

February 8, 2024

## BOPREAL Series 2

To start, let us engage in a brief reflection on the current situation in the country. Following intense negotiations in the lower house, the ruling party faced its first setback in Congress. We believe that yesterday revealed that the path to macroeconomic normalization will not be linear. Moreover, the longer the economic program takes to show results, the less room for maneuver the government will have, given the complex social situation.

We recognize significant positive aspects in economic policy, particularly fiscal correction. Even though achieving financial balance remains challenging, reaching a zero primary deficit would be excellent news for macroeconomic stability and the country's risk. The aspect that causes the most uncertainty is the exchange rate anchor and interest rate management. We believe that it should be avoided, increasing the expectation of another currency jump, and from this month onwards, the crawling should be accelerated. Following the initial leap, the depreciation rate should remain below inflation and the interest rate, but it should be well above 2%. After this brief introduction, let's focus on our point of interest for today's summary: "Bonds for the Reconstruction of a Free Argentina (BOPREAL) Series 2."

Following the issuance of USD 5 billion of BOPREAL Series 1, the Central Bank is opening the issuance of Series 2 this week. These bonds are the path chosen by the government to settle debts from imports accumulated before December 12. Specifically, it is the way the new administration found to relieve a bankrupt Central Bank due to the previous government's poor exchange rate decisions. The model chosen in the last 4 years basically encouraged the import of anything to obtain a "subsidized" official exchange rate, generating enormous macroeconomic imbalances, as we have discussed in our previous summaries.

We will divide the report into 3 sections. We recommend starting with the final section, where we detail the prospect of the new instrument. In the second place, we analyze BOPREAL Series 2 from the perspective of the importer. Finally, we detail these new bonds from the perspective of the fixed-income investor, as another bond within the sovereign curve.

### **BOPREAL 2: from an importer's perspective**

Basically, for importers, these bonds serve as a way to pay debts. Those who still have patience from their suppliers could subscribe and wait with the goal of receiving the monthly amortizations to obtain the dollars and settle their debts. Importers who want to settle debts immediately or are not willing to assume the risk of a sovereign dollar bond should sell the bonds in the offshore market and use the resulting dollars to pay their foreign commitments.

Today, they basically have two options to obtain the dollars. They could buy USD dollars through the blue chip swap (BCS) and lose access to the official market for 90 days or primary bid for BOPREAL to safeguard access to the exchange market. Considering, for example, a BCS of \$1,265 and a subscription price of BOPREAL of \$975 (Official FX plus the PAIS tax), the bond parity that would make both paths indifferent would be 74%. However, by choosing the path of BOPREAL, access to the exchange market is preserved. In other words, at the current spread, BOPREAL 2 should trade at a floor of 74%.

As the exchange spread is dynamic, the attractiveness of the instrument will also be dynamic. The greater the exchange spread, the greater the importer's incentive to enter the primary subscription. However, there is a second factor for importers from the perspective of their treasury. With a lower exchange spread, many importers exposed to inflation-adjusted, dollar-linked, or dual instruments could find the BOPREAL 2 attractive as a hedging instrument against the spread. Remember that the bond is a hard dollar. In the table below, we detail hypothetical parities and yields and the resulting cost of the currency for the importer at each

parity. As we see, it appears likely that the instrument will trade above 74 USD.

Official FX	ARS 830					
Official FX + 17,5% PAIS Tax	ARS 975					
<b>Parity</b>	65%	74%	80%	85%	90%	95%
<b>YLD</b>	72%	45%	32%	22%	14%	6%
<b>Importer's final FX</b>	1.421	1.266	1.182	1.121	1.067	1.018
<b>Blue Chip Swap</b>	1.265	1.265	1.265	1.265	1.265	1.265

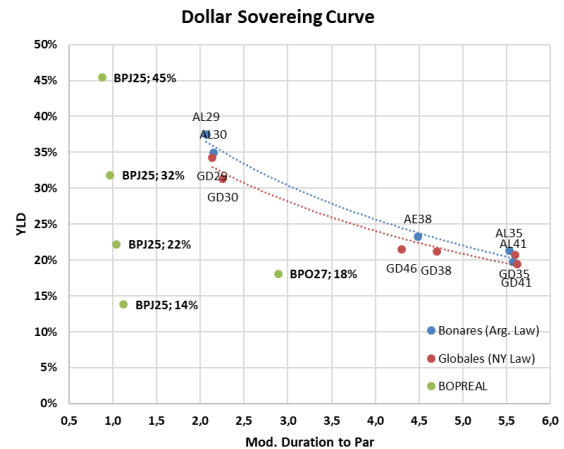
Source: Sekoia Research.

