

Argentina: **In the need for a new bull case**



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Agenda

Election surprise. Massa leapfrogs Mr. Milei and Mrs. Bullrich to 1st place.

- Mr. Massa comes 1st with almost 37pp of the vote to Mr. Milei's 30pp. JxC collapsed.
- Mr. Massa's blowout night hinged on three drivers: (i) the Peronist machinery, that boosted turnout, (ii) the JxC breakup, and (iii) the additional fiscal impulse.
- Mr. Milei remains favorite, but he'll face a stronger, more unified Peronism if he wins.

The next Gov't top priority is to stabilize, preventing a crisis in 2024.

- Mr. Massa added almost 2pp of GDP in fiscal impulse since the primaries.
- On the FX side, after the Aug. 14th deval, Mr. Massa froze the official fixing, increasing the FX market inconsistencies and leading to tightening controls.
- Inflation has accelerated considerably, and the "brecha" widened to record levels.

A new bull case for Argentina. Could Mr. Massa get a program right out of the gate?

- The 1st round buried creditors' bull case about the Argy electorate shifting to the right.
- Still, while the electorate seems less ready for a stabilization program, it remains critical.
- With a crumbling economy and an impending dispute for the leadership of Peronism, Mr. Massa could surprise with a stabilization program.

The problem is that the bear case gets worse as the opposition implodes.

- With Mr. Milei remaining favorite to win, the bear case for Argentina remains the same: the risk of a Milei Administration with no governability.
- The outcome of the 1st round turns that scenario even scarier, as Mr. Milei could face a stronger Peronist opposition, unified behind Mr. Massa.

Voters returned a scenario in which Massa and Milei will compete for the run-off. Peronism made a massive come back

	% of positive valid votes					
	2015		2019		2023	
	PASO	1st Round	PASO	1st Round	PASO	1st Round
Peronism	59.1%	58.5%	58.1%	54.4%	31.6%	43.5%
Kirchnerism	38.6%	37.1%	49.9%	48.2%	27.7%	36.7%
	FPV (Scioli)		FdT (Fernandez)		UP (Massa)	
Non Kirchnerism	20.5%	21.4%	8.2%	6.1%	3.9%	6.8%
	Frente Renovador (Massa)		Consenso Fed (Lavagna)		Hacemos (Schiaretti)	
Juntos por el Cambio	30.1%	34.2%	32.9%	40.3%	28.7%	23.8%
La Libertad Avanza					30.4%	30.0%
Participation Rate	75%	81%	76%	81%	69%	78%

Source: TPCG Research based on pollsters

	% of registered voters					
	2015		2019		2023	
	PASO	1st Round	PASO	1st Round	PASO	1st Round
Peronism	41.7%	45.8%	42.2%	42.6%	20.8%	32.3%
Kirchnerism	27.2%	29.1%	36.1%	37.8%	18.3%	27.2%
	FPV (Scioli)		FdT (Fernandez)		UP (Massa)	
Non Kirchnerism	14.5%	16.8%	6.1%	4.8%	2.6%	5.0%
	Frente Renovador (Massa)		Consenso Fed (Lavagna)		Hacemos (Schiaretti)	
Juntos por el Cambio	21.2%	26.8%	24.0%	31.6%	18.9%	17.7%
La Libertad Avanza					20.1%	22.3%
NonParticipants/ Blank	29.7%	21.6%	27.1%	21.6%	36.4%	25.0%
Others	7.5%	5.8%	6.7%	4.2%	3.8%	2.7%

Source: TPCG Research based on CNE

Peronism bounced back 12pp (9pp Massa, 3pp Schiaretti), while JxC collapsed and the Libertarians remained roughly constant. Mr. Massa fell 3pp short of winning in the first round, after a surge that no poll predicted.

The biggest change in the election relative to the primaries was the increase in the participation rate. At 78%, participation normalized, blank voting dropped and Mr. Massa secured over 85% of the increase in positive valid votes, explaining his surge

Three drivers behind a the Peronist bounceback

1

The Peronist machinery

The Peronist election machinery fired on all cylinders on Sunday, getting voters to the polls and making sure that they voted for UP's full ticket. Unlike the primaries, Mr. Massa got as many votes as Governors and Mayors. The participation rate increased by 3.7mn voters, of which Massa got 3.2mn.

