2001 SPRING FORUM

Analysts Highlight Developments in Argentina at EMTA's First Spring Forum

Argentina was one of the major topics as EMTA held its first Spring Forum on Thursday, April 26 at the offices of Morgan Stanley in New York City. Jaime Valdivia-Hernandez (Morgan Stanley) led a discussion which included panelists Walter Molano (BCP Securities), Carl Ross (Bear Stearns), EMTA Vice-Chair John Cleary (Invesco Asset Management) and EMTA Board Member Keith Gardner (Western Asset Management). Despite concerns earlier in the day that the event might pre-empted by late afternoon market news out of Argentina, over 100 EM professionals attended the Forum, which also included a cocktail reception.

The panel agreed that Argentina has two options to address its current financial crisis: fiscal adjustment or restructuring. Walter Molano said that although the Argentines believe that they are being pressured by outside forces, in fact, “the choice is Argentina’s: either they go in and they cut expenditures…or else they will have to do a debt restructuring.” He added, “It is well within the power of Argentina to do the right thing.”

Carl Ross stressed the importance of Buenos Aires “staying engaged with the Washington community,” in addition to Argentina’s stretching out of its debt amortization schedule and making a credible commitment to fiscal adjustment “over a reasonable period of time.” Argentine officials are on the right path, and their plan “has a good shot of working.” Ross noted that he was among those who believed Argentina’s current monetary system is consistent with long-term growth.

“I think it’s now obvious that the possibility of Argentina just muddling through no longer exists” posited Keith Gardner. He praised Argentine officials for having correctly identified lack of growth as the major economic issue and having taken appropriate measures, but expressed concerns that much of the country’s future economic success hinges on confidence.

Asked about ramifications for the EMs should the worse case default scenario arise, John Cleary responded “Argentina or Turkey--or anywhere--defaulting or restructuring is a problem, it’s a hassle, but it doesn’t kill the asset class.” Cleary opined that the EMs are prone to crisis and that crises can have positive consequences in the long run. He also stressed the broadening of the asset class in recent years, the increasing size of new issues and the rise of euro-denominated issues as important improvements, while noting that returns on G-7 bonds are trending lower, forcing investors to look elsewhere for the yields they may have previously received in countries such as Italy. In the same default scenario, Ross pointed out the possible effects of contagion and of several Latin American countries conceivably “lurching to the left.” Gardner noted that restructuring would not address Argentina’s biggest problem – lack of growth.

In the event of an Argentine default, both Cleary and Gardner predicted that the EMBI+ could return to 800 bps within a year as recent restructurings have been accomplished at a relatively quick pace, while Ross, who believed the effects could be permanent, offered 1000 bps as his prediction. Molano noted that a restructuring would have beneficial effects on other countries, for which the capital markets have “basically been closed” for much of 2001 because of Argentina’s woes.

Assuming that the Argentine situation is satisfactorily resolved one way or another, the panelists all identified Brazilian external debt as one of their top investment choices in the EM debt universe, despite some long-term concerns such as structural issues in the balance of payments and the composition of Brazilian government obligations. Several panelists also spoke positively on Russia, praising President Putin’s commitment to reform. In addition, Molano called Colombia “a country on its way back,” Gardner saw “big bounce” potential in Peru, while Ross and Cleary cited Argentina as possibly ripe for a rebound.

Opinions were mixed on Ecuador, with Gardner saying he had nothing constructive to say but Ross suggesting that current high yields are attractive despite concerns over continued IMF aid. Opinions also diverged on Mexican paper, with Molano concerned that many investors who have bought Mexican debt as a “safe haven” in recent months will pull out. Ross disagreed, saying that the prospect of S&P investment grade status provided a “carrot” that made Mexican bonds attractive compared to similarly rated debt, especially that of some Asian nations.

The Spring Forum is one of two new events EMTA plans to hold annually. An Autumn Forum is tentatively scheduled for September in Newport Beach, California, while EMTA’s Summer Forum, which has been held in London for several years, is set for June 28, 2001.

Click Here for a transcript of this event.

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