

Separating The Wheat From The Chaff

After the significant outperformance of the 2041s over the 2030s driven by the change in the step-up coupons that occurred on July 9th, we believe this trend will continue and it will consolidate into 2 different Sovereign Curves (the Wheat and the Chaff) driven by the evolution of the 12-month forward coupons.

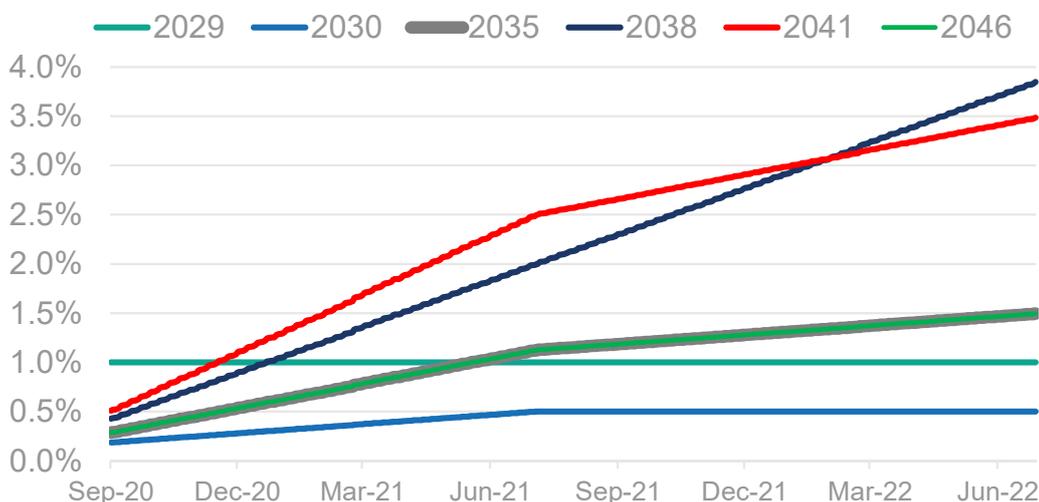
We recommend buying the 2038s (Arg and NY law) as we expect it to catch up with the 2041s while assuming no tightening of the average Sovereign Risk. We estimate an upside ranging between 32% and 34% with horizon in March 2022 which represents an outperformance of 17.5% - 20% over the rest of the Sovereign Bonds.

As we have pointed out in [previous reports](#), we believe that the step-up of the coupons will have substantially different impacts in the valuation of the Sovereign Bonds driven by the different effects on their current yields.

Since most of the effect in the ratio of the 2030s / 2041s is already priced in, we now focus on targets as of March 2022, date by which we expect to have news from the negotiations with the IMF and the Paris Club.

In the chart below, we show the evolution of the 12-month-forward coupon for each of the Sovereign bonds, with the 2041's coupon leading the race until July 2021 but slowing down from now on. In contrast, the 2038's forward coupon will continue to increase and will be leading by March 2022.

Evolution of the 12-month forward coupon



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Divergent Evolution of Spreads

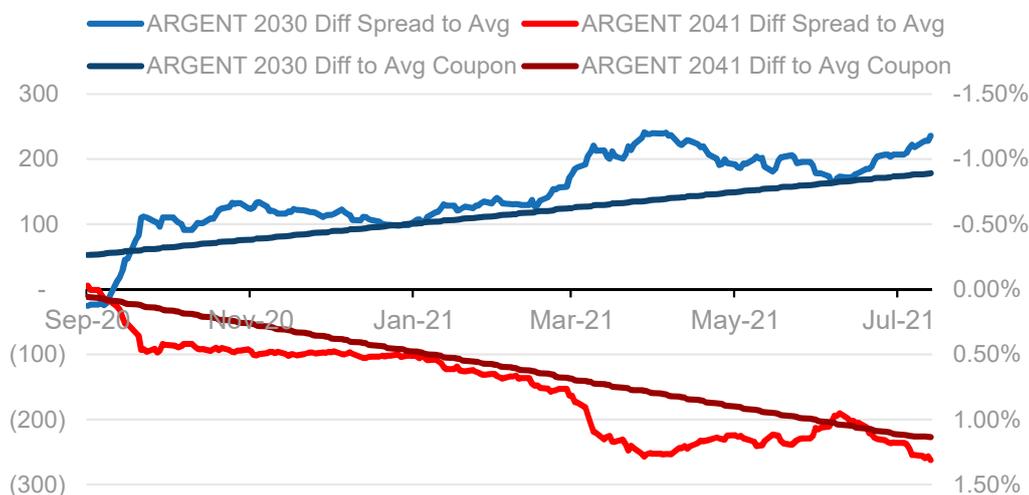
In the chart below, we show the historical evolution of the spread of the 2030s and the 2041s which has been diverging from the average Sovereign spread.