2

A divided opposition vote

With a substantial parity between the two main opposition alternatives, voters failed to polarize. A majority of the electorate, who sought change struggled to find a way to express it after the primaries, with voters migrating from JxC to Mr. Milei, and from Mr. Milei to Mr. Schiaretti.

3

Increase in fiscal impulse

The Government added almost 2pp of GDP in fiscal impulse since the Primaries to boost Mr. Massa's campaign. The Government increased direct transfers and scrapped the income tax for individuals. The boost to incomes proved to compensate, at least in the short-run, for faster inflation and the deval.

The Peronist machinery drove a higher participation rate and tilted new voters toward Mr. Massa.

	2015						2019						2023					
	Number of Votes			as % of votes			Number of Votes			as % of Positive valid votes			Number of Votes			as % of Registered Voters		
	PASO	General Elections	Δ	PASO	General Elections	Δ	PASO	General Elections	Δ	PASO	General Elections	Δ	PASO	General Elections	Δ	PASO	General Elections	Δ
Total Votes	24,021,816	26,048,446	2,026,630	74.9%	81.1%	6.2%	25,861,050	27,525,103	1,664,053	76.4%	80.4%	4.0%	24,016,776	27,100,675	3,083,899	69.6%	77.7%	8.0%
Total Positive Valid Votes	22,551,076	25,184,257	2,633,181	70.3%	78.4%	8.1%	24,660,382	26,838,336	2,177,954	72.9%	78.4%	5.5%	22,583,543	26,291,718	3,708,175	65.5%	75.3%	9.9%
Peronist Votes (Kirchnerism + Non-Kirchnerism)	13,359,978	14,725,467	1,365,489	55.6%	56.5%	0.9%	14,287,253	14,595,359	308,106	55.2%	53.0%	-2.2%	7,368,126	11,430,298	4,062,172	21.4%	32.8%	11.4%
Kirchnerism	8,720,573	9,338,490	617,917	36.3%	35.9%	-0.5%	12,205,938	12,946,037	740,099	47.2%	47.0%	-0.2%	6,460,689	9,645,983	3,185,294	18.7%	27.6%	8.9%
				Frente para la Victoria (Scioli)						Frente de Todos (Fernandez)						Union por la Patria (Massa)		
Non-Kirchnerism	4,639,405	5,386,977	747,572	19.3%	20.7%	1.4%	2,081,315	1,649,322	-431,993	8.0%	6.0%	-2.1%	907,437	1,784,315	876,878	2.6%	5.1%	2.5%
				Frente Renovador (Massa)						Consenso Federal (Lavagna)						Hacemos por nuestro país (Schiaretti)		
JxC votes	6,791,278	8,601,131	1,809,853	28.3%	33.0%	4.7%	8,121,689	10,811,586	2,689,897	31.4%	39.3%	7.9%	6,698,029	6,267,152	-430,877	19.4%	18.0%	-1.5%

