

International Commentary — August 14, 2023

Argentina Presidential Election Scenario Analysis

Summary

Toward the end of last week, we laid out [our scenarios for Argentina's primary elections \(PASO\)](#). Heading into the PASO, we believed voters would reject traditional Peronism given poor and deteriorating local economic conditions, and favor a return to market and business-friendly policies. While voters did indeed reject the Peronist coalition, support was directed toward the unorthodox policy platform of Javier Milei rather than the investor preferred Juntos por el Cambio (JxC) coalition. Milei's outperformance has already prompted volatility in local financial markets including a sharp peso devaluation, equity market selloff as well as a downturn in government debt markets and renewed risks of a sovereign debt default. In contrast to the mixed performance of political opinion polls, PASO elections tend to be very predictive of voter intentions for official elections. Given Milei's outperformance this past weekend, we are revising our base case scenario for Argentina and now expect a Milei victory in official elections later this year. In our Milei victory scenario, we expect local financial markets to remain under pressure and for another sizable peso devaluation to materialize in immediate aftermath despite Milei's policy platform being unlikely to be fully implemented. Our new base case scenario as well as alternative election outcomes and potential market reactions are on the following page.

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Argentina 2023 Presidential Election Scenario Analysis



Scenario Description: Following a disappointing PASO outcome, Massa turns to popular Peronist-style policies to garner electoral support. Rather than focusing on a need for gradual reform, Massa looks to amplify household fiscal support by increasing subsidies and potentially enhancing conditional cash transfer programs. The prospect of more government aid and a return to traditional Peronism resonates well with voters, and Massa's UP coalition sways centrist policy supporters back to the left-end of the political spectrum. Massa wins in a tightly contested second round runoff.

Policy Platform: Massa represents the incumbent Peronist party through the Union for the Homeland (UP) coalition, and while he initially campaigned on a center-left platform, a shift to a version of more traditional Peronism is now likely. Promises of fiscal support now to dominate his platform.

Local Markets Implications:

- **FX:** A shift to traditional Peronism would damage investor sentiment toward Argentina. Additional 10%-15% devaluation by Q1-24
- **Sovereign Debt:** Sovereign bonds are stable-to-slightly lower as Massa is more favorable than Milei, but now represents traditional Peronism

Scenario Description: With Patricia Bullrich the official JxC candidate, she is able to consolidate JxC voters who support more business-friendly policies. Bullrich focuses on the positive economic effects of Macri administration policies to rally support, and highlights the selling pressure on Argentine assets following Milei's surprise PASO victory to convince voters of the likelihood of more economic distress in a Milei administration. Doubling down on shifting Argentina to the center of the political spectrum pulls centrist Peronist supporters from the UP and gives Bullrich a second round runoff victory.

Policy Platform: Bullrich is running on a center-right, market friendly platform that is focused on achieving fiscal balance and attracting new foreign investment. Enhancing IMF relations is critical in an effort to lift capital controls without destabilizing local financial markets or economic prospects.

Local Market Implications:

- **FX:** Additional 5%-10% devaluation by Q4-23/Q1-24 purely to meet IMF goals, not due to intense capital flight in response to a JxC victory
- **Sovereign Debt:** Bond prices rise sharply as political risk eases, and debt sustainability and overall economic conditions are set to improve

Base Case: Milei's PASO election momentum is sustained and he is able to secure the presidency. Despite Milei's outperformance in the PASO, he is not able to win outright in the first round of official voting in October. With that said, Milei's voter base does not sway and he defeats the JxC's Bullrich in a second round runoff in November. A Milei victory keeps policy uncertainty elevated for an extended period of time; however, a fractured legislature prevents Milei from implementing his full agenda. As a result, he has limited success with his more radical proposals.

Policy Platform: Milei's Liberty Advances coalition is on the far-right end of the political spectrum. While he has advocated for fiscal restraint and a balanced budget, he has also suggested eliminating the peso, dollarizing Argentina's economy and abolishing the Central Bank of Argentina.

Local Market Implications:

- **FX:** In addition to the 18% post-PASO devaluation, ARS selling pressure persists and a 20%+ devaluation materializes by Q1-24
- **Sovereign Debt:** Sovereign default risks as economic policy uncertainty and FX depreciation prompts significant capital flight from Argentina

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