

News Stories

ECONOMICS

Government denies drop in consumption

October 27, 2014

Cabinet Chief Jorge Capitanich rejected claims by economists of a 1.2% drop in consumption for the final months of the year –the first fall in the Kirchnerite era-. He stressed that there is even a slight improvement compared to the first quarter of 2014.

Capitanich pointed out that, on the contrary of the negative figures released by certain economists, there has been “improvements in employment and consumption levels.” He also said that there has been no increase in layoffs in September and that the private formal employment rate has shown a slight 0.1% improvement in the past month.

Speaking at his daily press conference in the government house, the official said that there have been improvements in construction, car production and export, as a result of the official Procreauto and “Now 12” credit schemes.

Source: <http://www.buenosairesherald.com/article/173218/gov%E2%80%99t-denies-drop-in-consumption->

FINANCIAL MARKETS

Kicillof appoints right-hand man as CNV vice-president

October 27, 2014

The government has appointed economist David René Jacoby as vice-president of securities regulator CNV. He will be the second-in-command of CNV president Cristian Girard.

Jacoby was one of the ten board members of Camuzzi Gas Pampeana, one of the 42 firms in which the government holds a stake since late 2008, when President Cristina Fernández de Kirchner decided to nationalize private pension funds. As a shareholder, he represented ANSES social security agency.

The 33-year-old economist is to become Kicillof’s right-hand man in the CNV, in replacement of Hernán Pablo Fardi, who was vicepresident Amado Boudou’s henchman. Fardi is under judicial investigation for setting the State –through ANSES- to buy shares in companies where he had previously invested.

Source: <http://www.ambito.com/noticia.asp?id=764603>

Too Early to Fall to Argentina

October 27, 2014

A handful of hedge funds and private-equity investors have started to tango with Argentina’s capital markets. No one can be quite sure where the dance will end. The attraction: The prospect of an October 2015 election that could bring big changes and a boost to the markets.

Left-leaning President Cristina Fernandez de Kirchner, who together with her late husband, Nestor Kirchner, has ruled the country since 2003, will step down because of term limits. She will leave an

economic mess. In Argentina, inflation is at about 40% -- though the state figure is 30% -- and the U.S. dollar fetches 15 pesos on the black market, almost twice the official rate.

The country is in default on a chunk of its sovereign debt, a situation that began in 2001, was nearly resolved in a 2005 restructuring, and came to a head again in July when holdout U.S. hedge funds demanded to be made whole.

Smaller investors might be interested in joining the dance, particularly since Argentina's Merval Index, representing just 14 companies, seems reasonably valued at 10 times estimated earnings, despite a 48% dollar-based rise this year. We've all watched the election of a reform-minded Indian government send its market up by 30% in 2014. In this case, however, we'd suggest staying away.

The reality is that Argentina's economy is very fragile and its equity market -- relegated by MSCI to frontier status -- is barely approachable for the retail investor. The government has nationalized enterprises, and others have gone private over the past decade.

That has reduced the total market value to just \$63 billion, smaller than Venezuela's. Advisors warn that the Global X MSCI Argentina ETF (ticker: ARGT) is illiquid and lacks enough diversity to merit interest.

Economists expect Argentina's GDP to contract 1% to 2% in 2014. And the outlook isn't much better: The World Bank projects 0.5% growth in 2015. Earlier this month, Argentina's central bank president, Juan Carlos Fabrega, who pushed peso devaluation and higher interest rates to contain inflation and protect reserves, resigned as Kirchner accused the bank and business interests of conspiring to topple her government.

He clashed with Economy Minister and Kirchner confidant Axel Kicillof, who could end up on the ballot next year. "It is a sad story. Argentina has all the ingredients to be great, but the political makeup has been a disaster," says Jorge Mariscal, chief investment officer for emerging markets at UBS Wealth Management. UBS advises clients to stay away from Argentine bonds and currency; it doesn't cover the equity market.

Because of Argentina's default, "it's more difficult to access international financing," notes Mariscal. What's more, prices for agricultural commodities, which make up more than a third of exports, have been declining. "The economy is probably already in a recession," according to Mariscal.

Smaller investors should also bear in mind that the hedge funds and private equity funds aren't necessarily buying public stocks. Some have been gobbling up real estate and other assets that aren't open to others. Hedge fund investor Daniel Loeb, whose firm, Third Point, has bought Argentinean debt and shares of state-controlled oil company **YPF (YPF)**, has contended that the country is at an inflection point after a "long malaise."

But elections won't necessarily yield a big shift in Argentina. Investors could find themselves in a situation similar to those in Brazil, where the market has tumbled while awaiting the Oct. 26 election, with no assurance of change.

Source: Barron's (this article requires subscription)

Argentina raises USD 983m via 2016 dollar-linked notes

October 24, 2014

The **Republic of Argentina** yesterday raised USD 983.3m via the issuance of 2016 1.75% BONAD dollar-linked notes in the domestic market. The Economy Ministry said that the investors' demand surpassed 2.4x the amount originally offered, so the bond issue was enlarged to USD 983.3m from USD 500m.

