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Some notes on recent uncertainty.

Last week, the executive decree (DNU) for the agreement with the IMF was published. What should have been very good news—assuming the arrival of fresh funds—ended up misaligning exchange rate expectations. Rumors suggest changes to the crawling peg and the dólar blend, but there is no official information from either the Government or the IMF. It is clear that, in a country with Argentina's historical exchange rate volatility, it is not advisable to fuel uncertainty about a potential regime change in advance. However, the sharp shift from peso-denominated bonds to the dollar in recent days, in our view, points to a deeper underlying issue. In this summary, we outline our modest perspective on the recent changes in market dynamics.

Global and Bonares bonds are showing remarkable resilience. With the dollar running hot and high-yield bonds worldwide facing rising spreads, the strength of our sovereign bonds is particularly noteworthy. Argentine corporate bonds, an undeniably solid asset, are no exception. The Merval (equity) does not concern us either. External uncertainty is being driven by Trump's tariff policy. Additionally, the Argentine stock market had experienced a sharp rally, reaching 2,400 points after several months of excessive optimism. What does concern us, however, is the foreign exchange market and the interest rate market.

Although the Government managed to achieve another month of primary fiscal surplus in February, the market has failed to stabilize. The fiscal surplus is no longer a surprising positive development for short-term dynamics—the market takes it for granted. While fiscal surplus is undoubtedly crucial for macroeconomic stability, it no longer drives short-term capital flows.

The peso yield curve had been operating in a festive mode, following the Government's "everything goes well" theory: a downward convergence of the exchange rate, where the contado con liqui (blue chip swap) would eventually drop to meet the official rate, reaching a highly appreciated real exchange rate—as if Argentina had South Korea's productivity. Long-term peso bonds were trading at an effective monthly interest rate of 2%, offering zero premium for interest rate insurance (bono dual), clearly reflecting the market's confidence in the "everything goes well" scenario.

The exchange rate gap remained low, held in check by BCRA purchases in the MULC (official FX market), which were, in turn, entirely driven by private-sector carry trade operations. However, these financial account dynamics can shift quickly. If those selling USD at the official rate suddenly believe the carry trade is no longer viable, that supply of foreign currency can disappear overnight.

This highlights how fragile the equilibrium was—if carry positions unwind due to mere rumors of increased exchange rate flexibility (crawling peg with small bands, perhaps?), then the balance was never stable to begin with. If just a rumor triggers massive sales of peso bonds and a rush to buy USD, it clearly indicates the underlying fragility of the market.

Peso interest rates have surged as expectations adjust—the "everything goes well" theory is no longer the baseline scenario. Higher peso rates are driven by some inflation inertia, shifting expectations, and, to some extent, the economic team's own policies. The Government periodically drains pesos from the market every two to three months to buy foreign currency for debt payments, ensuring compliance with its broad monetary base target. We've gone from calling it "illegitimate debt" to paying it off with a fiscal surplus—a complete 180-degree shift aimed at preserving the country's financial reputation. Only stubbornness or ideological bias could deny this achievement by the economic team.

What we don't like, as you know, is the theory of "there are no pesos" or the balance of payments approach to monetary policy. We believe this has no empirical support. There are always pesos, regardless of the public sector's dynamics. If the country does things right, pesos will keep growing through secondary creation and increased demand for money. If we look at the total amount of pesos (at the contado con liquid), we're at high levels—but this is not a bad thing; there is genuine demand for local currency. This merely forces us to continue doing our homework in terms of macroeconomic discipline.

The goal should be to look to countries like Peru, Chile, Brazil, or Uruguay, where there is a steady increase in pesos (soles or reais), and exchange rates float with some management. Their interventions may differ in magnitude, but not by much. They accumulate reserves when terms of trade allow for it and sell when uncertainty deserves it.

The increase in peso interest rates and exchange rate uncertainty led to a sharp rise in dollar futures yesterday. Higher peso market rates result in higher implied rates in futures. With implied rates so high, private supply in the spot market decreases. If the gap widens too much, the opportunistic players in the MULC (foreign exchange market) could return, over- or under-invoicing, taking advantage of lessons learned from the previous government's management. Higher implied rates, coupled with a mini expectation of greater FX volatility, reduce private supply in the MULC. No one wants to sell in the spot market—exporters prefer to buy spot and sell futures at extremely high rates. If the BCRA sells spot, the situation worsens, as the gap may increase. The MULC cycle can quickly shift from virtuous to vicious.

We believe the most likely scenario is something in between. We sense that the Government has a solid agreement with the IMF, fresh funds will flow into reserves, and this will help reduce the risk spread. Sales of peso-denominated assets should normalize, especially if the agreement involves gradually removing cepo regulations, with the possibility of more exchange rate flexibility in 2026, rather than a simple change to the crawling peg.

Various conclusions. Corrections are normal, but we shouldn't overstate them, especially after a market that operated for several months in a remarkably optimistic environment ("everything goes well" theory), with the dollar, equities, and especially long peso rates. We don't see things complicating too much, but we do believe that the BCRA's daily purchases through private carry should start to decrease. This doesn't concern us—in fact, it's healthy. Tablitas Cambiarias brings short-term relief but long-term problems. On the other hand, the harvest is coming, which should bring some calm in a few weeks. A good IMF agreement, in our view, would likely bring Globales bonds to yields between 9% and 10%, which would help the dollar and peso markets normalize, although demand for contado con liqui would prevent the BCRA from lowering rates. The "everything goes well" theory never appealed to us, but we also don't like doomsday theories.

Thank you very much.

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