Juan Manuel Pazos
Chief Economist
Santiago Resico
Economist

TPCG

Argentina – Strategy
May 2, 2024

Thoughts on creditor sentiment, student demonstrations, and lines in the sand

- **IN THIS PIECE.** After two weeks of meeting them in the US, we summarize the creditors' consensus, look at the scenario post-passing of the Omnibus Bill, and share some thoughts about what the recent demonstrations tell us about the limits to the Government's strategy.

- **OUR KEY TAKEAWAYS.** If creditors had fashioned a scorecard to evaluate the first stretch of the Government, they would have come up with five critical areas of focus: (i) fiscal, (ii) inflation, (iii) reserves, (iv) approval ratings, and (v) passing key legislation. Every creditor we met over the past two weeks highlighted that the Government had overperformed their expectations regarding the first four areas of evaluation and seemed on track to make substantial progress on the fifth in the coming weeks. This week, the Government secured the passage of the Omnibus Bill through the House with the support of Governors and the non-Kirchnerist opposition. Despite being diluted considerably relative to its first iteration, the Bill has critical provisions for the execution of the Government's plan, including the fiscal package reintroducing income tax (which, in net terms, we estimate could add 0.2pp of GDP in revenue this year), the investment regime, the labor reform, and the end of the pension expensive and unsustainable pension moratorium. The Government now needs to pivot to the Senate, which is a more complex battleground. The Kirchnerist caucus is stronger, and the friendly caucuses are either smaller (Pro) or more fractious and volatile (the UCR). On the other hand, Governors have a larger sway in the Senate than they hold in the House. The consensus gives the Bill a 50-60% chance of clearing the Senate. We're somewhat more constructive, giving it a 70% chance of approval in a context where we expect very different dynamics from those in the House. Unlike this week's vote, we don't expect the vote to fall exclusively along partisan lines in the Senate. The 33-seat Union por la Patria caucus is likely to split into at least 16 nays from the CFK Gurkhas on the one side and 17 senators who could either vote in favor of the Bill or abstain on orders from their Governors. On the non-Peronist opposition side, the UCR caucus is also likely to split, with Mr. Lousteau and his group voting against the Bill. This outlook presents a tighter picture than in the House, as many provisions could pass with just a single-vote margin (or even require VP Villarruel to break the deadlock). Still, we believe that the math is favorable for the Administration.

- **STRATEGY IMPLICATIONS.** We remain OW in the ARGENT curve on the back of our higher-than-consensus expected chances that the Omnibus Bill will pass. From our talk with creditors, we find that if the Bill passes, the Government would have achieved everything bondholders wanted to see happening in the first months of the story, and the consensus expectation is that valuations could move into single-B territory, consistent with the likelihood of a credit rating upgrade to B-. We maintain our price target of mid-to-high 70s for the front end of the curve. If the ARGENT curve traded like an average B- country, front-end bonds should rally into the low-80s. Still, after the post-Omnibus Bill rally, finding catalysts for additional improvements in valuations could become challenging. With fundamentals looking very good and Congress working, most of the additional value would come from the prospect of policy continuity, which is irrevocably tied to the Government's approval ratings and its ability to win elections. So far, the Government has surprised creditors by being far more competent than expected at maintaining its approval ratings elevated, and its voter base coalesced despite the hardship of the austerity program. Still, the recent demonstrations are a yellow signal. We believe that the education issue will mostly dilute, as the Government is not about to begin shuttering universities or charging tuition, and more importantly, the opposition will find it hard to capitalize on the issue. Still, it confirms the consensus view that a large bulk of the Milei voters are to his left and that, at some point, they might draw a line in the sand inconsistent with the Government's program. We believe the recession and depressed incomes could be a much more complicated issue, especially if the Government opts to continue grinding the economy because of fear to float.

TPCG ARGENTINA
STRATEGY VIEW

Juan Manuel Pazos
Chief Economist
Santiago Resico
Economist

Strategy – Argentina

May 2, 2024

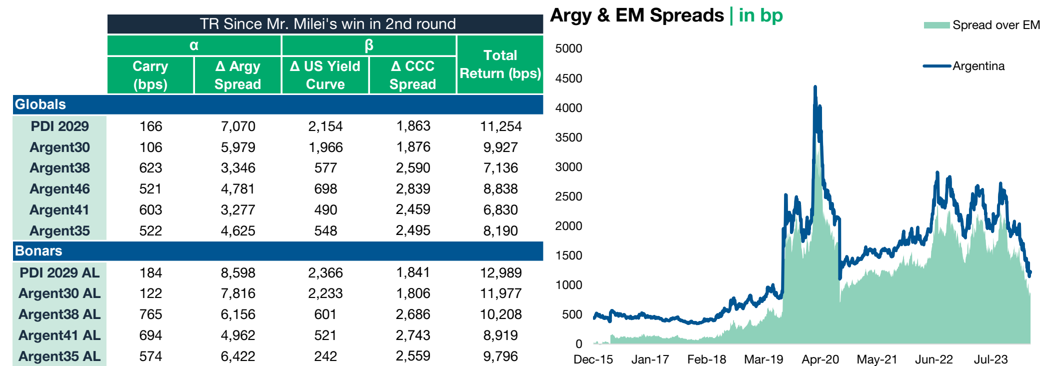
Thoughts on creditor sentiment, student demonstrations, and lines in the sand

Creditor sentiment at its best since 2017. If the Government passes the Omnibus bill through Congress, we could test new highs.

Creditor sentiment for Argentina continues to improve, reaching its highest level since 2017. The Government has completed all but one of the milestones that bondholders hoped for in the first chapter of the Libertarian story.

