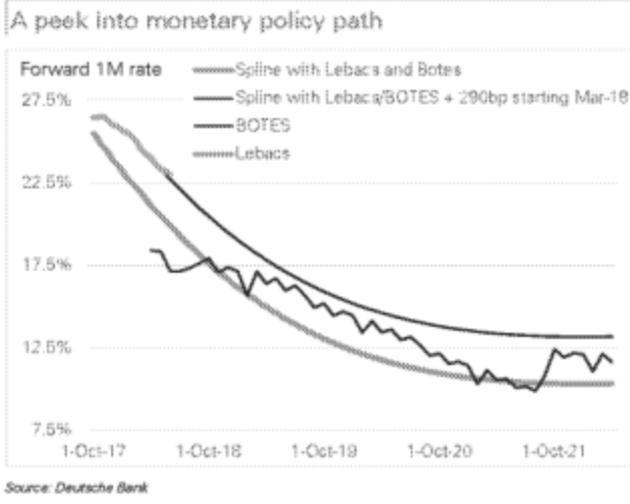
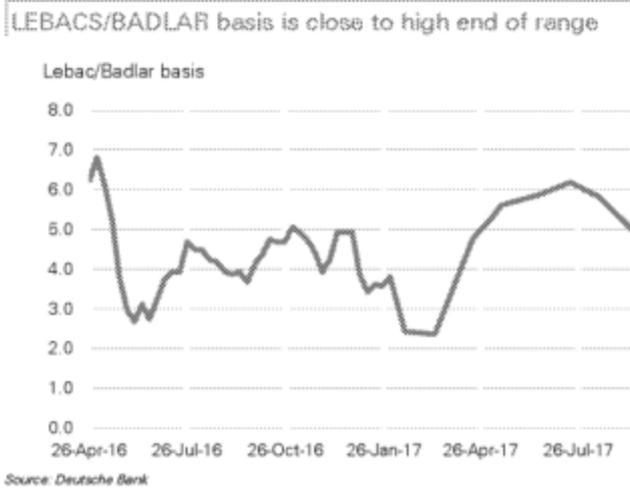




dated forward rates as shown below. The first is simply to concatenate the short end LEBACs and longer end BOTES. The second is to fit a spline curve first as a parametric representation of the two curves, then adjust it (effectively shifting up the BOTES) so that the overlapping data points (at March 2018 tenor) between the two curve match. These are inputs to price the floaters.



BOPOM 20s have been a popular choice in positioning for carry, but BOCANs look superior for those that tolerate lower liquidity. In particular, we believe, BOCANs could benefit from a tightening spread between LEBAC yields and BADLAR. We expect higher-for-longer LEBAC rates to attract a larger share of savings while a growing economy will demand more credit from banks. Altogether these two should translate into higher demand and lower supply of funds, which means higher BADLAR rates vs. LEBACs.

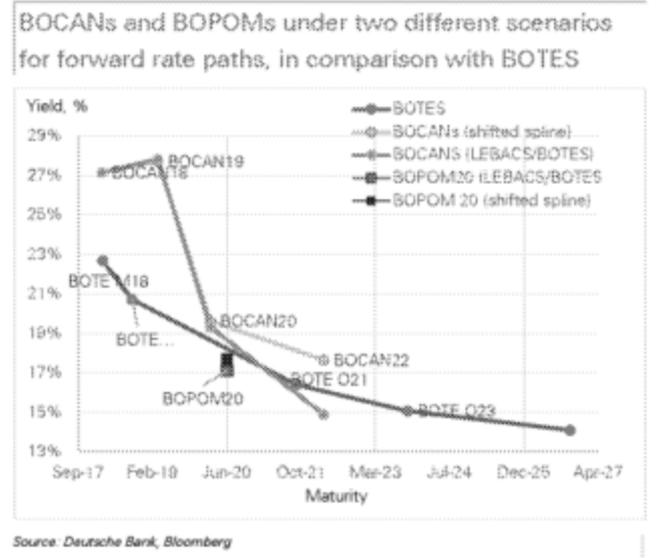


LEBAC yields have moved first on the tightening of monetary policy, which has driven up the basis

between 1M LEBAC rate and BADLAR to a recent peak of 600bp (chart) before it started to recede. Despite convergence during the past month, the current basis (close to 500bp) remain significantly higher than historical average and we see it likely further converge to 400bp area in the coming months. This dynamics should help boost the relative value of the BOCANs vs. BOTES – and also vs. BOPOM 20s.

As we delineate in our previous report *Argentina Local Markets – The Way of the Bullish (Part II)*, we assess relative valuation of BOCANs vs BOTES via projecting BADLAR rates using forward rates implied by a nominal curve derived from LEBACs and BOTES. We then reset the coupons for the BOCANs, calculate the “Fixed rate implied yield” for the BOCANs and contrast it with the yield of comparable fixed rate bonds.

In this piece, we use two scenarios for forward rates as shown in the chart on the left. While the LEBACs provide a better reference for policy in the longer end the BOTES are the anchor for the projected floating rates in the long-end. Instead of combining these segmented curves we use the two as lower and upper boundaries for valuation of BOCANs and BOPOMs 20s. The chart below shows the results.



In sum, focusing on the short end of the curve,

- The 18s and 19s look a good (accessible) alternative to LEBACS.
- Going a bit longer, BOCAN 20s look more attractive (by up to 200bp) vs. BOPOM 20s and also vs. BOTES.

<sup>1</sup> See *Argentina Local Markets – The Way of the Bullish (Part II)*, 9-March-2017.