



Argentine Debt Devastated by Data Suspicion, Election (Update2)

By Lester Pimentel



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Oct. 26 (Bloomberg) -- The widespread suspicion that the government of President Nestor Kirchner has manipulated inflation data and the likelihood that his wife Cristina Fernandez de Kirchner will succeed him are transforming the Argentine bond market into a financial bloodbath.

Argentina's benchmark inflation-linked bonds have tumbled 24 percent this year, making the country's debt market the worst performer in the world, according to data compiled by JPMorgan Chase & Co. and Bloomberg.

Polls show that Fernandez is the front-runner to replace Kirchner in next week's elections. She rebuts claims by government statisticians that Kirchner's administration forced them to tamper with consumer price data to hide the extent of inflation. Merrill Lynch & Co., the world's biggest brokerage, estimates prices may be rising at a 17 percent annual pace, double the official rate.

"Argentine inflation-linked debt is the single worst long-term asset in all of emerging-markets," said Paul McNamara, who manages more than \$1 billion of fixed-income at London-based Augustus Asset Managers. He sold his holdings of the securities when government workers said in February that they were told to eliminate prices from the index.

About 40 percent of the nation's \$136 billion debt is inflation-based securities, whose principal rises and falls with the consumer price index. Bondholders have lost out on \$250 million in interest payments this year, Merrill Lynch estimates. By reducing the official rate, the government will save \$5 billion in principal payments at maturity, data from the New York-based firm show.

Investor Distrust

The complaints of tampering by the biggest union representing employees at the National Statistics Institute, known as INDEC, are creating more investor distrust of a country that forced creditors to take a 70 percent loss when it restructured \$95 billion of defaulted debt in 2005.

Daniel Fazio, head of the employee union, said in February that a Kirchner political appointee had statisticians eliminate some details from the index and violate secrecy laws that prohibit the release of information during the data-gathering process. The union said federal prosecutor Carlos Stornelli is investigating the allegations. The prosecutor's office has declined to comment.

Yields on the 5.83 percent peso bonds due in 2033, the most traded of the government's inflation-linked debt, have risen more than 2 percentage points since February to 7.69 percent, according to Banco Mariva.

'Perfect' Data

Argentine dollar securities yield 3.54 percentage points more than U.S. Treasuries of similar maturity, compared with the average 1.99 percentage-point gap on emerging-market debt, according to New York-based JPMorgan.

Kirchner, 57, defends the data. He blamed international investors in a July 26 speech in Buenos Aires for casting doubt on the figures in an attempt to "get higher profits." He called the consumer price index "perfect" on

Oct. 5, and said opposition parties are trying to erode the government's credibility ahead of the elections.

Three days later, Fernandez, 54, told Buenos Aires business leaders that inflation "is in no terms" being manipulated and that bondholders were trying to pressure the government into reporting a higher rate.

"She has not made any direct statements that would lead you to the conclusion that she will do things differently from Nestor," said David Bessey, who oversees more than \$7 billion of emerging-market debt, including Argentine bonds, at Prudential Financial Inc. in Newark, New Jersey.

Lost Credibility

Fernandez, a two-term senator, leads presidential candidates with 43 percent of voters saying they support her, according to polling company Ricardo Rouvier & Asociados. Her closest competitor in the Oct. 28 election, former congresswoman Elisa Carrio, is 26 percentage points behind. Rouvier surveyed 1,200 people from Oct. 12-18 for the poll, which has a margin of error of 2.8 percentage points.

Fernandez said last month she will modernize the consumer price index, swapping outdated products for newer ones. That won't be enough to restore confidence, said Tomasz Stadnik, who manages \$3.1 billion of emerging-markets debt at London-based ABN Amro Asset Management Services.

"The problem is the credibility of the change," Stadnik said. "INDEC has lost its credibility."

Inflation is about double the official 8.6 percent rate, the result of a 35 percent jump in government spending this year, according to New York-based Goldman Sachs Group Inc. The rate may climb to 25 percent by year-end, Merrill Lynch says.

Rate Gap

Investors point to a breakdown in the relationship between price rises in Buenos Aires, the province that the government uses to gauge nationwide consumer prices, and Mendoza province as evidence that Kirchner's numbers are too low.

In the 10 years through 2006, annual inflation in Mendoza, a wine-producing region located in the foothills of the Andes, was on average 0.4 percentage point higher than in Buenos Aires, government data show. That gap swelled to 9.2 percentage points in the first seven months of 2007.

Polls show most Argentines say consumer price increases are accelerating, a concern for people who lived through inflation of as high as 20,000 percent in the 1990s. Kirchner pressed grocers this month into cutting some prices by 5 percent through December.

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