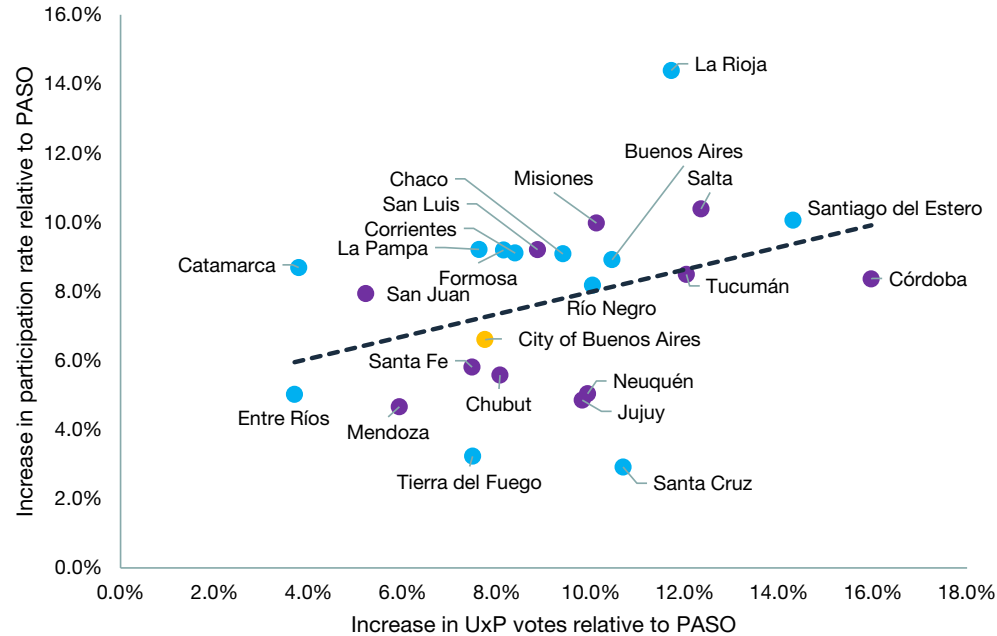
Source: TPCG Research based on CNE

Over the past two election cycles, the increase in the participation rate overwhelmingly went to JxC, with Peronism either dropping share or remaining roughly stable. In 2019, in particular, with a 5pp increase in participation, JxC secured 8pp. It seemed as if voters who didn't turn out in the PASO were mostly anti-K voters.

In 2023, the increase in the participation rate was higher than in the two previous cycle (9.9pp vs 8.1 and 5.5), and it went overwhelmingly to Peronism. Mr. Massa got 8.9pp of the increase in the participation and Mr. Schiaretti got 1.5pp.

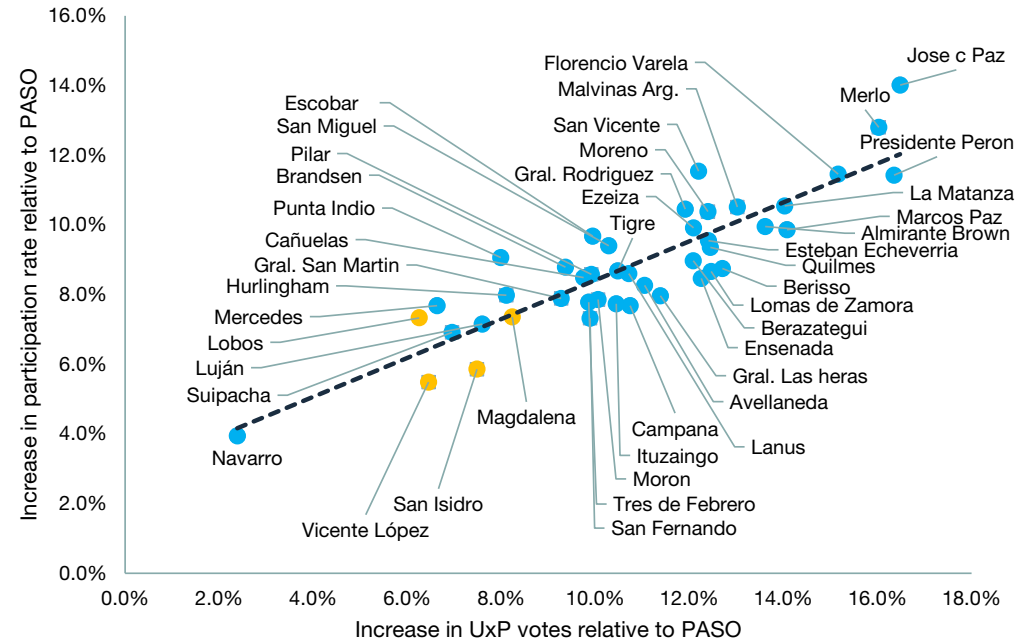
The increase in voter turnout strongly benefited UxP, especially in the GBA area

UxP Election Performance | in pp



Source: TPCG Research based on CNE

PBA Election Results | in pp



Source: TPCG Research based on CNE

The participation rate rose by nearly 9pp at the national level, from 69% in the PASO to 78% in the first round. A significant portion of the increase in voters was captured by UxP. We find there is a strong correlation at the provincial level between the rise in participation rates, and the increase in UxP votes relative to the primaries.

This correlation is even stronger in the 1st and 3rd electoral sections of the province of Buenos Aires. There, UxP was able to flip most of the local elections, reverting the PASO results in 11 municipalities. This showcases the key role the Peronist machinery still plays in the Greater Buenos Aires area, mobilizing significant voter support.

