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Argentine GDP Warrants Beat Bonds as Commodities Spur Growth 2010-08-10
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By Drew Benson and Boris Korby

Aug. 10 (Bloomberg) -- Argentine securities linked to gross domestic product are outperforming the country's bonds by the most in five months as surging commodity exports propel the fastest economic expansion in Latin America.

The warrants, which pay holders when growth exceeds government projections, gained 26 percent in the past month, compared with an 11 percent advance for bonds, according to JPMorgan Chase & Co. The outperformance is the biggest since the month ending March 9.

South America's second-biggest economy is "scorching" and may grow 9.7 percent this year, the most since 1992, as grain output jumps and car exports to Brazil soar, Morgan Stanley economist Daniel Volberg said yesterday. The New York-based bank boosted its forecast from 4.6 percent, following upward revisions by JPMorgan, Royal Bank of Canada and Goldman Sachs Group Inc. in the past month.

"It's a perfect storm for Argentina," said Edwin Gutierrez, who manages about \$5 billion of emerging-market debt, including Argentine warrants, at Aberdeen Asset Management Plc in London. "They've had a bumper crop, so agriculture is doing well, Brazil is booming so manufacturing is doing well and fiscal spending is adding a lot of liquidity to this economy."

The warrants, which are triggered when growth is above 3 percent and the inflation-adjusted value of the country's GDP surpasses a base-case scenario laid out in the contracts, rose 0.03 cent yesterday to 10.61 cents, the highest close since June 2008, according to JPMorgan.

'On Fire'

The warrants, which mature in 2035, will pay about 5.35 cents in December 2011 if the economy grows by the 9.7 percent forecast by Morgan Stanley, said Alberto Bernal, head of fixed-income research at Bulltack Capital Markets, a Miami-based brokerage that focuses on Latin America.

"They're on fire," Bernal said.

He predicts Argentina's economy will grow by 7.5 percent this year, delivering a 4.8 cents payment next year. Holders of the warrants will receive no payment this year because the economy expanded 0.9 percent in 2009 amid a global recession that crimped demand for soybean, wheat and corn exports.

A record 55-million metric ton soybean harvest and a 25 percent increase in auto exports in July from a year earlier prompted Economy Minister Amado Boudou to raise his 2010 growth forecast last week to 7 percent from about 6 percent.

JPMorgan lifted its estimate to 8.5 percent from 6 percent, while RBC raised its forecast to 6.5 percent from 5 percent. Goldman Sachs increased its growth forecast to 8 percent from 5.3 percent.

Bond Yields

The yield on Argentine dollar bonds due in 2017 fell 16 basis yesterday to 9.6 percent, the lowest since they were issued to creditors as part of a \$12.9 billion defaulted debt swap in June.

Boudou postponed plans to sell as much as \$1 billion worth of the 2017 bonds during the debt swap, saying the country wouldn't accept a yield of 10 percent or above. The government is now waiting for yields to fall below 9 percent, newspaper *Ambito Financiero* reported yesterday, citing Boudou.

An Economy Ministry spokesman didn't return a message seeking comment.

Five-year credit-default swaps tied to Argentine debt fell 10 basis points yesterday to 776. A basis point equals \$1,000 annually on a contract protecting \$10 million of debt. Credit- default swaps pay the buyer face value in exchange for the underlying securities or the cash equivalent should a government or company fail to adhere to its debt agreements.

Pension Takeover

The extra yield investors demand to own Argentine government bonds instead of U.S. Treasuries fell 18 basis points, or 0.18 percentage point, to 653, according to JPMorgan.

Even after declining from 846 on July 1, that is still the highest among major emerging market economies after Venezuela and Ecuador.

Since taking office in Dec. 2007, President Cristina Fernandez de Kirchner's government has nationalized the \$24 billion pension fund industry and backed a takeover of the country's flagship airline, Aerolineas Argentinas SA.

The government made a warrant payment of 3.11 cents on Dec. 15 after the economy grew 6.8 percent in 2008. Argentina attached the warrants to bonds it gave creditors in a 2005 restructuring of \$95 billion of defaulted debt. Fernandez issued more of the securities in the June debt swap to creditors who rejected the 2005 settlement.

Morgan Stanley predicts Argentina's economy will grow 5.9 percent next year as agricultural production expands by less than 1 percent, demand from Brazil slows and quickening inflation limits domestic consumer spending.

"GDP warrants are the definition of a 'high-beta' trade," Bulltlick's Bernal said. "If things are good globally, they will outperform everything. If things get complicated, the warrants are going to get killed."

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