Creditor sentiment for Argentina continues to improve, reaching its highest level since 2017. The Government has completed all but one of the milestones that bondholders hoped for in the first chapter of the Libertarian story. If creditors had fashioned a scorecard to evaluate the first stretch of the Government, they would have come up with five critical areas of focus: (i) fiscal, (ii) inflation, (iii) reserves, (iv) approval ratings, and (v) passing key legislation. Every creditor we met over the past two weeks highlighted that the Government had overperformed their expectations regarding the first four areas of evaluation and seemed on track to make substantial progress on the fifth in the coming weeks. This dominant view among creditors fueled the March-April rally, which drove front-end bonds into the 60c area. While the last week was somewhat softer on the back of negative beta and some idiosyncratic concerns following a massive demonstration against the Government's public schooling policies. Still, most creditors remained sanguine, expecting the rally to resume vigorously if the Government manages to pass the Omnibus Bill over the coming weeks.

Figure 1: The recent rally compressed spreads down to the lowest since the 2019 primaries.



	TR Since Mr. Milei's win in 2nd round				
	α		β		Total Return (bps)
	Carry (bps)	Δ Argy Spread	Δ US Yield Curve	Δ CCC Spread	
Globals					
PDI 2029	166	7,070	2,154	1,863	11,254
Argent30	106	5,979	1,966	1,876	9,927
Argent38	623	3,346	577	2,590	7,136
Argent46	521	4,781	698	2,839	8,838
Argent41	603	3,277	490	2,459	6,830
Argent35	522	4,625	548	2,495	8,190
Bonars					
PDI 2029 AL	184	8,598	2,366	1,841	12,989
Argent30 AL	122	7,816	2,233	1,806	11,977
Argent38 AL	765	6,156	601	2,686	10,208
Argent41 AL	694	4,962	521	2,743	8,919
Argent35 AL	574	6,422	242	2,559	9,796

Source: TPCG Research based on the TPCG Trading Desk

On the fiscal side, the Government posted the first cumulative 1Q overall surplus in over 15 years. Mr. Caputo's consolidation strategy continues to yield better-than-expected results, combining inflation dilution, discretionary cuts, and arrear accumulation.

On the fiscal side, the Government posted the first cumulative 1Q overall surplus in over 15 years. Mr. Caputo's consolidation strategy continues to yield better-than-expected results, combining inflation dilution, discretionary cuts, and arrear accumulation. Every creditor singled out the fiscal plan as the linchpin of their confidence in the Government's trajectory. The fiscal figures unveiled last week are only likely to cement creditors' expectations as we move away from the Jan-Feb concerns that the fiscal strategy could be time inconsistent. During 1Q24, the Government achieved an ARS3.9tn primary surplus and an ARS1.1tn overall surplus. On a twelve-month-rolling basis, the primary deficit is down from -2.7pp of GDP in December to -0.6pp in March, a 210bp reversal in just 3 months. At this pace, the twelve-month-rolling primary position will be out of the red during 2Q. The fiscal improvement has been grounded on four critical drivers: (i) FX-linked taxes decoupling the tax revenue from the recession; (ii) adjusting personnel spending and social security benefits well below inflation, diluting them; (iii) cutting discretionary programs like capex and transfers to provinces, and (iv) accumulating arrears on unpaid subsidies to gencos, Plan Gas producers, and bus operators. The strategy resulted in revenues deteriorating just -

4.4%yoy in real terms and primary spending collapsing -35%yoy inflation-adjusted. Discretionary cuts account for almost 30% of the savings, while arrears explain about one-fifth. The dilution of social security benefits and wages via inflation explains the other half of the savings. Social security spending ended 1Q24, dropping -26.7%yoy in real terms, even factoring in the March adjustment. March itself is still -21%yoy inflation adjusted, which confirms our view that the April adjustment will cap social security benefits at a lower level than 2023's in real terms. We estimate that, combined with the discretionary cuts and the repayment of arrears with bonds rather than cash, it should be enough to secure the 2024 fiscal target..

Figure 2: The Government's fiscal strategy continues to yield positive results three months in. We estimate that the savings should be enough to hit the fiscal targets in 2024.

