Juan Manuel Pazos
Chief Economist

Argentina – Strategy
January 27, 2022

Mission accomplished?

- **The government hit the 2022 fiscal PC, compressing the primary deficit to 2.4pp of GDP, overperforming the target by 0.1pp.** When Mr. Guzman parachuted from the Fernandez Administration in June, hitting the primary deficit target seemed like a long shot. The primary deficit (adjusted for GDP revisions) was running at 3.3% of GDP, and the government accumulated nine consecutive months of increasing fiscal impulse. Everything changed after June 30th. The government compressed the primary deficit by 0.9pp of GDP, bringing it down to 2.4% of GDP by the end of 2022, 0.1pp tighter than the target. In nominal terms, the adjusted primary deficit, as measured by the program, accumulated ARS1.96tn, ending the year about ARS100bn below the nominal target.
- **The government managed to hit the fiscal target because (i) it slashed primary spending by almost -10%yoy in real terms, and (ii) the income from the differentiated FX for soy exporters buoyed the tax intake.** Putting fiscal figures back on track required a substantial effort to break the spending inertia. Primary expenditures dropped by -9.8%yoy after inflation in 2H22, led by subsidies and transfers to provinces, which the government cut by -25%yoy in real terms. Mr. Massa cut social security spending by -7.6%yoy in real terms, resulting from the indexation formula lagging behind the inflationary acceleration, de-indexation of benefits above the minimum payment, one-time payments that failed to compensate for inflation, and the exclusion of welfare beneficiaries.
- **Mr. Massa's consolidation strategy relied on finding new sources of revenue to keep income constant in real terms while slashing social security spending, transfers to provinces, and subsidies. Still, December's fiscal print suggests that extending the 2H22 consolidation strategy into 2023 could prove challenging.** By boosting export taxes with the differentiated FX for soy exporters, the government managed to keep revenue constant at 18% of GDP throughout 2022. To make ends meet, the government had to cut deeply in December. Social security spending dropped by -14.5%yoy in real terms in December. With the tariff hike finally biting, subsidy cuts totaled -63%yoy after inflation. Transfers to provinces dropped by -34%yoy and even capex was cut by -21%yoy. Looking at 2023, this strategy doesn't look sustainable. Extending the social security and the transfers to provinces cuts are likely to have a growing political cost both with voters (especially pensioners and Social Security beneficiaries) and within the coalition (governors expect discretionary transfers to increase in an election year).
- **We expect the government to hit its primary deficit target in 2023 in a context where the scope for additional fiscal impulse is limited by the need to finance an ARS17tn ARS gap, forcing the government into fiscal consolidation in an election year.** Under our base scenario, we expect the government to seek ways to ameliorate the slowdown in revenue, potentially trying to compensate for the loss in export taxes with the penalties of a tax amnesty. On the other hand, we expect social security payments to drop by less than what the IMF Staff forecasts; transfers to provinces, capex, and personnel spending to increase relative to 2022. Only subsidies would remain along the baseline. There's almost no margin to diverge from the targets. The government faces a USD76bn ARS gap that it needs to finance, or ARS17tn using a USDARS230 FX rate. At 1.9% of GDP, the primary deficit would be close to ARS2.8tn, or USD12.2bn. ARS maturities that the government needs to roll over total 14.7tn, meaning that even if Mr. Massa stuck to the fiscal plan, he would need to get ARS4.7tn in net new money.
- **The Argent30s have become excessively rich following the repurchase. We recommend swapping them for the Argent35 or, alternatively, the Buenos37A.** Even after weakening slightly over the past few days, the Argent30s continue to trade in the mid-30s, accumulating almost 3000bp in total return YTD, in line with the PDI29s and about 1000bp more than the rest of the curve. In this context, the spread between the Argent30 and the Argent35 trades at 4.5c, the widest since September 2020, when the bonds came to the market. The 35s offer a higher carry and lower exposure to front-loaded principal payments, and swapping into them would imply receiving almost 5c upfront.

