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Argentina – Strategy
July 31, 2023

Mr. Massa goes to Washington

- **IN THIS PIECE.** We take a look at the available details of the 5th Review Staff Level Agreement announced jointly by the IMF and the Government on Friday, including the new targets and the revised schedule of payments.

- **OUR KEY TAKEAWAYS.** The Staff agreed to waive the deviations from the end-June fiscal, external, and monetary financing targets. The Government had missed all three targets by a massive margin. The SLA includes a re-write of the NIR targets for the rest of the year, cutting the reserve accumulation PC by USD7bn. Following the deal, Argentina agreed to pay the monies due on July 31st out of its own pocket. To do so, the Government will scrape the BCRA's last liquid assets and draw a USD1bn bridge loan from the CAF. The BCRA will remain frail until mid-August, when the Board is expected to ratify the SLA and disburse USD7.5bn. This disbursement, which has no front-loading or net new money, includes the monies required to keep Argentina current until the next Review in November, plus a USD4bn rebate of the monies paid in June and July, giving some breathing air to the BCRA. A final disbursement in November would remain subject to the Government hitting a new set of targets.

  In our view, however, the program presents a set of medium-run and short-run challenges. In the medium run, putting the economy on a path consistent with the revised baseline would require considerable effort. The revised external target requires adding USD13bn to net reserves in Aug-Dec, while the fiscal target would need a 2pp of GDP cut to fiscal impulse during the campaign. Neither looks feasible without a substantial change in the policy set, which would be inconsistent with Mr. Massa's political needs.

  In the short run, our biggest concern is that the sequencing of the deal could result in the PASO affecting the mid-August disbursement. Though the terms of the deal seem to fall along the lines discussed over the past three weeks, the negotiations dragged on so long that the SLA came once the Board entered its summer recess. By agreeing to make the July 31st payment out of his own pocket and wait until after the PASO for the Board to ratify the deal, Mr. Massa went all in on the IMF deal. Based on polls, our baseline is that the UP ticket will be competitive enough in the primaries (let's say, get more than 30% of the vote) to keep Mr. Massa in contention. In that context, everything should move along effortlessly. The problem is that if Peronism suffered a big defeat in the primaries, the IMF could decide that this Administration is no longer a valid interlocutor (as it did with the Macri Admnistration after the 2019 primaries). In that case, the BCRA would have no firepower to defend the official fixing if the result of the primaries drove the IMF to revise the deal and delay the disbursement.

- **STRATEGY IMPLICATIONS.** Though the upside bias in the election trade seems to be mostly priced in at this point, we're moving to OW on a medium-term value proposition. Despite the massive rally, bonds continue to trade at levels that we believe are consistent with recovery prices. Suppose that the chances of success of the next Administration's program are roughly its chances of avoiding a debt restructuring in its first two years. In that case, CDS valuations pricing an 87% probability of default during the next Administration would be consistent with a 13% chance of success. In our view, the rebound in the grain market and the substitution of LNG imports in 2024 are two significant tailwinds that should add considerable support to the first year of the stabilization program. Even assuming a success probability as low as a 30-50% range would mean a fair value in the high-40s to low-50s, driving our shift to OW.

TPCG ARGENTINA
STRATEGY VIEW

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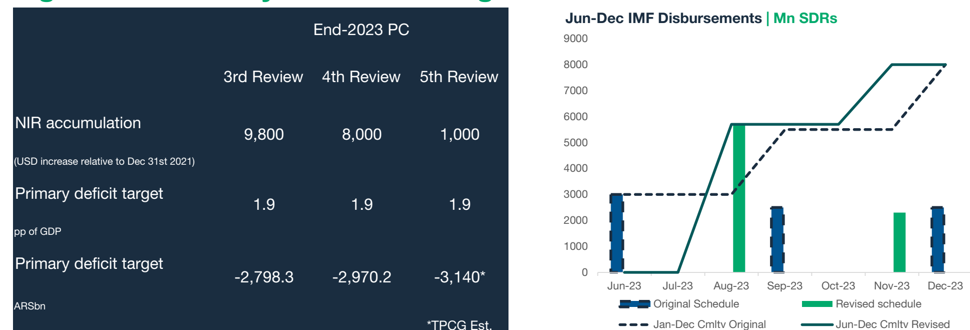
The Good: An SLA with enough waivers to keep Argy current

The Government finalized a Staff Level Agreement with the IMF on the 11th hour. The deal resets the program, re-writing the targets, and changes the disbursement schedule. The IMF prevented Argy from going into arrears, and Mr. Massa got a deal that's light on policy prescriptions but has no net new money.