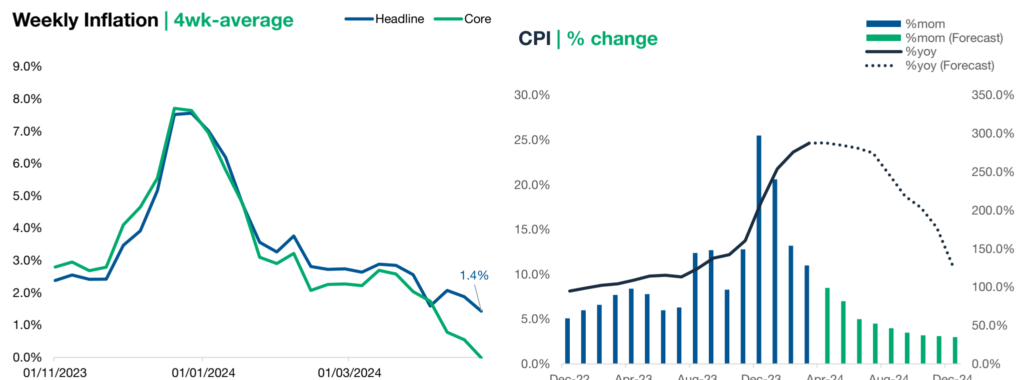
	4Q23				1Q24			
	ARStn	%yoy nominal	%yoy real	pp of GDP	ARStn	%yoy nominal	%yoy real	pp of GDP
Revenues	**11.6**	**152%**	**-6.7%**	**16.9%**	**17.8**	**255%**	**-4.4%**	**17.6%**
Tax revenues	6.9	140%	-11.0%	9.9%	11.1	298%	7.6%	10.6%
Social security contributions	3.1	142%	-10.4%	5.0%	5.1	188%	-22.7%	5.1%
Income from Treasury property	0.8	262%	34.0%	1.0%	0.9	312%	10.2%	1.0%
Non-tax revenues	0.8	237%	27.6%	0.9%	0.7	182%	-23.7%	0.9%
Primary spending	**14.1**	**163%**	**-4.3%**	**19.6%**	**13.9**	**144%**	**-34.9%**	**18.2%**
Personnel spending	2.0	204%	9.1%	2.6%	2.3	201%	-19.5%	2.6%
Social Security	7.6	149%	-8.4%	10.7%	9.0	175%	-26.7%	10.2%
Subsidies	1.3	150%	-12.6%	2.1%	1.1	107%	-45.7%	1.8%
Energy	0.9	144%	-16.4%	1.5%	0.7	92%	-50.5%	1.3%
Transportation	0.3	132%	-14.2%	0.5%	0.4	151%	-31.6%	0.5%
Other	0.1	927%	279.8%	0.1%	0.0	67%	-59.3%	0.0%
Transfers to Provinces	0.6	261%	30.2%	0.8%	0.1	-13%	-76.3%	0.6%
Capex	1.0	116%	-19.1%	1.6%	0.2	-51%	-86.8%	1.3%
Other	1.5	218%	13.5%	1.9%	1.2	143%	-35.0%	1.7%
Primary balance	**-2.5**	**228%**	**10.1%**	**-2.7%**	**3.9**	**-661%**	**-258.1%**	**-0.6%**
Interest payments	1.1	71%	-37.6%	1.7%	2.7	279%	4.9%	2.2%
Overall balance excl SDRs	**-3.6**	**158%**	**-11.4%**	**-4.4%**	**1.1**	**-180%**	**-122.0%**	**-2.8%**

Source: TPCG Research based on the Treasury

Inflation is almost as big a success as fiscal, coming down into single digits more rapidly than expected, as core prices deflated sharply. We now expect inflation to fall into the low-single digits in 3Q and to around 3%mom by late 4Q.

Inflation is almost as big a success as fiscal, coming down into single digits more rapidly than expected, as core prices deflated sharply. We now expect inflation to fall into the low-single digits in 3Q and to around 3%mom by late 4Q. That the Government was going to be very aggressive on the fiscal side was widely expected from the start, but the progress in lowering inflation was a welcome surprise. Inflation is voters' main mandate in a context where most polls agree that the electorate would be willing to endure the harshness of the program provided it leads to stabilization. Two weeks ago (please see here), we revised our baseline view from April to 8.5%mom, an estimate aggressively out of consensus back then (the consensus gravitated around 9.9%mom). Fast forward a fortnight, and the consensus has revised downward, moving closer to our view, with the more aggressive revised estimates from local analysts coming as low as 6.5%mom. The revisions are coming on the back of a collapse in core prices, which printed negative in the last week and averaged 0%wow over the past four weeks, dragged down by the effect of the recession, deteriorating real incomes, and the FX anchor. Headline prices are more persistent than core inflation due to the pervasive effect of regulated prices. Utilities' prices should maintain headline inflation above core prices, but at 1.4%mom average over the last four weeks, running inflation is already at 6%mom, close to the most aggressive estimates for April.

Figure 3: Weekly inflation continues to decelerate as core prices flatten over the past four weeks, triggering the market to reprice inflation.

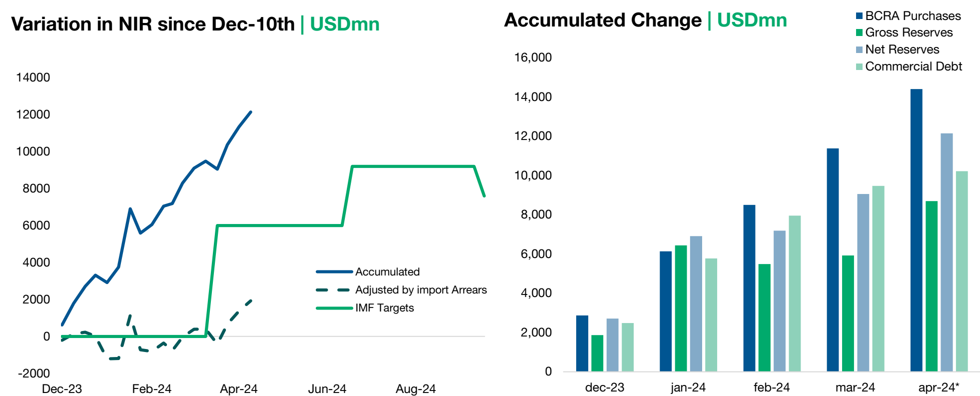


Source: TPCG Research based on Indec and Alphacast

The reserve build-up is the third checkbox in creditors' scorecards, as the Government is about USD1bn away from the 2024CY NIR target. While most of the 1Q24 reserve accumulation corresponds to stacking up higher import arrears, the harvest will allow the Government to normalize these arrears.

