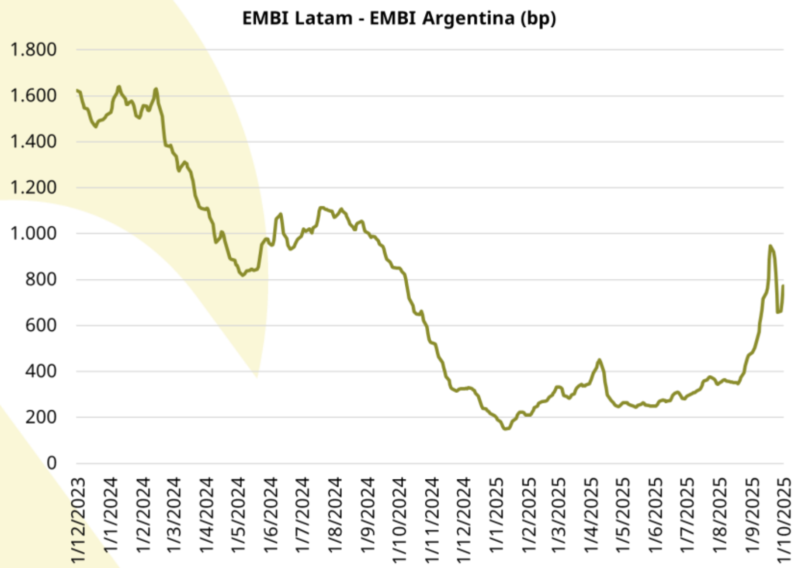
October 09, 2025

The FX Market and the Argentine Sovereign Curve

During 2024, the credit spread between Argentine bonds and the regional average collapsed. The sharp shift in the direction of economic policy compared to previous years allowed for a strong compression of sovereign risk during Milei's first year in office. In January 2025, Argentine bonds were trading only 150 basis points (bps) above the regional average and 570 bps above the U.S. Treasury curve. It may seem distant now, but just a few months ago Argentina was only a few points away from being able to issue debt in the international market. Since June of this year, the spread against the regional average has widened significantly - from 250 bps to nearly 730 bps at present. We are once again at levels similar to those of mid-2024. When the debt market is completely closed, what really matters are the flows (current account and capital account), but above all the dollar stocks (hard-currency debt and reserves). In this summary, we detail these points and explain why, in a world where risk spreads are at historical lows (to put it in perspective, the Colombia 2030 bond yields 5.70%), the punishment in the Argentine sovereign curve seems excessive — especially if there is a bit more rationality in exchange rate and political matters.



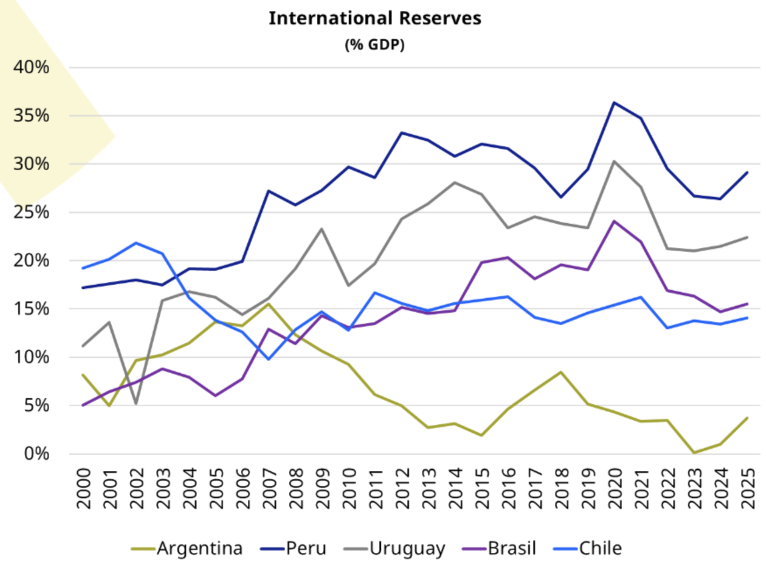
Fuente: Sekoia Research based on BCRD.

We believe the odds are asymmetric: there is more to gain than to lose, especially in the long-dated, lower-parity bonds. This asymmetry has become even clearer after the U.S. Treasury's expression of support for Argentina. We still do not know how that support will materialize, but it would be very positive for the market if it takes the form of a contingent liquidity mechanism to secure upcoming debt payments (perhaps the next two or three coupons). It is important that the Treasury's support be aimed solely at ensuring debt payments, not at defending the exchange rate. Moreover, we think this approach makes the most sense from the perspective of both the U.S. Treasury and the IMF.

