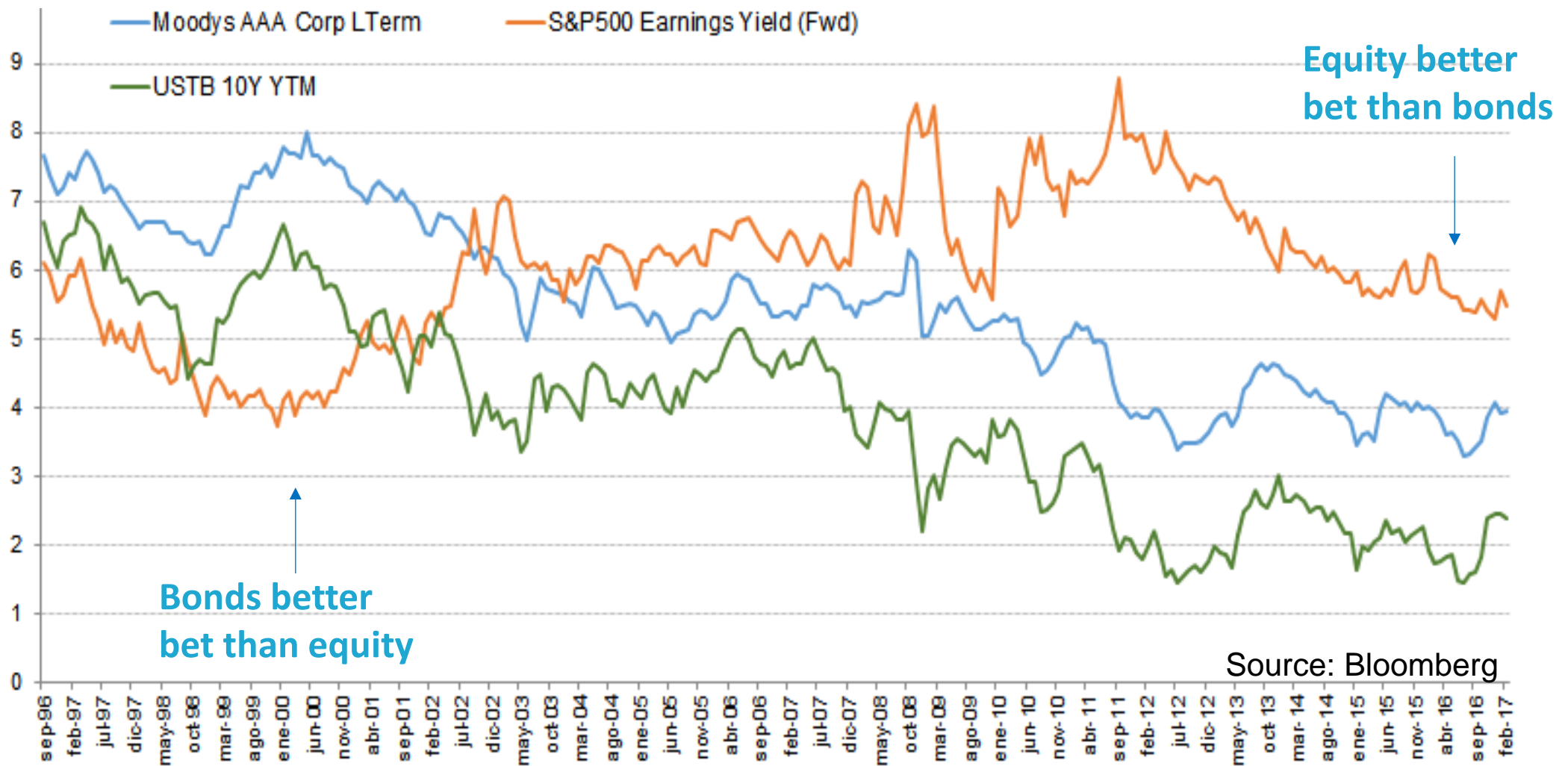


Debt markets in *risk-on* mode: 1Q17 showed HY and EM issuance growth above the rest

	Jan 1 2017 - Mar 31 2017		Jan 1 2016 - Mar 31 2016		
	Proceeds	No.	Proceeds	No.	% Change
	\$USm	Deals	\$USm	Deals	in Proceeds
All US Debt (F1)					
US Long-term Debt (F2)	821,682.8	1,194	693,536.8	1,011	+18.5%
US Long-term Straight ex MBS, ABS & Munis (F3)	668,536.7	925	561,715.5	1,284	+19.0%
US Federal Credit Agency Debt (F7)	42,495.6	282	48,991.4	234	-13.3%
US High Yield Corporate Debt (F8)	85,553.2	134	34,220.2	50	+150.0%
US Investment Grade (F9)	377,943.0	270	358,513.7	253	+5.4%
Agency, Sovereign & Supranational Debt (F10)	140,294.7	211	106,006.8	190	+32.3%
US Mortgage-backed Securities (F11)	89,401.8	171	83,747.9	175	+6.8%
US Asset-backed Securities (F14)	63,744.4	98	48,073.4	97	+32.6%
US Taxable Municipal Debt (F15)	5,320.3	132	5,797.6	114	-8.2%
US Short-term Debt - including MBS, ABS (F16)	52,328.6	336	51,957.4	452	+0.7%
All Global Debt (B1)					
Global Long-term Debt (B2)	1,689,661.3	3,957	1,759,006.4	4,233	-3.9%
Global Long-term Debt ex MBS, ABS & Munis (B3)	1,502,834.9	3,576	1,587,969.2	3,840	-5.4%
Global High Yield Corporate Debt (B4)	124,279.7	214	45,127.4	73	+175.4%
Global Investment Grade Corporate Debt (B7)	890,050.9	2,239	982,370.2	2,588	-9.4%
US Federal Credit Agency Debt (B8)	43,273.6	288	49,881.3	241	-13.2%
Global Agency, Sovereign & Supranational Debt (B9)	415,845.8	784	499,582.5	926	-16.8%
Global Mortgage-backed Securities (B10)	109,064.7	206	108,318.5	205	+0.7%
Global Asset-backed Securities (B11)	77,761.8	175	62,718.8	188	+24.0%
Global Short-term Debt (B14)	80,794.8	628	117,392.7	979	-31.2%
Global Emerging Markets Corporate Debt (B15)	80,229.7	309	42,115.1	288	+90.5%

Source:
Thomps
Reuters

Equity offers better upside than bonds



Argentina, a pendular economy

- Argentina has been steadily descending in international ranks of **GDP per capita** after post WWII, a process that started with the populist Peronist party in 1945.
- It is a **pendular** country that went from being the darling of the IMF in the '90s to the worst example in the world in 2001.
- Following 2001, **commodity prices** and a virtuous cycle in the world economy led Argentina to slowly repairing the damage caused by the violent exit to the Convertibility.
- **Year 2008** and populism of the **Kirchner** administration took its toll: no more dual surpluses with a 2.5% CC deficit and 8% of total fiscal deficit, an increasing inflation with FX controls and restrictions, tariffs pesification, corruption and non credible statistics.
- A new government raised from that new disaster: **Macri** led the reorganization process.
- FX market and other sectors deregulations, Holdouts settlement, price adjustments, credible statistics and a reconnection to the DM opened international gates.
- Local interest rates hikes, a huge indebtedness process to allow a lower currency printing growth lead to a **lower inflation**, but let the 2016 **GDP growth** on the red side (-2.3%).

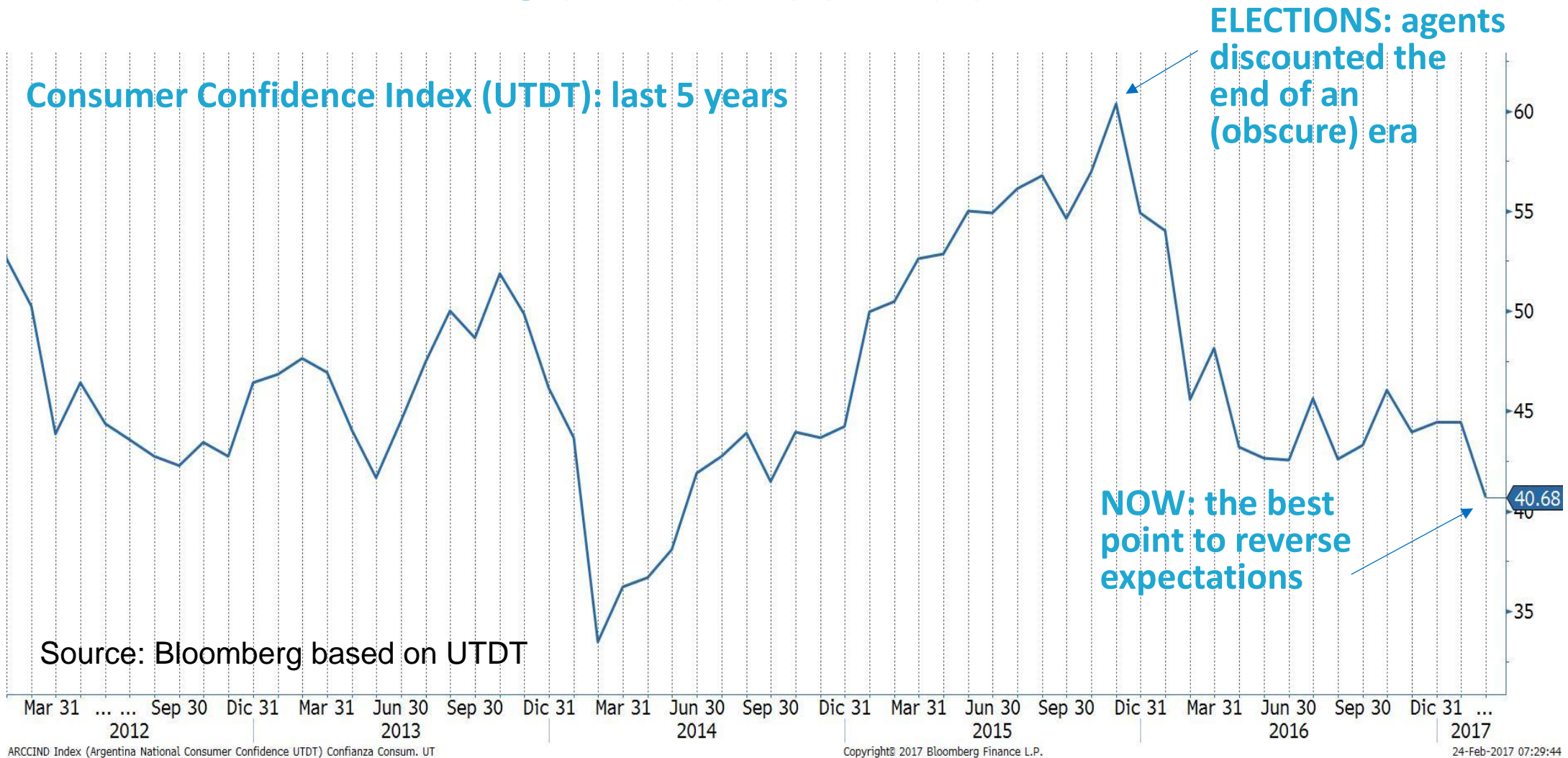
Argentina: End of recession

	2016e	2017e	2018e
Real GDP Growth (YoY %, REM)	-2.1	2.9	3.4
Private Consumption (YoY %)	-1.0	2.8	3.0
Government Spending (YoY %)	0.8	3.1	0.6
Fixed Capital Investment (YoY %)	-3.6	5.0	6.2
Exports (YoY %)	3.7	5.4	4.6
Imports (YoY %)	4.2	6.0	6.6
Industrial Production (YoY%)	-4.5	5.2	6.0
CPI (REM, YoY)	37.4	20.8	14.6
Unemployment (%)	9.0	8.6	8.0
Current Account (% GDP)	-2.7	-2.9	-2.7
Primary Fiscal Balance (% GDP)	-4.6	-4.2	-3.8
Reference Rate (pases BCRA, REM)	24.75	20.00	15.30
USDARS (end of period, REM)	15.8	18.0	20.5