TPCG ARGENTINA
STRATEGY VIEW

Juan Manuel Pazos
Chief Economist

Strategy – Argentina

January 27, 2023

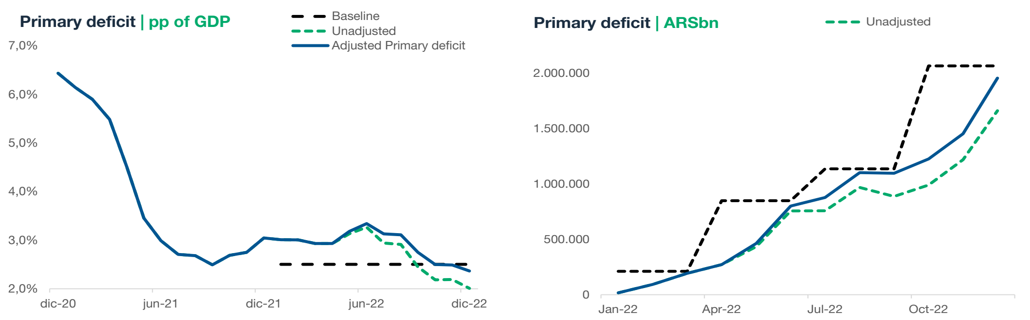
Mission accomplished?

Primary deficit ends 2022 at 2.4% of GDP, beating IMF PC

The primary deficit printed ARS502bn in December, ending 2022 at ARS1.97tn, which translates to 2.4% of GDP. In this context, the government managed to consolidate the primary gap by 0.7pp of GDP since Mr. Guzman's exit and hit the IMF program's fiscal target.

The primary deficit printed ARS502bn in December, ending 2022 at ARS1.96tn, which translates to 2.4% of GDP. In this context, the government managed to consolidate the primary gap by 0.9pp of GDP since Mr. Guzman's exit and hit the IMF program's fiscal target. When Mr. Guzman parachuted from the Fernandez Administration in June, hitting the primary deficit target seemed like a long shot. The primary deficit (adjusted for GDP revisions) was running at 3.3% of GDP, about 0.8pp higher than the end-year primary deficit target. Mr. Guzman had run out of accounting tricks after slashing 0.3pp of GDP from the primary deficit in Jan-Apr by repricing Anses holdings of Treasury paper after each new auction and pocketing the profits as Treasury income. The government accumulated nine consecutive months increasing fiscal impulse and widening the primary deficit after Mr. Guzman's 2021 consolidation attempt crashed against the landslide Sept-21 PASO defeat, the largest in Peronist history. This brief stroll down memory lane highlights the momentous effort it took from Mrs. Batakis' and Mr. Massa's teams to curb the primary deficit in 2H22 and hit the IMF program's target. After six consecutive months of fiscal consolidation, the government compressed the primary deficit by 0.9pp of GDP, bringing it down to 2.4% of GDP by the end of 2022, 10bp tighter than the program's target. In nominal terms, the adjusted primary deficit, as measured by the program, accumulated ARS1.96tn, ending the year about ARS100bn below the nominal target.

Figure 1: The government hit the 2022 fiscal targets.



Source: TPCG Research based on the Treasury

The government managed to hit the fiscal target because (i) it slashed primary spending by almost -10%yoy in real terms, and (ii) the income from the differentiated FX for soy exporters buoyed the tax intake.

The government managed to hit the fiscal target because (i) it slashed primary spending by almost -10%yoy in real terms, and (ii) the income from the differentiated FX for soy exporters buoyed the tax intake. A 15%yoy increase in real terms of primary spending drove the 1H22 fiscal slippage. After the PASO defeat, the government abandoned all, boosting personnel spending (+14%yoy after inflation in 1H22), social security (+13.5%yoy), subsidies (+22.4%yoy), transfers to provinces (+19.8%yoy), and capex (+20.6%yoy). Putting fiscal figures back on track required a substantial effort to break the spending inertia. Primary expenditures dropped by -9.8%yoy after inflation in 2H22, led by subsidies and transfers to provinces, which the government cut by -25%yoy in real terms. Mr. Massa cut social security spending by -7.6%yoy in real terms, resulting from a combination of the indexation formula lagging behind the inflationary acceleration, de-indexation of benefits above the minimum payment, one-time payments that failed to compensate for inflation, and the exclusion of welfare beneficiaries. Personnel security (+3.1%yoy real) and capex (+17.2%yoy) were the only two outlays that continued expanding. Of course, the sharp cut in spending was necessary because revenues decelerated from +8%yoy real in 1H to +2.9%yoy in 2H, with tax revenues only holding up because of the levy on soy exports.