The Peronist machinery delivered an overwhelming majority of Greater BA counties, after losing over 1/3 of them in the Primaries.

Presidential Election results, votes as % of registered voters	2019						2023					
	PASO			1st Round			PASO			1st Round		
	UxP	JxC	Did not vote/Blank	UxP	JxC	Did not vote/Blank	UxP	JxC	LLA	UxP	JxC	LLA
1st Electoral Section	37.9%	22.2%	27.2%	42.1%	28.6%	19.1%	22.4%	20.3%	17.1%	33.2%	18.5%	19.5%
Campana	35.0%	25.2%	26.6%	39.8%	32.6%	17.4%	17.5%	27.9%	16.8%	28.3%	23.4%	20.3%
Escobar	40.5%	19.9%	27.1%	44.3%	26.6%	18.7%	22.9%	16.6%	20.1%	32.8%	15.4%	23.2%
Gral. Las heras	39.4%	24.2%	26.5%	43.3%	31.7%	16.9%	22.5%	26.4%	17.7%	33.9%	21.1%	20.4%
Gral. Rodríguez	42.7%	19.4%	28.6%	46.3%	23.9%	21.3%	22.2%	16.7%	17.0%	34.1%	13.6%	21.0%
Gral. San Martín	36.3%	21.3%	28.3%	40.6%	28.0%	20.6%	23.8%	19.7%	16.4%	33.0%	18.3%	18.4%
Hurlingham	40.7%	20.4%	24.2%	44.2%	26.0%	18.1%	26.8%	18.4%	15.8%	34.9%	17.4%	18.7%
Ituzaingo	37.7%	22.6%	24.8%	41.6%	29.2%	17.8%	23.4%	22.0%	16.2%	33.8%	20.0%	17.8%
Jose c Paz	47.9%	13.0%	28.4%	53.2%	17.3%	20.0%	24.3%	12.1%	17.7%	40.8%	10.9%	19.1%
Luján	32.1%	27.5%	28.7%	34.8%	35.7%	20.0%	20.7%	22.7%	17.7%	28.3%	21.2%	21.0%
Malvinas Arg.	47.2%	16.5%	24.7%	51.0%	21.1%	17.8%	26.5%	14.0%	18.8%	39.5%	12.6%	20.3%
Marcos Paz	43.2%	16.6%	31.5%	49.9%	22.1%	18.7%	25.3%	15.5%	16.1%	39.4%	13.2%	18.7%
Mercedes	31.4%	31.1%	26.2%	33.3%	39.3%	18.7%	20.7%	25.2%	18.2%	27.3%	23.7%	22.3%
Merlo	45.7%	13.7%	29.7%	52.1%	17.9%	19.7%	23.4%	13.2%	16.4%	39.4%	11.8%	18.4%
Moreno	45.8%	14.3%	30.1%	51.4%	19.1%	19.4%	27.3%	12.1%	17.6%	39.7%	11.0%	19.5%
Moron	33.8%	25.6%	25.2%	37.4%	32.5%	18.9%	21.4%	24.4%	16.0%	31.4%	22.7%	17.6%
Navarro	33.9%	34.1%	24.7%	36.2%	41.2%	17.2%	22.3%	25.8%	17.6%	24.7%	23.5%	24.4%
Pilar	38.3%	23.1%	27.0%	43.9%	29.4%	17.4%	23.6%	17.6%	20.5%	33.5%	15.9%	23.1%
San Fernando	36.7%	23.4%	26.6%	39.9%	30.3%	19.6%	23.8%	21.1%	17.6%	33.7%	19.4%	19.2%
San Isidro	22.9%	37.1%	27.1%	25.4%	46.3%	19.7%	14.0%	35.5%	14.9%	21.5%	31.9%	18.2%
San Miguel	37.3%	23.3%	27.5%	41.6%	30.2%	18.7%	21.1%	22.5%	17.3%	31.4%	20.5%	20.1%