Source: private poll of estimates (REM) and Bloomberg

Trust can move mountains: the best contrarian indicator for an economy is the Consumer Confidence Index

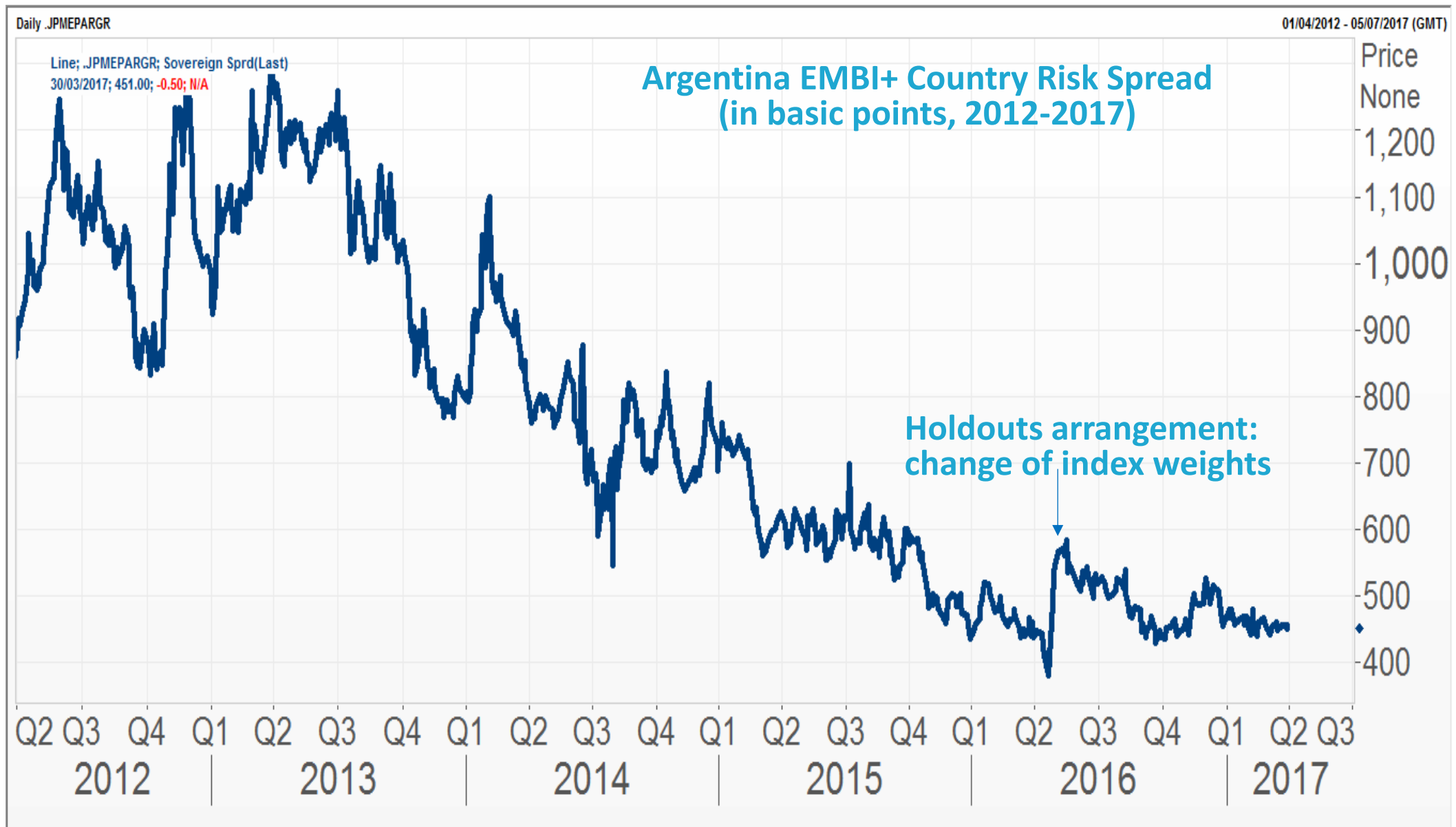
Consumer Confidence Index (UTDT): last 5 years



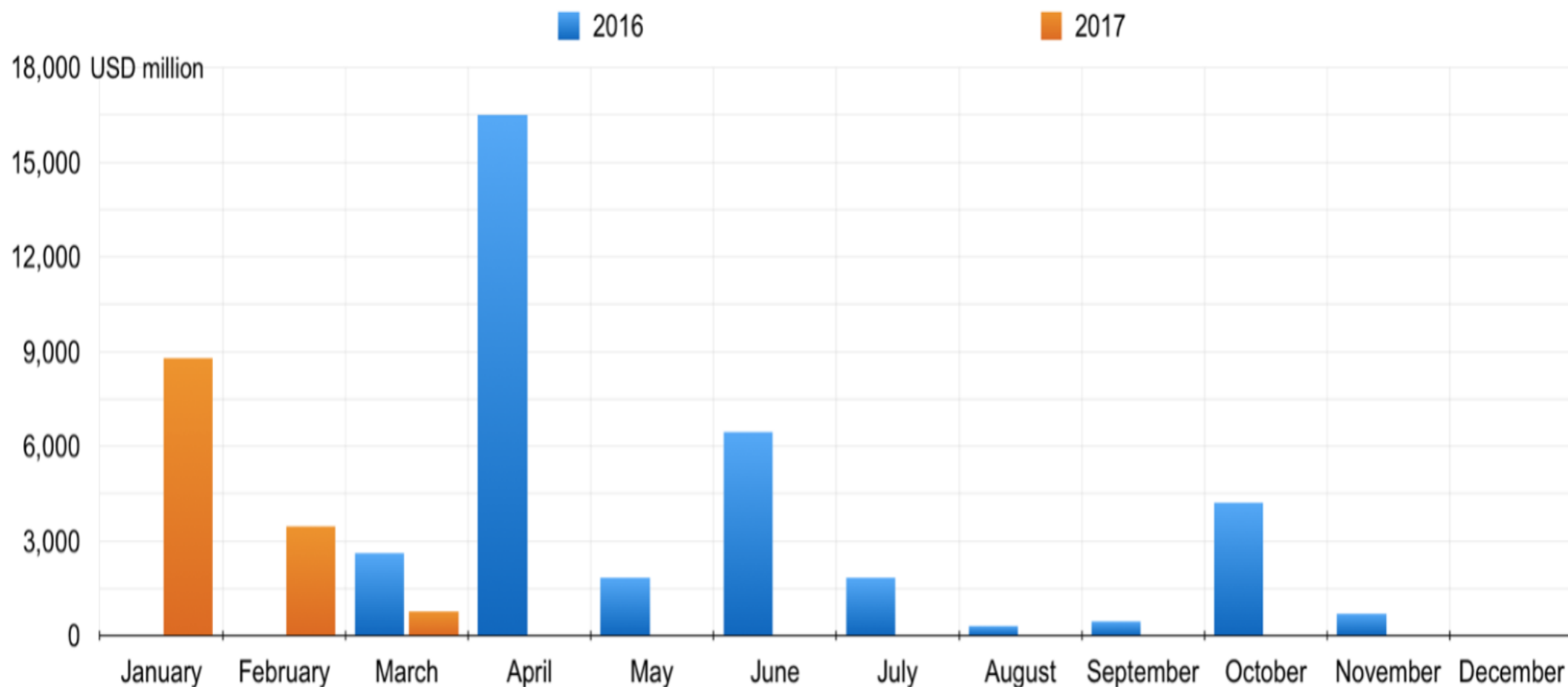
Let's the game of debt and stock begin (again)

- Argentina has always been a land of opportunities in financial markets.
- After the biggest **default** in history, the 2nd. biggest **Tax Amnesty Plan** in the world followed.
- After years of disconnection with capital markets, Argentina was the most active player in **international debt issuances** in 2016.
- Let the games of debt and stock begin (again): since mid 2015, equity stock market outperformed all the rest and yield decreased to levels not seen before.
- **Foreign reserves** top \$ 51 Bn and a new wave of **FX appreciation** started.
- Argentina could see a 30-35% **correction in the Peso** after the October midterm elections, but only if financial capital inflows are reduced and foreign direct investments continue to delay its appearance. *Not for the moment.*
- 2017-2018 GDP estimates shows a **2-year** process **of +3% growth** ahead.
- Markets welcomed official **fiscal deficit** goals from 4.6% 2016e to 2.2% in 2019e.
- **Inflation** should reach single-digit figures by 2019, which produced a wave of investments in fixed rate pesos-denominated debt instruments.

Back into the right direction



Shrinking spreads have led Argentina to issue \$40 Bn. and \$13 Bn. in international markets



Includes international bond sales issued under foreign law. Does not include dollar-denominated debt securities issued locally under Argentine law. Does not include the Republic of Argentina \$ 6bn, 18-month repo agreement .

Research for Traders tracks everything related to new issues in international markets (year 2017)