The Government finalized a Staff Level Agreement with the IMF on the 11th hour. The deal resets the program, re-writing the targets, and changes the disbursement schedule. Following the previous week's tweet anticipating an understanding, the Government and the IMF announced on Friday that they had reached a Staff Level Agreement to finalize the 5th and the 6th Review of the 2022 EFF program. Under the deal, the IMF waivers the non-compliance of the 5th Review targets, commits to the disbursement of the USD10.3bn scheduled for 2H23 with a new schedule, scraps the 6th Review, and re-writes the program targets to reflect the deviation from the baseline resulting from the drought. The end-year NIR target drops from a +USD8bn accumulation relative to Dec-31st 2021 to +USD1bn, a USD7bn easing. The primary deficit target remains unchanged at 1.9% of GDP. Under the revised program, the IMF commits to disbursing USD7.5bn upon Board approval of the SLA in mid-August and an additional USD3bn subject to Argentina hitting the new November Review targets.

Figure 1: Summary of the new targets and disbursement schedule.



	End-2023 PC		
	3rd Review	4th Review	5th Review
NIR accumulation (USD increase relative to Dec 31st 2021)	9,800	8,000	1,000
Primary deficit target pp of GDP	1.9	1.9	1.9
Primary deficit target ARSbn	-2,798.3	-2,970.2	-3,140*

*TPCG Est.

Source: TPCG Research based on IMF

The Staff waived the fiscal, NIR, and monetary financing 5th Review PCs, all of which Mr. Massa missed in June. The IMF prevented Argy from going into arrears, and Mr. Massa got a deal that's light on policy prescriptions but has no net new money.

The Staff waived the fiscal, NIR, and monetary financing 5th Review PCs, all of which Mr. Massa missed in June. The IMF prevented Argy from going into arrears, and Mr. Massa got a deal that's light on policy prescriptions but has no net new money. At first look, there are no surprises on the SLA. The top priority for both the IMF and the Government in these negotiations was to prevent Argentina from entering arrears. That's as far as coincidences went. The Government sought to secure net financing from the IMF to maintain the current policy set throughout the election cycle, skirting a politically-costly deval. The IMF was reportedly skeptical about increasing its exposure to Argentina and would only consider it under a broad change in the policy set, leading to a stabilization plan. Neither side budged, resulting in a deal where other than preventing a default with the IMF, the Government offered little and got less in return. The IMF had to waive deviations in the end-June NIR, primary deficit, and monetary financing PCs for this deal to happen. Net Reserves ended 1H23 at -USD4.4bn, missing the +USD6.8bn end-June target by over USD11bn. The primary deficit widened to ARS1.88tn, almost 700bn higher than the PC, a 60% deviation. Finally, with a wider primary deficit and a weaker-than-baseline rollover ratio, monetary financing spiraled in 1H23 totaling ARS1.358tn, almost 4X as much as the original ARS378bn PC. On the other hand, the Government had to commit to paying the July 31st SDR1.98bn maturity out of its pocket to remain current. In other words, Mr. Massa may have gotten the IMF to continue disbursing without committing to a change in his policy set, but at the cost of giving up his wish for a front-loading of disbursements. Had everything gone right, the IMF would have disbursed in June the SDR3bn that the Government needed to repay the IMF between July and September, and in September, the SDR2.5bn required to remain

current between October and December. Under the revised schedule, the IMF will disburse SDR5.7bn in mid-August, enough to reimburse the Government for the end-July payment and to cover the payments until the next Review in November. In other words, there's zero net new money for Argentina from the IMF. The Government will need to find another Samaritan to muddle through and cover the trade deficit until November.

Figure 2: The Government received waivers for the three critical end-June targets in the program. All three were missed by a huge margin.