The reserve build-up is the third checkbox in creditors' scorecards, as the Government is already about USD4bn above the 2024CY NIR target. While most of the 1Q24 reserve accumulation corresponds to stacking up higher import arrears, the harvest will allow the Government to normalize these arrears. Since December 13th, 2023, the BCRA purchased USD14.4bn, which, after debt payments and other drainages, translates to USD9bn in reserve accumulation. In this context, Net International Reserves accumulate USD12bn YTD, exceeding the CY NIR target by USD4bn. On the other hand, of course, we estimate that the Government has accumulated about USD10bn in new import arrears since December. Starting in May, the import quotification framework should mean that the BCRA will pay a full month's worth of imports every month, no longer incurring new arrears. Still, that leaves the USD10bn float of arrears to deal with. Increasingly, we think of them as a forced bridge loan that the BCRA exacted from importers. Seasonality of FX flows in Argentina means that hard currency is usually abundant during 2Q but scarce in 1Q. Eventually, the Government could use the 2Q harvest flows to normalize these arrears, turning the 1Q reserve into something genuine. Priced out of voluntary markets and cash-strapped, a USD10bn zero-rate bridge loan was a smart shortcut to rebuilding the reserve position.

Figure 4: The Government is about USD4bn over the CY2024 NIR targets. The harvest and the 2Q seasonality should give the Government an opportunity to normalize import arrears.



Source: TPCG Research based on the BCRA and IMF

The fourth checkbox is approval ratings. Without a doubt, the biggest feat that the Milei Administration has pulled is retaining most of its support despite the harsh austerity program implemented and the drop in disposable incomes.

The fourth checkbox is approval ratings. Without a doubt, the biggest feat that the Milei Administration has pulled is retaining most of its support despite the harsh austerity program implemented and the drop in disposable incomes. The fact that the Milei Administration would prioritize lowering the primary deficit and inflation rapidly was always part of our baseline. The FX market has behaved better than expected, but it is unsurprising after adjusting for import arrears. In this context, the biggest surprise of the first stretch of the Milei Administration is that the Government has been able to push its aggressive austerity program without significant loss in popularity. Most polls suggest that Mr. Milei retains most of his initial support, with his approval hovering in the low-50s, defying creditors' and opposition's expectations, who expected the Government to be in wobbly territory at this point. Mr. Milei has been very deft at building a narrative that deflects the blame for the recession and the drop in real incomes away from his Administration and points it at the political establishment. The failure of the original Omnibus Bill in February was instrumental in building this narrative, as it allowed the Government to frame the initial woes as the result of the fight against the political establishment's special interests. With most of Mr. Milei's voters agreeing to that view, the Government's political capital remains almost unscathed despite voters already having gone through the worst of the austerity program.

The final checkbox: Get Congress working to unlock the bull scenario

The final checkbox creditors seek from this story is the assurance that the Government can get Congress working and that it has the political means to pass legislation introducing structural reforms.

The final checkbox creditors seek from this story is the assurance that the Government can get Congress working and that it has the political means to pass legislation introducing structural reforms. After the failure of the first Omnibus Bill, we noticed that many creditors were concerned about the risk that the Government lacked the skills to work the legislative process and get the necessary reforms in the books. The second attempt at the Omnibus Bill showed a more flexible, competent government willing to work with governors and the congressional leadership to ensure the Bill's passage. The Government jettisoned about 2/3rds of the original Bill, leaving only four controversial issues to Congressional consideration: (i) the special powers to the

President, (ii) the State reform, including the powers to disband or reform autonomous entities and fiduciary funds, (iii) the labor reform, and (iv) the fiscal package, including the investment protection regime and the end of the social security amnesty. It also agreed to dilute the labor reforms and to limit the scope of the special executive powers it wished to get from Congress. This flexibility created a window to build a majority in the House and pass the Bill.

The Omnibus Bill and the fiscal package cleared the House with 142 ayes and a comfortable majority in almost every chapter.

The Omnibus Bill and the fiscal package cleared the House with 142 ayes and a comfortable majority in almost every chapter. The Government changed how the Bill was voted in the House relative to February. Rather than allowing an article-by-article vote, Representatives voted by chapter, meaning they either had to accept or reject the complete chapter. Each chapter was subject to careful negotiation, including stuff that mattered to the Government and was relevant to governors. Hence, a majority backed each of them much easier than on an article-by-article basis. The second change was that the Government accepted no changes once on the floor, which signaled that negotiations had been concluded before the Bill was subject to a vote. These two changes resulted in a smoother (and faster) vote, with 142 Representatives supporting the Bill in general and every chapter passing individually. Unsurprisingly, the Social Security chapter had the least support (it involves ending the facility, allowing anyone hitting retirement age from drawing a benefit even without the mandatory 30 years in contributions), which passed with just 125 votes and many abstentions.

Figure 5: The Omnibus Bill cleared the House with a comfortable margin.