To see a meaningful drop in country risk, Argentina needs to maintain the primary fiscal surplus, take the step of removing the FX bands to strengthen reserves, and, as was done throughout 2024, negotiate again with allies in Congress and provincial governors. We see this scenario as very likely for the remainder of the administration. Finally, there are the elections — without a doubt the main source of uncertainty in recent weeks. We have no clear idea about the potential outcome, but we suspect that these midterm elections will say little about the future presidential race in 2027, as is usually the case with midterm contests. We believe the key figure to watch is the ceiling of Fuerza Patria, since the governors' coalition does not in any way alarm international bondholders.

Let us begin with the liquid dollar assets of the Consolidated Public Sector. The National Treasury has virtually exhausted its dollar deposits in recent weeks, as we will see later. On the other hand, there are the Central Bank's reserves. At this point, there is an ongoing debate about which measure of reserves should be considered. In our view, the relevant reserves are those dollars or liquid assets (such as gold) that the monetary authority actually has available to intervene in the FX market or to service debt. For this reason, we subtract from the gross reserves published by the Central Bank (BCRA) the reserve requirements and the deposit insurance fund (SEDESA), which belong to depositors, as well as the portion of the swap line with China that has not yet been activated. Based on this calculation, net reserves currently exceed USD 10 billion. While this is a considerable improvement compared to the level of net reserves inherited by Milei upon taking office (see table), it still represents a very low figure, both in relation to GDP and to upcoming debt payments. As shown in the chart, Latin American countries (Brazil, Chile, Peru, and Uruguay) with low credit spreads display a very high reserve coverage relative to their international debt payments. To put it in perspective, these economies hold on average reserves equivalent to around 20% of GDP - which, extrapolated to Argentina, would amount to roughly USD 130 billion.

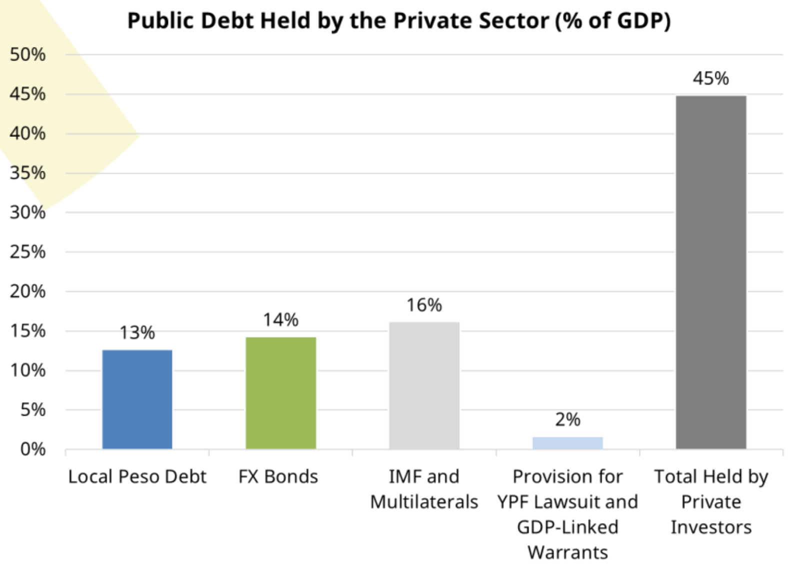
USD Million	Dec-21	Dec-22	Dec-23	Dec-24	Oct-25
Gross FX Reserves	**41.500**	**39.007**	**23.073**	**31.500**	**42.000**
Gold	3.520	3.550	4.096	5.200	7.680
Bank reserve requirements	11.400	11.905	9.096	15.100	16.000
Chinese Swap	20.400	18.705	13.287	13.067	13.343
BIS	3.157	3.100	3.100	-	-
Sedesa	1.900	1.900	1.900	1.900	2.090
Net FX Reserves	**4.643**	**3.397**	**- 4.310**	**1.433**	**10.567**



Fuente: Sekoia Research based on BCRA, BCB, BCU, BCRP y BCCh.