Figure 2: Mr. Massa's fiscal consolidation was deeply biased toward spending cuts.

	2022			Guzman			Batakis - Massa		
	ARSbn	%yoy		ARSbn	%yoy		ARSbn	%yoy	
		Nominal	Real		Nominal	Real		Nominal	Real
Revenues	**15150**	**79.2%**	**3.9%**	**6232**	**64.9%**	**8.0%**	**8917**	**90.8%**	**2.9%**
Tax revenues	9152	78.5%	3.4%	3697	61.7%	5.9%	5455	92.0%	3.6%
Social security contributions	4274	79.4%	4.0%	1792	71.6%	12.4%	2482	85.5%	0.1%
Income from Treasury property	1047	178.7%	61.5%	506	241.9%	124.0%	541	137.6%	28.2%
Included in EFF target	752	100.1%	16.0%	461	211.7%	104.2%	291	27.6%	-31.2%
Not included in EFF target	295			45			251		-46.0%
Non-tax revenues	676	19.3%	-30.9%	237	-20.8%	-48.1%	438	64.2%	-11.4%
Primary spending	**16809**	**70.5%**	**-1.2%**	**6988**	**75.3%**	**14.8%**	**9821**	**67.2%**	**-9.8%**
Personnel spending	1987	84.2%	6.8%	756	74.1%	14.0%	1231	91.0%	3.1%
Social Security	9352	72.1%	-0.2%	4008	73.3%	13.5%	5344	71.3%	-7.6%
Subsidies	2139	54.9%	-10.2%	930	86.9%	22.4%	1210	36.8%	-26.2%
Energy	1657	57.7%	-8.6%	711	104.3%	33.8%	946	34.6%	-27.4%
Transportation	460	51.3%	-12.3%	211	51.0%	-1.1%	250	51.5%	-18.3%
COVID & other	22	-16.0%	-51.3%	8	-19.5%	-47.2%	14	-13.8%	-53.5%
Transfers to Provinces	555	54.1%	-10.7%	236	83.0%	19.8%	319	38.0%	-25.6%
Capex	1332	104.7%	18.6%	456	84.1%	20.6%	876	117.3%	17.2%
Other	1444	50.9%	-12.5%	602	64.7%	7.9%	841	42.4%	-23.2%
Primary balance	**-1660**	**17.9%**	**-31.6%**	**-756**	**263.3%**	**137.9%**	**-904**	**-24.6%**	**-59.3%**
Interest payments	1493	118.2%	26.5%	489	59.8%	4.7%	1004	165.4%	43.2%
Overall balance	**-3153**	**50.7%**	**-12.6%**	**-1245**	**142.2%**	**54.3%**	**-1908**	**20.9%**	**-34.7%**
EFF program PCs									
Primary balance	-1955	38.9%	-19.5%	-801	284.8%	152.0%	-1154	-3.7%	-48.1%
Overall balance	-3448	64.9%	-4.4%	-1290	150.9%	64.3%	-2159	36.8%	-26.2%

Source: TPCG Research based on the Treasury

Still, December's fiscal print suggests that extending the 2H22 consolidation strategy into 2023 could prove challenging.

Still, December's fiscal print suggests that extending the 2H22 consolidation strategy into 2023 could prove challenging. Mr. Massa's consolidation strategy relied on finding new sources of revenue to keep income constant in real terms while slashing social security spending, transfers to provinces, and subsidies. By boosting export taxes with the differentiated FX for soy exporters, the government managed to keep revenue constant at 18% of GDP throughout 2022. On the other hand, Mr. Massa cut spending by 1pp of GDP, 0.8pp from lower social security payments and subsidies (0.4pp each), and 0.1pp from cuts to provinces. The government had to stretch the numbers thin in December to reach those figures. Social security spending dropped by -14.5%yoy in real terms in December. With the tariff hike finally biting, subsidy cuts totaled -63%yoy after inflation. Transfers to provinces dropped by -34%yoy and even capex was cut by -21%yoy. Worse yet, despite the Soy Dollar v2.0, revenues dropped by -1.7%yoy, on the back of -3%yoy tax revenues. Looking at 2023, this strategy doesn't look sustainable. Propping up revenue is likely to prove substantially more challenging, given the shortage of grain and the drought. The government's thinking about a tax amnesty to boost the tax intake (mostly from the penalties), but it's unlikely to be enough to prevent revenue from slowing down in a context where the economy is rapidly decelerating (the EMAE, the monthly GDP proxy printed in November its third consecutive contraction, accumulating a 1.5% drop over the past three months. Extending the social security and the transfers to provinces cuts are likely to have a growing political cost both with voters (especially pensioners and Social Security beneficiaries) and within the coalition (governors expect discretionary transfers to increase in an election year).

