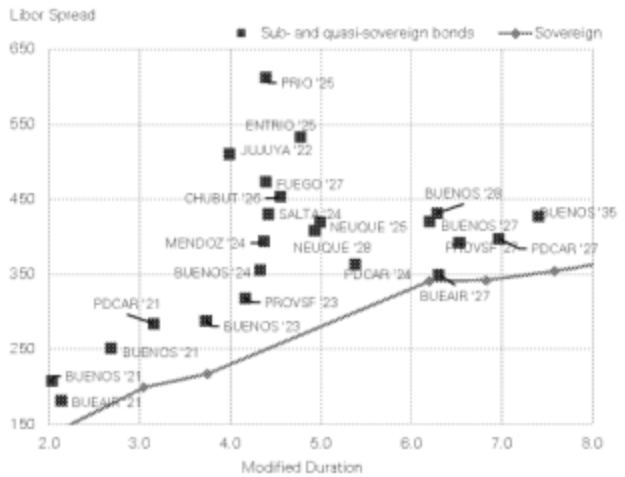
residual gain at these levels (entry: 95bp; current: 77bp; target: 70bp).

The BONARs – The local law bonds have lost their prominence since Argentina reopened its international markets in 2016, but in our view some of the less liquid bond at the shorter end of the curve offer attractive value for taking Argentina's credit exposure. During this year's rally, BONARs have underperformed NY law counterparts due to real investors increasing their overweight on the latter. Interestingly, BONAR 25s and 27s are actually trading inside corresponding ARGENT bonds. The value on the BONAR curve clearly concentrate at the front end (up to the 22s), but liquidity could be an issue.

Going provincial - Among Argentina provincial bonds, we retain a preference for 7-year bonds from the Argentine provinces of Cordoba (Province of Cordoba 7.45% '24s) and Salta (Province of Salta 9.125% '24s) due to relatively low leverage and superior credit metrics within the Argentine provinces, expected increase in government transfers as per favorable supreme court ruling in 2016, positive reform momentum in Argentina, superior relative value within Argentine quasi-sovereign and provincial credits. See graph below for a snapshot of provincial bonds' valuation in comparison with the sovereign curve.

A snapshot of main Provincial bonds in comparison with sovereign bonds



Source: Deutsche Bank

GDP Warrants - With economists revising up their GDP growth forecasts for the 2017 and 2018 recently, there has been some renewed interest in GDP Warrants, which have outperformed bonds over the past couple of weeks. In our view, it is perhaps a bit too early to be overly excited about the Warrants. A 2017 growth potentially exceeding 3% - clarity of which could be obtained in the coming months via looking at higher frequency proxy data - will indeed force government to stop procrastinating on the tricky issue of base case GDP interpretation (likely with a re-launch of buybacks). We remain constructive on the Warrants due to our longstanding view that the government will go with the market friendly resolution to this issue but after the recent rally we would only look to buy on dips given the uncertainty in growth. Our economist calls for a below trigger level of 2.8% for 2017.

Concluding remarks

The current pro-growth policy mix will likely continue to favor equities, but it will also impose limitations on fiscal tightening, on the pace of disinflation, fixed income returns, and currency adjustment. The combination – which will support additional (mild) real peso appreciation and high real rates in the near term - bodes for positioning for short-end carry and floating rates. Valuation and the prospect of back-loaded FX depreciation supports duration extension via USD debt.

The choice of instrument in local markets is important at this stage where Argentina's markets are not trending anymore and because of wide dispersion in valuations. The macro dynamics favors floating rates over fixed rate instruments given both supply and monetary policy risks as well as valuation, although the latter is clouded by market segmentation. A deeper look at the valuation via our *fixed-rate implied yield* model helps support our macro intuition.

While valuation in credit looks tight vs. its current credit standing, there are a number of reasons for u to believe there is still scope for further tightening. In addition, alternative instruments (with spread pickups) offered by EUR bonds, select local law USD bonds, and select provincial bonds also enhance the attractiveness in this space.

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