Motion	Topic	Positive Votes	Negative Votes	Abtentions/Absentees	Result
New Omnibus Bill		**142**	**106**	**9**	**Passed**
Section I	Delegation of emergency powers to the executive in administrative, economic, financial and energy topics.	134	117	6	Passed
Section II	Reform of the State				
Chapter I	Reorganization and disolution of public institutions	135	116	6	Passed
Chapter II	Privatization of SOEs	138	111	8	Passed
Chapter III	Administrative Procedures	148	104	5	Passed
Chapter IV	Public Employment	138	113	6	Passed
Section III	Contracts and transactional agreements				
Chapter I	Force Majeure in contracts and transactional agreements	134	111	12	Passed
Chapter II	Concessions of public works	142	107	8	Passed
Section IV	Promotion of Private Employment	147	103	7	Passed
Section V	Modernization of Labor Regulations				
Chapter I	Modifications to 24013 Law - Unemployment protection	140	111	6	Passed
Chapter II	New Labor Law	138	112	7	Passed
Chapter III	Replacement of Severance Payments for Unemployment Fund	138	112	7	Passed
Chapter IV	Independent Worker and colaborators legislation	136	113	8	Passed
Chapter V	Rural Work Legislation	141	110	6	Passed
Section VI	Energy Legislation				
Chapter I	Hydrocarbon Legislation	144	106	7	Passed
Chapter II	Natural Gas Legislation	146	107	4	Passed
Chapter III	Modifications to 26741 Law - Energy Investments	144	104	9	Passed
Chapter IV	Regulatory Bodies	145	106	6	Passed
Chapter V	Adequations of Laws 15.336 & 24.065	134	119	4	Passed
Chapter VI	Environmental Legislation	136	106	15	Passed
Section VIII	Regime to incentivize large investments (RIGI)				
Chapter I	Creation and aplication of the RIGI	134	109	14	Passed
Chapter II	RIGI - Subjects and Terms	136	109	12	Passed
Chapter III	RIGI - Requisites and Conditions for inclusion	136	110	11	Passed
Chapter IV	RIGI - Customs and Tax Incentives	134	111	12	Passed
Chapter V	RIGI - Exchange rate incentives	134	107	16	Passed
Chapter VI	RIGI- Stability and Compatibility with existing regimes	132	111	14	Passed
Chapter VII	RIGI- Termination of incentives	136	110	11	Passed
Chapter VIII	RIGI - Infractions and Penalties	136	110	11	Passed
Chapter IX	RIGI - Regulatory body	137	110	10	Passed
Chapter X	RIGI - Jurisdiction and Arbitrage	135	112	10	Passed
Chapter XI	RIGI - Local jurisdictions and national interest declaration	136	111	10	Passed
Chapter XII	RIGI - Temporary dispositions	136	111	10	Passed
Section IX	Modifiactions to pension moratorium	125	113	19	Passed
Added ex-post	Tobacco Tax	82	77	98	Passed
Section X		125	106	26	Passed
Fiscal Package		**140**	**103**	**14**	**Passed**
Section I	Regularization of Tax, Customs and Soc.Sec outlays	146	102	9	Passed
Section II	Regime for asset regularization	131	117	9	Passed
Section III	Property Tax	142	106	9	Passed
Section IV	Succession Tax	147	100	10	Passed
Section V	Income Tax reinstatement	132	113	12	Passed
Section VIII	Other Fiscal Measures	141	81	35	Passed

Source: TPCG Research based on Congress

Besides the Omnibus Bill, the House also passed the fiscal package, which we estimate could add up to 0.4pp in GDP in revenue in 2024 due to the

Besides the Omnibus Bill, the House also passed the fiscal package, which we estimate could add up to 0.2pp in GDP in revenue in 2024 due to the reintroduction of individuals' income tax. The House also passed the companion bill to the Omnibus, which concentrated on fiscal provisions. The fiscal package included (i) the reintroduction of income tax on individuals, (ii) a new wealth tax regime, and (iii) a tax amnesty for undeclared monies and delinquent back taxes.

reintroduction of individuals' income tax.

It's hard to gauge how much the tax amnesty could raise. Still, we don't expect it to come anywhere near the highs of the 2016 amnesty in the Macri Administration. The amount of undeclared money is probably lower than in 2016, and the new Amnesity is "cheaper." Still, if it raises one-third of the penalties that Mr. Macri did in 2016, we'd still be looking at USD3bn (or 1pp of GDP). All in all, we expect the cuts to the wealth tax to offset about half of the additional revenue from the individuals' income tax, putting our estimated impact of the fiscal package at 0.2pp of GDP in 2024.

Figure 6: The fiscal package includes higher revenue on income tax on individuals but tax breaks on the wealth tax.

Impact of Fiscal Package, as % of GDP	2023 Intake	Forecasted Collection			
		2024	2025	2026	2027
Determined					
Property Tax	0.68%	0.35%	0.28%	0.21%	0.07%
Real Estate Transfer & Succession Tax	0.03%	0.01%	-	-	-
Income Tax	1.63%	2.0%	-	-	-
Soc.Sec Contributions	5.03%	5.06%	-	-	-
Rest	1.44%	1.63%	-	-	-
Undetermined					
Regularization of Tax, Customs and Soc.Sec outlays	-	-	-	-	-
Regularization of Assets	-	-	-	-	-
Consumer Tax Transparency Regime	-	-	-	-	-
Total Impact	**-**	**0.23%**	**-0.40%**	**-0.47%**	**-0.61%**

Source: TPCG Research based on Congress Budget Office

Still, the House only means partial credit. To get the full checkbox in the scorecard, the Government must pass the Bill successfully through the Senate. We're more constructive than the consensus.