ARG 2030s and 2041s vs Avg Sovereign Spread



We believe that this divergence is mainly explained by the different step-up coupons of each of the Sovereign Bonds. In the chart below, we remove the volatility of the Average Sovereign Spread to focus only on the difference to the average spreads and coupons.

Divergent Evolution of Spreads around Divergent Coupons

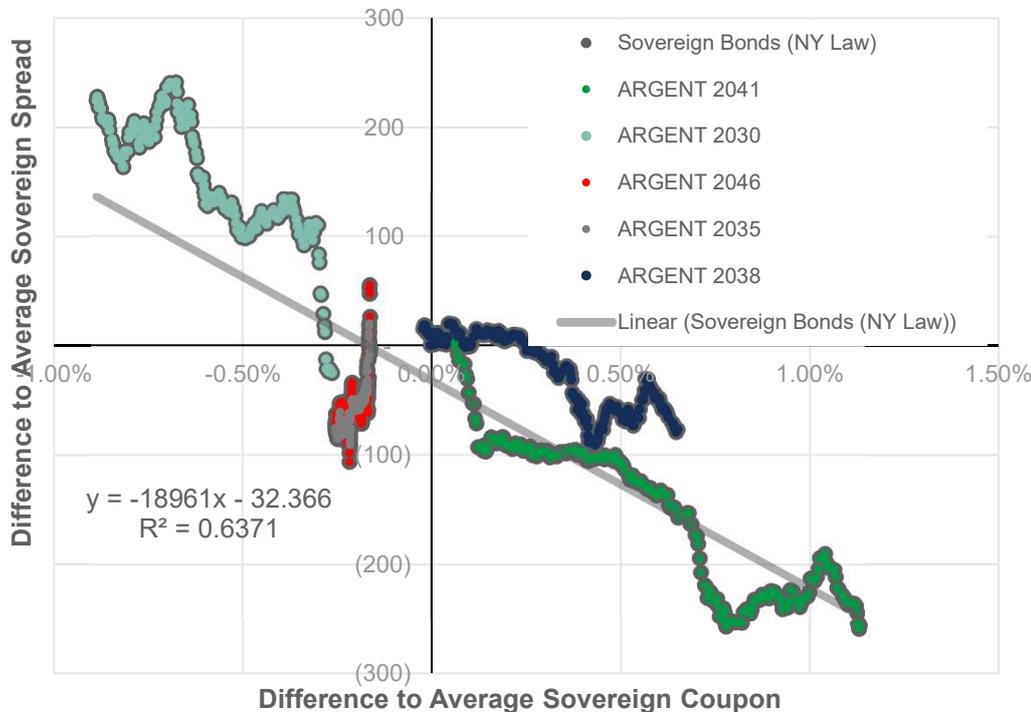




Yield Target Construction - Methodology

As a result, we construct a linear regression with an R2=64% which we will use to explain future differences to the Average Sovereign Spread as a function of the difference to the Average Sovereign Coupon

Historical Difference to Average Sovereign Bond Spread



Main Assumptions

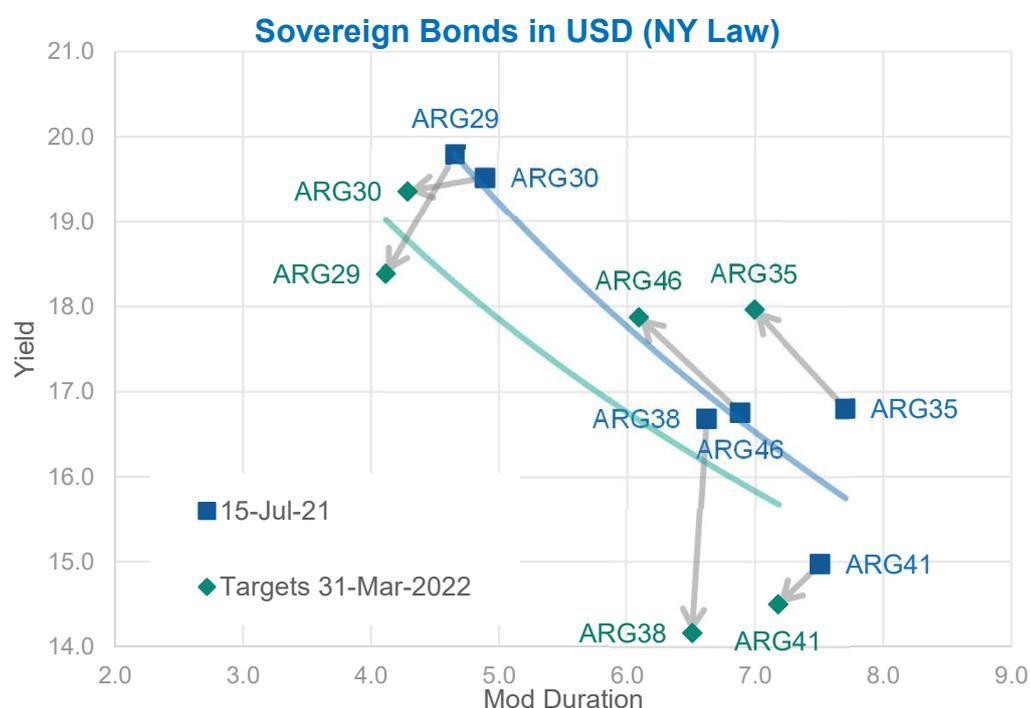
In a conservative scenario with no news about a deal with the IMF or other positive catalysts there would be no fundamental tightening of the Sovereign Risk until March 2022. Therefore, **we assume that the average Sovereign spread will remain at the current levels of 1644bps** above the risk free curve.