	End-June 2023 PC		
	3rd Review	4th Review	Actual
NIR accumulation (USD increase relative to Dec 31st 2021)	8,600	6,800	-4,400 TPCG Estimate
Primary deficit target ARSbn	-1,181.4	-1,181.4	-1880.7
Monetary financing ARSbn	378.2	378.2	1,358

Source: TPCG Research based on IMF, BCRA, and the Treasury

The Government expects the new disbursement schedule to help with the BCRA's ailing liquidity stash and remove the IMF from the campaign.

The Government expects the new disbursement schedule to help with the BCRA's ailing liquidity stash and remove the IMF from the campaign. We estimate that the BCRA depleted its remaining liquid firepower during July to keep the FX market running until finalizing an IMF deal. The BCRA is so deep into the red that it needed a USD1bn CAF bridge loan to make the July 31st payment to the IMF and to tap into its remaining RMB from the convertible tranche of the PBOC swap. We expect gross reserves to drop around USD23bn after the July 31st payment to the IMF. That means that the only things remaining in the Gross Reserves position are bank reserves (USD10bn), the inconvertible tranche of the PBOC swap (RMB60bn or USD8.3bn), and the gold (USD3.8bn). None of these are easily usable, meaning that the BCRA will have almost no firepower to use in the FX market other than what farmers sell to take advantage of the differentiated FX for maize exporters. The good news is that the fragility should be transitory. When (if? More on that later) the IMF disburses the agreed USD7.5bn in mid-August, the BCRA will not only have a cache of SDRs enough to cover payments through November, but it will also recover about USD4bn in liquidity to intervene in the FX market. Payments between August and December total SDR2.745bn or USD3.7bn, leaving almost USD4bn to reimburse Argentina for the July 31st and the June 30th payments.

Figure 3: We estimate that the BCRA will have less than USD1bn in liquidity after the July 31st payment

USDmn	Dec-21	Dec-22	Jul-23e
Gross International Reserves	39,662	44,598	23,300
Net International Reserves	2,277	7,703	-9,077
SDRs boosting NIR	673	4,404	0
Gold	3,214	3,618	3,823
Liquid NIR	-1,610	-319	-12,901
Borrowed reserves	37,385	36,895	32,377
o/w Unusable	26,996	27,731	18,589
Bank reserves	12,083	12,064	10,285
Inconvertible PBOC Swap	14,914	13,771	8,304
SDRs ringfenced for payments	0	1,896	0
Usable Reserves	10,389	9,165	13,789
BIS repos & Other	4,894	4,091	4,101
Convertible PBOC Swap	5,495	5,073	9,688
Remaining firepower	8,779	8,846	888

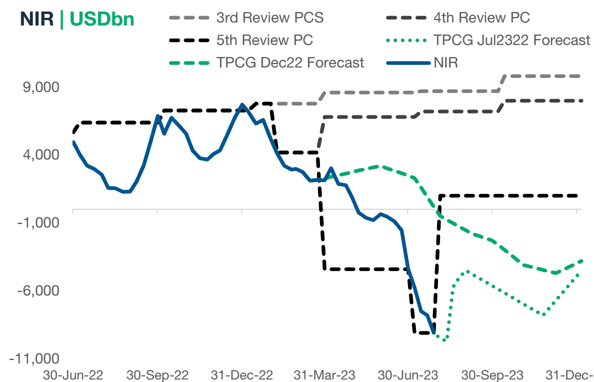
Source: TPCG Research based on IMF and BCRA

The Bad: November review targets look unfeasible

While the IMF left the Government off the hook for the YTD deviations, the program's baseline continues to require a NIR buildup in 2H23 and a stringent fiscal consolidation, neither of which looks consistent with the Government's political needs.

While the IMF left the Government off the hook for the YTD deviations, the program's baseline continues to require a NIR buildup in 2H23 and a stringent fiscal consolidation, neither of which looks consistent with the Government's political needs. While the IMF waived the 5th Review deviations and adjusted the targets, going forward, Board approval and the November Review remain subject to a series of discretionary measures that the Government vowed to enact to align the economy's path with the new baseline. More importantly, despite the substantial revision to the end-year targets, the baseline path remains as challenging as the original baseline. Hitting the primary deficit target will require deep spending cuts to complement the announced tax hikes. The NIR reserve is even more challenging, requiring the BCRA to add about USD10bn in reserves before the year ends. Additionally, the press release anticipates "a sequenced set of policy measures to rebuild reserves and enhance fiscal sustainability." We believe these discretionary measures are forthcoming in a context where the release explicitly mentions last week's administrative FX measures as a distinct set of policies. The problem is that introducing policies designed to compensate for the fiscal and external deviations will likely clash with the campaign's last two weeks. In other words, the program is likely to stress the inconsistency of the finance minister of an unpopular and embattled Administration doubling as a Presidential candidate. In this context, it's not surprising that the market's starting to price a sequence where (i) nothing happens over the next two weeks, (ii) the Government introduces substantial policy changes on the week of August 14th, and (iii) the IMF Board ratifies the SLA after that.