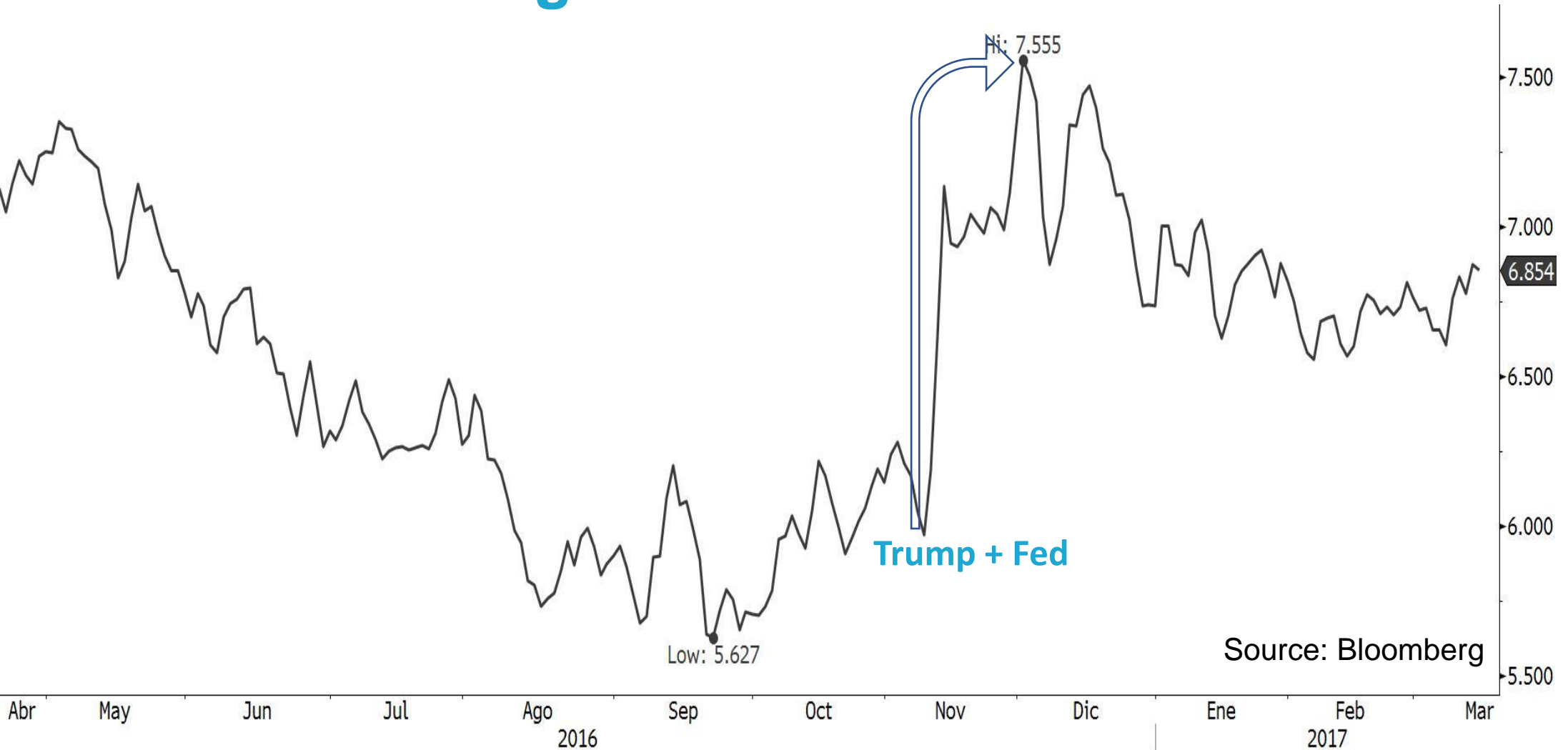
ISSUER	COUPON	YIELD	MATURITY	AMOUNT (MM)	LAUNCH
Genneia	8.750%	8.750%	2022	350	12/1/17
Pampa Energía	7.500%	7.625%	2027	750	17/1/17
The Republic of Argentina	5.625%	5.625%	2022	3,250	19/1/17
The Republic of Argentina	6.875%	7.000%	2027	3,750	19/1/17
AES Argentina Generación	7.750%	7.750%	2024	300	25/1/17
Aeropuertos Argentina 2000	6.875%	6.950%	2027	400	30/1/17
Province of Entre Ríos	8.750%	9.000%	2025	350	1/2/17
Banco Supervielle (Peso-linked)	24.430%	24.430%	2020	294	2/2/17
Clisa	9.500%	9.800%	2023	100	6/1/17
Province of Buenos Aires	6.500%	6.600%	2023	750	8/2/17
Province of Buenos Aires	7.875%	8.100%	2027	750	8/2/17
Stoneway Capital Corporation	10.000%	10.000%	2027	500	16/2/17
Province of La Rioja	9.750%	10.000%	2025	200	16/2/17
Province of Córdoba	7.450%	7.450%	2027	510	22/2/17
Raghsa	7.250%	7.375%	2024	100	15/3/17
Province of Santa Fe	7.000%	7.000%	2023	250	16/3/17
The Republic of Argentina (CHF)	3.375%	3.375%	2020	402	23/3/17
TOTAL				13,006	

Source:

Research
for Traders



Where are we now: Argentina's 10-year benchmark yield trading between its recent highs and earlier lows.



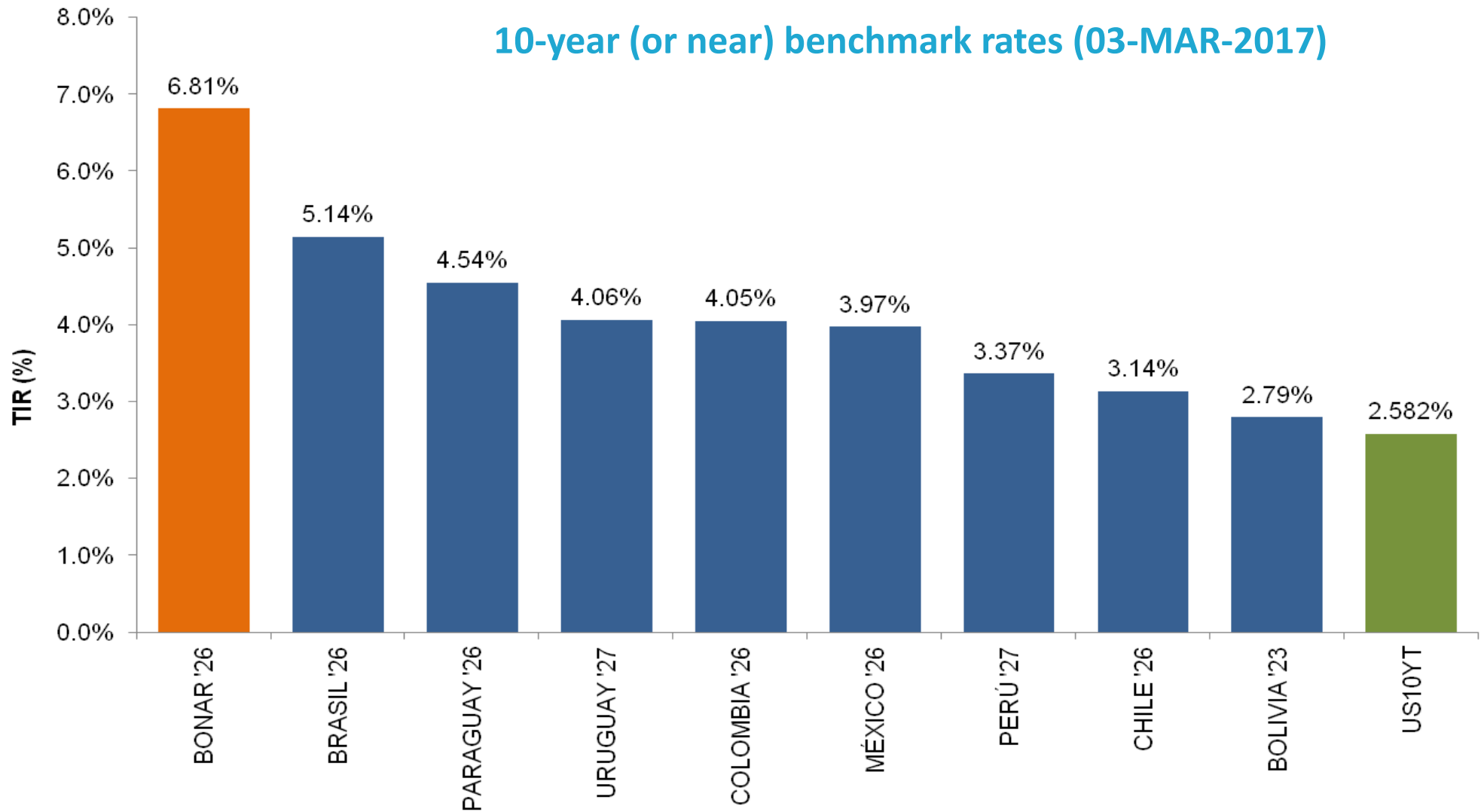
JK857389 Corp (ARGENT 7 1/2 04/22/26) AA26 yield Diario 25NOV2015-14MAR2017

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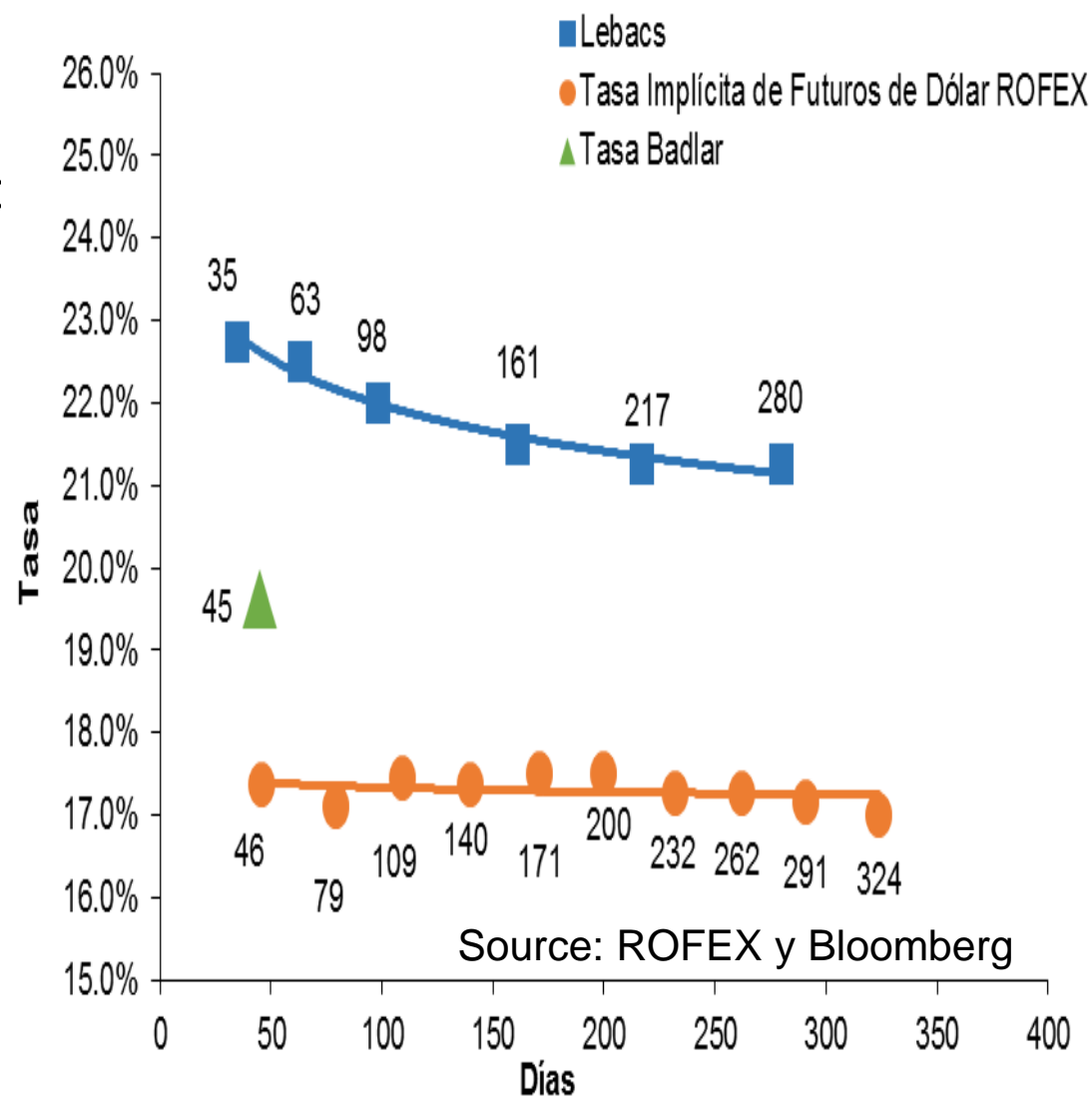


Argentina vs. Region: VEN & ECU excluded, ARG still remains the most profitable (risky) debt

