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Argentina Bonds Slide After Nation Orders Public Sector Sale (1)

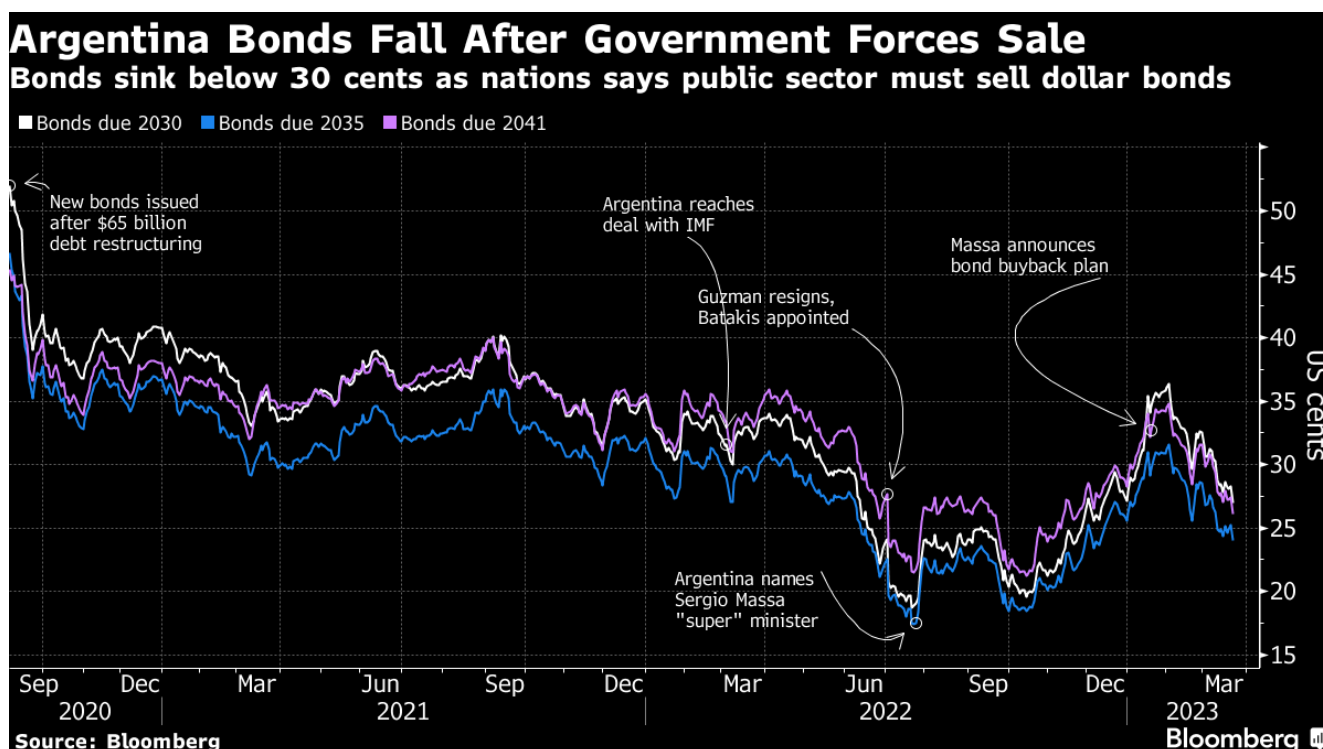
- Argentina to decree public sector must sell dollar bonds
- Measure seen saving nation around \$4 billion in debt payments

By Ignacio Olivera Doll and Scott Squires

(Bloomberg) -- Argentina's overseas bonds are falling after the government said it would force state-run institutions to sell the securities to the private sector, a move that could save the government around \$4 billion in debt payments.

The nation's \$16.1 billion in bonds due 2030 fell as much as 1.4 cents Wednesday to around 27 cents, a three-month low. Notes due 2041 followed suit, slipping 1.3 cents to around 26 cents, before paring losses.

It's a move that aims to preserve the central bank's dwindling cash reserves and ease pressure on the official exchange. The government is trying to avoid a sharp one-time currency devaluation that would fuel inflation already running at more than 100%.



While measures could save Argentina around \$3.7 billion, provided the central bank does not participate in the sale, the move may backfire by exacerbating demand for dollars ahead of Presidential elections in October, according to local brokerage Portfolio Personal Inversiones.

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"This operation undermines Argentina's debt sustainability by converting public sector held debt to private bondholders' debt," PPI analysts led by Pedro Siaba Serrate wrote in a note. "The government is willing to 'undersell' bonds at low prices in exchange for a brief calm in the FX market."

Argentina's economy ministry will issue two decrees to execute the change. The first will force public sector institutions to sell dollar debt to the market under local Argentine law through a schedule that policy makers will establish. The second will mandate the same institutions to swap their global bonds controlled under New York law for bonds in pesos.

Separately, the government is reopening the sale of local-law, dollar bonds that mature in 2029. Economy Minister Sergio Massa will meet with financial sector executives Wednesday morning to pitch the offer.

An Economy Ministry spokesman declined to comment.

Argentina's parallel exchange rate, known locally as the blue-chip swap, strengthened about 1.4% after the announcement to around 397 pesos per dollar. The rate, derived from buying securities locally and selling them abroad, has weakened more than 12% against the dollar this year.

"This measure is tantamount to acknowledging that the situation in the FX market is critical, so it could actually fuel more dollar demand," said Ramiro Blazquez, head of strategy at BancTrust & Co. in Buenos Aires. "Not to mention there could be legal consequences that arise from this."

(Updates with detail, analyst comments in the fourth paragraph.)

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