Figure 3: The government slashed spending deeply in December to hit the primary deficit target and keep GFNs under control.

	Jan-Nov 2022			Dec-22		
	ARSbn	%yoy		ARSbn	%yoy	
		Nominal	Real		Nominal	Real
Revenues	**13462**	**77.7%**	**4.5%**	**1688**	**92.0%**	**-1.7%**
Tax revenues	8098	77.1%	4.2%	1054	89.4%	-3.0%
Social security contributions	3811	78.3%	4.8%	464	89.6%	-2.9%
Income from Treasury property	950	185.4%	67.9%	98	126.8%	16.1%
Included in EFF target	715	114.9%	26.4%	37	-13.9%	-55.9%
Not included in EFF target	235			61		
Non-tax revenues	603	13.5%	-33.3%	73	107.1%	6.1%
Primary spending	**14680**	**73.0%**	**1.7%**	**2130**	**54.8%**	**-20.7%**
Personnel spending	1693	82.1%	7.1%	294	97.2%	1.0%
Social Security	8062	73.0%	1.7%	1289	67.0%	-14.5%
Subsidies	2024	65.7%	-2.5%	116	-28.0%	-63.1%
Energy	1610	72.4%	1.4%	47	-59.7%	-79.3%
Transportation	395	47.6%	-13.2%	65	77.5%	-9.1%
COVID & other	19	-2.5%	-42.7%	3	-54.4%	-76.7%
Transfers to Provinces	490	58.2%	-7.0%	65	29.0%	-33.9%
Capex	1166	114.4%	26.1%	166	55.1%	-20.6%
Other	1244	51.7%	-10.8%	200	46.3%	-25.1%
Primary balance	**-1218**	**33.7%**	**-21.3%**	**-442**	**-11.0%**	**-54.5%**
Interest payments	1249	86.9%	9.9%	244	1456.4%	696.9%
Overall balance	**-2468**	**56.2%**	**-8.1%**	**-685**	**33.8%**	**-31.5%**
EFF program PCs						
Primary balance	-1453	59.5%	-6.2%	-502	1.2%	-33.7%
Overall balance	-2702	71.1%	0.6%	-746	45.6%	-4.6%

pp of GDP	Dec-21	Jun-22	Dec-22
Revenues	**18.3%**	**18.2%**	**18.3%**
Tax revenues	11.1%	10.9%	11.1%
Social security contributions	5.2%	5.2%	5.2%
Income from Treasury property	0.8%	1.2%	1.3%
Included in EFF target		1.2%	0.9%
Not included in EFF target		0.1%	0.4%
Non-tax revenues	1.2%	0.8%	0.8%
Primary spending	**21.3%**	**21.5%**	**20.3%**
Personnel spending	2.3%	2.3%	2.4%
Social Security	11.7%	11.9%	11.3%
Subsidies	3.0%	3.0%	2.6%
Energy	2.3%	2.4%	2.0%
Transportation	0.7%	0.6%	0.6%
COVID & other	0.1%	0.0%	0.0%
Transfers to Provinces	0.8%	0.8%	0.7%
Capex	1.4%	1.4%	1.6%
Other	2.1%	2.0%	1.7%
Primary balance	**-3.0%**	**-3.3%**	**-2.0%**
Interest payments	1.5%	1.4%	1.8%
Overall balance	**-4.5%**	**-4.7%**	**-3.8%**
EFF program PCs			
Primary balance	-3.0%	-3.3%	-2.4%
Overall balance	-4.5%	-4.8%	-4.2%

Source: TPCG Research based on the TPCG Trading Desk

While we expect the government to hit its primary deficit target in 2023, we expect revenue to exceed IMF estimates and the government to cut spending by less than planned, accommodating the fiscal strategy to the FdT's electoral needs.