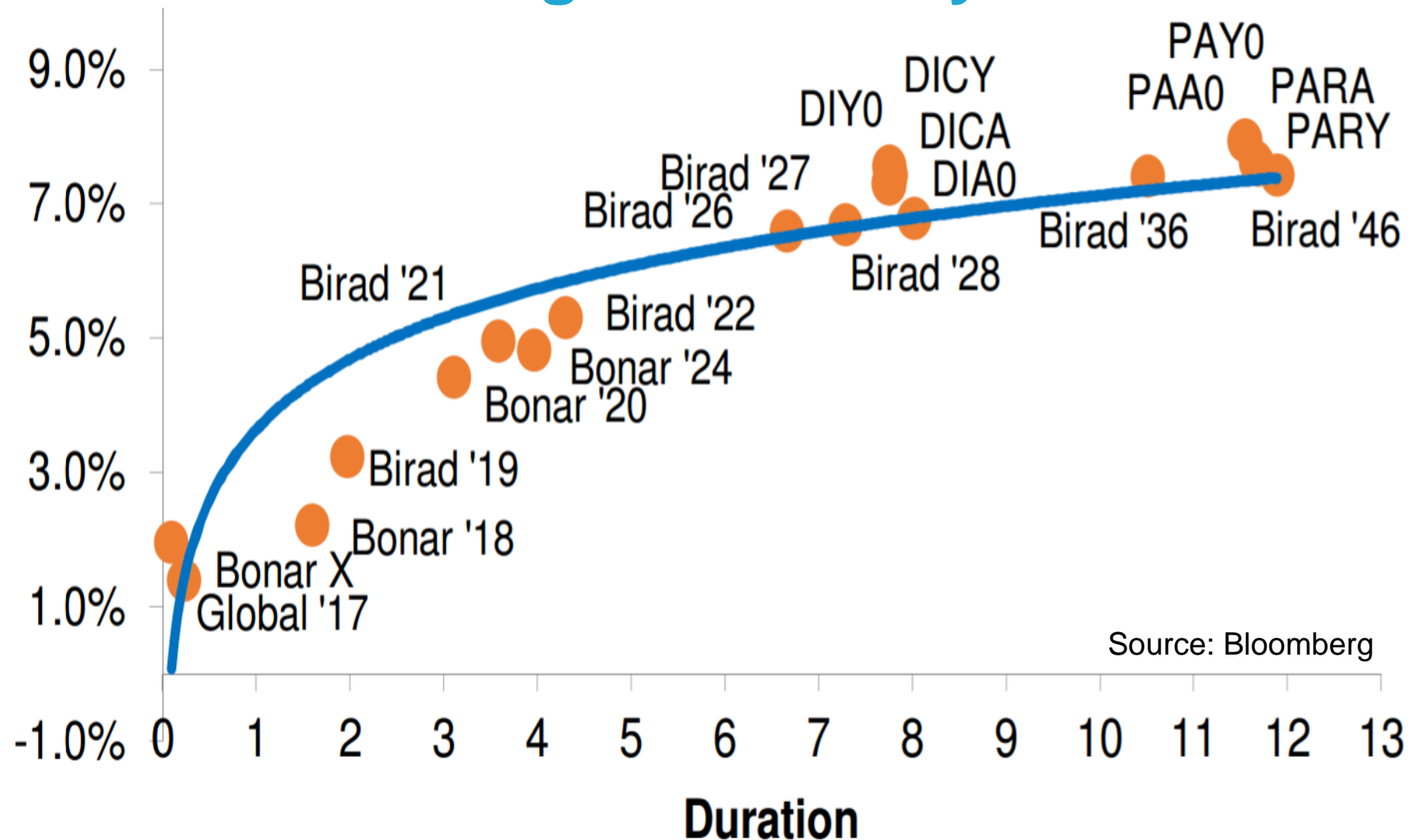


Focus in peso-denominated notes and bonds: yield of synthetic USD-hedged short-term notes

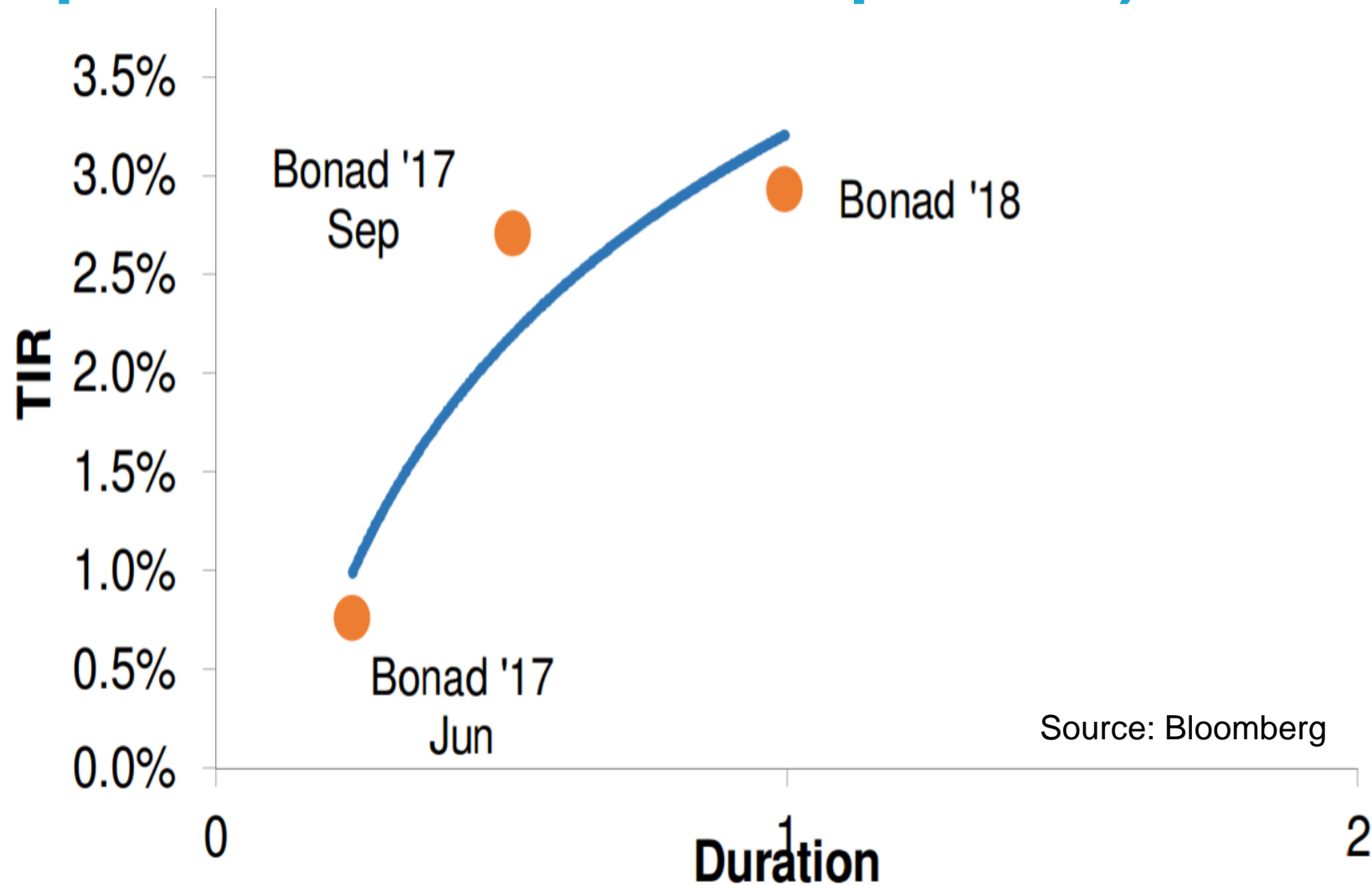
- **Rate hikes** to curve inflation benefit ARS-bonds, outperforming USD-bonds.
- Synthetic USD-hedged short-term notes can be constructed with a 22.25% yield on 35- days “**Lebacs**” of the Central Bank notes and **hedged** in the Rofex futures market.
- An inverted curve favors short term bet with gross 5.5% returns in USD.
- We continue to like **ARS-denominated bond** specially those tied to inflation rate (CER).
- Global frame favors *risk-on* mode.
- Long bonds could experience increased volatility as Fed tightens rates.
- Increased potential in **corporate debt**.



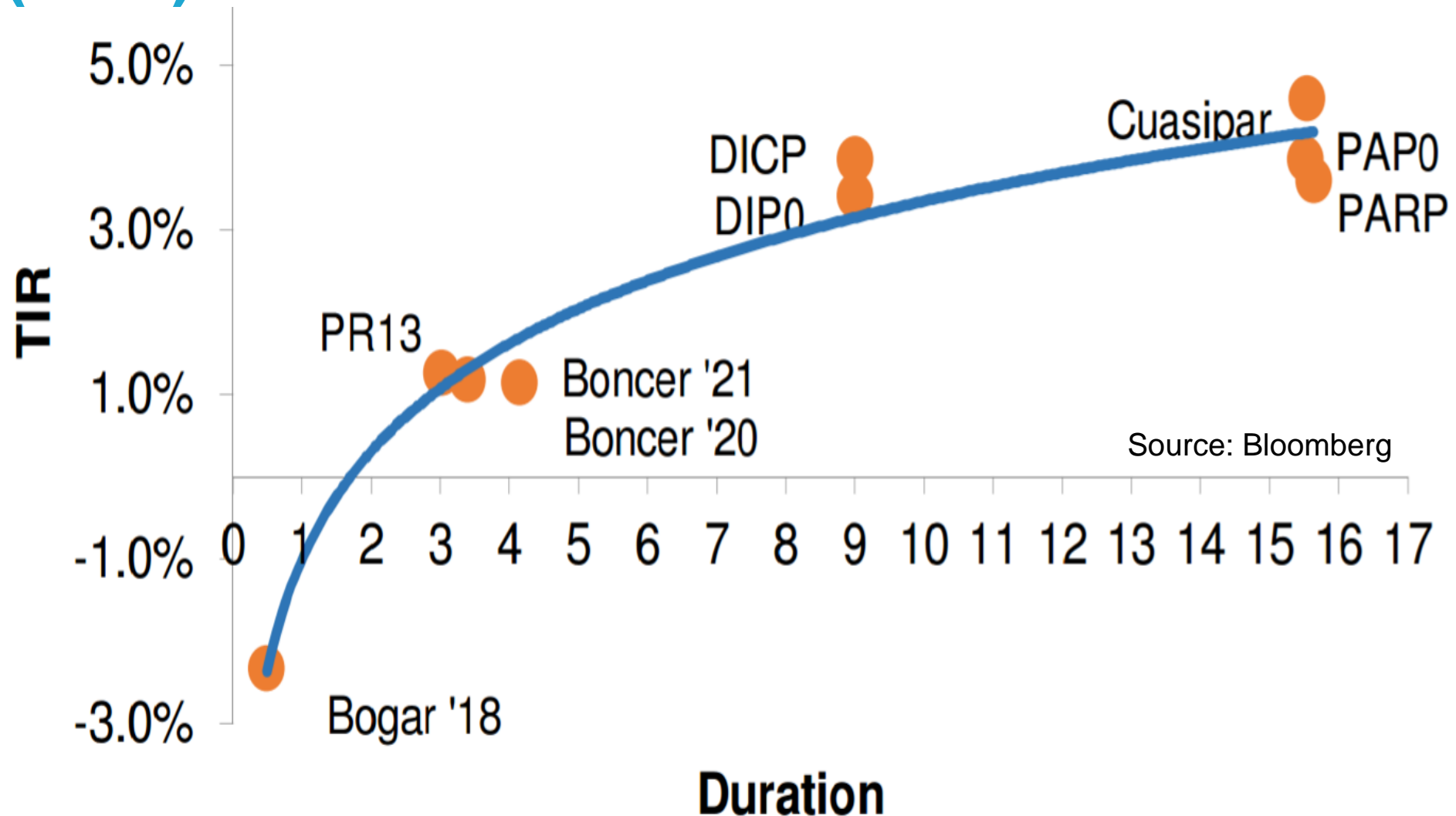
A much more complete, traded and professional USD-denominated government yield curve.