As a result, we set our March 2022 targets for each of the Sovereign Bonds using the linear regression described above and according to the evolution of their 12-month-forward coupons over the average Sovereign coupon shown in the previous page.



Yield Targets and Upsides (NY Law Bonds)

As a result, we obtain a 250bps tightening for the 2038s. In contrast, we expect the 2035s and 2046s to widen by more than 110bps as shown in the chart below.



In conclusion, we recommend to buy the ARG 2038s as expect a 34% upside by March 2022, outperforming the rest of the NY law Sovereign Bonds by 20% on average, using conservative assumptions. In the table below, we summarize the Expected Returns for each of the Sovereign Bonds.

It's worth noting that, despite their shorter durations, the 2029s and 2030s have basically the same volatility as the 2038s precisely due to their low coupons. This supports the idea of swapping them without substantially adding more risk.

USD Sovereign Bonds (NY Law)

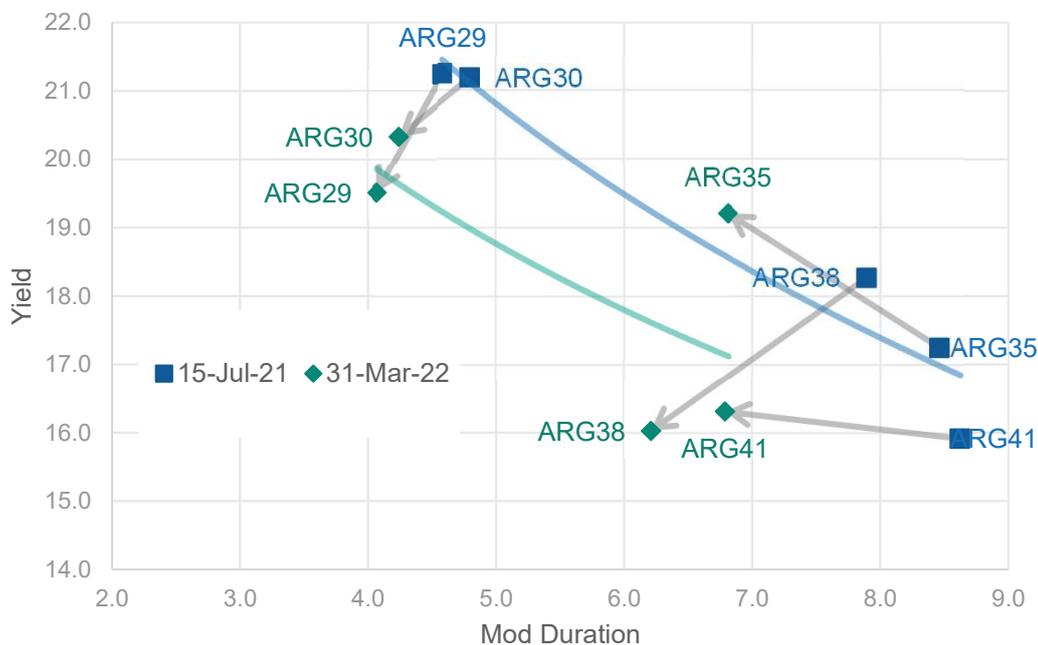
Bond	Mod Dur	Vol	Last Price	Yield	Spread Change	Target Yield	Expected Return
Argent 29	4.65	18.1%	\$ 38.33	19.9%	-148	18.4%	22.7%
Argent 30	4.88	19.7%	\$ 36.05	19.7%	-33	19.4%	16.6%
Argent 35	7.58	21.5%	\$ 32.21	16.9%	108	18.0%	5.8%
Argent 38	6.60	20.4%	\$ 38.98	16.8%	-259	14.2%	34.0%
Argent 41	7.49	20.7%	\$ 37.14	15.0%	-50	14.5%	18.0%
Argent 46	6.33	21.6%	\$ 32.89	16.8%	106	17.9%	6.8%



Yield Targets and Upsides (ARG Law Bonds)

Using the same methodology for the Arg Law bonds, we obtain a 224bps tightening for the 2038s. In contrast, we expect the 2035s to widen by almost 200bps as shown in the chart below.