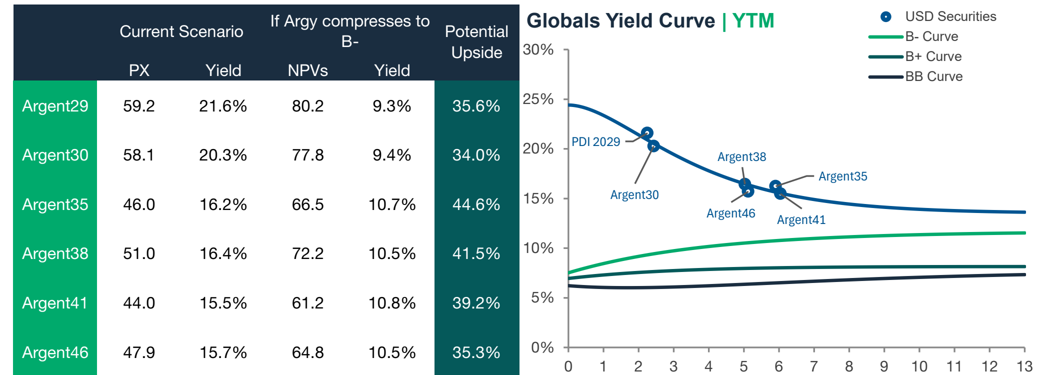
Still, the House only means partial credit. To get the full checkbox in the scorecard, the Government must pass the Bill successfully through the Senate. We're more constructive than the consensus. While the news that the Bill cleared the House is clearly positive, we expect the price action to be nuanced. Our talks with creditors show that most bondholders believe the Senate presents a much tougher challenge than the House. The Kirchnerist caucus is much stronger there, with 30 seats that will vote no to anything the Government proposes (including CFK's Gurkhas and Mr. Lousteau's faction of the UCR). The UCR caucus is larger than in the House and more fractious, and the combination of the LLA and the Pro caucuses is proportionately smaller. Most of the creditors we talked to tagged a 50-60% probability of the Bill successfully passing the Senate. We're marginally more constructive than the consensus, putting the odds at about 70%. In our view, the Government managed to navigate the House by cutting a deal with Governors, which should be even more important in the Senate. Many Representatives in the House represent ideological positions or special constituencies, making the Governors' influence over Representatives weaker. In the Senate, on the other hand, Governors are a critical force. More importantly, those provinces where governors are more combative usually have senators who respond directly to CFK, whereas JxC and non-K Peronist provinces usually have senators who respond to governors. Still, the math in the Senate is tighter than in the House, with the Government probably shooting for a 1 or 2-seat majority in most cases and maybe even getting as tight as having VP Villarruel untie the most controversial votes, like the Social Security chapter. Finally, the Government needs to ensure that the Senate doesn't introduce amendments to the Bill. Argentina has no reconciliation, meaning that if the Senate makes any change, the Bill needs to go back to the House for a ratification vote, extending the process by a couple of weeks.

If the Bill clears the Senate, we expect the rally to extend into the 70c range as creditors will increasingly price the bull case for the Argent bonds.

If the Bill clears the Senate, we expect the rally to extend into the mid-to-high-70c range as creditors will increasingly price the bull case for the Argent bonds. If the Senate passed the Bill, creditors would find that the Government achieved the five things they expected from the story, firmly putting us in bondholders' bull scenario. In our talks with creditors, most argued they expected that, given the sound policy mix, getting Congress to work would probably put Argentina on track to a rating upgrade to B-. The prospect should extend the rally, and we're putting a price target in the mid-to-high 70s for the front end of the curve over the next six months. We identify two rationales behind our price target. The first is that these valuations are conservative relative to the curve of B- credits, which trades between 9.25% and 11% for the duration-adjusted segment where the Argent curve would lie. In other words, if Argentina became an average single B minus country, the front end could rally as high as the low-80s. We feel that a high-70s price target is conservative in this context. Second, there's a technical driver that many creditors shared with us during our meetings. In many large asset managers, CCC credits are disaggregated from the main fund and treated as "special situations." In other words, the Milei rally took place with many real

money funds on the sidelines. A credit upgrade into the single B range would be enough to take Argentina out of special situations, adding marginal demand to the rally.

Figure 7: We expect the Argent curve to quickly rally to single-B minus levels once the Omnibus Bill passes. Further gains could prove more challenging.



	Current Scenario		If Argy compresses to B-		Potential Upside
	PX	Yield	NPVs	Yield	
Argent29	59.2	21.6%	80.2	9.3%	35.6%
Argent30	58.1	20.3%	77.8	9.4%	34.0%
Argent35	46.0	16.2%	66.5	10.7%	44.6%
Argent38	51.0	16.4%	72.2	10.5%	41.5%
Argent41	44.0	15.5%	61.2	10.8%	39.2%
Argent46	47.9	15.7%	64.8	10.5%	35.3%

Source: TPCG Research based on TPCG Trading Desk

From that point on, the nature of the trade changes, even if we remain in the Bull scenario. Even if the policy mix remains consistent, further compression will require creditors' pricing in policy continuity. While we're fairly confident about the chances of the post-Omnibus Bill rally, the trajectory of valuations after that will likely be spottier. Getting into the single-Bs is about a sound policy mix that compresses the term structure of the probability of default. If the Government stays the course on the fiscal front, Argentina would probably attain some of the best fundamentals in the single-B, both in fiscal balance and debt dynamics. While these fundamentals should underpin valuations, further compression will depend on the prospect of policy continuity. In other words, compression will depend on lowering the risk of repeating the 2019-23 cycle, where the populistic Fernandez Administration unwound every reform enacted by Mr. Macri. In Argentina, the only thing protecting reforms against policy reversal is success. Mr. Milei and his Administration need to be successful and remain popular if his policies are to remain in place. In the short run, winning the mid-terms is the best way to project policy continuity. If Mr. Milei's popularity remains strong enough through the coming months that the market begins pricing a win in the mid-terms, it should push valuations one step up, closer to single-B+ levels. Getting beyond that into BB territory would probably require a clear view that Mr. Milei could be reelected in 2027 or that whatever Administration replacing it would maintain its policies, so don't hold your breath for that scenario yet. All in all, we believe that most of the compression story for the Argent curve is likely to materialize after the passing of the Omnibus Bill.

From that point on, the nature of the trade changes, even if we remain in the Bull scenario. Even if the policy mix remains consistent, further compression will require creditors' pricing in policy continuity.