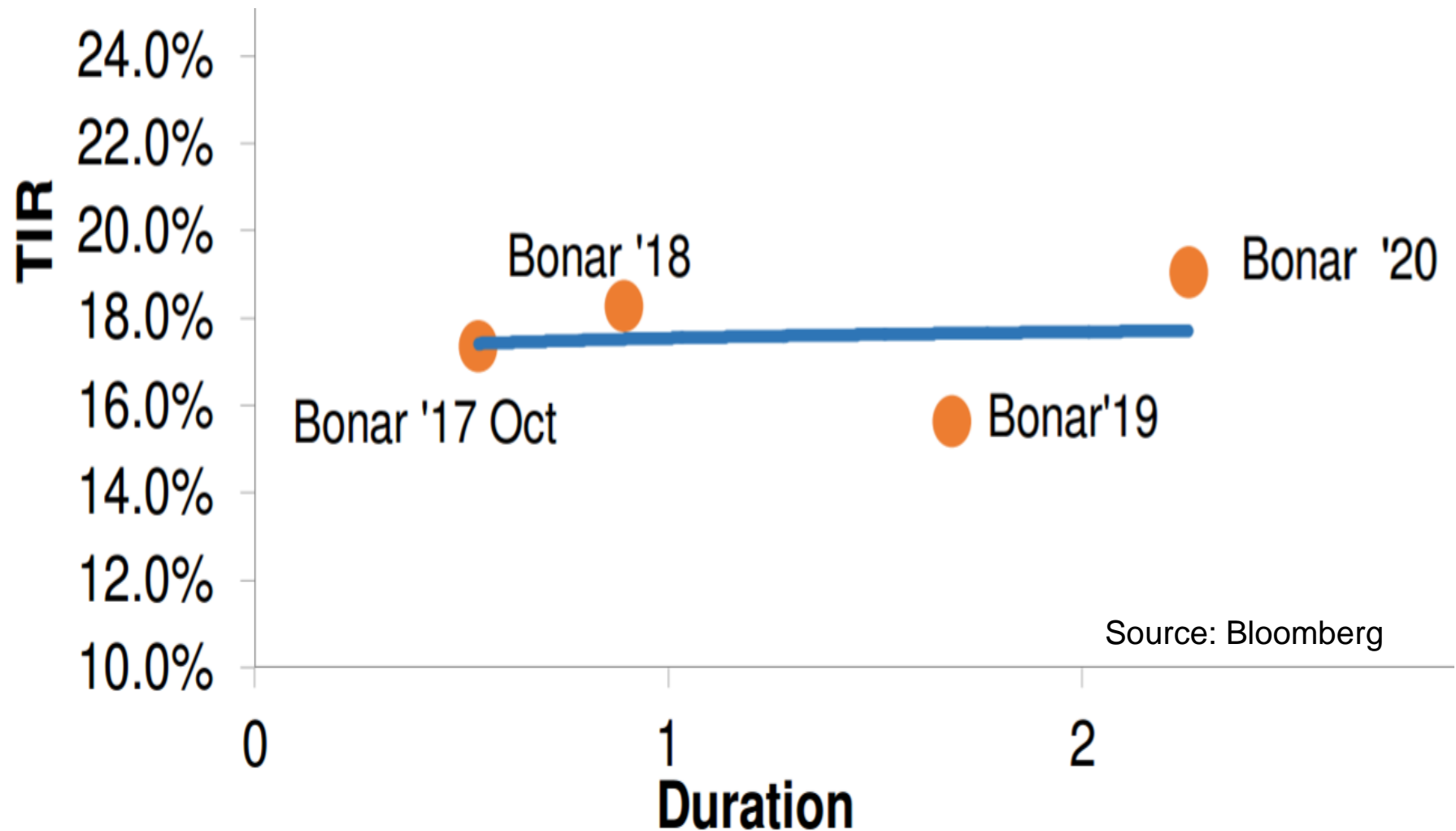
Dollar-linked curve: good investment to hedge devaluation mostly for local investors (but the worst place to be in the last quarters).



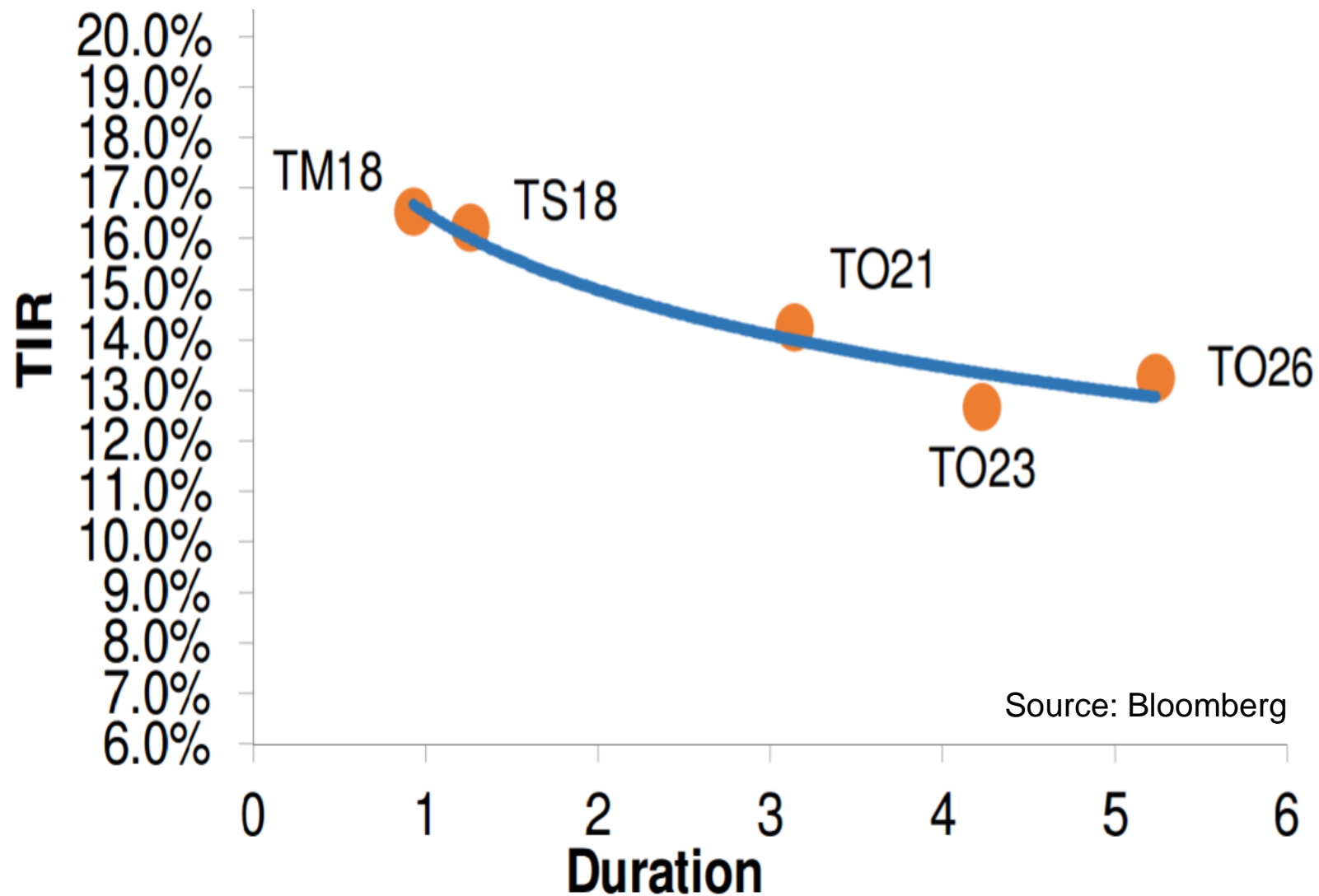
Peso-denominated sovereigns linked to inflation (CER) remains an attractive bet.



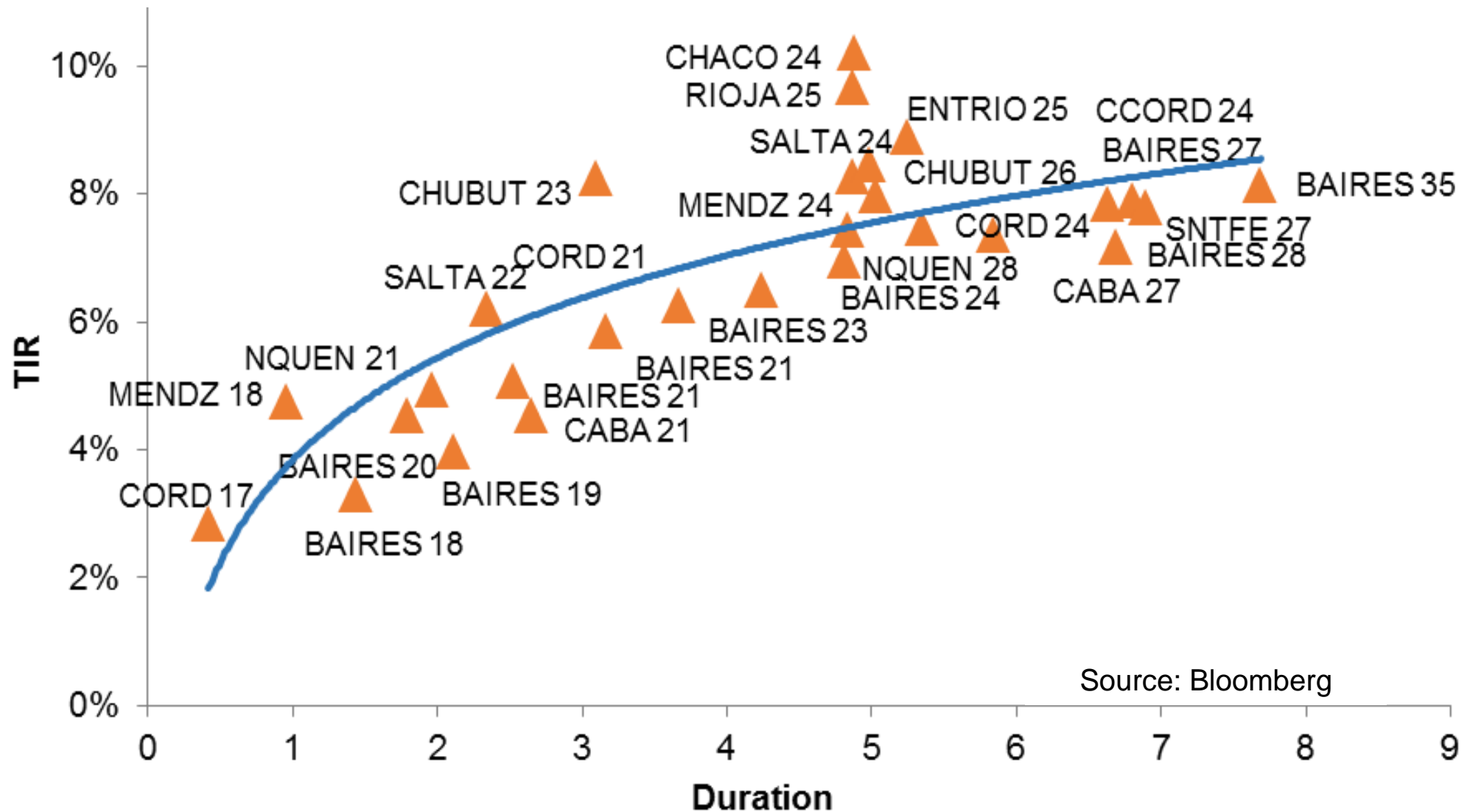
Peso-denominated sovereigns with a variable rate (BADLAR: wholesale deposits passive rate)



Too much too fast: rally in Fixed rate ARS-denominated sovereigns due to foreign inflows

