

Weekly commentary

Argentina emerges

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by **L. Bryan Carter, CFA**
Head of Emerging Markets Fixed Income
bryan.carter@bnpparibas.com



Key takeaways

- Argentina is today one of the few positive stories in the emerging market universe
- The lack of debt and positive story has allowed for Argentina's grandiose coming out in markets this week, with what is expected to be one of the largest new bond issues in the EM history

Full commentary

I first set foot in Argentina in 1998, and I stayed for eight months. Many of the things I noticed about Argentina in 1998 were still true until very recently: a moribund economy; an overvalued exchange rate; weak state institutions; and a cult of presidency. And as before, Argentina recently voted for change. This time, however, the change was borne of will rather than necessity; of hope rather than of crisis. Indeed, the mistakes of Argentina's past seemingly prevented it from making a similar gambit again.

In the Argentine collective psyche, the inability to comply or to make good has become a caricature of the national identity. Argentines live in dread of their national decline, but they also embrace the fatalism of the "falluto" -- a word in the local dialect that simultaneously means hypocrite and failure. After experiencing decades of dictatorship, populism and kleptocracy, the people and the economy have evolved to make do, with little room for ideology or doctrinism. Better to be "falluto" than poor.

It is ironic, but not at all illogical, that Argentina today is one of the few positive stories in the emerging market (EM) universe. Its protracted debt saga effectively shut it off from international markets over the past decade, preventing the build up of U.S. dollar denominated debt that has become the scourge of so many other countries. The very fact of Argentina's exile from global markets over the past decade necessitated its salutary deleveraging. Its self-imposed autarky rendered it all but immune to the sudden stops of capital flows and the global push-pull of China. Its monetarist stimulus created a unique set of imbalances totally uncorrelated with the global cycle. It is a country of high human capital, broad natural resource wealth, and stunning places and landscapes. These are the reasons why Argentina can show such strength just as the rest of EM founders. Argentina's "falluto" has become its savior.

The lack of debt and positive story have allowed for Argentina's grandiose coming out in markets this week, with what is expected to be one of the largest new bond issues in EM history. Should investors go in? How will the new issue perform? We are positive on the launch, for three reasons. One, the debt looks fairly priced to cheap on a quality-adjusted basis, assuming positive ratings momentum as the country normalizes its position in the global financial system. Two, the country stands independent of broader market risk and in particular China, which arguably remains the predominant macro factor in the asset class -- thus this is a rare opportunity to add uncorrelated high yield. Three, any policy slippage regarding risk of going off the rails is distant; President Macri has enormous political capital, at home and abroad, and a generous honeymoon with which to implement the list of common sense reforms that should support economic opening and growth.



This week's market developments

Monday, April 11

- Japan Machine Orders growth decreased to -9.2% m.o.m. for February

Tuesday, April 12

- UK CPI growth increased to 0.5% y.o.y. for March

Wednesday, April 13

- US Advance Retail Sales growth decreased to -0.3% m.o.m. (s.a.) for March
- Eurozone Industrial Production growth decreased to -0.8% m.o.m. (s.a.) for February
- US PPI growth increased to -0.1% y.o.y. for March

Thursday, April 14

- US CPI growth remained at 1.1% y.o.y. for March
- US Initial Jobless Claims decreased to 253,000 for the week

Friday, April 15

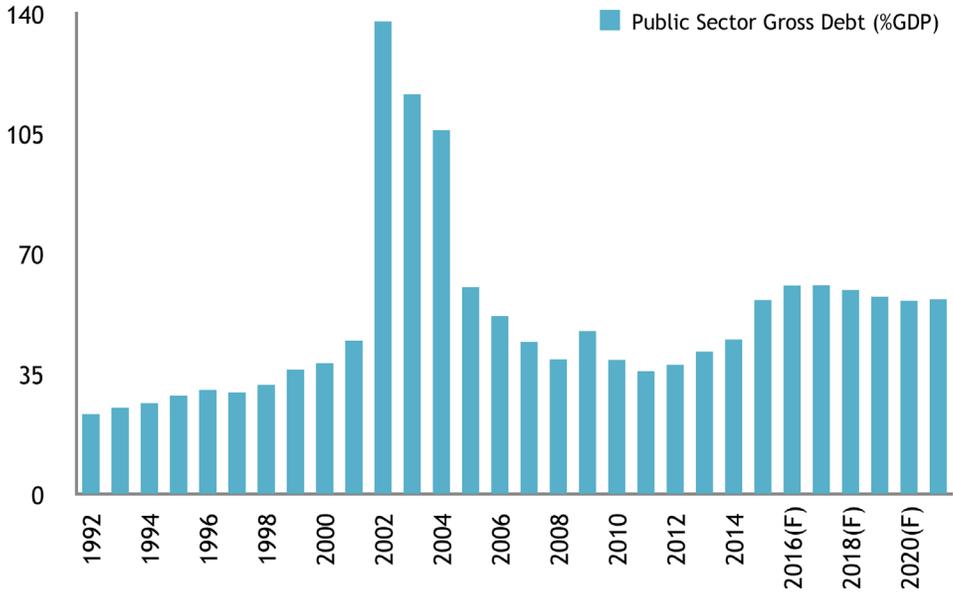
- US Empire State Manufacturing Survey increased to 9.56 (s.a.) for April
- US Industrial Production growth decreased to -0.6% m.o.m. (s.a.) for March
- US University of Michigan Consumer Sentiment Index (preliminary estimate) decreased to 89.7 for April

Source: Bloomberg, as of end April 15, 2016



Chart of the week

Public sector gross debt (%GDP)



Source: IMF World Economic Outlook Database, April 2016



Next week's market developments

Tuesday, April 19

- US Housing Starts are expected to decrease to 1,168,000 for March

Wednesday, April 20

- US Existing Home Sales are expected to increase to 5.29 million (s.a.a.r) for March

Thursday, April 21

- US Initial Jobless claims are expected to increase to 265,000 for the week
- Eurozone Consumer Confidence (advance estimate) is expected to increase to -9.3 for April
- US Leading Index growth is expected to increase to 0.4% m.o.m. for March

Friday, April 22

- Markit US Manufacturing PMI (preliminary estimate) is expected to increase to 52.0 for April
- Markit Eurozone Manufacturing PMI (preliminary estimate) is expected to increase to 51.9 for April
- Markit Eurozone Services PMI (preliminary estimate) is expected to increase to 53.3 for April

Source: Bloomberg, as of end April 15, 2016



Central Bank watch

	Last move	Date of move	Current policy rate	Implied 3m rate on March 2016 Interest Rates Futures Contract	Next meeting
Fed	+25 basis points	December 16, 2015	0.25 % - 0.50 %	0.39 %	April 27, 2016
ECB	-5 basis points	March 10, 2016	0.00 %	-0.20 %	April 21, 2016
BoJ	-20 basis points	February 16, 2016	-0.10 % - 0.00%	0.05 %	April 28, 2016
BoE	-50 basis points	March 5, 2009	0.50 %	0.61 %	May 12, 2016

Source: Bloomberg

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