Before turning to the dollar-denominated liabilities, a brief comment on local-currency debt, which has been heavily hit in recent months. In our view, the sell-off in local debt is explained by the Central Bank's poor management of interest rates in the weeks leading up to the Buenos Aires provincial elections, followed by the subsequent dollarization of portfolios after the vote. No interest rate can compensate for expectations of a near-term discrete devaluation. It is hard to justify the punishment of the peso curve from the standpoint of default risk. The experience of the debt reprofiling during the final months of Macri's administration in 2019 showed that such measures make little sense. The only consequence of a local debt reprofiling is a further drop in money demand, while merely delaying capital controls by a few days. A new reprofiling would make even less sense today, given that the Treasury is running a primary fiscal surplus of around 1.4% of GDP. The stock of peso-denominated debt held by the private sector is entirely manageable, as it represents roughly 13% of GDP[1]. Moreover, thanks to sound fiscal management, the Treasury holds local-currency deposits of about ARS 12 trillion (around 1.4% of GDP). Argentina's problem has nothing to do with its local-currency debt.

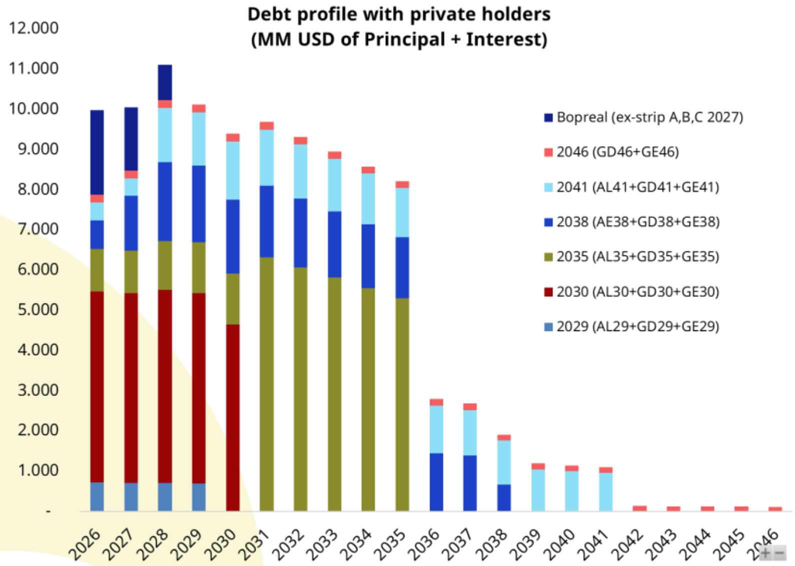
Now let us turn to the stock of foreign-currency debt. Bonds denominated in foreign currency (mostly in U.S. dollars) held by the private sector amount to around USD 84 billion (approximately 14% of GDP). Meanwhile, debt with multilateral organizations -mainly the IMF- totals about USD 96 billion (16% of GDP). To this, we must add the potential liabilities arising from the GDP-linked warrants and the ongoing lawsuit against YPF in New York. Since the exact amount of these contingent liabilities is unknown, let us assume (completely arbitrarily) that they amount to USD 10 billion. It is a random number, but at the end of the day, something must be accounted for. In total, foreign-currency debt held by the private sector and multilaterals amounts to roughly 32% of GDP, even after including a provision for the YPF lawsuit and the GDP-linked warrants. The total debt held by the private sector (including peso bonds) stands at around 45% of GDP. It is worth noting that this calculation assumes a somewhat higher real FX than the 2025 average—the more competitive the FX, the higher the debt ratio. Clearly, the problem is not the level of debt itself, but rather the low liquidity (reserves) and the lack of voluntary access to international markets.



Fuente: Sekoia Research based on Ministry of Economy.

[1] For the calculation of the ratios, we use a GDP of USD 590 billion. This somewhat discretionary decision reflects our assumption that the sustainable real exchange rate for the country is higher than the 2025 average, and more in line with the IMF's EBA estimate, as explained later.

