

May 27, 2025

BONTE 2030

After a long time, Argentina is returning to international debt markets. Thanks to fiscal discipline and the lifting of capital controls, Javier Milei's administration has managed to consistently reduce the country risk (EMBI) from around 2,000 basis points to 665 since the beginning of his term. The global environment for fixed income remains highly challenging, and the current tightening of credit spreads still does not seem sufficient to issue global bonds. ARGENT curve is nearly flat at around 11%. Validating such high yields would send a poor signal.

If there is one thing the economic team has, it's experience in global markets. With exchange rate stability following the removal of capital controls, and virtually no offshore holdings of peso-denominated debt, the economic team is seeking to take advantage of a window of opportunity. In our view, issuing peso-denominated bonds to raise U.S. dollars at this appreciated real exchange rate is a very sound macroprudential decision. In practice, as we will show, this operation is not very different from purchasing foreign currency in the spot FX market.

Issuance Terms

The first point to clarify is that this is not a peso-linked bond. It is a local currency issuance that can only be subscribed in U.S. dollars. Both interest payments and principal—whether at maturity or upon exercise of the put option—are settled in Argentine pesos. The BONTE 2030 auction is aimed at international investors. The placement will take place tomorrow (May 28), and settlement is scheduled for June 4, 2025 (T+5). Settlement must be made exclusively in U.S. dollars, using the BCRA A3500 exchange rate as of May 27.

The placement will be carried out through a bidding process based on annual nominal interest rate indications. Bids must specify the nominal amount (in pesos) and the interest rate with two decimal places. The bond is a bullet instrument maturing on May 30, 2030, and will pay interest semiannually on a 30/360 day-count basis.

The bond includes a put option in favor of the holder—essentially an early redemption right. Bondholders may exercise this option (in full or in part) on May 27, 2027. It is important to note that redemption will be settled in Argentine pesos, meaning offshore investors will subsequently need to convert those pesos into U.S. dollars.

Valuation

Due to the lack of a long-term sovereign nominal yield curve, pricing the instrument becomes challenging. Given the two-year put option available to bondholders, the yield-to-put can be measured using the fixed-rate curve of Lecaps and Boncaps. Based on that curve, the nominal annual yield to put should be in the range of 34% (adjusted for duration).

However, the put is merely an option that effectively acts as a cap on the yield. If the option is not exercised, the bond's maturity extends to 2030. While there is no nominal reference rate for that horizon, real rates do exist. The real yields on sovereign CER-linked bonds maturing between 2027 and 2030 currently range from 9.5% to 10%. Using the real rate as a base and adding expected inflation, one could build a "theoretical nominal curve"—in quotes, given that expected inflation is based on surveys (REM or LatinFocus), which are inherently uncertain in the context of Argentina.

By projecting the theoretical cash flows through 2027 using nominal market rates (Lecaps/Boncaps), and from 2027 onward using the CER curve plus expected inflation, we can estimate the bond's valuation. This exercise results in an implied yield of approximately 26%.

A key point worth emphasizing is that the maximum issuance amount is capped at USD 1 billion. If we also consider the Central Bank's FX futures (NDF) sales during May, it appears that the economic team has already secured most of that target. As a result, it seems likely that the final yield will come out a few basis points below our theoretical estimate.

First Impressions

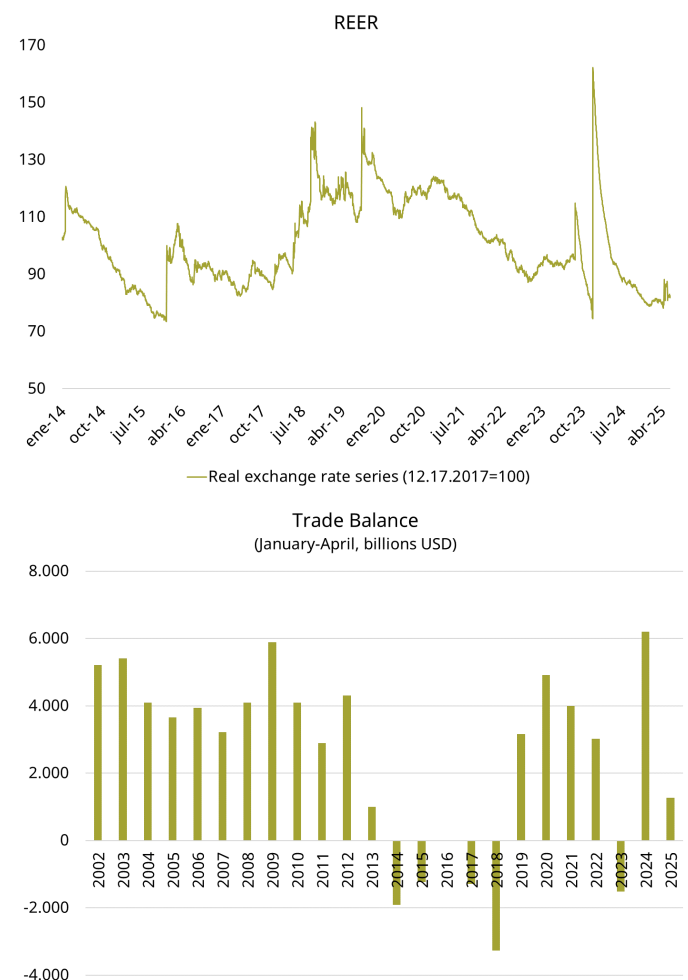
We believe this is a smart move by the economic team. Securing a USD 1 billion offshore placement would be a strong signal for several reasons. First, Argentina is returning to international markets—and doing so with a local currency issuance, something unthinkable just a few months ago. Second, the incomes in U.S. dollars could help strengthen the Central Bank's international reserves, one of the most fragile aspects of Argentina's macroeconomic outlook.

Finally, in practical terms, the government is effectively buying foreign currency at the spot exchange rate, since this placement will be offset by a reduced issuance of local debt. Acquiring FX at this real exchange rate looks like a sound macroprudential measure to us.

Is it attractive?

The put option ahead of the 2027 presidential elections is crucial. Without this early exit option, the bond would hold little appeal. However, we believe a more attractive entry point could emerge in the coming months on the secondary market, for several reasons.

First, FX supply in Argentina is highly seasonal due to the heavy weight of soybean and corn exports. Export settlements during the May–July period are nearly double those of the September–November period (and the export tax would be restored). Second, as shown in the first chart below, the current REER appears overvalued. Third, in the second chart, the cumulative trade balance as of April looks somewhat weak. For these reasons, we expect the market may offer a better entry point for the BONTE 2030 in the coming months—via a depreciation of the exchange rate exceeding the yield accrual of the BONTE.



Source: Sekoia Research.

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