Figure 4: Hitting the end-year NIR target requires the BCRA to accumulate over USD12bn in Aug-Dec



Source: TPCG Research based on IMF and BCRA

Hitting the end-year NIR target would require the BCRA to add almost USD10bn in net reserves over the next four months. We're not sure the target is feasible, even factoring in the boost from wheat in December.

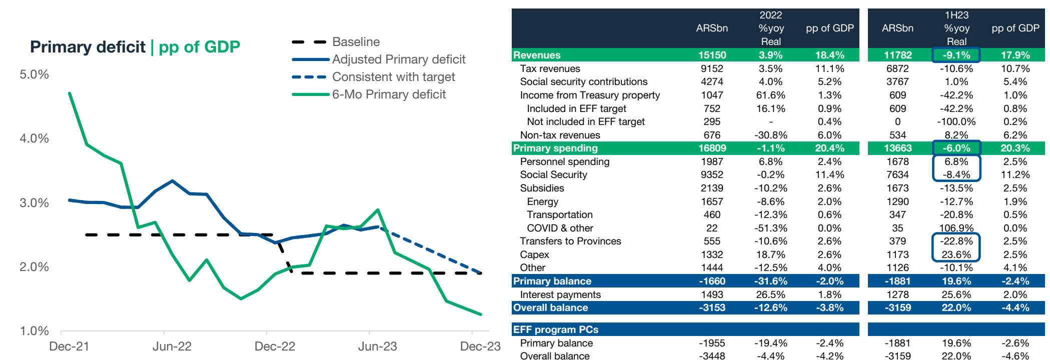
Hitting the end-year NIR target would require the BCRA to add over USD12bn in net reserves over the next four months. We're not sure the target is feasible, even factoring in the boost from wheat in December. We estimate that net reserves ended 1H23 at -USD4.4bn and are likely to drop to -USD9bn by the end of July after factoring in the Eurobond payments earlier in the month, the substantial selling in the FX market to cover the trade deficit and today's payment to the IMF. In other words, despite offering a differential FX for soy exporters and now to maize exporters, the NIR position deteriorated by almost USD17bn in Jan-Jul, forcing the BCRA to tap deeper into the PBOC swap line and draw a bridge loan with CAF to remain current with the IMF. Relative to the program's Dec. 31st 2021 baseline, the BCRA is deviated by almost USD11.4bn. The new end-year target requires the Government to finish 2023 with a USD1bn gain relative to the Dec. 31st 2021 baseline, meaning that the BCRA needs to gain over USD12bn in Aug-Dec. With seasonal drivers and the prospect of REER correction in December kicking off an FX market normalization and a regime change dominating agents' expectations, accumulating USD12bn in net reserves in 5 months looks extremely challenging. In the short run, Government expects to raise about USD2bn from the differentiated FX for maize exporters and get a USD4bn rebate from the IMF. Also, the wheat cycle seems to be coming well enough that it could add an additional USD4bn in December. The problem is that even if the Government managed to cut all of the remaining drainages to zero, the inflows would still fall short of the amount needed to hit the end-year NIR target. Our FX market model suggests that hitting the NIR target would require a change in the policy set. We estimate that the recent administrative FX measures introducing new levies

on imports to create a differentiated rate for a subset of imported goods and services will not make a substantial dent in the 2H23 trade deficit. We divide imports into three groups: essential, inessential, and a gray area with everything in between. The BCRA is not selling to insessential goods. The new levy won't apply to essential goods. That leaves only the gray area as the target of the new differential FX rate. Of course, we never expected the BCRA to sell to those importers in 2H23 as FX market inflows dwindled, limiting the impact of the new levy.