So, what could go wrong? Some thoughts on recent demonstrations and the risks to approval ratings

This outlook configures a scenario where, over the coming months, approval ratings and voter confidence will become the key driver of valuations. In this context, most of the risks looming ahead are related to the Government losing support. Most of the creditors we talked to over the past two weeks were pivoting from concentrating on fundamentals and the workings of Congress to concerns about approval ratings. Most creditors argued that even if the Government managed to pass the Omnibus Bill, the evolution of voter support would be critical to valuations in the coming months. The consensus is surprised that support remains this high but expects it to wane in the coming months as aggregate income remains depressed on the back of the austerity program. The Administration is convinced that rapid disinflation will shore up approval ratings in the near future, explaining the Government's willingness to delay the subsidy cuts, stick to the 2%mom crawling peg whatever the cost, and pick fights with regulated service providers like HMOs. More importantly, the Government's narrative about its fight with the political establishment has been shoring up support, though many creditors wonder for how much longer.

This outlook configures a scenario where, over the coming months, approval ratings and voter confidence will become the key driver of valuations. In this context, most of the risks looming ahead are related to the Government losing support.

The recent demonstrations, especially the student one, seeded doubts among creditors about whether social tolerance for the austerity program was starting to wobble. We believe that the conflict over universities' budgets is unlikely to hurt the Milei Administration despite being the first non-partisan demonstration against the Government. Since December,

The recent demonstrations, especially the student one, seeded doubts among creditors about whether

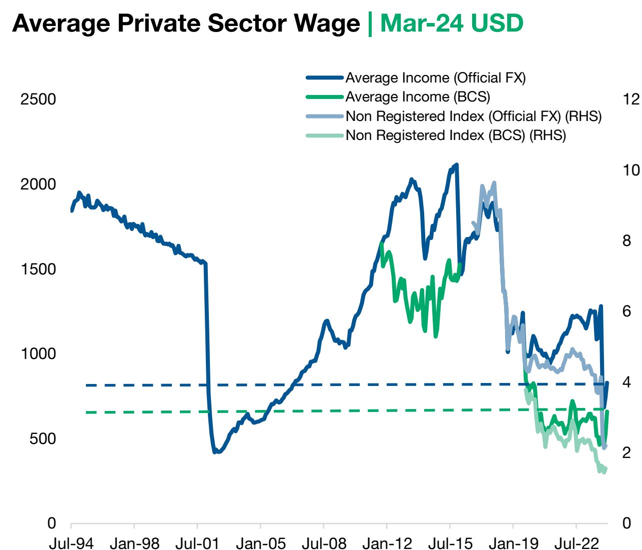
social tolerance for the austerity program was starting to wobble. We believe that the conflict over universities' budgets is unlikely to hurt the Milei Administration despite being the first non-partisan demonstration against the Government.

creditors' prior was that a large bulk of the Government's voters stood to the left of Mr. Milei, creating the risk that, at some point, voters could find the austerity program unacceptably harsh. Many creditors feared that the recent student demonstrations could be the first sign that voter support for Mr. Milei was starting to wobble. Unlike previous demonstrations by unions and Kirchnerist groups, this was the first horizontally non-partisan demonstration against the Milei Administration. Among protesters, you could find Milei and Massa voters alike. It seems like voters drew a line in the sand regarding public education. Still, we don't see this issue hurting the Milei Administration sharply. For starters, the conflict is more about politics than education. The Government is trying to audit universities' spending to limit illegal financing to political parties. Universities in Argentina have long been coopted by either Peronism or Radicalism, which have piggybacked on their budgets due to the lack of auditing. Still, demonstrators protested against the Government's defunding of universities and an alleged plan to shutter them. Neither seems to be part of the Government's plans. Universities' budget is down by -34%yoy in real terms in 1Q24, less than the almost -40%yoy real cut in primary spending, meaning that universities are getting, in relative terms, more financing than the rest of the Administration. Ultimately, with most universities continuing to operate, we expect this controversy to blow over, especially considering that the opposition can't build on it effectively. Budget cuts to universities started sharply under the Fernandez administration, making it tough for Mrs. Kirchner or Mr. Massa to capitalize on voters' discontent on this matter.

Still, the demonstrations suggest there's a limit to how much the Government's narrative can shore up discontent. Falling real incomes and the recession could prove a much more challenging issue for the Government if voters choose it as a redline.

Still, the demonstrations suggest there's a limit to how much the Government's narrative can shore up discontent. Falling real incomes and the recession could prove a much more challenging issue for the Government if voters choose it as a redline. What the student demonstration shows is that voter preferences are not monolithic. Voters' top priorities may be lowering inflation, with an overwhelming majority of opinions arguing that they'd be willing to pay significant costs if it led to stabilization, but that doesn't mean they don't care about anything else. Similarly, as effective as the Government's narrative against the political establishment has been, it has limits when policies affect some deep-rooted subsidies. While education is unlikely to balloon into a critical issue for the Government, the lasting effects of the recession and depressed real incomes could. Wages, both in real and dollar terms, are at their lowest since the exit of the 2001 crisis. In macro terms, depressed real wages and unit labor costs make the FX framework and the REER sustainable. In political terms, they are a liability. Voters are likely to tolerate historically low-income levels transitorily if it leads to lower inflation. But eventually, as inflation converges to more reasonable levels, priorities will pivot from inflation to real incomes and unemployment. In this context, the Government needs to calibrate how long to keep the economy in recession. Almost five months into the austerity program, every month that the economy doesn't initiate a recovery, voters are more likely to start pointing fingers at the Government.

Figure 8: Dollar wages are at the lowest levels since the exit of the 2001 crisis.