Sovereign Bonds in USD (ARG Law)



In conclusion, we recommend to buy the ARG 2038s as expect a 32% upside by March 2022, outperforming the rest of the Arg Law Sovereign Bonds by 17.5% on average, using conservative assumptions. In the table below, we summarize the Expected Returns for each of the Sovereign Bonds.

USD Soevreign Bonds (ARG Law)							
Bond	Mod Dur	Vol	Last Price	Yield	Spread Change	Target Yield	Expected Return
Bonar 29	4.58	18.1%	\$ 36.00	21.2%	-173	19.5%	25.0%
Bonar 30	4.80	19.7%	\$ 33.54	21.2%	-86	20.3%	20.3%
Bonar 35	8.46	21.5%	\$ 31.34	17.3%	195	19.2%	0.2%
Bonar 38	7.89	20.4%	\$ 35.38	18.3%	-224	16.0%	31.9%
Bonar 41	8.62	21.6%	\$ 34.77	15.9%	40	16.3%	12.1%



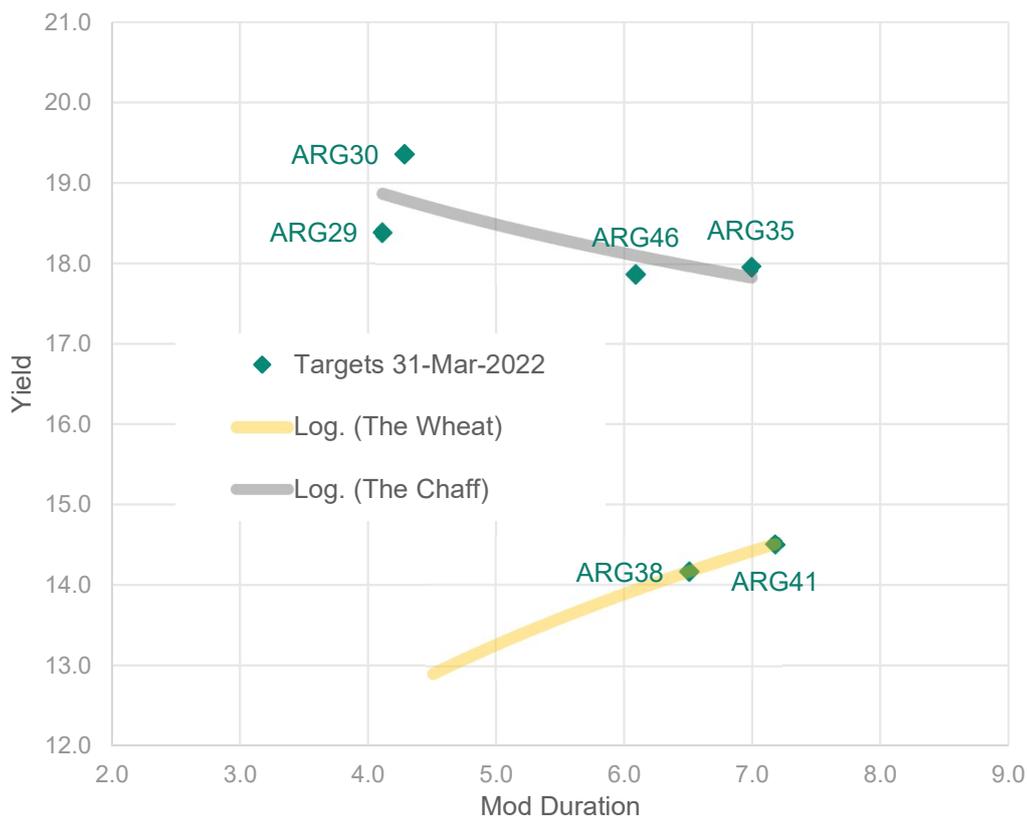


Conclusion

After the significant outperformance of the 2041s, we believe this trend will continue and expect the 2038s to catch up driven by the evolution of the 12-month forward coupons.

As a result of this divergence, we expect the Sovereign Curve to split into 2 different Curves, the Wheat (composed of the 2038s and the 2041s) and the Chaff (composed of the lower coupon bonds), as shown in the chart below.

Sovereign Bonds in USD (NY Law)



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