

## NOTICE OF EXCHANGE RATE DIVERGENCE

To: EMTA, Inc.

From: Peter Allem - Amia Capital LLP

Observation Days for Exchange Rate Divergence: 20 September 2019, 19 September 2019, 18 September 2019

Notice Dated: 23 September 2019

We confirm that (i) we are an EMTA Member in good standing, acting independently, and (ii) in our reasonable opinion, an Exchange Rate Divergence has been observed for the three consecutive Buenos Aires Business Days referenced above.

Since the imposition of various capital controls limiting foreign investors' access to US Dollars, we have noticed increasing divergence between the prevailing exchange rate and the settlement rate of ARS NDF contracts.

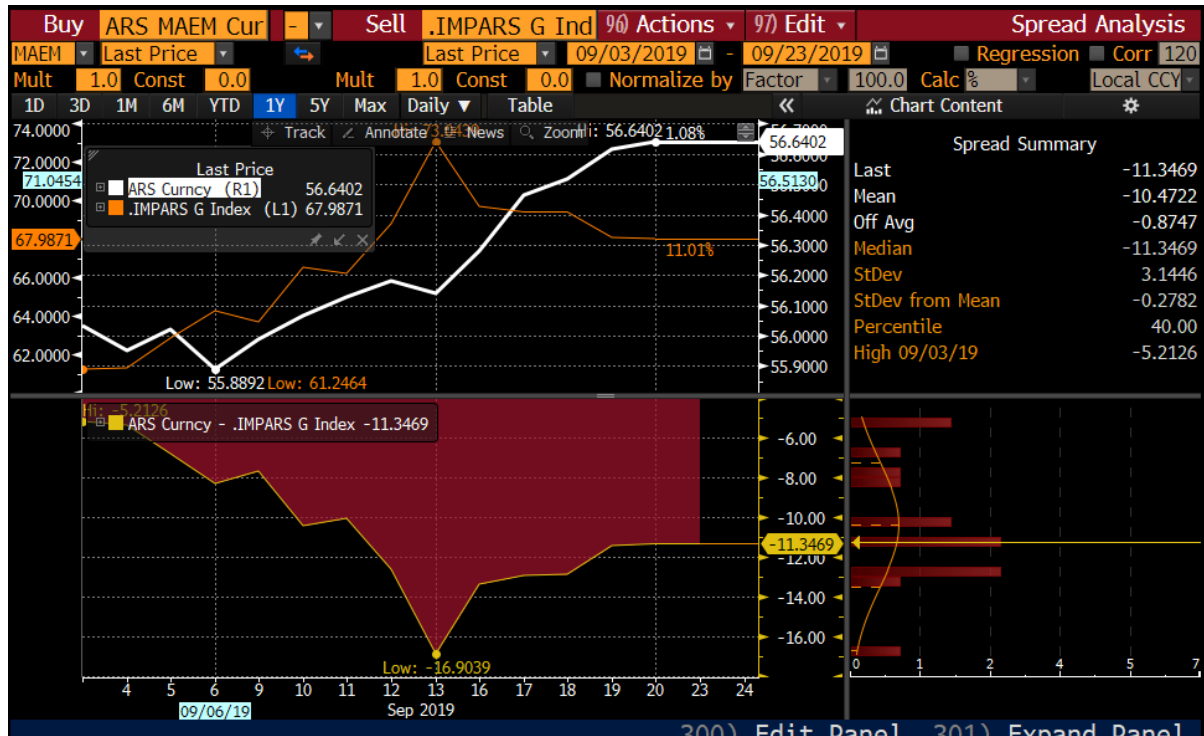
The current settlement rate (ARS MAE - as published by the Mercado Electronico Abierto) for standard EMTA Template USDARS NDF transactions no longer reflects the prevailing bid and offer rates in a standard size financial transaction for same-day settlement in the Buenos Aires marketplace. It is widely accepted and published that the conventional market rate known as the "Blue Chip Swap Rate" more accurately reflects the price at which foreign exchange is being transacted in standard size transactions in Buenos Aires. It is the implied FX price calculated by observing the same stocks prices in the onshore exchange in ARS and the offshore exchange in USD.

Please see chart below depicting the divergence of the official exchange rate and the "Blue Chip Swap" rate.

**Chart showing both the ARS MAE Fixing and the Blue chip swap rate for the last several years**



Chart showing more recent performance of the divergence in FX rates



## NOTICE OF EXCHANGE RATE DIVERGENCE

To: EMTA, Inc.