Local investors submitted a total of 383 offers totaling USD 1.2bn. The BONAD 2016 is the first sovereign dollar-linked bond. It pays an annual coupon of 1.75% and the capital amortization will be entirely paid at maturity.

Source: <http://www.cronista.com/finanzasmercados/Con-fuerte-demanda-el-Gobierno-emitio-bono-atado-al-dolar-por-us-983-millones-20141023-0140.html>

Argentina tries to delay payment of USD 185m arbitration awarded to British Gas to avoid new holdouts embargo

October 27, 2014

Argentina is trying to delay the payment of a USD 185.3m arbitration awarded by the US Supreme Court earlier this year to **British Gas** to avoid a new embargo request.

Since the US Supreme Court ruled in March in favor of British company BG Group in its effort to reinstate the arbitration award against Argentina that a US appeals court had rejected in 2011, the country has been trying to delay the payment.

In August, Argentina's legal advisor Cleary, Gottlieb, Steen & Hamilton filed a 395-document based on the "manifest disregard" of the state of necessity that caused the country to adopt the pesification of the utilities rates that British Gas was complaining about.

The Argentine government wanted to emphasize that the judges that ruled against the country did not understand the economic and social crisis that occurred in 2001-2002 that drove the country to the pesification, devaluation and default.

The argument submitted by Argentina was rejected in first and second instance courts, and now the Supreme Court must decide whether to accept the review of the case or not. Unnamed lawyers said that Argentina's goal seems to be to gain time in this case, since it is unlikely that the Supreme Court will accept to review the case.

If the review is not accepted the US holdouts could ask for the seizure of the funds in order to collect the USD 1.3bn payment order they got from US Federal Judge Thomas Griesa, it was reported.

Source: <http://www.lanacion.com.ar/1738930-el-gobierno-podria-sumar-otro-embargo-en-eeuu>

Argentina Bond Fight Judge Griesa get Ken Dart Suit

October 24, 2014

Billionaire Ken Dart's EM Ltd. is seeking to take advantage of a U.S. court ruling won by fellow billionaire hedge fund manager Paul Singer's NML Capital, as he seeks payment on \$835 million in defaulted Argentine bonds.

Dart, 59, president of Dart Container Corp., has been trying to get the South American nation to pay on bonds held by his hedge fund for more than a decade. In his latest complaint, assigned yesterday to U.S. District Judge Thomas Griesa in Manhattan, Dart's hedge fund seeks to bar Argentina from paying its performing debt before EM gets paid.

In 2013, Argentina's tax agency sent 50 government agents to the local unit of Mason, Michigan-based Dart Container, as part of an investigation into alleged tax evasion, and accused him of financing anti-government protests. Argentina's president, Cristina Fernandez de Kirchner, has vowed never to pay the so-called "vulture funds" that hold the country's defaulted debt.

Griesa, who handles U.S. litigation over Argentina's 2001 default, ruled in 2012 that Argentina can't pay its restructured debt without also paying \$1.5 billion to a group led by NML that holds defaulted bonds. That ruling triggered a new default July 30 when bondholders weren't paid.

"EM now seeks an injunction from this court that is the same as the injunction that was issued in NML v. Argentina," Dart's hedge fund said in its complaint filed last week. Argentina has been locked out of international credit markets since it defaulted on a record \$95 billion 13 years ago.

The country exchanged 92 percent of its defaulted bonds for new ones, at a sharp discount, in restructurings in 2005 and 2010. Holdouts including EM and NML have tried to collect from the nation after winning court rulings recognizing their debt.

Argentina has said it can't pay the holdouts in full while also making payments on the restructured bonds. The country claims Griesa's attempts to force it to pay holdouts violate its rights as a sovereign nation.

Shannon Lynch, a spokeswoman for the New York law firm Cleary Gottlieb Steen & Hamilton LLP, which represents Argentina in the bond litigation, didn't immediately return a voicemail seeking comment. The case is EM Ltd. v. Republic of Argentina, 14-cv-08303, U.S. District Court, Southern District of New York (Manhattan).

Source: <http://www.bloomberg.com/news/2014-10-24/argentina-bond-fight-judge-griesa-gets-new-ken-dart-suit.html>

TELECOMUNICATION

Telecom Italia extends agreement with Fintech for the sale of Telecom Argentina

October 27, 2014

Telecom Italia on Friday accepted an offer from the Fintech Group to amend and restate the original existing agreement, signed on 13 November, 2013, for the acquisition of Telecom Italia's entire interest in **Telecom Argentina**, held by Telecom Italia and Telecom Italia International through **Sofora Telecomunicaciones** and **Nortel Inversora**, and other related assets.

