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## Contributors

### Filippo Nencioni

+1 212 325 2082  
filippo.nencioni@csfb.com

### Igor Arsenin

+1 212 325 6437  
igor.arsenin@csfb.com

### Linan Liu

+1 212 325 4592  
linan.liu@csfb.com

## Asian Contact

### Ray Farris

+65 6212 3367  
ray.farris@csfb.com

**Argentina: Current weakness represents an opportunity in our view**

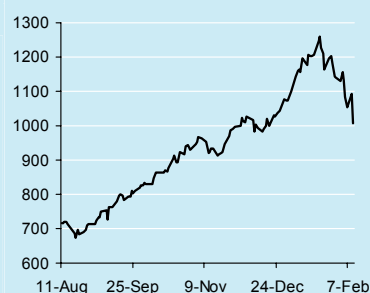
Bodens look attractive, even after accounting for potential high volatility – selection of debt advisors an important positive

The current friction between the Argentine government and the IMF has contributed to a deep sell-off across Argentine markets. While it is understandable that the market is uneasy in the current environment, we believe that (i) it is in the interest of Argentina and the IMF to avoid a default, (ii) the criteria that Argentina needs to satisfy to ensure IMF disbursements do not appear particularly challenging, and (iii) at yields as high as 15.5% on Boden 12s, investors are well compensated for the risks, in our view. In addition, yesterday's late afternoon announcement that Argentina has named three large international banks as its debt advisors should lend important support to Argentine assets, in our view.

The last three weeks have been tough for Argentine assets: first, the general market sell-off post FOMC, and, lately, increasing concerns over friction between the IMF and the Argentine government have contributed to a large sell-off in both stocks and bonds. The Merval is down 20% from its January 20 high (Chart 1). Argentina Bodens are roughly 6 points (or 9%) lower in price from this year's highs (Chart 2), and the spread has widened 250 bps since early January (Chart 3).

While we understand why investors are nervous about a potential break between Argentina and the IMF, we believe such a risk is probably overstated by current prices. First, we believe it is in both sides' interest to make sure the program stays on track. We have seen friction in the past but eventually both sides have managed to find a compromise. In addition, we believe the criteria Argentina needs to satisfy are not particularly challenging.

Chart 1 Merval Index



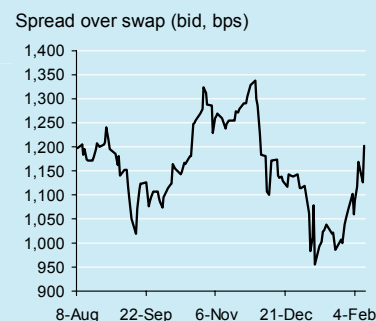
Source: Bloomberg

Chart 2 Boden 12 price



Source: Credit Suisse First Boston

Chart 3 Boden 12 spread



Source: Credit Suisse First Boston

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In our view a bona fide negotiation with creditors can be easily initiated. This would satisfy the IMF. Importantly, the IMF is not asking for an improvement in Argentina's restructuring offer. We would be surprised if the Argentines were willing to risk the IMF assistance for such a relatively easy-to-satisfy condition.

Indeed, news yesterday late afternoon that Argentina has selected three large international banks as its debt advisors goes a long way towards lending credibility to the restructuring process. In addition, we believe that, with banks acting as intermediaries between Argentina and its creditors, it should be much easier to establish a bona fide dialogue.

Finally, we would argue that even if uncertainties remained high for some time, at current spreads of 1,200 bps on Boden 12s (a 5-year average life bond) investors are well compensated for the risks, in our view. We believe the recent sharp sell-off might well represent yet another opportunity to increase exposure to one of the most attractive assets in EM.

Interesting too, the latest leg of the sell-off has happened after the market had successfully tested the payment mechanism for Bodens – both in Caja de Valores (where we recommend holding these bonds) and in Euroclear. Although the mechanics of the payment were fairly convoluted, investors have received their coupons and we are not aware of any attempt to attach these payments. As we have stated in the past, we believe that, in order for Bodens to attain their full potential, a successful test of the payment system is necessary. While we do not think the recent coupon payment represents the ultimate test, it is nonetheless a partial positive. The fact that for six months the market will not have to deal with another Boden 12 coupon should also help.

Finally, while the selection of the debt advisors should help improve the relationship with the IMF as well as supporting Argentine assets, we believe the Bodens are more likely to benefit than defaulted debt. We remain of the opinion that defaulted debt is already implying that negotiations start yielding (i) dramatically better terms than those so far offered by Argentina, (ii) a relatively expedited restructuring, and (iii) discount rates dramatically lower than those of Boden 12s.