On the fiscal side, the IMF maintained the 1.9% of GDP primary deficit end-year target, which means that the Government needs to find corrective measures to compensate for a 2pp of GDP deviation accumulated over 1H23.

On the fiscal side, the IMF maintained the 1.9% of GDP primary deficit end-year target, which means that the Government needs to find corrective measures to compensate for a 2pp of GDP deviation accumulated over 1H23. The primary deficit clocked in the 12 months ending in June 2023 at 2.6% of GDP, 0.7pp above the end-year target. Still, the figure understates the 1H23 primary deficit widening and the deviation from the target. The 6-month rolling primary deficit widened to 2.9pp of GDP in 1H23 in a context where a -8.1%yoy real cut to social security spending, a -15.2%yoy drop in subsidies after inflation, and a -22.6%yoy cut in real discretionary transfers to provinces fell short of compensating for a -9.4%yoy drop in real income resulting from a collapse in trade levies (export taxes are down -54.3%yoy in real terms in 1H23 and import taxes down by -16.3%yoy) and economic activity stalling. From the recent measures, we believe that only the income tax advance on companies making more than ARS600mn a year is relevant fiscally, potentially adding ARS110bn or 0.07pp of GDP. In other words, hitting the primary deficit target requires cutting the primary deficit from 2.9pp of 1H23's six-month GDP to 1.3pp of 2H23's six-month GDP. Considering the usual seasonality of the primary deficit, which widens considerably in 2H, hitting that kind of consolidation target would require a substantially more radical policy shift than a tax advance, a tariff hike, and a deeper effort than in 2H22.

Figure 5: Hitting the primary deficit target would require massive fiscal cuts in 2H23, substantially steeper than the 2H22 consolidation.



	2022 ARSbn	2022 %yoy Real	2022 pp of GDP	1H23 ARSbn	1H23 %yoy Real	1H23 pp of GDP
Revenues	**15150**	**3.9%**	**18.4%**	**11782**	**-9.1%**	**17.9%**
Tax revenues	9152	3.5%	11.1%	6872	-10.6%	10.7%
Social security contributions	4274	4.0%	5.2%	3767	1.0%	5.4%
Income from Treasury property	1047	61.6%	1.3%	609	-42.2%	1.0%
Included in EFF target	752	16.1%	0.9%	609	-42.2%	0.8%
Not included in EFF target	295	-	0.4%	0	-100.0%	0.2%
Non-tax revenues	676	-30.8%	6.0%	534	8.2%	6.2%
Primary spending	**16809**	**-1.1%**	**20.4%**	**13663**	**-6.0%**	**20.3%**
Personnel spending	1987	6.8%	2.4%	1678	6.8%	2.5%
Social Security	9352	-0.2%	11.4%	7634	-8.4%	11.2%
Subsidies	2139	-10.2%	2.6%	1673	-13.5%	2.5%
Energy	1657	-8.6%	2.0%	1290	-12.7%	1.9%
Transportation	460	-12.3%	0.6%	347	-20.8%	0.5%
COVID & other	22	-51.3%	0.0%	35	106.9%	0.0%
Transfers to Provinces	555	-10.6%	2.6%	379	-22.8%	2.5%
Capex	1332	18.7%	2.6%	1173	23.6%	2.5%
Other	1444	-12.5%	4.0%	1126	-10.1%	4.1%
Primary balance	**-1660**	**-31.6%**	**-2.0%**	**-1881**	**19.6%**	**-2.4%**
Interest payments	1493	26.5%	1.8%	1278	25.6%	2.0%
Overall balance	**-3153**	**-12.6%**	**-3.8%**	**-3159**	**22.0%**	**-4.4%**
EFF program PCs						
Primary balance	-1955	-19.4%	-2.4%	-1881	19.6%	-2.6%
Overall balance	-3448	-4.4%	-4.2%	-3159	22.0%	-4.6%

Source: TPCG Research based on IMF and the Treasury

In our view, the Government is likely to miss the November Review's QPCs. In this context, the risk of Argentina entering arrears with the IMF has not dissipated entirely despite the SLA, just delayed for a few months. Still, entering arrears in November may be immaterial.