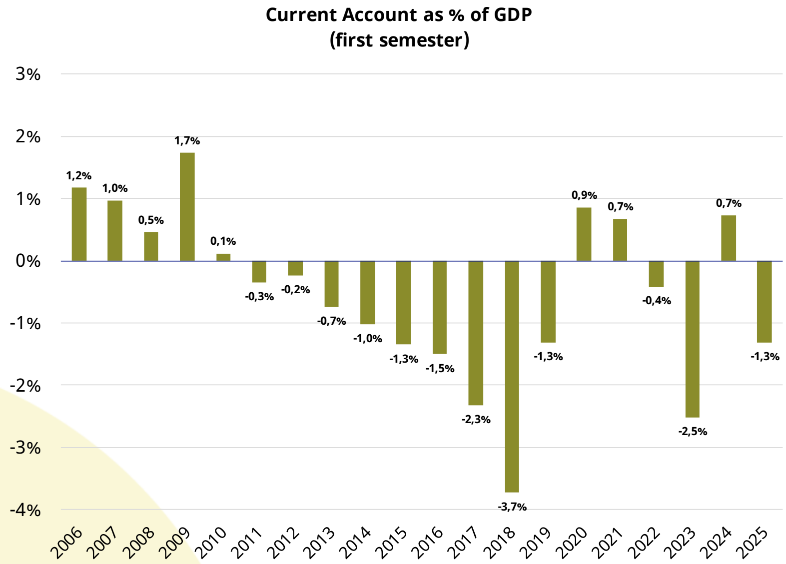
With limited reserves and no access to voluntary markets, short-term disbursements become absolutely critical. Considering interest payments to the IMF (excluding other multilaterals, as they are most likely to roll over), BOPREAL payments (excluding the strips used for tax payments), and payments to private bondholders, the Treasury's dollar needs in 2026 amount to around USD 12 billion. As shown in the chart below, these outflows increase steadily from 2027 onward. Without access to voluntary rollovers and with a real exchange rate that does not allow for reserve accumulation, time is running short and market anxiety is rising.



Fuente: Sekoia Research based on Ministry of Economy.

Now let us turn to the flows, primarily the current account. As we often highlight in our reports, large external deficits in Argentina have historically ended unfavorably. A clear example is 2017, when the Cambiemos administration made the mistake of believing it could finance a deficit of 5% of GDP. Argentina cannot sustain deficits of that magnitude, as doing so would require a substantial inflow of foreign direct investment (FDI). Unlike Mexico, Brazil, Chile, Peru, and Colombia — which finance a large share of their current account deficits through FDI - Argentina has not yet reached that stage. Vaca Muerta and the mining sector could help boost FDI over the medium term, but patience is needed, especially after nearly two decades of macroeconomic and institutional instability. At this point, the economic team made a serious mistake by downplaying the importance of the external deficit.

As shown in the chart, Argentina recorded a current account deficit of nearly 1.3% of GDP in the first half of the year. While this is far from the external deficits of 2017, 2018, or 2023, the trend was far from encouraging, as all components were moving in the same direction: a reduction in the trade surplus, a sharp increase in the services deficit (mainly tourism), and the structural deficit from dividend and interest payments abroad. The sharp deterioration compared to the first half of 2024 (a drop of no less than 2 percentage points of GDP) can be explained by three factors. First, the strong rebound in economic activity from the third quarter of 2024 through February 2025 led imports to grow by more than 30% year-on-year. Second, the necessary normalization of foreign trade—essentially the removal of import restrictions—also resulted in higher import volumes. Finally, the excessive appreciation of the REER not only made imported goods cheaper but also caused a sharp increase in the tourism deficit. That said, the current account deficit should begin to normalize in the second half of the year. Economic activity has stagnated since February, and the REER has depreciated by roughly 25% since April. This should help correct the imbalance in the current account.