Suipacha	39.4%	28.4%	24.8%	39.9%	36.8%	17.3%	23.7%	25.9%	18.1%	30.6%	24.7%	21.3%
Tigre	37.4%	22.9%	26.3%	41.0%	29.6%	18.7%	21.4%	20.1%	18.1%	31.9%	18.4%	20.6%
Tres de Febrero	35.4%	23.0%	26.8%	39.2%	30.4%	19.2%	21.3%	23.8%	16.3%	31.2%	21.3%	18.4%
Vicente López	21.4%	37.4%	25.9%	24.3%	46.2%	19.9%	15.0%	35.4%	14.1%	21.4%	33.3%	16.9%
3rd Electoral Section	43.7%	17.6%	26.9%	48.4%	22.9%	18.8%	25.9%	16.9%	16.5%	38.7%	15.2%	18.0%
Almirante Brown	44.3%	16.6%	26.7%	48.9%	21.7%	18.6%	25.4%	15.7%	16.9%	39.0%	14.2%	17.8%
Avellaneda	40.8%	21.1%	25.6%	44.5%	26.6%	19.3%	26.9%	19.8%	14.2%	38.0%	18.5%	15.8%
Berazategui	44.7%	17.8%	24.1%	48.9%	22.9%	17.0%	26.3%	16.4%	18.9%	38.4%	14.7%	20.3%
Berisso	41.7%	19.7%	26.4%	45.7%	26.2%	17.6%	24.8%	19.2%	14.7%	37.5%	17.0%	17.8%
Brandsen	38.8%	26.4%	25.1%	39.6%	33.5%	18.8%	19.5%	24.0%	18.6%	28.8%	21.8%	22.3%
Cañuelas	40.1%	23.3%	25.8%	43.5%	29.4%	18.2%	24.3%	19.7%	19.3%	34.0%	16.6%	22.4%
Ensenada	45.5%	16.7%	26.8%	50.2%	22.2%	18.2%	30.4%	14.6%	14.9%	42.7%	13.4%	16.5%
Esteban Echeverría	42.8%	18.0%	26.7%	47.7%	23.7%	18.1%	23.2%	16.7%	20.1%	35.6%	15.2%	21.2%
Ezeiza	42.9%	16.4%	29.5%	49.3%	22.1%	18.2%	25.0%	14.6%	21.1%	37.1%	12.8%	23.5%
Florencio Varela	48.9%	13.1%	28.6%	55.0%	16.9%	18.9%	27.2%	11.4%	17.2%	42.4%	9.6%	18.3%
La Matanza	47.6%	14.7%	26.0%	52.2%	19.0%	19.0%	27.0%	14.3%	16.0%	41.0%	12.8%	17.4%
Lanus	39.7%	21.4%	26.0%	43.3%	27.7%	19.0%	24.9%	21.5%	14.4%	35.6%	20.4%	15.7%
Lobos	31.8%	30.0%	27.1%	32.7%	42.3%	17.5%	17.0%	29.0%	17.8%	23.2%	26.5%	22.0%
Lomas de Zamora	42.3%	18.2%	27.6%	47.2%	23.6%	19.5%	26.4%	18.3%	16.3%	38.9%	16.8%	17.0%
Magdalena	30.8%	30.1%	27.2%	33.5%	39.7%	18.5%	16.9%	27.9%	16.6%	25.1%	25.7%	21.2%
Presidente Peron	50.0%	12.4%	28.7%	54.8%	16.8%	19.0%	24.1%	11.3%	19.0%	40.5%	10.0%	19.9%
Punta Indio	34.2%	30.0%	25.3%	36.1%	36.9%	19.4%	19.3%	24.8%	16.4%	27.2%	22.3%	21.5%
Quilmes	39.7%	19.8%	29.0%	44.9%	26.7%	18.6%	25.4%	20.4%	14.8%	37.9%	17.8%	17.4%
San Vicente	39.4%	17.3%	33.3%	43.8%	25.3%	20.6%	26.4%	14.0%	17.2%	38.6%	12.9%	19.7%
Greater Buenos Aires Area	40.8%	19.9%	27.1%	45.2%	25.8%	18.9%	24.1%	18.6%	16.8%	35.9%	16.9%	18.7%