From: Cargill, EMTA member  
Dave Hoover, Sender

Observation Days for Exchange Rate Divergence: September 18, 2019, September 19, 2019, September 20, 2019

Notice Dated: September 23, 2019

We confirm that that (i) we are an EMTA Member in good standing, acting independently, and (ii) in our reasonable opinion, an Exchange Rate Divergence has been observed for the three consecutive Buenos Aires Business Days referenced above as follows:

We observed that the ARS MAE (ARS05) differed by more than 20% from the Argentine bid and offer rates for a standard size Argentine Peso/U.S. Dollar financial transaction for the same-day settlement in the Buenos Aires marketplace.

## NOTICE OF EXCHANGE RATE DIVERGENCE

**To: EMTA, Inc.**

**From: Goldman Sachs and Julio Badi**

**Observation Days for Exchange Rate Divergence:**

**September 18, 2019; September 19, 2019; September 20, 2019**

**Notice Dated: September 23, 2019**

We confirm that (i) we are an EMTA Member in good standing, acting independently, and (ii) in our reasonable opinion, an Exchange Rate Divergence has been observed for the three consecutive Buenos Aires Business Days referenced above as follows:

As a result of the introduction of capital controls on foreign exchange transactions by the *Banco Central de la República Argentina* ("BCRA") effective as of September 1, 2019, the ARS MAE (ARS05) failed to reflect the current prevailing ARS/USD bid and offer rates for a standard size ARS/USD financial transaction for same-day settlement for all market participants in the Buenos Aires marketplace for the Observation Dates referenced above, each of which were business days in Buenos Aires.

First, as a non-resident we were unable to obtain quotes for a standard size ARS/USD financial transaction in an amount of approximately USD 2 million from local banks/ dealers at the MAE rate since the new BCRA restrictions prohibit purchases by non-residents of USD in an amount in excess of USD1,000 per month unless expressly authorized by the BCRA.

Second, as a non-resident we were able to obtain quotes for a standard size ARS/USD transaction in an amount of approximately USD 2 million from local broker- dealers at the "contado con liquidacion" (Blue Chip swap) rate. However, as set forth below, the Blue Chip swap rate quotes we obtained diverged from the MAE (ARS05) rate on each of the Observation Dates.

| Date      | Blue Chip Swap Quote |       | MAE (ARS05) | % Divergence |       |
|-----------|----------------------|-------|-------------|--------------|-------|
|           | Bid                  | Offer |             |              |       |
| 18-Sep-19 | 69.00                | 69.25 | 56.5155     | 22.1%        | 22.5% |
| 19-Sep-19 | 68.50                | 69.50 | 56.6161     | 21.0%        | 22.8% |
| 20-Sep-19 | 68.60                | 69.25 | 56.6402     | 21.1%        | 22.3% |

# KING STREET®

## NOTICE OF EXCHANGE RATE DIVERGENCE

To: EMTA, Inc.

From: King Street Capital Management, L.P.  
[cpt@kingstreet.com](mailto:cpt@kingstreet.com) and [kslegal@kingstreet.com](mailto:kslegal@kingstreet.com)

Observation Days for Exchange Rate Divergence: September 18, 2019, September 19, 2019,  
September 20, 2019

Notice Dated: September 23, 2019

We confirm that (i) we are an EMTA Member in good standing, acting independently, and (ii) in our reasonable opinion, an Exchange Rate Divergence has been observed for the three consecutive Buenos Aires Business Days referenced above as follows:

On September 1, 2019, the Central Bank of the Argentine Republic issued a decree imposing certain capital controls in respect of the Argentine Peso (ARS), which will be effective until December 31, 2019.<sup>1</sup> The foregoing currency restrictions have subsequently resulted in the occurrence of an Exchange Rate Divergence Disruption Event, as defined in the EMTA ARS Template Terms, dated January 1, 2018.