On an outright basis our inclination is to believe that defaulted debt is roughly fairly valued, while Bodens are very cheap. On a relative basis, we strongly believe that Bodens remain a much more attractive investment than defaulted debt.

## EMERGING MARKETS ECONOMICS AND FIXED INCOME STRATEGY

### EMERGING EUROPE, MIDDLE EAST & AFRICA

**Peter Worthington**

Regional Head  
+44 20 7883 3652  
peter.worthington@csfb.com  
*Algeria, Côte d'Ivoire, Egypt, Morocco, Nigeria, South Africa, Tunisia*

**Sergei Voloboev**

+44 20 7888 3694  
sergey.voloboev@csfb.com  
*Baltics, Russia, Ukraine, Lebanon, Qatar*

**Tatiana Orlova**

+44 20 7888 1966  
tatiana.orlova@csfb.com  
*Croatia, Czech Republic, Egypt, Slovakia*

**Berna Bayazitoglu**

+44 20 7883 3431  
berna.bayazitoglu@csfb.com  
*Bulgaria, Romania, Turkey*

**Olivier Desbarres**

+44 20 7888 5619  
olivier.desbarres@csfb.com  
*Hungary, Israel, Poland*

### STRATEGY

**Filippo Nencioni**

Head of Sovereign Strategy  
+1 212 325 2082  
filippo.nencioni@csfb.com

**Paul Fage**

+44 20 7883 7994  
paul.fage@csfb.com  
*Sovereign Strategy*

**Igor Arsenin**

+1 212 325 6437  
igor.arsenin@csfb.com  
*Sovereign Strategy*

**Linan Liu**

+1 212 325 4592  
linan.liu@csfb.com  
*Sovereign Strategy*

**Nikoletta Lekka**

+44 20 7883 4298  
nikoletta.lekka@csfb.com  
*Models of Ratings and Exchange Rates*

**Ray Farris**

+65 6212 3367  
ray.farris@csfb.com  
*Interest & FX Strategy non-Japan Asia*

**Jason Bonanca**

+1 212 325 7185  
jason.bonanca@csfb.com  
*Local Currency Strategy Latin America*

**Koon Chow**

+44 20 7888 3857  
koon.chow@csfb.com  
*Local Currency Strategy EMEA*

**Dean Wang**

+65 6212 3368  
dean.wang@csfb.com  
*Interest & FX Strategy non-Japan Asia*

### ASIA

**Dong Tao**

Chief Economist, non-Japan Asia  
+852 2101 7469  
dong.tao@csfb.com  
*China, Hong Kong, Korea, Taiwan*

**Joseph Lau**

+852 2101 7427  
joseph.lau@csfb.com  
*Taiwan, Korea*

**Sheila Yip**

+852 2101 7409  
sheila.yip@csfb.com  
*Hong Kong*

**Ray Farris**

Head of Fixed Income Strategy for non-Japan Asia  
+65 6212 3367  
ray.farris@csfb.com  
*Economics coverage: Malaysia, Philippines, Singapore*

**Tse Chern Chia**

+65 6212 3002  
tsechern.chia@csfb.com  
*Malaysia, Philippines, Singapore*

### LATIN AMERICA

**Rodrigo Azevedo**

Regional Co-Head  
+55 11 3841 6347  
rodrigo.azevedo@csfb.com  
*Brazil*

**Alonso Cervera**

+1 212 538 2351  
alonso.cervera@csfb.com  
*Mexico, Chile, Uruguay*

**Jan Dehn**

+1 212 538 1576  
jan.dehn@csfb.com  
*Venezuela, Ecuador, Panama*

**Laura Haralyi**

+ 55 11 3841 6350  
laura.haralyi@csfb.com  
*Brazil*

**Alexandre Marinis**

+ 55 11 3841 6346  
alexandre.marinis@csfb.com  
*Brazil*

**Lacey Gallagher**

Regional Co-Head  
+1 212 325 5570  
lacey.gallagher@csfb.com  
*Argentina, Mexico, Venezuela*

**Alex Mourad**

+ 55 11 3841 6352  
alex.mourad@csfb.com  
*Brazil*

**Carola Sandy**

+1 212 325 2471  
carola.sandy@csfb.com  
*Argentina, Peru, Colombia*

**Nilson Teixeira**

+ 55 11 3841 6388  
nilson.teixeira@csfb.com  
*Brazil*

AMSTERDAM .....	31 20 5754 890	LONDON .....	44 20 7888 8888	SEOUL .....	82 2 3707 3700
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