While we expect the government to hit its primary deficit target in 2023, we expect revenue to exceed IMF estimates and the government to cut spending by less than planned, accommodating the fiscal strategy to the FdT's electoral needs. Mr. Massa overperformed the 2022 primary deficit target by sourcing more revenue than the IMF's baseline and by cutting almost every outlay more than planned. Revenues beat the latest IMF baseline by 0.2pp of GDP and the September estimate by 0.7pp of GDP. Of that, 0.3pp didn't count against the target as it was derived from valuation profits on the FGS holdings of Treasury debt. Spending was 0.2pp lower than expected, with personnel and social security spending coming well below expectations. Subsidies also dropped more than expected. Looking at 2023, the IMF staff sees revenue dropping by 1.5pp of GDP (around 0.5pp due to lower valuation gains, which are no longer allowed). To make ends meet, the Staff expects spending to drop by -1.6pp, an additional 0.9pp of GDP in social security, 0.5pp in subsidies, and 0.2pp in transfers to provinces lead the savings. We expect the government to relent in the face of these highly unpopular cuts. Slashing social security and provincial funding seems like the most controversial. Under our base scenario, we expect the government to seek ways to ameliorate the slowdown in revenue, potentially trying to compensate for the loss in export taxes with the penalties of a tax amnesty. All in all, we expect social security payments to drop by less than what the IMF Staff forecasts; transfers to provinces, capex, and personnel spending to increase relative to 2022. Only subsidies would remain along the baseline.

Figure 4: We expect the government to scrape more revenue than the IMF expects and spend more to accommodate the election cycle.

	2022		2023	
pp of GDP	IMF	Actual	IMF	TPCG
Revenues	**18.1%**	**18.3%**	**16.8%**	**17.3%**
Tax revenues	11.2%	11.1%	10.8%	11.0%
Social security contributions	5.2%	5.2%	5.2%	5.3%
Income from Treasury property	1.3%	1.3%	0.8%	1.0%
Non-tax revenues	0.4%	0.8%	0.0%	0.0%
Primary spending	**20.3%**	**20.3%**	**18.7%**	**19.2%**
Personnel spending	3.0%	2.4%	2.9%	2.6%
Social Security	11.6%	11.3%	10.4%	11.0%
Subsidies	2.7%	2.6%	2.1%	2.1%
Energy	2.1%	2.0%	1.6%	1.6%
Transportation	0.6%	0.6%	0.5%	0.5%
Transfers to Provinces	0.7%	0.7%	0.5%	0.8%
Capex	1.6%	1.6%	1.6%	1.7%
Other	0.7%	1.7%	1.2%	1.0%
Primary balance	**-2.2%**	**-2.0%**	**-1.9%**	**-1.9%**
Interest payments	1.8%	1.8%	2.2%	2.4%
Overall balance	**-4.0%**	**-3.8%**	**-4.1%**	**-4.3%**
EFF program PCs				
Primary balance	-2.5%	-2.4%	-1.9%	-1.9%
Overall balance	-4.3%	-4.2%	-4.1%	-4.3%

Source: TPCG Research based on the TPCG Trading Desk

The scope for additional fiscal impulse is limited by the need to finance an ARS17tn ARS gap, forcing the government into fiscal consolidation in an election year.

The scope for additional fiscal impulse is limited by the need to finance an ARS17tn ARS gap, forcing the government into fiscal consolidation in an election year. In 2023, the government faces about USD140bn in gross financing needs. Of those, hard currency needs total USD27bn, with USD24.5bn going to the IMF, USD1.2bn to Eurobond creditors, and the rest to non-IMF IFIs. Cross holdings explain an additional USD37bn. That leaves a USD76bn ARS gap that the government needs to finance, or ARS17tn using a USDARS230 FX rate. In this context, there's little margin for fiscal slippage. At 1.9% of GDP, the primary deficit would be close to ARS2.8tn, or USD12.2bn. ARS maturities that the government needs to roll over total 14.7tn, meaning that even if Mr. Massa stuck to the fiscal plan, he would need to get ARS4.7tn in net new money to cover the primary deficit and interest payments. The EFF program caps BCRA financing at ARS883bn, so about one-fourth of the primary deficit, down from one-third in 2022. This means that the net financing gap, the money Mr. Massa needs to raise from the private sector, would increase from USD64bn in 2022 to USD76bn in 2023. The EFF's financing program includes the drawdown of assets totaling USD3bn (the government ended 2022 with disbursements exceeding maturities, something that will revert in 2023) and about USD13bn in additional financing from within the public sector (higher cross-holdings). Combined, these sources explain why GFNs increase by almost USD30bn relative to 2022, but the net financing gap only widens by USD12bn. In this context, trying to push the envelope for a higher fiscal impulse would only strain financing and monetary policy further, potentially requiring additional revenue from the inflation tax. We've discussed these dynamics extensively in our year Ahead about a couple of days ago (please see here for details).