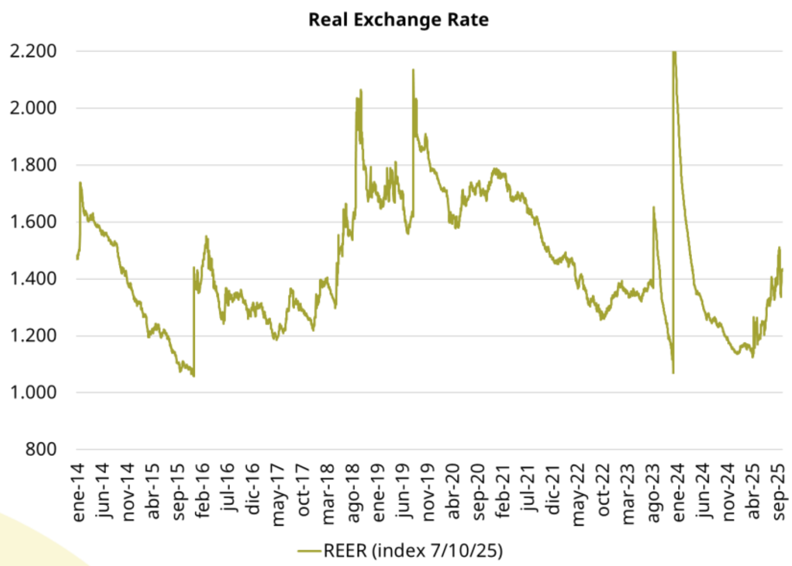


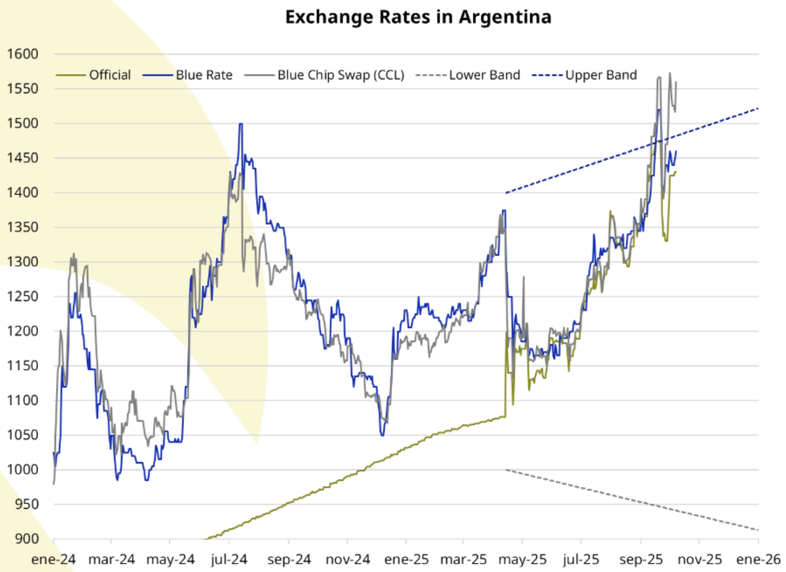
Fuente: Sekoia Research based on INDEC.

As you know, we have long argued that the real exchange rate was excessively appreciated and that the FX bands were poorly designed. This left the economy highly exposed to any adverse shock—whether from a deterioration in the terms of trade, a potential drought or weak harvest, or political noise. After the recent correction (partly helped by the appreciation of the Brazilian real), the current REER is now much closer to reasonable levels.

This conclusion is very much in line with the IMF staff's own estimates. The External Balance Assessment (EBA) is an analytical framework developed by the IMF to evaluate whether a country's real exchange rate is consistent with its fundamentals. It essentially focuses on the country's external position (the current account) to assess long-term macroeconomic consistency. In the IMF's latest EBA, the estimates suggested that a consistent real exchange rate was very close to the current level. Therefore, one might suspect that the IMF's technical staff would not fully agree with the current FX band regime.

The problem is that this now more reasonable level represents the upper band to be defended after a political shock, at a time when the exchange rate regime has lost credibility. Without credibility, buying the last dollar from the Central Bank at the upper band becomes the overriding obsession of economic agents, regardless of any macroeconomic fundamentals. Peso-denominated assets are yielding extremely high interest rates (something unusual for a country running a strong primary surplus) simply because there is no reasonable rate that can compensate for the risk of a discrete exchange rate jump.



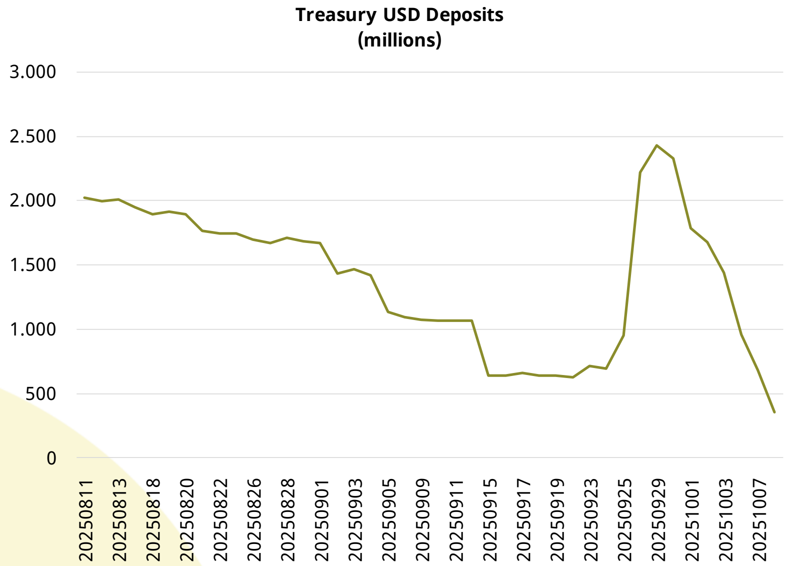


Fuente: Sekoia Research based on BCRA.