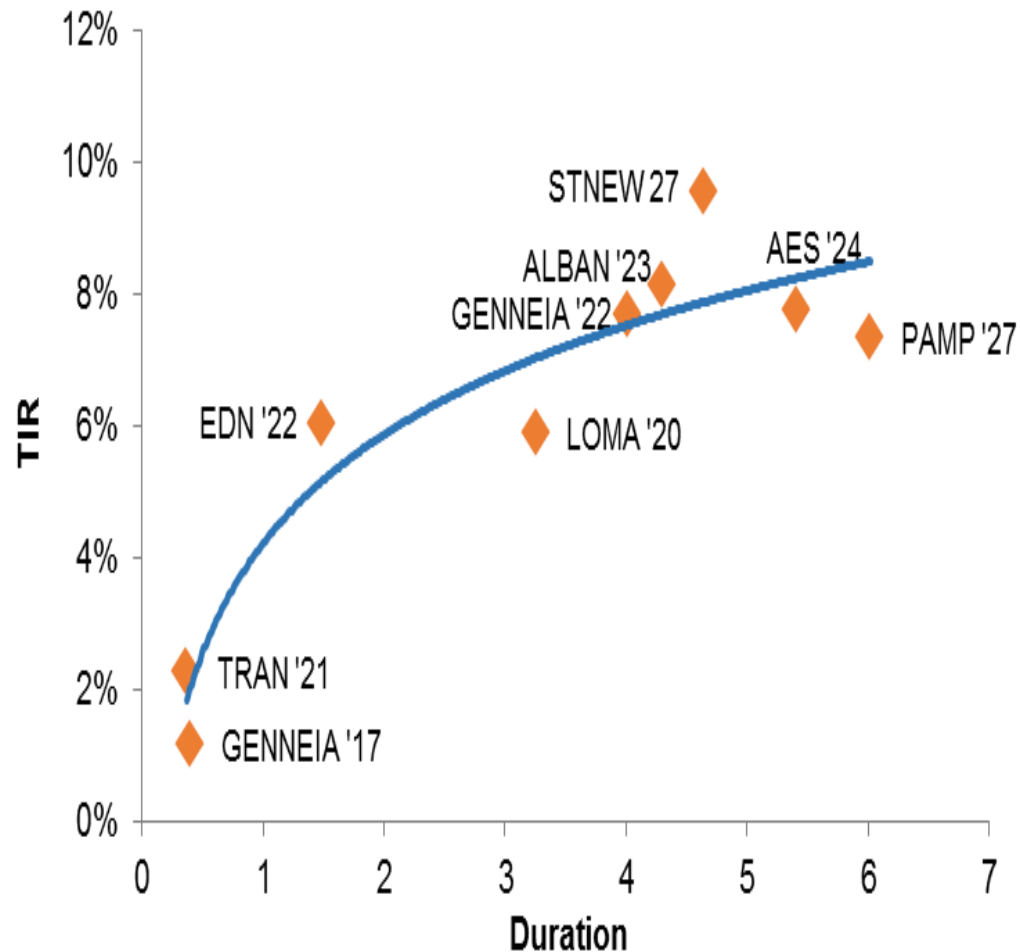


USD-denominated provincial (sub-sovereign) yield curve: beware low fundamentals alternatives

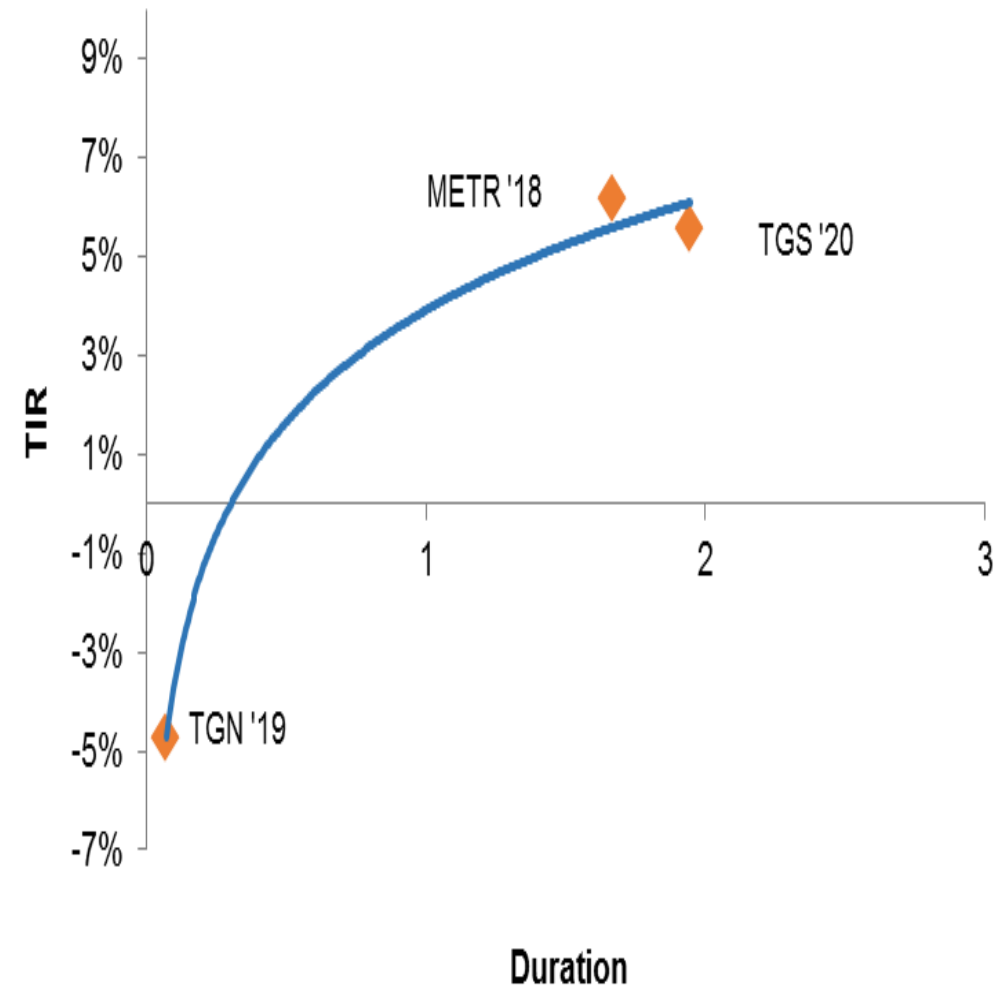


USD-denominated corporates: we like utilities

Electricity Generation

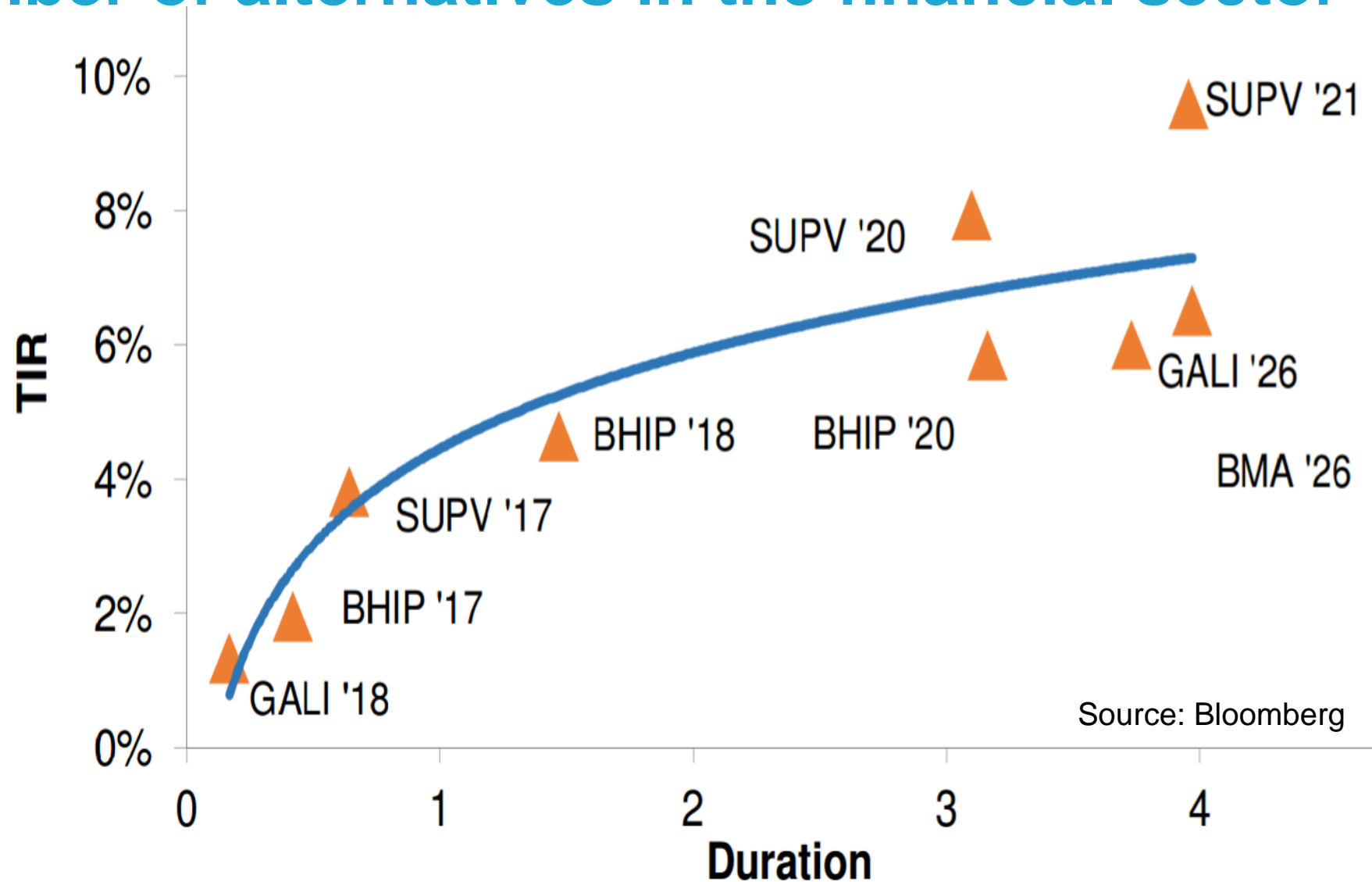


Natural Gas Transport and Distribution



Source: Bloomberg

USD-denominated corporates: increasing number of alternatives in the financial sector



Our fixed income recommendations

BUY	HOLD	SELL
Discount ARS (DICP)	Bogar 2018 (NF18)	Bonte 2023 (T023)
Par ARS (PARP)	PRO 2024 (PR13)	Bonte 2026 (T026)
Boncer 2020 (TC20)	Bonte 2021 (T021)	Bonar X (AA17)
Boncer 2021 (TC21)	Bonte 2018 (TM18)	Global 2017 Ley Nueva York (GJ17)
Bonar 2020 (AO20)	Bonte 2018(TS18)	Par USD Arg Law (PARA)
Birad 2021 (AA21)	GDP-linked ARS (TVPP)	Par USD NY Law (PARY)
	GDP-linked USD Arg Law (TVPA)	Birad 2046 (AA46)
	GDP-linked USD NY Law (TVPY)	
CORPORATES	Bonar 2024 (AY24)	
Aeropuertos Argentina 2000 2027 (AEROAR)	Birad 2026 (AA26)	
Province of Chubut 2026 (CHUBUT)	Discount USD Arg Law (DICA)	
	Discount USD NY Law (DICY)	

