
ARGENTINA IN FOCUS | BOMBASTIC ELECTORAL OUTCOME

WHAT HAPPENED?

- Argentina held Open Simultaneous Primary Elections (PASO) on August 11th 2019
- The ruling coalition government of President Mauricio Macri suffered a major defeat
- The Alberto Fernández-Cristina Fernández (FF) formula had an overwhelming victory
- The financial (currency, equity and debt) market reaction was extremely negative

WHY IS IT RELEVANT?

- The first round of Presidential elections will take place on October 27th 2019
- If trends persist, a Fernández-Fernández government will take office on December 10th
- The process of structural reforms will likely be placed on hold, if not halted altogether
- The recessionary high-inflation environment will be extended throughout the year 2020
- The risk of a distressed sovereign debt restructuring scenario will likely escalate
- In alignment to Mexico, a more defiant leadership style might develop in Latin America
- Higher autocratic unilateralism might escalate, impairing regional integration initiatives

HOW DOES THIS IMPACT THE OUTLOOK?

- Price Stabilization (inflation control) remains the key priority of the Argentine electorate
- The vote implies a sense of popular fatigue with the gradualist adjustment under way
- Society delivered a message of outright rejection to the economic policy framework
- Long-term investment decisions will be delayed until policy uncertainties dissipate
- The electorate expressed disenchantment with the established institutional order
- Voters seem rather indifferent to the corruption history of the former administration
- The 4-month transition to a new government administration will be financially volatile
- The imposition of disruptive capital and price controls cannot be ruled out in 2020

WHAT ARE THE EXTERNAL FACTORS OF RELEVANCE?**About the United States of America (USA)**

- The relations between Argentina and the USA might be substantially altered in 2020
- The USA enjoys a dominant role at the International Monetary Fund (IMF)
- Argentina has at present the largest active line of credit with the Fund. Future disbursements might be at risk in the presence of major deviations from the agreed economic programme. Impaired compliance with the IMF might escalate and increase the risk of a distressed sovereign debt restructuring

- The USA has expressed a clear rejection of policies adopted by authoritarian regimes in Venezuela, Cuba and Nicaragua. Any rapprochement by a new elected government in Argentina to these countries might erode the currently friendly bilateral relations.
- The USA will closely monitor the foreign policy adopted by the elected Argentine government in December.
- Argentina counts on the world's second largest reserves of shale gas and the world's fourth largest reserves of shale oil. Given the technological dominance of the USA in utilizing these technically recoverable reserves of shale resources, Argentina's changes to energy policies will be critical for the relation with the USA given the presence of US corporate interests in Argentina at present.
- Under a new global order increasingly shaped by the policies and relations adopted by China (the world's largest economy as measured in purchasing power parity terms) and the USA, any significant policy change in favour of China to the detriment of the USA risks eroding the favourable relation with US interests at present.

About Brazil

- Relations with members of the Southern Cone Common Market (MERCOSUR) might also suffer significant adjustments in the year ahead. The election of a more isolationist government in Argentina might deter certain countries from ratifying the preferential trade agreement with the European Union (EU).
- Brazil has started a period of gradual economic recovery with positive implications for the South American region. Any relevant disconnect by a new Argentine government from the Brazilian economy due to ill-conceived ideological differences will prevent the Argentine economy to reap the benefits from an improved economic scenario in Brazil, which will use the privatization of state-owned firms as a key magnet of foreign direct investment and structural reforms of the of the state in the economy.
- The USA has initiated a period of negotiations leading to the signing of a preferential trade and investment agreement with Brazil. A potentially belligerent and ideologically inspired policy towards Brazil might deter foreign direct investment flows in key sectors of the Argentine economy that are complementary such as agribusiness and automotive. Again, a more isolationist foreign policy away from the USA and/or Brazil might increase the risk of a sustained economic recession in Argentina in the coming years.
- The administration of President Jair Bolsonaro has expressed its outright rejection to the current Venezuelan regime, which has direct or indirect links to Iran, China and Russia. Any deviation of Argentina from the current policies towards the Maduro regime (and its allies) might increase the risks of isolationism and/or sanctions by the US government.
- Brazil has defeated the plague of high inflation. In fact, the consumer price inflation rate reached 3.2% (y/y) in July, courtesy of 10 consecutive quarters of technical economic recession and persistently high unemployment rates. A similar scenario might be at play in Argentina to control the high inflation at present.

- The auto industry of Argentina might suffer significantly if the world's originally equipment manufacturers deviate their manufacturing facilities to Brazil away from its southern border neighbour.

About Mexico

- Bilateral relations between the USA and Mexico (under the administration of President Andres-Manuel Lopez-Obrador) have significantly deteriorated in multiple fronts, with potentially negative consequences to the privileged economic partnership between both economies. If Argentina aligns ideologically to Mexico, that move might further impair the bilateral relations with the USA.
- Mexico is an integral part of the US economy; Argentina is not. The USA is enjoying an unprecedented cycle of economic expansion with a positive economic impact on its trading partnerships. A deviation from the USA on ideological grounds would be a major mistake for economic policy makers in Argentina.
- The auto industry can be a source of improved bilateral relations between Argentina and Mexico provided the new government does not embrace a belligerent approach to international economic relations with North America under the recently revamped USMCA trade agreement.
- Mexico has been less defiant at the time of crafting a foreign policy towards Venezuela. If a similar approach is adopted by the new Argentine government in this regard, the southern economy can suffer from further exclusion of investment decisions. Again, alignment to the outdated and autocratic moribund regime of Maduro in Venezuela would be a serious mistake with negative economic and political consequences.

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