Even before the Buenos Aires provincial elections, the Treasury had already sold dollars in the FX market. After the electoral setback, the Central Bank was also forced to intervene, selling USD 1.1 billion at the upper band. Between the Treasury and the Central Bank, slightly more than USD 2 billion were sold until the implementation of the zero-export-tax scheme and the announcement of Scott Bessent's support for the Argentine government. Subsequently, with the liquidation of agricultural exports totaling USD 6.3 billion, the Treasury managed to repurchase USD 2.2 billion, thereby recovering all the foreign currency it had previously sold. The problem, as expected, came the day after. Since the scheme ended, it is estimated that the Treasury has sold around USD 2 billion, leaving only a minimal amount of available dollar treasury USD liquidity.

From now on, the Central Bank will be the only seller. There are still many trading sessions left before the elections (11, to be exact), so the drain on reserves needed to sustain the current exchange rate regime could be very painful. We will see whether the Central Bank limits itself to selling reserves or also decides to impose new restrictions on demand in the official FX market - such as the recent measures limiting arbitrage between different dollar rates. The other alternative would be to fully or partially liberalize the

FX market, undoubtedly the most desirable option from the perspective of bondholders, although all indications suggest that it is not the government's preferred choice ahead of the elections.

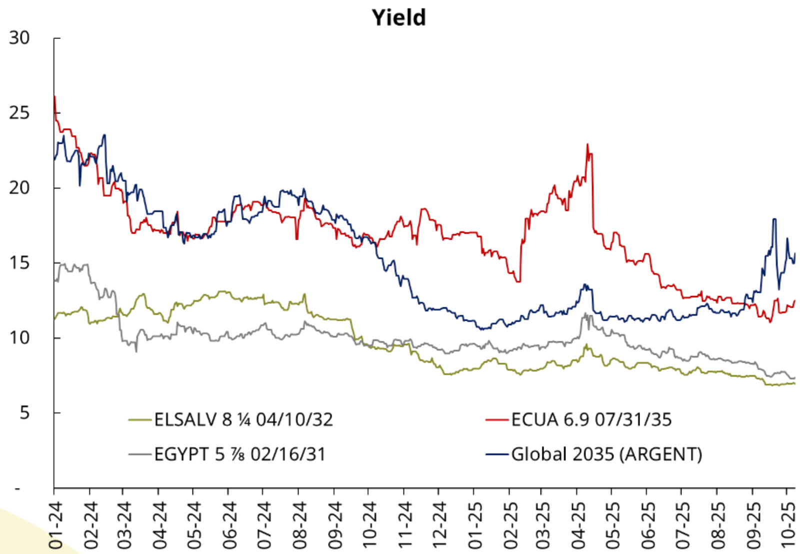


Fuente: Sekoia Research based on BCRA.

We believe the government's fear of removing (or raising) the upper band is excessive, for several reasons. Floating in the current environment does indeed carry well-known risks, such as faster inflation, a worse electoral outcome, and greater uncertainty regarding governability. However, the costs of not floating are much higher: essentially, remaining trapped in a self-reinforcing vicious cycle of reserve losses, rising country risk, and depreciation expectations. Removing the upper band does not mean the exchange rate cannot stabilize. While it is impossible to know the exact level, we suspect it could calm down slightly above the current blue chip swap rate, for several reasons.

First, the primary fiscal surplus is not in question and ultimately acts as a stabilizing anchor. Second, there is the level of the REER: levels slightly above the blue chip swap rate rate would imply a competitive REER for the tradable sector and a much healthier balance of payments. Third—and by far the most relevant point—if the Central Bank shows a firm commitment not to sell its current reserves, signals its intention to start purchasing reserves with the upcoming harvest to strengthen the external position, and if U.S. Treasury support is confirmed, country risk would collapse. It is precisely the drop in country risk that could stabilize the exchange rate. The fact that country risk remains very high while the REER is already at more reasonable levels makes it quite likely that we could see stabilization not far above the current blue chip swap rate. Of course, the exact level will depend on the outcome of the October elections. But ultimately, under any scenario, we believe it would be highly advisable to remove the current upper band.

