

**From:** Xavier Avila [REDACTED]  
**Sent:** 10/24/2017 3:58:07 PM  
**To:** Paul Barrett [REDACTED]  
**CC:** Stewart Oldfield [REDACTED]; Martin Zeman [REDACTED]; Joshua Shoshan [REDACTED]  
**Subject:** [ / ] DB: ARS Lebac DB Pass-through Note  
**Attachments:** DB\_SpecialReport\_Argentina\_Oct17.pdf

Paul, find below the details of the Lebac ARS denominated offshore structure we discussed briefly the other day. We are currently in the process of bookbulidng the below note, although is still not completely guaranteed we will issue it as we are finalizing internal approvals and total size we raise. We also attach a proposal for hedging it in an asymmetric what that will give you equivalent USD yields although not fully hedged. Finally, a paragraph on the Argentina situation after the elections of last weekend and a report DB Research published last week on the Argentinean overall political situation and assets. Let's discuss when you have a second.  
Thanks  
Xavier

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**Argentina: Position for further upside**

The results of Argentina's mid-term elections confirm a very favorable scenario for President Macri's governing coalition in coming months and possibly years. "Cambiamos" had a stronger-than-expected national performance, having won 13 provinces, including the five largest electoral districts (or about two-thirds of the population), securing its place as the first minority party in Congress and obtaining veto power against initiatives of the opposition. In the critical Senate race of Province of BA, Bullrich's lead over former president Cristina Fernandez de Kirchner was larger than expected. Moreover, as most opposition leaders lost and other competitors also emerged weaker the bar is even lower for the incumbents to pass legislation. This means a strong boost for Macri's reform agenda and his bid for the 2019 presidential race. Asset prices rallied on Monday following these results, but at a measured pace, suggesting market participants have largely positioned for the positive outcome. Also – as we have highlighted in recent research – the more subdued response is expected at this stage of the cycle and the policy mix favored by this administration (with a slow fiscal and disinflation path). This requires strong USD issuance and tight monetary policy for longer, which limit the room for more rapid reprising. See our recent report for a review of recent macro developments and outlook in Argentina, and discussion on how to position for this stage in the cycle. That said, this path was chosen to consolidate political power before moving on to the more challenging parts of fixing Argentina's macro framework. The success of the strategy should anchor the disinflation and adjustment paths and thus reduce the risk (for given yields). Accordingly, while valuation in credit may already look tight vs. its current credit standing, there is still scope for further tightening due to a). Potential multiple-notch credit ascension if reform agenda stay on track; b). The flattening of spread / quality curve in EM credit markets under the constructive external backdrop with continued inflows; and c). Alternative opportunities (with spread pickup) offered by EUR bonds, select local law USD bonds, select provincial bonds, and GDP Warrants.

USDARS Spot Ref 17.50

**DB AG Lebac Pass-through ARS Note, Cash Settled in USD**

Note Issuer DB AG London Reg S  
Issue Date [ ] Nov 2017  
Aggregate ARS Notional USD equivalent of ARS [TBD]mio  
Minimum ARS Denominations USD equivalent of ARS [90]mio minimum (Around USD 5mio)  
Maturity [ 21 ] June 2018  
Yield ARS [ 24.00 ]% (Act/365)