In our reasonable opinion, we believe that such Exchange Rate Divergence Disruption Event is evidenced by the following:

Due to the currency controls that have been implemented, financial transactions by non-Argentine residents in excess of \$1,000 per month are not permitted (the "**Controlled Transactions**"), and therefore cannot be conducted at the MAE rate (ARS MAE (ARS05)). As such, Controlled Transactions must be executed by alternative methods, including, through a two-step process in which local bonds denominated in USD must be purchased with ARS locally and then sold abroad. In our reasonable opinion and evidenced by the numerical details provided in the table below, ARS MAE (ARS05) has failed, for at least the three consecutive Buenos Aires Business Days referenced above, to reflect the current prevailing Argentine Peso bid and offer rates for ARS / USD financial transactions in excess of \$1,000 for same-day settlement in the Buenos Aires marketplace.

| Dates     | MAE<br>ARS | Transactional<br>ARS |
|-----------|------------|----------------------|
| 9/18/2019 | 56.49      | 67.54                |
| 9/19/2019 | 56.63      | 69.52                |
| 9/20/2019 | 56.63      | 68.08                |

*(remainder of page intentionally blank)*

<sup>1</sup> Benedict Mander and Colby Smith, "Argentina imposes currency controls", *Financial Times* (September 1, 2019) <https://www.ft.com/content/2387309c-cce9-11e9-99a4-b5ded7a7fe3f>; Philip Sanders, "Argentina Imposes Capital Controls as Reserves Drain Away", *Bloomberg* (September 1, 2019) <https://www.bloomberg.com/news/articles/2019-09-01/argentina-imposes-currency-controls-as-debt-crisis-escalates>.

Respectfully yours,

**KING STREET CAPITAL MANAGEMENT, L.P.**

By: \_\_\_\_\_

Name: Howard Baum

Title: Authorized Signatory

## **NOTICE OF EXCHANGE RATE DIVERGENCE**

To: EMTA, Inc.

From: Pacific Investment Management Company LLC (“PIMCO”)

By: Ismael Orenstein, Senior Vice President & Portfolio Manager

Observation Days for Exchange Rate Divergence: September 18, 2019, September 19, 2019, and September 20, 2019

Notice Dated: September 23, 2019

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PIMCO submits this notice as an EMTA Member and market participant in order to promote the proper and efficient functioning of market mechanisms. We confirm that (i) we are an EMTA Member in good standing, acting independently, and (ii) in our reasonable opinion, an Exchange Rate Divergence has been observed for the three consecutive Buenos Aires Business Days referenced above as follows:

- On Sunday, September 1, 2019, the Central Bank of the Argentine Republic (the “**Central Bank**”) issued Communiqué “A” 6770 in accordance with Decree No. 609/2019 imposing certain currency restrictions with respect to the Argentine Peso (“**ARS**”), effective from September 1, 2019 until December 31, 2019 (the “**Capital Controls**”).<sup>1</sup>
- In relevant part, the Capital Controls provide that prior approval of the Central Bank will be required for non-resident investors to access the local foreign exchange market in case of amounts greater than the equivalent of USD 1,000 per month in all entities licensed to operate in foreign exchange transactions.<sup>2</sup>
- However, non-resident investors may still attempt to repatriate local assets into US Dollars (“**USD**”) by engaging in what is referred to as a Blue-Chip Swap (“**BCS**”) (also referred to as a “Contado con Liqui”). In a BCS, an investor seeks to profit from assets with multiple settlement locations to effectively convert ARS into USD, thereby creating a parallel market for USD/ARS foreign exchange transactions. In other words, the USD/ARS spot rate quoted in the ARS MAE (ARS05), the local onshore spot market, does not represent the actual rate of a financial transaction by an investor. Instead, the rate at which an investor can actually transact in USD/ARS foreign exchange transactions is the BCS rate.

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<sup>1</sup> EMTA Notice, *Implications of Argentine Capital Controls for Disruption Events and Fallback Mechanism in the EMTA ARS Template Terms* (September 5, 2019) available at <https://www.emta.org/WorkArea/DownloadAsset.aspx?id=11277>.