Pipeline

ISSUER	AMOUNT (MM)	PRICE TALK	MATURITY	APPROX. LAUNCH DATE	LEADS	NOTES
	4,550					
Province of Tierra del Fuego	200	9%	10 yrs.	Wk. 4/3	UBS, Puente	Puente coordinating leads hiring
Tarjeta Naranja	300	—	5 yrs.	Wk. 4/3	HSBC, Itaú, JP Morgan	ARS-linked payable in USD under NY Law
Banco Macro	300	—	5 yrs.	2Q17	Credit Suisse, Goldman	In ARS payable in USD under NY Law
YPF	1,000	—	—	2Q17	—	Up-to \$ 1.000 million
Republic of Argentina	2,000	—	—	2Q17	—	In EUR, Yen
Province of Santa Cruz	250	—	—	2Q17	—	
Central Puerto	500	—	7 - 10 yrs.	2Q17	JPMorgan, Deutsche	Up-to \$ 500 million
Cablevisión Holdings	500	—	—	2Q17	—	Clarín's divest of TV and Internet services

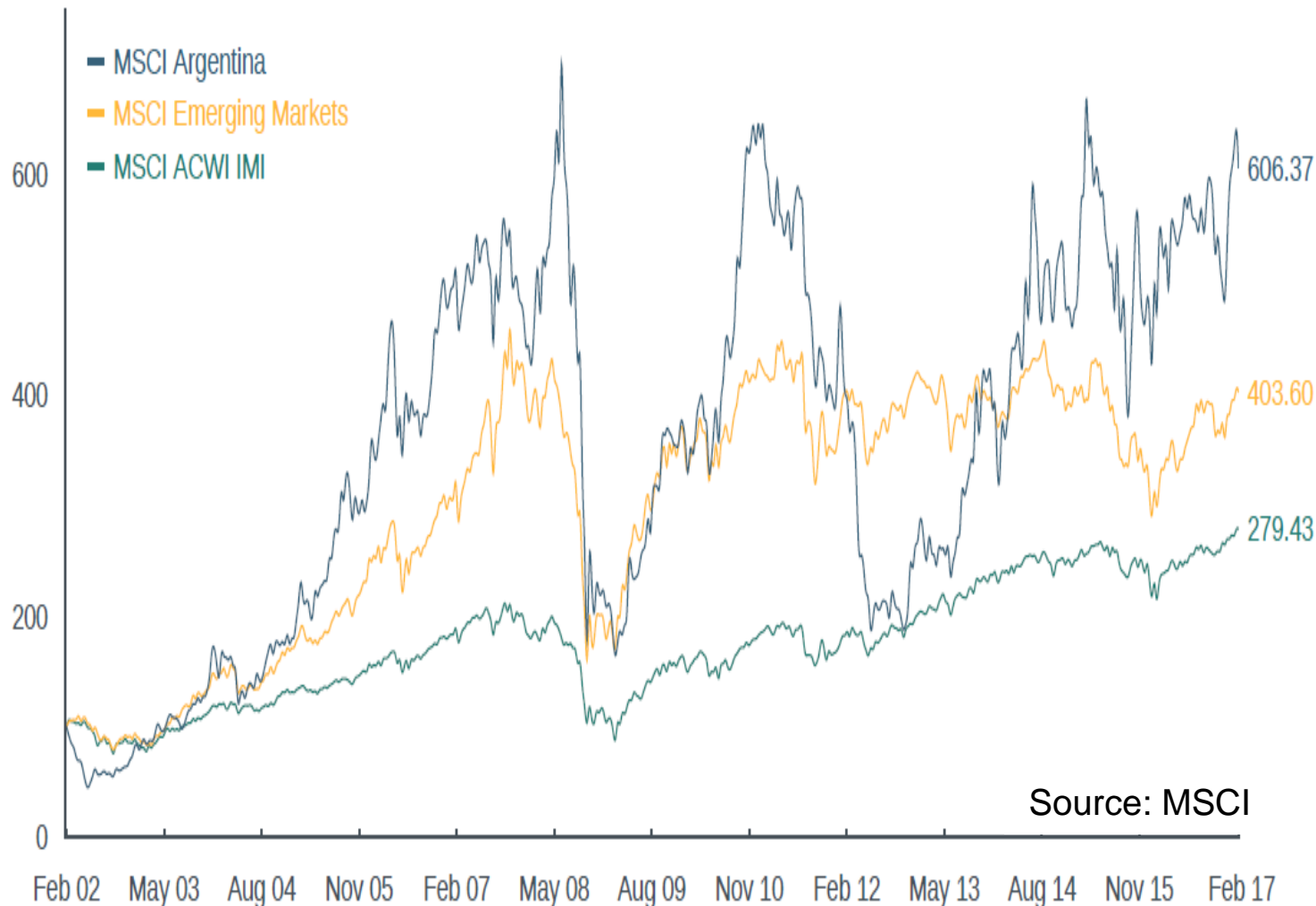
Source: Research for Traders





**Investing in Argentine equities
remains an attractive bet
over the Long Term**

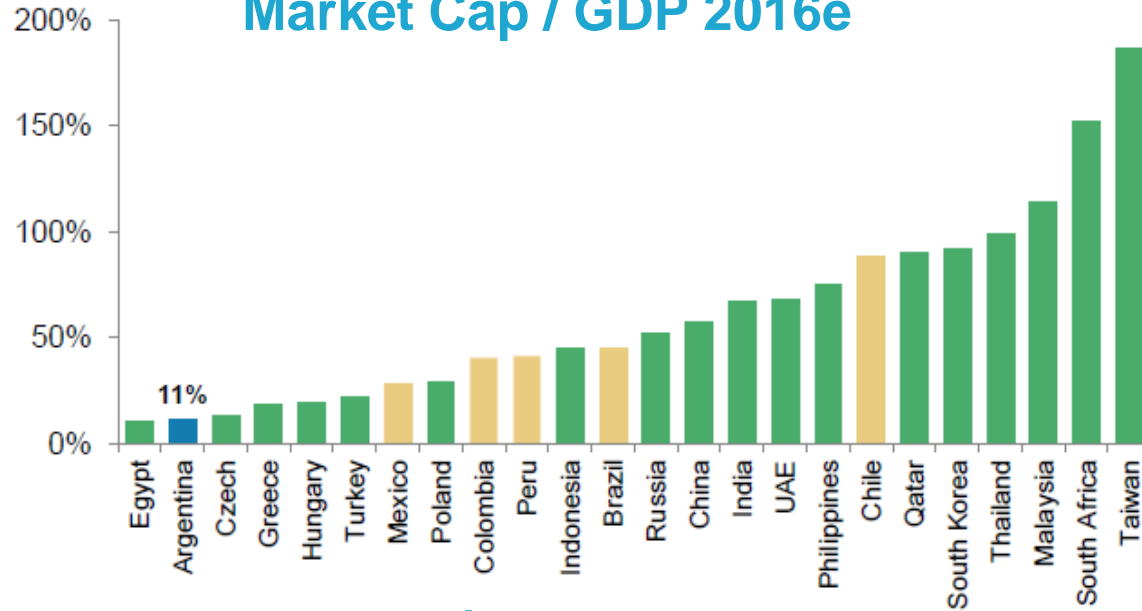
Argentina outperformed other emerging markets in recent history, but high volatility reigns.



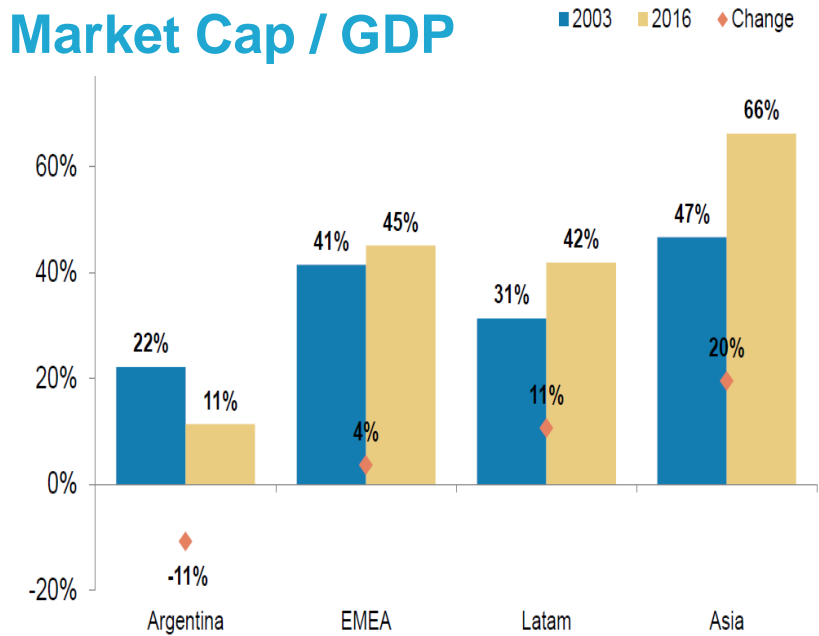
Year	MSCI Argentina	MSCI Emerging Markets	MSCI ACWI IMI
2016	4.91	11.19	8.36
2015	-0.50	-14.92	-2.19
2014	19.01	-2.19	3.84
2013	65.97	-2.60	23.55
2012	-37.05	18.22	16.38
2011	-38.94	-18.42	-7.89
2010	77.37	18.88	14.35
2009	64.00	78.51	36.41
2008	-54.45	-53.33	-42.34
2007	-4.02	39.42	11.16
2006	67.31	32.14	20.95
2005	62.27	34.00	11.54
2004	25.75	25.55	16.42
2003	100.35	55.82	35.54