Figure 5: GFNs would increase from USD111bn in 2022 to USD140bn in 2023 and will require raising USD76.1bn from the private sector

GFNs USDmn	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2022 Full Year	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2023 Full Year
Total Needs	22,227	36,789	16,683	35,683	111,382	23,640	45,369	46,815	24,351	140,175
Primary Fiscal Deficit	1,470	4,637	2,253	7,015	15,376	1,909	3,233	3,870	3,192	12,204
Interest	2,335	1288	2,803	2,994	9,420	2,223	3,343	4,719	4,225	14,510
External	975	622	1111	923	3,631	1658	1079	1660	1055	5,452
IMF	400	388	463	628	1879	729	721	727	712	2889
Official (non-IMF)	124	127	208	247	706	314	328	321	320	1283
Private	451	107	440	48	1,046	615	30	612	23	1,280
Domestic	1,360	666	1,692	2,071	5,789	565	2264	3059	3170	9,058
Public Entities	81	66	85	182	415	37	175	272	95	579
Private	1,278	599	1,607	1,889	$\boxed{5,374}$	528	2,088	2,787	3,075	$\boxed{8478}$
Amortizations	18,422	30,864	11,627	25,674	86,586	19,507	38,793	38,226	16,934	113,462
External	5,039	4262	6,228	5997	21,525	6,541	6084	4,737	4104	21,467
IMF	3,400	3,400	4,712	5,368	16,880	5,305	5,305	3,541	3,541	17,692
Official (non-IMF)	985	414	616	460	2,474	812	407	804	427	2,451
Private	654	448	900	169	2,171	424	372	392	136	1,324
Domestic	13,383	26,602	5,399	19,677	65,061	12,966	32,709	33,489	12,830	91,995
Public Entities	1,807	11,972	287	9,011	23,079	4,039	13,636	16,270	2,350	36,296
Private	11,575	14,630	5,111	10,665	$\boxed{41,982}$	8,927	19,073	17,219	10,480	$\boxed{55,698}$
Secure sources	3,160	21,054	2,075	20,746	47,037	24,035	16,191	17,513	7,838	65,577
Treasury Deposits (+ = drawdown)	-7,861	5,425	-888	-1,355	-4,679	1,328	1,638	153	-48	3,071
IMF	9,419	4,037	0	10,092	23,548	5,319	3,990	3,325	3,325	15,958
New Financing	0	0	0	0	0	0	0	0	0	0
2018 SBA roll-over	9,419	4,037	0	10,092	23,548	5,319	3,990	3,325	3,325	15,958
Official (Not-IMF)	305	483	887	2,431	4,107	298	1,102	1,333	963	3,696
Public Entities	3,342	15,790	1,253	9,578	29,963	17,090	9,461	12,702	3,598	42,852
Other	-2,045	-4,681	823	0	-5,902	0	0	0	0	0
Private Sector Issuances (financing gap)	19,067	15,734	14,608	14,937	64,345	16,214	21,511	21,924	16,514	76,163
					ARS services ARS6.2tn 1.7X base money					**ARS services** ARS14.7tn 3.1X base money