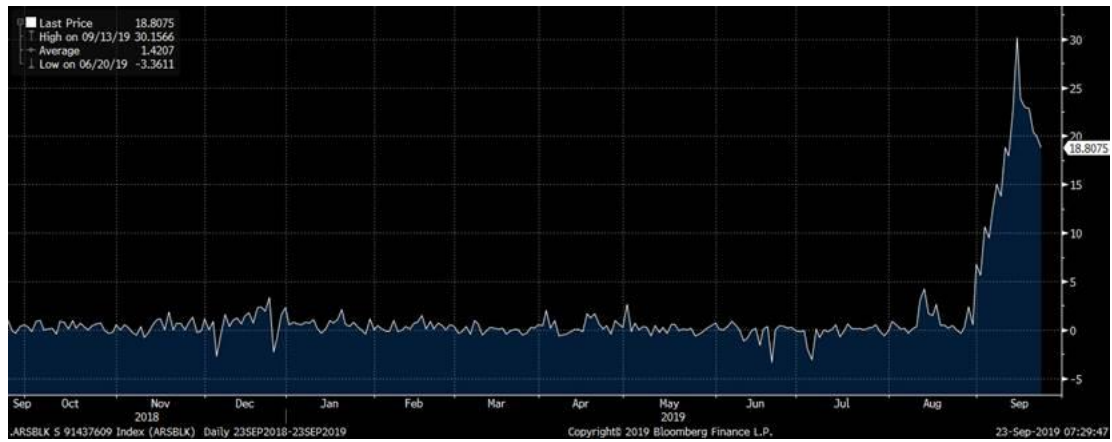
<sup>2</sup> Estudio O’Farrell, *The Argentine Central Bank establishes new regulations applicable to foreign exchange market transactions* (September 2, 2019) available at <https://www.emta.org/WorkArea/DownloadAsset.aspx?id=11263>.

- Prior to the Central Bank's establishment of the Capital Controls, the difference between the BCS rate and the USD/ARS spot rate was minimal (see Chart 1).
- Immediately following the Central Bank's establishment of the Capital Controls, the spread between the BCS rate and the USD/ARS spot rate moved to ~10% (see Chart 2). This spread is referred to locally as the "brecha."
- In past situations of capital controls in Argentina, this spread grew to as much as 50% (see comments from banks in Chart 3 below).
- The spread referenced in Chart 2 began on the first business day after the establishment of the Capital Controls and has persisted through and including the date hereof (see Charts 1-4 below).
- As evidenced by the foregoing explanation, together with the supporting charts annexed hereto, the ARS MAE (ARS05) has failed, for a period of not less than three consecutive business days in Buenos Aires (due to a split in the currency exchange rate) to reflect the current prevailing ARS bid and offer rates for a standard size USD/ARS financial transaction for same-day settlement in the Buenos Aires marketplace.

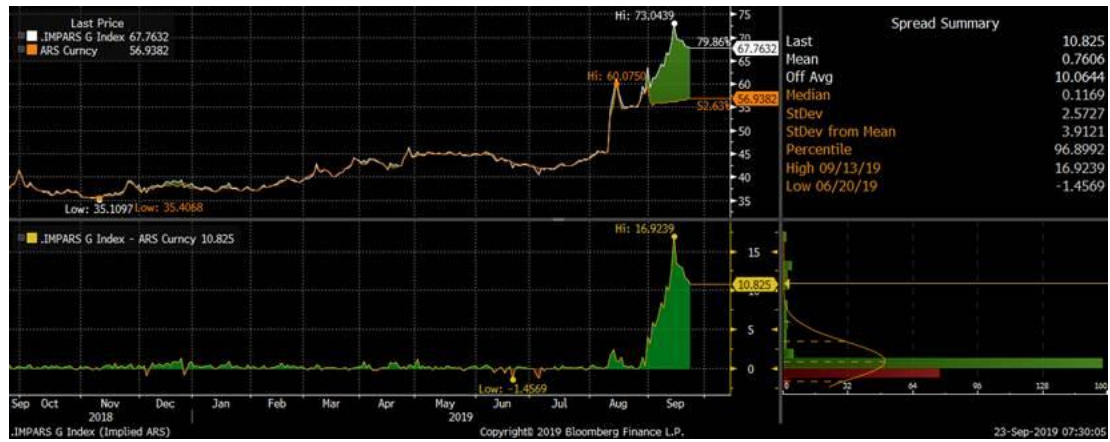
*[Remainder of page intentionally left blank. See charts on following pages.]*



## CHART 1



## CHART 2



### CHART 3

✓ 09/01/19 13:47:02

From [REDACTED]  
Bcc [REDACTED]  
Subject Argentina Strategy Flash. Argentina's government enacts capital controls  
Attached 97) (2019.09.01) TPCG Strategy Flash.pdf <266K> 91) ☆ Move Folders

**Argentina's government enacts capital controls**

- \* Following last week's re-profiling, the Government published today in the Official Gazette decree 609/19 reintroducing capital controls, which were later regulated by the BCRA in communication A6770.
- \* We take a look at the controls and find that limits on residents USD purchases are more stringent than expected. Additionally, the set of controls make no exceptions for nonresidents trying to dollarize the payments on their ARS paper (putting index eligibility at risk) and the government hinted at restrictions to the **BCS**.
- \* In this context, we believe that the recently announced controls could be consistent with a wider spread between the official FX fixing and the **BCS** than what our base scenario expected. Likewise, given the low threshold between residents USD purchases we believe that the risk is higher of the "brecha" between the official and the black market FX rates making a comeback.