Two side notes before discussing which segment of the sovereign curve seems most attractive. First, there has been a clear shift in the composition of sovereign bondholders in recent years: domestic private investors have gained share relative to international holders. Second, Argentine bonds have not only underperformed regional peers, as shown at the beginning, but have also performed very poorly compared to other high-risk sovereigns, as seen in the chart below. Both points reflect the strong pessimism of international investors toward the country in recent months - which is not necessarily bad news, provided that the fundamentals start to improve.



Fuente: Sekoia Research based on BBG.

Now we can turn to where it makes sense to position along the sovereign curve. The table below shows bond sensitivities — that is, how prices would react to changes in yields (YTM) using year-end as the time horizon. The horizon is arbitrary, but the interpretation would not change much if a different date were chosen. Looking at New York law bonds (ARGENT), we like the ARGENT 2035 (GD35) for its upside potential, as shown in the table, and its strong liquidity. There is, however, a non-negligible risk: bonds could face another leg down if the October elections deliver a negative outcome. In that case, to achieve greater downside protection, we prefer the ARGENT 2041 (GD41), since the lower the bond's price (parity), the greater the protection in the event of a potential restructuring. Along the same lines, the ARGENT 2041 is issued under the 2005 indenture (like the GD38), which is the legal framework that governed the bonds issued during the 2005 debt exchange (the old Disco and Par). These contracts are more protective for bondholders than the 2016 indenture (GD30/GD35/GD46).

Price returns simulation: Total return as of Dec-31-2025

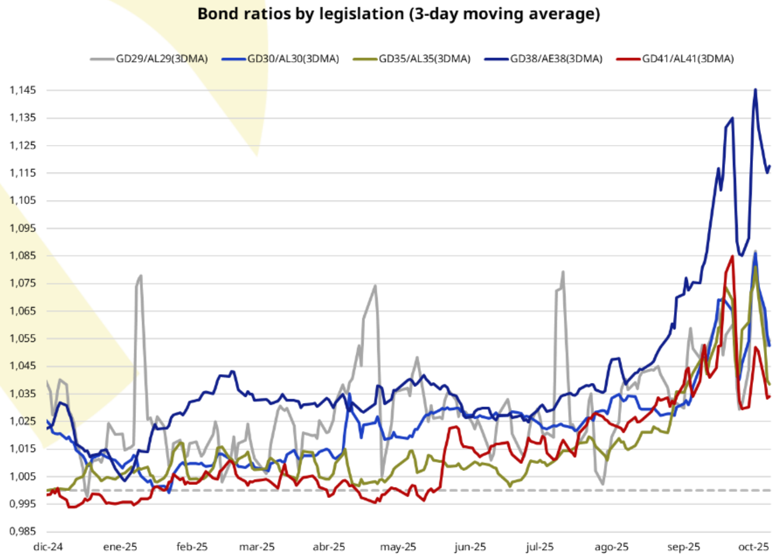
Bond	Clean Price	Dirty Price	Current YTM	Same YTM	YTM 15%	YTM 14%	YTM 13%	YTM 12%	YTM 11%	YTM 10%
GD29	USD 74,15	USD 59,52	18,5%	3,9%	8,9%	10,4%	11,9%	13,6%	15,2%	16,8%
GD30	USD 70,20	USD 56,31	17,8%	3,8%	9,0%	10,9%	12,8%	14,8%	16,9%	19,1%
GD35	USD 55,15	USD 56,18	15,4%	3,3%	5,6%	10,9%	16,6%	22,2%	29,0%	35,7%
GD38	USD 59,20	USD 60,45	15,9%	3,4%	7,3%	11,9%	16,6%	21,4%	27,1%	32,7%
GD41	USD 52,00	USD 52,88	14,9%	3,2%	3,0%	8,2%	14,1%	20,2%	26,6%	34,0%
GD46	USD 55,25	USD 53,72	14,5%	3,1%	0,9%	5,6%	11,1%	16,6%	22,9%	29,6%
AL29	USD 70,00	USD 56,20	22,4%	4,7%	15,3%	16,9%	18,5%	20,3%	22,0%	23,7%
AL30	USD 66,69	USD 53,50	20,7%	4,4%	14,7%	16,7%	18,7%	20,9%	23,0%	25,4%
AL35	USD 52,72	USD 53,75	16,3%	3,5%	10,4%	16,0%	21,8%	27,7%	34,9%	41,9%
AE38	USD 53,40	USD 54,65	18,5%	3,9%	18,7%	23,8%	28,9%	34,2%	40,6%	46,8%
AL41	USD 50,13	USD 51,00	15,7%	3,3%	6,8%	12,2%	18,3%	24,6%	31,3%	38,9%