In our view, the Government is likely to miss the November Review's QPCs. In this context, the risk of Argentina entering arrears with the IMF has not dissipated entirely despite the SLA, just delayed for a few months. Still, entering arrears in November may be immaterial. Not entering arrears in July seemed like the Government saving a match point. Still, that doesn't mean that the risk of entering arrears before Inauguration Day on December 10th has diluted entirely. The program's new baseline remains extremely challenging, and aligning the ailing economy's dynamics to it without a substantial shift in the public policies set looks unlikely. The current FX market framework seems ill-suited to support the kind of rebound in the NIR position mandated by the external target, and the fiscal consolidation consistent with the primary deficit target looks inconsistent with Mr. Massa's campaign needs. In other words, the Government is going to need a new set of waivers to get through the November Review. The talk about deviations and the need for waivers will come well before November, of course, in a context where a substantial effort is required even to put the economy on a convergence path (not even to hit the targets, but at least to point in the right way). In other words, the Government may be getting a little ahead of itself when it boasts that the SLA takes the IMF out of the conversation for the remainder of the campaign. Ultimately, the big question is how material would botching the November Review be. We can't shrug off the feeling that neither the Government nor the Fund is interested in what happens after November. The IMF would get all of its dues until late October, leaving just SDR25mn (yes, with an unmenacing m rather than a daunting b) in interest payments

between November 1st and Inauguration Day. In other words, the payments covered by the November disbursement are the next Administration's problem.

The Ugly: Could the PASO result affect the August disbursement?

The biggest risk in the short-run is not deviations from the baseline threatening the November Review but rather the IMF Board not ratifying the SLA in mid-August.

The biggest risk in the short-run is not deviations from the baseline threatening the November Review but rather the IMF Board not ratifying the SLA in mid-August. With the SLA finalized on Friday and the Board entering its summer recess until August 11th, the 5th Review won't be approved until mid-August at the earliest. That means the IMF Board will vote on the SLA with the PASO result set in stone. In other words, there's a risk that the PASO result or a material deterioration of the economy in the next two weeks could affect the August disbursement. If Mr. Massa does well, then everything should chug along nicely. On the other hand, if Peronism were to suffer a big defeat, and it became apparent that Mr. Massa's chances of taking over from Mr. Fernandez on December 10th were zero, the IMF might decide to change tacks asking Messers. Laspina and Lacunza (whomever's candidate comes on top of the JxC primaries) to join the negotiations. In this scenario, Mr. Massa would stop being a relevant interlocutor, just like Messers. Dujovne and Sandleris ceased to be the relevant interlocutor for the Fund after the Macri Administration lost the August 2019 primaries by 18pp. The Argy history has many examples of the IMF pulling the plug on failing programs when political conditions change drastically. Besides the aforementioned example in 2019, we've also seen similar outcomes after Mr. De La Rua's Administration lost badly in the 2001 mid-terms and in 1989 when it became apparent that the Alfonsin Administration was in tatters.

The delay in the negotiations ended up giving the IMF Board a free call. Until now, the IMF had a problem with Argentina. Now the tables have turned. Until the Board ratifies the 5th Review, it is Argentina who has a problem with the IMF.

The delay in the negotiations ended up giving the IMF Board a free call. Until now, the IMF had a problem with Argentina. Now the tables have turned. Until the Board ratifies the 5th Review, it is Argentina who has a problem with the IMF. Since the start of the 2022 EFF program, the IMF has been panned for being surprisingly tolerant of the Fernandez Administration's repeated impulses for deviation. Mr. Guzman fudged the fiscal figures. Nevermind. Mr. Massa is drawing from 2024's revenues rather than consolidating. Nevermind. The Government has flagrantly ignored the ban on multiple currency practices. Nevermind. JxC economists, which suffered the Staff in 2018-19, are very verbal about how easy Mr. Massa has it. We maintain our view that the 2022 program was a standstill rather than an EFF. Conditionalities were light, mostly seeking to dilute the tail risk, but with little to no additional exposure by the Fund, limiting it to be a rollover mechanism for the IMF to keep Argy current until the end of the Fernandez Administration. With the elections in sight, the recent negotiations suggest that the IMF may have been The Usual Suspect's Keyser Söze impersonating the puny "Verbal" Kint before us. There's nothing really surprising about the SLA. Most of its contents had been leaked three weeks ago. The only surprise was that after Mr. Massa declared that the deal would be "finalized in the coming hours" in June, hours became days and weeks, bringing us to a resolution just as the Board entered its summer recess. The Fund played its hand very differently this time, stretching negotiations but not putting the deal outside the Government's grasp. In this context, to avoid entering arrears and preventing a disorderly scenario, Mr. Massa decided to put the BCRA's last few dimes on the line, gambling that the IMF would come through in mid-August. In other words, the tables have turned. Over the past two years, Argentina has bullied the IMF into tolerating its policies by threatening to enter arrears if the Staff asked for too many sacrifices. Now, it is Argentina that depends on the goodwill of the IMF.