09/02/19 05:26:46

From [REDACTED]  
Bcc [REDACTED]  
Subject ARGENTINA LOCAL COLOR  
Attached 97) [REDACTED] 91) ☆ Move Folders

Forwarded-Originally from: [REDACTED]

Emerging Markets Sales

This Message is Non-forwardable

regarding local USD deposits, although half of these deposits are currently reserve requirements at the CB, the outflow last week is concerning if it keeps increasing and is around 1bn per day. This is something that the CB is concerned about.

With today's US holiday, we expect very poor trading volume. ARS Spot should trade where the CB wants to as we will not have strong bids as they are limited. Also, all eyes will be on the **BCS** market where we expect basis (Spot vs **BCS**) to go from 0 to at least 50% or more. We need to closely monitor any reaction from rating agencies, Index eligibility and if offshore clients will be forced to sell their ARS bond inventories.

9) Older Posts 10) Newer Posts 12) Prev 11) Next 99) Options ▾ Message: View

Date 09/03/19 05:38:00

Participants

Room Name

Attached


97) 


Posts from: 09/03/2019 05:19:42 - 09/03/2019 05:58:03


05:38:00 : Morning Comment

Following capital control measures announced on the weekend, Argy bonds are opening negative today. Yesterday, with very low volume traded because of the holidays in the US, the ARS strengthened 5.85% to 56 (volume below USD100mn). The BCS fell 5.24% to USDARS61.4, 9.6% above the spot FX. As expected, the new measures widen the spread between spot FX and BCS.

## CHART 4

|   |   |          |          |               |               |
|---|---|----------|----------|---------------|---------------|
| 9) Older Posts                                  | 10) Newer Posts   | 12) Prev | 11) Next | 99) Options ▾ | Message: View |
| Date  | 09/18/19 07:04:23   |          |          |               |               |
| Participants                                    |   |          |          |               |               |
| Room Name                                       |   |          |          |               |               |
| Attached  | 97)  IB Transcript |          |          |               |               |
| 00:57:10 POMO ESTD 54/55                        |   |          |          |               |               |
| 07:00:14  |   |          |          |               |               |
| 07:04:23 BCS Open                               |   |          |          |               |               |
| Spot: 56.45/56.5                                |   |          |          |               |               |
| Local BCS: 65.72/66. Spread vs spot: 16.6%      |   |          |          |               |               |
| Offshore BCS: 69.42/70.4. Spread vs spot: 23.8% |   |          |          |               |               |

|  |   |          |          |               |               |
|--|---|----------|----------|---------------|---------------|
| 9) Older Posts                                   | 10) Newer Posts   | 12) Prev | 11) Next | 99) Options ▾ | Message: View |
| Date   | 09/19/19 07:27:03   |          |          |               |               |
| Participants                                     |   |          |          |               |               |
| Room Name  |   |          |          |               |               |
| Attached   | 97)  IB Transcript |          |          |               |               |
| 07:27:03 : BCS Update                            |   |          |          |               |               |
| Spot: 56.61/56.64                                |   |          |          |               |               |
| Local BCS: 65.38/65.63. Spread vs spot: 15.7%    |   |          |          |               |               |
| Offshore BCS: 69.27/69.76. Spread vs spot: 22.8% |   |          |          |               |               |

|   |   |          |          |               |  |
|---|---|----------|----------|---------------|--|
| 9) Older Posts                                | 10) Newer Posts   | 12) Prev | 11) Next | 99) Options ▾ |  |
| Date  | 09/20/19 10:13:28   |          |          |               |  |
| Participants                                  |   |          |          |               |  |
| Room Name                                     |   |          |          |               |  |
| Attached                                      | 97)  IB Transcript |          |          |               |  |
| 10:13:28 BCS Update                           |   |          |          |               |  |
| Spot: 56.59/56.62                             |   |          |          |               |  |
| Local BCS: 65.71/65.97. Spread vs spot: 16.3% |   |          |          |               |  |
| Offshore BCS: 68.56/69. Spread vs spot: 21.5% |   |          |          |               |  |