Equity market potential remains impressive

Market Cap / GDP 2016e

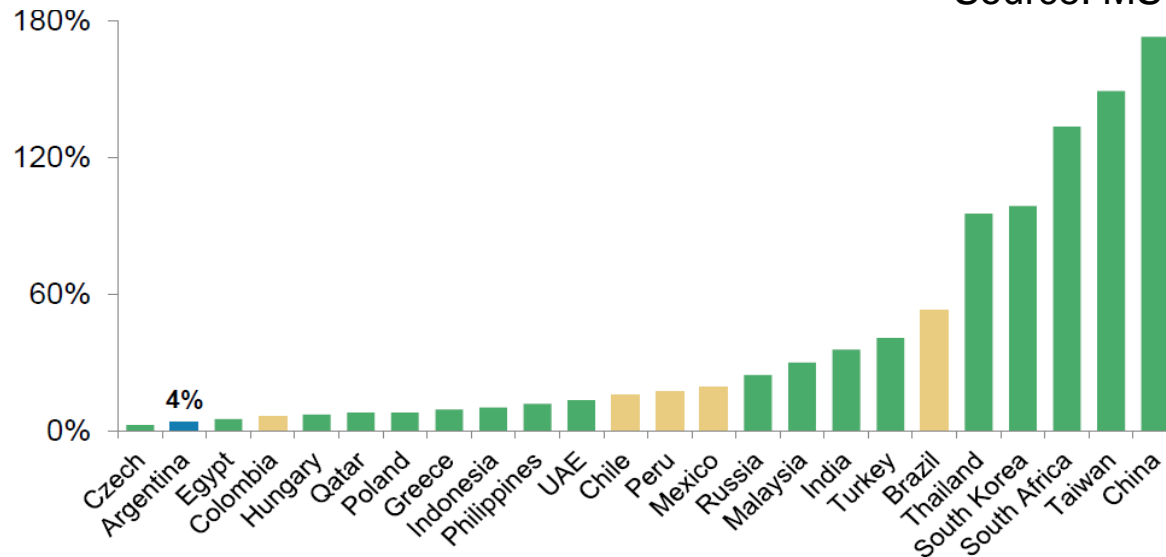


Market Cap / GDP

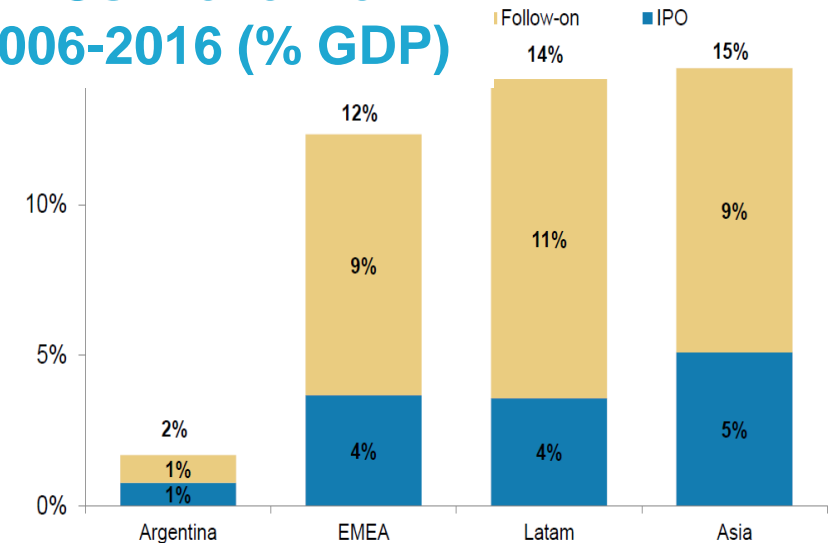


Traded Volume / GDP 2016e

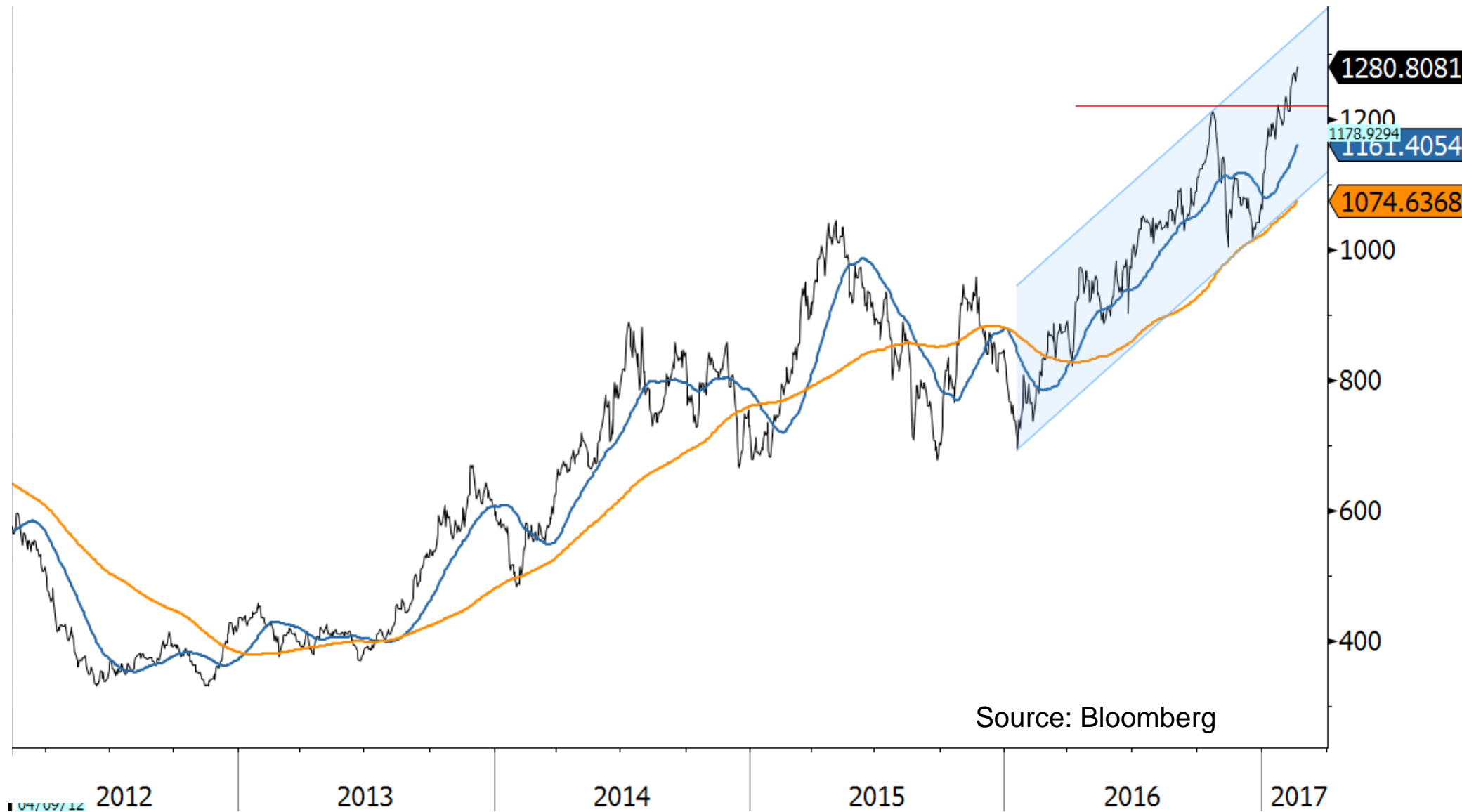
Source: MS




















IPOs+Follow-on 2006-2016 (% GDP)



Buenos Aires Stock Exchange: Merval Index in USD



¿How attractive is investing in equity in Argentina?

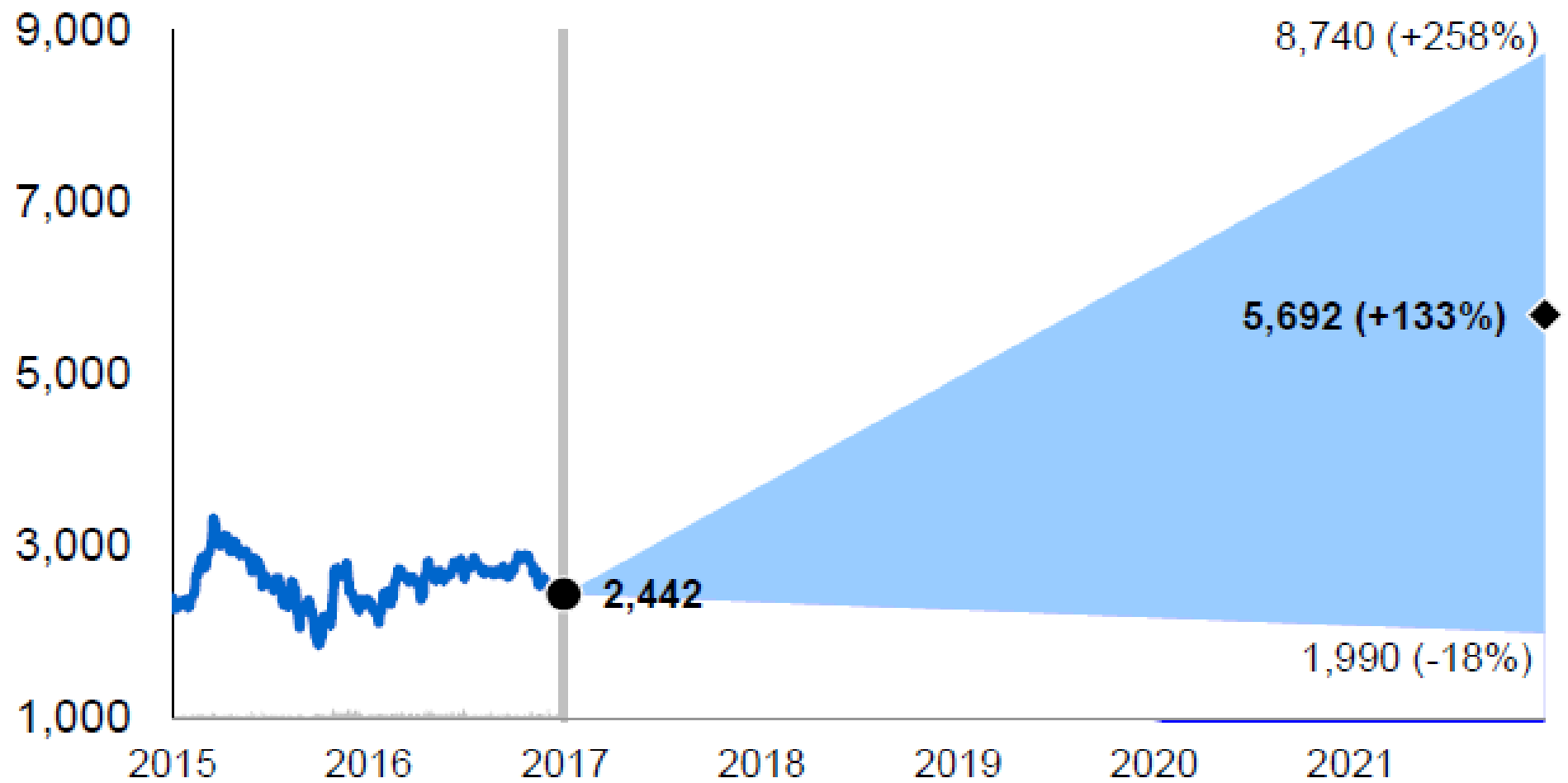
		PE (en x) trail. 12m	PE (forward 12m)	PBV (en x) trail. 12m	P/CF	ROE (en %)	ROA (en %)	EV/EBITDA (en años) trail. 12m
Emergentes		14,09	12,57	1,59	7,28	10,62	2,06	9,53
Brasil		16,18	13,06	1,79	7,57	5,04	1,00	12,88
Chile		18,46	16,42	1,69	9,46	8,92	2,22	8,87
Colombia		13,89	12,07	1,23	7,57	9,19	1,87	6,61
México		22,45	17,80	2,62	9,36	11,34	2,81	8,91
Perú		14,83	12,95	2,06	11,50	9,62	1,63	n.d.
China		13,06	12,44	1,64	8,47	11,93	1,68	11,86
Corea del Sur		11,05	9,55	0,95	5,23	8,45	2,07	6,47
India		20,54	20,28	3,04	14,04	14,02	3,25	12,31
Indonesia		18,43	15,74	2,81	12,35	16,37	3,87	10,57
Filipinas		20,30	18,05	2,54	13,14	13,20	3,13	14,03
Rusia		9,10	6,28	0,83	4,28	9,55	3,17	5,65
Turquía		9,12	8,91	1,29	6,61	13,57	1,87	8,65
Arabia Saudita		14,68	13,92	1,58	7,34	10,34	2,34	11,44
Fronterizos		11,82	11,75	1,65	n.d.	11,07	1,94	7,56
Argentina (MSCI)		14,04	14,40	2,66	5,36	-1,03	-0,22	6,54
Merval Argentina		13,67	14,61	0,64	n.d.	0,96	0,16	2,68

Source: Bloomberg

Equity? Yes, but which sectors? Which companies?

- Argentina is not cheap in terms of expected earnings. Nevertheless, it remains **attractive in terms of PBV and EV/EBITDA**.
- Even after the Fed Funds rates hikes, international context still invites to take-on risks.
- Argentina is currently showcasing.
- **Solid financial sector.**
- **Low corporate leverage.**
- Cheapear USD-denominated financing for local companies (although still high).
- Best time to purchase stocks has long gone. However, opportunities remain.
- Argentina will most likely abandon its “Frontier” status and return to the **“Emerging Markets” in May**: YPF, PAMP, EDN, BMA, FRAN, GGAL, GCLA to benefit.
- **We like PAMP, BMA, ERAR among the highly liquid stocks.**
- **YPF is a long term bet on oil prices and Vaca Muerta shale oil and gas fields.**
- **Among the less traded securities, we like GCLA (and its spin-off Cablevisión), SAMI, LEDE, CTIO and the next IPO of AA2000.**

Long term projections: the Wall Street mood



Source: MS

Thank you!

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