## BOPREAL 2: from an investor's perspective

From the investor's perspective, the bonds are hard dollars and will be tradable. In this way, they will coexist with the other sovereign dollar bonds (Bonares and Globales). Series 2 is not suitable for tax payment, unlike Series 1, which aids comparison. It is a bond under Argentine law but with the Central Bank as the issuer, not the Treasury, as is the case with the Globales and Bonares.

Considering the cash flow structure of the three BOPREALS issuances (the Series 1 has been issued, the Series 2 is in the issuance process, and the Series 3 remains), all of them will be incorporated in the short part of the hard dollar curve. In this sense, the Bonares/Globales that are closest to the new issuances are those with maturity in 2029 and 2030. These bonds currently have a yield that is significantly higher than BOPREA 5 10/31/27.

Given the reverse of the curve, short-term bonds yield more, as shown in the following chart. One could be demanding in the yield of Series 2 since its duration will approach one year. However, we consider this reasoning to be erroneous, mainly because it overlooks the harvest factor. Series 2 would imply payments of USD 166 million by the Central Bank for twelve months, and considering the expected trade surplus, it is natural to imagine a lower required yield in relation to the Globales and Bonares 2029/2030.



Source: Sekoia Research based on Bloomberg.

Conversely, only focusing on yield doesn't seem correct in Argentina. Regardless of the new Government's good intentions and a promising 2024 harvest, it remains a sovereign dollar bond, so the probability of default is always a factor to consider in the discount rate. Paying a high parity in Argentina entails very high risk. Remember that those who bought dollar-denominated Bills (Letes) at 6% during Macri's government in 2019 suffered a default and now hold AL30 in custody.

Cash Flow BOPREAL Series 2 (BPI25)						
Date	Cpn	Principal	CSHF	CSHF	CSHF	CSHF
3/15/24		Prices:	-74	-80	-85	-90
7/24/24	0%	8,33	8,33	8,33	8,33	8,33
8/24/24	0%	8,33	8,33	8,33	8,33	8,33
9/24/24	0%	8,33	8,33	8,33	8,33	8,33
10/24/24	0%	8,33	8,33	8,33	8,33	8,33
11/24/24	0%	8,33	8,33	8,33	8,33	8,33
12/24/24	0%	8,33	8,33	8,33	8,33	8,33
1/24/25	0%	8,33	8,33	8,33	8,33	8,33
2/24/25	0%	8,33	8,33	8,33	8,33	8,33
3/24/25	0%	8,33	8,33	8,33	8,33	8,33
4/24/25	0%	8,33	8,33	8,33	8,33	8,33
5/24/25	0%	8,33	8,33	8,33	8,33	8,33
6/24/25	0%	8,33	8,33	8,33	8,33	8,33
<b>YLD</b>			<b>45%</b>	<b>32%</b>	<b>22%</b>	<b>14%</b>
<b>MD</b>			<b>0,9</b>	<b>1,0</b>	<b>1,0</b>	<b>1,1</b>

Source: Sekoia Research based on BCRA.

Considering all these qualities of the bond, we imagine them trading close to 85% parity, which equates to a yield close to 20%. However, for it to be attractive from the investor's perspective, we would expect parities below 80%. Unfortunately, in Argentina, we believe that one always has to cover

the parity risk or forced exchange, even if this is not the base scenario. As usual, the market will ultimately determine the prices.

Kind regards,

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## ISSUANCE CONDITIONS SERIES 2

**Who can subscribe BOPREAL series 2?** Weekly bids up to a maximum amount of VN USD 2,000 million. In the first call for bids, only companies of the MiPyME segment that have registered in the Register of Commercial Debts for Imports with Foreign Suppliers may participate. The remaining bids will be open to all importers that have registered their debts.

**Bidding:** Wednesday 2/07 and Thursday 2/08 of 2024.

**Subscription Currency:** Dollars. Pesos to be delivered are computed on the basis of BCRA Communication A3500 of the day before the call for bids.

**Payment Currency:** Dollars.

**Proration:** The allocation mechanism will give priority to the first VN USD 500,000 demanded by each company, and then allocate the remaining amount pro rata to the amount demanded.

**Maturity:** 06/30/2025, amortized in 12 monthly installments from 07/2024 to 06/2025.

**Interest:** 0%.

**Transferable:** Yes, creditors can be paid directly with the bond.

**Listed:** Yes.

**Pay PAIS tax:** Yes.

**Acceptable for tax payment:** No.

**Early redemption in favor of the holder:** No.

**Loses access to the MLC:** sales of BOPREAL acquired in primary bidding does NOT restrict access to the MLC, as long as the sale is settled abroad. The sale in dollars in the local market does not enable the cancellation of the debt for imports.