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ARGENTINA CRIES (again) – Status Quo and Quo Vadis

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Alberto Fernandez, the leftist challenger to the incumbent President Mauricio Macri, won the August primaries in a landslide.

Not a single pollster predicted such an outcome, so the result took the entire market wrong-footed. Mr. Fernandez is considered close to Kirchnerism, even so he keeps trying not to nourish that impression.

Anyway, his running mate is Christina Kirchner, president before Mr. Macri and responsible for the complete isolation of the country from international capital markets during her tenure.

Upcoming elections will scare off investors

Definitive elections will be held October 27, but for now it seems quite difficult for Mr. Macri to achieve a second mandate. This prospect is spooking investors, as they fear a return to an unorthodox and populist market approach and a confrontational stance towards the IMF under a Fernandez government.

Secondary Market bond prices collapsed to very distressed levels, discounting a default as being an almost sure thing.

Widespread market "Angst" is already making it almost impossible for the sovereign to refinance itself in the local capital market. This caused the authorities to impose a mandatory maturity re-profiling of local debt coming due.

No debt cut

Further, Mr. Macri announced his intention to seek [a "friendly and voluntary re-profiling" of most of the country's foreign debt](#), but no haircut envisaged.

Also, he pointed at the "need" to talk about the repayment structure of existing IMF loans, thereby potentially alienating the Fund, which has so far been very supportive of the Macri government. Mr. Fernandez has still not given information in regard to his stance towards these measures.

This is important, as a Fernandez government would have to execute them in case of an election win.

First round of capital controls

Over this weekend, the Argentine authorities implemented the first round of capital controls in order to stop the drain on its FX reserves.

Foreign Debt servicing is so far not subject to those capital controls.

By now, most rating agencies have the country on some form of selective default. It is likely that such situation will lead to a credit event in the CDS market.

It is difficult to gauge whether current price levels accurately reflect a restructuring outcome, but ceteris paribus we are probably close to recovery values in our opinion.

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