The total aggregate consideration and payments contemplated by the agreement remains unchanged at USD 960m. Under the amended agreement, the sale of the 51% controlling interest in Sofora is conditional upon obtaining regulatory approval by the Argentine Secretaría de Comunicaciones and will not occur until after such approval is obtained.

That sale is expected to occur within the next two and one-half years. In the interim, a 17% minority interest in Sofora will be sold to Fintech during October 2014.

Of the total aggregate consideration and payments: (i) USD 113.7m has been received prior to today's date (a) pursuant to the terms of the original agreement with Fintech, in respect of the sale to Fintech of liquid assets held at the time by Tierra Argentea (a company controlled by Telecom Italia) and (b) in respect of amounts already reserved for dividends by Sofora; (ii) USD 215.7m will be paid as consideration for the sale to Fintech of a 17% minority interest in Sofora held by Telecom Italia International and other related assets, which is expected to occur by the end of October; and (iii) a further USD 550.6m will be paid as consideration for the sale of the 51% controlling interest in Sofora held by Telecom Italia and Telecom Italia International.

The remaining USD 80m will be paid, with portions paid only following closing of the sale of Telecom Italia's 51% controlling interest in Sofora to Fintech, pursuant to additional agreements related to the transaction, including an agreement to continue providing the Telecom Argentina companies technical support and other services for up to three years, the waiver by Telecom Italia of certain rights under, as well as amendments to, the current shareholders' agreement relating to Telecom Argentina with the Werthein Group.

If Telecom Italia is unable to complete a sale to a third party purchaser within a further two and one-half years, the agreement with Fintech will be terminated, Fintech will pay Telecom Italia an amount of USD 175m and Telecom Italia will receive a six-month call option to purchase (or

designate a Telecom Italia Group company to purchase) the 17% minority interest in Sofora previously sold to Fintech pursuant to an agreed formulation.

Telecom Italia has received certain guarantees of performance under the agreements with Fintech, secured by the pledge of collateral by Fintech with a value of USD 600.6m. In connection with this arrangement, Telecom Italia International will issue a note to be subscribed by Fintech, which will be pledged by Fintech to Telecom Italia and Telecom Italia International.

The note will be guaranteed by Telecom Italia, constituting a related-party transaction, on arm's length terms, between the parent company (Telecom Italia S.p.A.) and its fully owned subsidiary (Telecom Italia International N.V.), below the materiality thresholds set forth by the Telecom Italia Group's internal procedure for related-party transactions.

The cash proceeds of such note of USD 600.6m will increase the liquidity position of the Telecom Italia Group, without changing its Net Financial Position. The majority of Sofora's Board of Directors will continue to be appointed by Telecom Italia Group until receipt of Argentine regulatory approval and closing of the sale of Telecom Italia's 51% controlling interest in Sofora.

No material change in the corporate governance of the Argentinean companies is foreseen. Telecom Italia presently holds an economic interest of 19.3% in the Business Unit Argentina, which reported revenues in 2013 of ARS 27.3bn (EUR 3.7bn) with an EBITDA margin of 27.6%.

Source: http://www.ieco.clarin.com/empresas-management/Nuevo_acuerdo-venta-Telecom-Fintech-Telecom_Italia_0_1236476467.html

Legal challenges hinder Cablevision's ability to participate in Argentina's 4G spectrum auction

October 27, 2014

Grupo Clarin's multiple legal battles may hinder its cable TV operator **Cablevision's** efforts to participate in Argentina's 4G auction processes, two sources familiar with the company said.

The Kirchner administration initiated over 3,000 legal actions against Clarin for minor violations, threatening to overwhelm its legal department and hinder its ability to challenge the 4G auction process, a company source said.

The legal burden will require the company to shift its focus to its battle with the government over the recently-announced ex officio divestment required to comply with media law, a sourced said.

A majority of the complaints were procedural and related to the incorrect placement of public advertising across Argentina, the source said. While these violations could be settled with minor fines, they would open Clarin to future attack as their payment is considered a de facto admission of guilt, the source said.

The deadline to participate in the 4G spectrum auction has expired with the winners revealed by 31 October leaving a local court injunction as Cablevision's only alternative to halt the bidding process, the second source said.

Cablevision considers the auction to be discriminatory, especially the requirement by Argentina's Communications Secretary (SECOM) that all winning bids pay a USD 500m entry fee to operate the new spectrum. As reported, access to dollars is restricted by the central bank in Argentina's volatile economy, putting local players at disadvantage.

Rumors circulated in Argentina Monday that the government was mulling changes to the auction's terms after three of the four pre-qualified 4G spectrum bidders - Movistar (Telefonica de

Argentina), Personal (Telecom Argentina) and Claro (America Movil) - informed the government that their parent companies would not pay the USD denominated fee.

Late Monday, the SECOM stated that it was not studying any kind of modification to the 4G auction, as reported.

Source: <http://www.cronista.com/negocios/El-Grupo-Clarín-va-a-la-Justicia-para-frenar-la-licitación-de-la-4G-20141027-0036.html>