If the Board delays its approval of the SLA, the fragility of FX market dynamics is likely to deteriorate, increasing the expectation of a REER correction before Inauguration Day.

If the Board delays its approval of the SLA, the fragility of FX market dynamics is likely to deteriorate, increasing the expectation of a REER correction before Inauguration Day. By agreeing to make the July 31st payment out of his own pocket and wait until after the PASO for the Board to ratify the deal, Mr. Massa went all in on the IMF deal. While our baseline, based on polls, is that the UP ticket will be competitive enough in the primaries (let's say, get more than 30% of the vote) to keep Mr. Massa in contention, the BCRA would have no firepower to defend the official fixing if the result of the primaries drove the IMF to revise the deal and delay the disbursement. The Board wouldn't even need to pull the plug on the program. The dynamics could turn extremely ugly just by remaining silent for a few days. In our view, over the next two weeks, the FX market will work as a room gradually filling with natural gas. Any spark could lead to a blowup. In the short run, the SLA gives the Government some leeway to sell Bonars to intervene in the BCS (but not to repurchase against USD, meaning that intervention would lead to lower valuations). Outright selling of dollarized bonds may help navigate the two weeks until the primaries but would not be enough to shore up dynamics if the disbursement doesn't come in mid-August. The differentiated FX for grain exporters could also dry up. After an initial bout of selling driven by those farmers requiring

liquidity, the bulk of selling will depend on the expectations that the FX framework will remain unchanged after the primaries.

Strategy: We're (finally) moving to OW with risks decked the right way

We're moving to OW in a context where risks to valuations are now biased toward the upside. The short-term economic and political scenarios are now aligned and mostly incorporated into prices, but the medium-term perspectives are not.

We're moving to OW in a context where risks to valuations are now biased toward the upside. The short-term economic and political scenarios are now aligned and mostly incorporated into prices, but the medium-term perspectives are not. When we argued a few weeks ago (please see here) that most of Argy's recent rally was beta-driven, we identified three critical drivers of alpha. The first was the elections and the expectation of a regime change. Recent polls suggest that Mr. Milei was losing support, and Mr. Massa's push to become the Peronist candidate concentrated the election in the center, pruning both tail risks. The second driver of alpha was minimizing the risk of a BoP blowup. In our view, the SLA has bundled these two drivers into one. With polls suggesting that Mr. Massa has limited chances in a run-off if Peronism has a competitive showing in the primaries, it wouldn't change the end result of the election. Still, it would dilute the BoP risks entirely. On the other hand, if JxC secures a landslide win, it might result in higher FX market volatility and less stable BoP dynamics. Still, expectations would lock on (i) the likelihood of a 1st round win and (ii) the REER correction happening in the final months of the Fernandez Administration. The first scenario is probably fully priced in, the second scenario would probably be consistent with the rally extending into the low 40s. At this point, the only scenario where valuations would have a downward bias would be one where Mr. Massa pulls a massively unexpected win that allows him to leapfrog the JxC candidates and become the race's frontrunner. We agree with the consensus of creditors and political analysts that this is a low-probability scenario. All in all, despite the upside bias in the election trade, we're moving to OW on a medium-term value proposition. Despite the massive rally, bonds continue to trade at levels that we believe are consistent with recovery prices. Suppose that the chances of success of the next Administration's program are roughly its chances of avoiding a debt restructuring in its first two years. In that case, CDS valuations pricing an 87% probability of default during the next Administration would be consistent with a 13% chance of success. In our view, the rebound in the grain market and the substitution of LNG imports are two significant tailwinds that should add considerable support to the first year of the stabilization program. Even assuming a success probability as low as 30-50% range would mean a fair value in the high-40s to low-50s, driving our shift to OW.

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