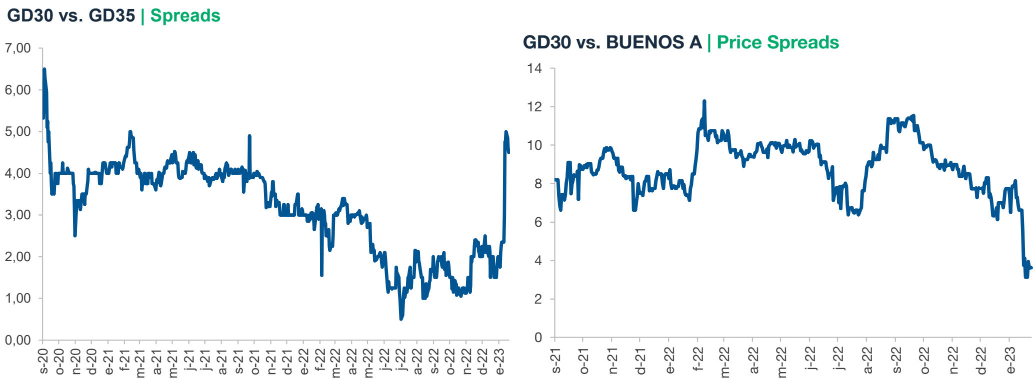
Source: TPCG Research based on Indec & Alphacast

Strategy: Those Argent30 look really rich

The Argent30s have become excessively rich following the repurchase. We recommend swapping them for the Argent35 or, alternatively, the Buenos37A.

The Argent30s have become excessively rich following the repurchase. We recommend swapping them for the Argent35 or, alternatively, the Buenos37A. Following the announcement of the repurchase, the Argent30s rallied from the low-30s into the high-30s. Even after weakening slightly over the past few days, the continue to trade in the mid-30s, accumulating almost 3000bp in total return YTD, in line with the PDI29s and about 1000bp more than the rest of the curve. In the mid-30s, valuations are now consistent with a tighter probability of default for the sinking and higher recoveries. In this context, the spread between the Argent30 and the Argent35 trades at 4.5c, the widest since September 2020, when the bonds came to the market. There's a lot to like at this price in the 35s relative to the 30s: higher carry, lower exposure to front-loaded principal payments, and swapping into them would imply receiving almost 5c upfront. Similarly, the Argent30s is at its richest point ever relative to the Buenos37As. The 37As also have a substantial upside in carry relative to the 30s, but unlike the 35s, swapping would imply putting money upfront (to keep notional constant) and getting a higher exposure to potentially conflictive sinkings in 2024 and 2025. Attractive as the Buenos37As may seem at this point, they remain our second choice after the Argent35 for credit reasons. Buenos' primary surplus is entirely dependent on discretionary transfers from the sovereign. As we showed in our latest Provincial Credits update in late December (please see here), if the Federal Government were to trim those discretionary transfers, Buenos would quickly slide into a deficit that would be challenging to finance. In the short run, we see little risk of this outcome. Regardless of how the BueAir coparticipation dispute ends, we expect the government to keep transfers in an election year. The risk increases in 2024, especially if the Buenos government has a different political color from the sovereign's.

Figure 6: With a YTD total return almost 1000bp higher than the rest of the curve, the Argent30s seems rich relative to the 35s and the B37A



	26-ene.-23			Last Week			YTD		
	MD	**YTM**	**PX (Conv.)**	**Carry (bps)**	**Δ Clean PX (bps)**	**Total Return (bps)**	**Carry (bps)**	**Δ Clean PX (bps)**	**Total Return (bps)**
PDI 2029	3,1	31,7	34,00	6	74	80	27	2.710	2.737
Argent30	3,2	28,3	35,25	3	367	370	13	2.936	2.949
Argent38	5,2	20,7	36,65	21	395	417	72	1.364	1.437
Argent46	4,9	21,6	31,00	10	507	517	38	1.923	1.961
Argent41	6,2	18,1	34,05	21	555	576	79	1.843	1.923
Argent35	6,1	20,7	30,70	10	495	504	38	1.922	1.961

Source: TPCG Research based on the TPCG Trading Desk

TPCG Analysts & Staff

Research

Juan Manuel Pazos	**Chief Economist**	**jmpazos@tpcgco.com**	**+54 11 4898-6606**
Paula La Greca	Corporate Research Analyst	plagreca@tpcgco.com	+54 11 4898-6638
Federico Martin	Strategist	famartin@tpcgco.com	+54 11 4898-6633
Santiago Resico	LATAM Strategist	sresico@tpcgco.com	+54 11 4898-6615