Source: TPCG Research based on Anses

In our view, the monetary and FX framework remains the biggest roadblock for the economy to begin its recovery.

In our view, the monetary and FX framework remains the biggest roadblock for the economy to begin its recovery. A few weeks ago, we argued that the Government's roadmap for the FX and monetary frameworks was not working as intended and that the Government failed to make the ARS scarce as its plans required (please see here). This plan required the ARS to be scarce to force the private sector into remonetizing the economy with its dollar savings, dollarizing the economy on the private sector's dime. The problem is that the ARS is not scarce, and, therefore, the private sector's dollar savings are unlikely to come into play to remonetize the economy as the Government hoped for. We believe that, from now on, the Government will have three trajectories for monetary policy. The first trajectory involves borrowing at least USD15bn to rescue BCRA remunerated liabilities with these monies, resetting the outlook and making the ARS scarce. The second trajectory involves maintaining the FX controls and the economy depressed to continue grinding real money balances until a new window to remonetize the economy with the private sector's dollar savings materializes. The third trajectory involves acknowledging that remonetizing with hard currency is not feasible at this point and gradually removing capital controls so that the economy begins remonetizing by turning the BCRA remunerated liabilities into high-powered money. The first trajectory doesn't seem feasible currently because there's no one willing to lend. From our meetings in DC, it was painfully clear that the IMF is not sinking more money into Argentina to "dollarize" the economy. A new Argy program with new money would be predicated on the IMF not financing a fiscal deficit (a pretty certain bet) and not financing a current account deficit (less likely as most creditors came out of the Spring meetings increasingly convinced that the Government is terrified to float). In our view, the third trajectory is the most sensible. Real money balances are low enough that the ARS remonetization could happen in a scenario of low FX volatility and disinflation. This trajectory would allow the economy to begin normalizing and recovering, minimizing the risks of losing voter support over depressed incomes. At this point, most of the binding FX controls are current account controls, meaning that easing these restrictions would put the economy on a path to recovery. The second trajectory is the more risky, as it would mean stretching voter tolerance unsustainably thin. Voters would need to tolerate depressed incomes not to secure lower inflation but to remonetize the economy in USD, a much hazier proposition. Most creditors believe that Mr. Milei will be pragmatic and opt for the third trajectory, ditching his "currency competition" proposal when push comes to shove. The Government's track record over the past five months seems to support the view of a pragmatic administration that tactically chooses its policy priorities. Still, if we look deeply at Mr. Milei's address last week at Fundación Libertad, it gives us some pause. Mr. Milei defended his proposal to remonetize the economy exclusively with dollar savings on moral grounds. In his speech, the President argued that:

> *"The scam is not inflation. The real scam is seigniorage. Money printing is the true scam. I'll present this scenario to you. Suppose you had a growing economy, and the Central Bank prints money in a matter consistent with the growth in demand for real money balances, which increase due to GDP growth. What do you think would happen in that case? Inflation would be zero. But there's no scam in that case? Of course, there is a scam. If the Central Bank hadn't printed money, there would be deflation. In other words, deflation is actually healthy."*

In our view, Mr. Milei's address is a clear rejection of the third trajectory, meaning that, unless his Administration can secure the financing to go through door number one, the Government is far more likely than the consensus thinks to take the riskier, grindier route. In our view, making an ideological stand on the need to remonetize the economy in USD at the cost of a more prolonged recession would be a policy mistake that could eventually put approval ratings (and, therefore, valuations) at risk.

TPCG Analysts & Staff

Research

Juan Manuel Pazos	**Chief Economist**	**jmpazos@tpcgco.com**
Paula La Greca	Corporate Research Analyst	plagreca@tpcgco.com
Santiago Resico	Economist	sresico@tpcgco.com
Camila Sanchez Lauria	Research Analyst	csanchezlauria@tpcgco.com

Sales & Trading

Juan Manuel Truppia	**Head of Sales & Trading**	**jmtruppia@tpcgco.com**
Institutional Sales		
Lucia Rodriguez Pardina	S&T Director	lrodriguezpardina@tpcgco.com
Agustina Guadalupe	Sales	aguadalupe@tpcgco.com
Maria Pilar Hurtado	Sales	mhurtado@tpcgco.com
Juan Ignacio Vergara	Sales	jivergara@tpcgco.com
Pedro Nollmann	Sales	pnollmann@tpcgco.com
María Ruiz de Castroviejo Salas	Sales	mruizdecastroviejo@tpcgco.com
Santiago Jauregui	Sales	sjauregui@tpcgco.com
Victoria Faynbloch	Desk Analyst	vfaynbloch@tpcgco.com
Candelaria Posse	Sales	cposse@tpcgco.com
Trading		
Felipe Freire	Trader	ffreire@tpcgco.com
Homero Fernandez Bianco	Trader	hfbianco@tpcgco.com
Andres Robertson	Trader	arobertson@tpcgco.com
Santiago Baibiene	Trader	sbaibiene@tpcgco.com

Corporate Finance

José Ramos	**Head of Corporate Finance**	**jramos@tpcgco.com**
Corporate Sales		
Camila Martinez	Corporate Sales Director	cmartinez@tpcgco.com
Fernando Depierre	Corporate Sales	fdepierre@tpcgco.com
Sol Silvestrini	Corporate Sales	ssilvestrini@tpcgco.com
Nicolas Iglesias	Corporate Sales	niglesias@tpcgco.com
Capital markets		
Nicolás Alperín	DCM	nalperin@tpcgco.com
Wealth Management		
Josefina Guerrero	Private Wealth Management Specialist	jguerrero@tpcgco.com

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.