Prices as of the trading session of Oct-10-2025

Bond	ISIN	Issued	Mty	Law	Indenture	Installments S/A	RV	Outstanding
GD29	US040114HX11	4/9/2020	9/7/2029	NY	2016	10 since 2025	80%	2.601
GD30	US040114HS26	4/9/2020	9/7/2030	NY	2016	13 since 2024	80%	14.532
GD35	US040114HT09	4/9/2020	9/7/2035	NY	2016	10 since 2031	100%	20.171
GD38	US040114HU71	4/9/2020	9/1/2038	NY	2005	22 since 2027	100%	11.146
GD41	US040114HV54	4/9/2020	9/7/2041	NY	2005	28 since 2028	100%	10.123
GD46	US040114HW38	4/9/2020	9/7/2046	NY	2016	44 since 2025	95%	2.092
AL29	ARARGE3209Y4	4/9/2020	9/7/2029	ARG	2016	10 since 2025	80%	765
AL30	ARARGE3209S6	4/9/2020	9/7/2030	ARG	2016	13 since 2024	80%	12.943
AL35	ARARGE3209T4	4/9/2020	9/7/2035	ARG	2016	10 since 2031	100%	5.072
AE38	ARARGE3209U2	4/9/2020	9/1/2038	ARG	2005	22 since 2027	100%	2.384
AL41	ARARGE3209V0	4/9/2020	9/7/2041	ARG	2005	28 since 2028	100%	1.207
GE29	XS2200244072	4/9/2020	9/7/2029	NY	2016	10 since 2025	80%	90
GE30	XS2177363665	4/9/2020	9/7/2030	NY	2016	13 since 2024	80%	1.166
GE35	XS2177364390	4/9/2020	9/7/2035	NY	2016	10 since 2031	100%	299
GE38	XS2177365017	4/9/2020	9/1/2038	NY	2005	22 since 2027	100%	809
GE41	XS2177365363	4/9/2020	9/7/2041	NY	2005	28 since 2028	100%	1.573
GE46	XS2177365520	4/9/2020	9/7/2046	NY	2016	44 since 2025	95%	248

Fuente: Sekoia Research based on Ministry of Economy and BYMA.

For more aggressive investors, we like the ARGBON 2038 (AE38), which is governed by Argentine law. As shown in the chart below, the spread against the GD38 is extremely high; we suspect this is because many local energy companies were paid outstanding debts from CAMMESA with these bonds. Given its low price (parity) and high coupon, the current yield is very attractive. Its upside potential in a normalization scenario is enormous.



Fuente: Sekoia Research based on BYMA.

Regarding the short end of the curve (2029 and 2030), their main appeal lies in the recovery of principal within Milei's presidential term, as shown in the table below. Nevertheless, we prefer the long bonds: for more aggressive investors, the ARGBON 2038; and for more conservative ones, the ARGENT 2041, for the reasons mentioned above. The ARGENT 2035 remains a solid short-term bet, given its strong liquidity and the attributes described earlier.

Bond	Coupon + Amortization (%)			Dirty Price	Total payment (% of price)		
	2026	2027	From 2027		2026	2027	From 2027
GD29	20,8	20,55	40,5	59,4	35%	35%	68%
GD30	16,6	16,45	49,5	56,3	29%	29%	88%
GD35	4,1	4,13	128,5	56,1	7%	7%	229%
GD38	5,0	9,55	121,7	60,4	8%	16%	202%
GD41	3,5	3,50	132,7	52,8	7%	7%	251%
GD46	8,4	8,25	127,9	53,6	16%	15%	239%
AL29	20,8	20,55	40,5	57,0	36%	36%	71%
AL30	16,6	16,45	49,5	53,5	31%	31%	92%
AL35	4,1	4,13	128,5	54,0	8%	8%	238%
AE38	5,0	9,55	121,7	54,5	9%	18%	223%
AL41	3,5	3,50	132,7	50,7	7%	7%	262%

Fuente: Sekoia Research based on BYMA.

Thank you very much for your reading.

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