Sales & Trading

Juan Manuel Truppia	**Head of Sales & Trading**	**jmtruppia@tpcgco.com**	**+54 11 4898-6659**
Juan Martin Longhi	S&T Director	jlonghi@tpcgco.com	+54 11 4898-6656
Lucia Rodriguez Pardina	S&T Director	lrodriguezpardina@tpcgco.com	+54 11 4898-6614
Agustina Guadalupe	Sales	aguadalupe@tpcgco.com	+54 11 4898-6682
Maria Pilar Hurtado	Sales	mhurtado@tpcgco.com	+54 11 4898-6616
Juan Ignacio Vergara	Sales	jivergara@tpcgco.com	+54 11 4898-1936
Santiago Baibiene	Sales	sbaibiene@tpcgco.com	+54 11 4898-6648
Pedro Nollmann	Sales	pnollmann@tpcgco.com	+54 11 4898-6617
María Ruiz de Castroviejo Salas	Sales	mruizdecastroviejo@tpcgco.com	+54 11 4898-6643
Victoria Faynbloch	Desk Analyst	vfaynbloch@tpcgco.com	+54 11 4898-6635
Felipe Freire	Trader	ffreire@tpcgco.com	+54 11 4898-1921
Homero Fernandez Bianco	Trader	hfbianco@tpcgco.com	+54 11 4898-6667
Andres Robertson	Trader	arobertson@tpcgco.com	+54 11 4898-6693

Corporate Banking

José Ramos	**Head of Corporate Banking**	**jramos@tpcgco.com**	**+54 11 4898-6645**
Camila Martinez	Corporate Sales	cmartinez@tpcgco.com	+54 11 4898-6621
Fernando Depierre	Corporate Sales	fdepierre@tpcgco.com	+54 11 4898-6636
Sol Silvestrini	Corporate Sales	ssilvestrini@tpcgco.com	+54 11 4898-6641
Nicolas Iglesias	Corporate Sales	niglesias@tpcgco.com	+54 11 4898-6612

Capital Markets

Fernando Lanus	**Head of Capital Markets**	**flanus@tpcgco.com**	**+54 11 4898-6632**
Nicolás Alperín	Investment Banking Analyst	nalperin@tpcgco.com	+54 11 4898-6604

Asset Management

Ileana Aiello	**Portfolio Manager**	**iaiello@tpcgco.com**	**+54 11 4898-6611**
Claudio Achaerandio	**Portfolio Manager**	**cachaerandio@tpcgco.com**	**+54 11 4898-6618**

Important Disclaimer

The document, and the information, opinions, estimates and recommendations expressed herein, have been prepared by TPCG Valores SAU to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. TPCG Valores SAU is not liable for giving notice of such changes or for updating the contents hereof. The document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall the document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to the document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare the report. Therefore, investors should make their own investment decisions considering the said circumstances and obtain such specialized advice as may be necessary.

The contents of the document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by TPCG Valores SAU, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. TPCG Valores SAU. accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance. The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment.

Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

TPCG Valores SAU. and/or any of its affiliates, as well as their respective directors, executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in the document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of the report, to the extent permitted by the applicable law.

TPCG Valores SAU or any of its affiliates' salespeople, traders and other professionals may provide oral or written market Commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, TPCG Valores SAU, or any of its affiliates' proprietary trading and investing businesses, may make investment decisions that are inconsistent with the recommendations expressed herein.

No part of the document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted without the prior written consent of TPCG Valores SAU. No part of the report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

For US persons only:

This report is a product of TPCG, which is the employer of the research analyst(s) who has prepared the informative report. The research analyst(s) preparing this report is/are resident(s) outside the United States (US) and is/are not associated person(s) of any US regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a US broker-dealer and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with US rules or regulations.

This report is intended for distribution by TPCG only to US Institutional Investors and Major U.S. Institutional Investors, as defined by Rule 15a-6(b)(4) of the US Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by the US Securities and Exchange Commission (SEC), in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a a US Institutional Investors nor a Major U.S. Institutional Investor, as specified above, then he should not act upon this report and return it to the sender. Further, this report may not be copied, duplicated and/or transmitted to any US person, which is not a US Institutional Investor, nor a Major U.S. Institutional Investor.

In order to comply with the US regulations, our transactions with US Institutional Investors and Major US Institutional Investors are effected through the US-registered broker-dealer Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this report should be effected through Marco Polo or another US registered broker dealer.