Sovereign bonds

Argentina’s century bond caught in dash for exit

Just two years ago investors rushed to snap up 100-year debt sold by Buenos Aires

Markets are now pricing in a 56 per cent chance of default © AFP

Colby Smith in New York APRIL 26, 2019

In June 2017, investors clamoured for a piece of Argentine history: a dollar-denominated bond maturing in 100 years. Just two years and one record-breaking IMF programme later, investors are dumping the so-called “century bonds” amid a big sell-off of the country’s assets.

On Thursday the 100-year debt traded as low as 66 cents on the dollar, before making a modest recovery on Friday. Yields, which move inversely to prices, rose as high as 10.79 per cent. Bonds maturing long before the century bonds’ 2117 due date also came under pressure, with the yields on short-term government debt trading near distressed levels at one point.

The dash for the exits came as investors began to take seriously the prospects of former leftist president Cristina Fernández de Kirchner edging out pro-reform president

Mauricio Macri in the upcoming presidential elections in October. This also prompted big falls in the country's stock market, which was down about 10 per cent for the week, while the currency stretched away as the world's worst performer this year.

Meanwhile, fresh polling data showing a path to victory for Ms Fernandez, and dwindling approval ratings for Mr Macri, helped to push the cost of insuring against an Argentine debt default up above 1,000 basis points, one-fifth higher than last week's levels. Markets are now pricing in a 57 per cent chance of default.

"If Cristina wins, it would be a disaster," said Win Thin, global head of currency strategy at Brown Brothers Harriman in New York. "Macri is doing his best to unwind her bad policies."

Not too long ago, investors were eager to own Argentine debt. They cheered the country's return to the international capital markets in 2016, after a 15-year stand-off with creditors over its 2001 default. Many of those same investors rushed to snap up a piece of the $2.75bn worth of 100-year bonds the country sold about a year later.

"Back then, there was a widespread feeling that President Macri had the willingness and the ability to implement a reform programme that was good for Argentina," pointed out one international investor. "Policymakers felt emboldened to issue a 100-year bond as a symbol of a 'new Argentina.'"

Now it looks "too show-offy", said the investor.

According to Bloomberg data, BlackRock, RBC and Fidelity are among the largest holders of the country's century bonds.

Despite the support of a record $56.3bn bailout programme from the IMF, Argentina's economy continues to contract. Making matters worse, inflation is running rampant at an annualised rate of almost 55 per cent, and the peso has weakened 16 per cent against the dollar this year alone.

"Macri has all the right motivations and wanted to bring the country back to the markets, and he did," said Bill Rhodes, a former Citigroup executive who has helped to restructure Argentina's debt on multiple occasions. "But you have to have a strong economic programme and implement it on a timely and upfront basis."

Mr Macri's government initially supported a gradual economic adjustment, which many said helped to incite last summer's currency crisis. In order to receive more cash upfront, Argentina pledged in September to accelerate the process of attaining a primary fiscal surplus and rebalancing its external position.

On both counts, Argentina has met its targets. For the second month in a row, the country posted a positive primary fiscal balance in March. On the external front, it recently recorded a $1.18bn trade surplus for the same month, a large swing from the $554m trade deficit it was running this time last year.

For this reason, Federico Kaune of UBS Asset Management says the recent market volatility is not about a lack of resources. "The government needs to let this situation play out and avoid spending money intervening in the currency for now," he said.

A victory for Mr Macri would resolve many of the problems plaguing Argentine assets today, said Amer Bisat at BlackRock.

"If we can get through the political test over the next few months, the current policies are helping to create an economy that is significantly healthier than in the past and can recover after this period of wrenching recession and crisis," he said. "We are happy to participate in that recovery."

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