Source: TPCG Research based on CNE

- » In 2019, Mr. Macri’s rebound in the Greater PBA helped JxC clinch 8 munis, up from a paltry three that they had won in the Primaries.
- » In 2023, the situation reversed. Following Mr. Massa’s weak primary performance, JxC would have added 7 additional munis, bringing its total up to 15, a third of the Greater BA districts.
- » Mr. Massa’s surge allowed Peronism to take 11 muni’s back from JxC, carrying 39 of the 43 districts in the GBA area.
- » Oddly, despite beating JxC, LLA didn’t win a single Greater GBA muni, highlighting the weakness of the Libertarian structure.
- » In other words, despite getting about 10pp less in the Greater BA than in 2019, Peronism carried almost as many districts.

Besides increasing the turnover substantially, the Peronist machinery ensured that all of those voters cast the entire UP ballot.

UxP Candidates % of Positive Votes 1st Electoral Section	PASO 2023			1st Round 2023			Δ in Spread	
	President	Governor	Mayor	President	Governor	Mayor	Governor	Mayor
Campana	24.34%	26.41%	23.48%	36.65%	35.47%	26.40%	-3.25%	-9.39%
Escobar	32.90%	38.21%	46.31%	42.65%	45.09%	52.22%	-2.87%	-3.84%
Gral. Las heras	29.91%	34.82%	37.25%	41.96%	45.65%	51.88%	-1.22%	2.58%
Gral. Rodríguez	33.96%	39.74%	43.25%	46.53%	49.77%	54.38%	-2.54%	-1.44%
Gral. San Martín	34.61%	37.60%	40.95%	43.92%	45.18%	46.73%	-1.73%	-3.53%
Hurlingham	38.35%	42.84%	52.82%	45.58%	46.64%	45.22%	-3.43%	-14.83%
Ituzaingo	32.73%	35.26%	34.89%	43.49%	44.32%	42.99%	-1.70%	-2.66%
Jose c Paz	37.58%	42.10%	40.77%	53.49%	55.18%	52.95%	-2.83%	-3.73%
Luján	29.24%	34.76%	54.69%	37.35%	39.60%	58.63%	-3.27%	-4.17%
Malvinas Arg.	38.16%	42.65%	49.92%	50.58%	52.92%	59.94%	-2.15%	-2.40%
Marcos Paz	36.39%	43.48%	35.42%	51.69%	54.48%	42.81%	-4.30%	-7.91%
Mercedes	28.54%	33.59%	48.68%	34.91%	37.86%	52.78%	-2.10%	-2.27%
Merlo	36.05%	39.63%	31.59%	52.37%	53.48%	43.21%	-2.47%	-4.70%
Moreno	40.55%	46.28%	52.54%	52.55%	54.68%	57.52%	-3.60%	-7.02%
Moron	30.09%	32.23%	34.12%	40.38%	41.32%	43.79%	-1.20%	-0.82%
Navarro	29.03%	36.03%	45.67%	32.31%	35.64%	39.13%	-3.67%	-9.82%
Pilar	33.38%	40.91%	51.52%	43.27%	46.97%	57.41%	-3.83%	-4.00%
San Fernando	33.34%	37.97%	53.34%	43.68%	44.87%	57.24%	-3.44%	-6.44%
San Isidro	19.57%	19.87%	17.92%	28.09%	27.69%	26.83%	-0.70%	0.39%
San Miguel	30.31%	32.95%	28.83%	40.64%	40.44%	31.06%	-2.84%	-8.10%
Suipacha	31.09%	38.58%	40.06%	38.27%	42.16%	47.39%	-3.60%	0.15%
Tigre	30.82%	34.59%	49.87%	41.70%	42.47%	50.27%	-3.00%	-10.48%
Tres de Febrero	30.32%	32.14%	30.28%	40.68%	40.74%	33.12%	-1.76%	-7.52%
Vicente López	20.71%	21.67%	20.70%	27.90%	27.33%	25.98%	-1.53%	-1.91%
Average Spread vs. President	-	4.26%	8.45%	-	1.64%	3.72%	-2.60%	-4.53%
3rd Electoral Section	37.1%	41.5%	44.2%	49.9%	51.7%	53.2%	-2.7%	-3.8%
Almirante Brown	36.78%	41.44%	42.75%	50.55%	52.39%	54.05%	-2.82%	-2.47%
Avellaneda	38.00%	42.66%	48.28%	49.03%	50.91%	56.63%	-2.78%	-2.68%
Berazategui	36.21%	41.14%	48.01%	48.23%	50.68%	55.64%	-2.48%	-4.39%
Berisso	34.69%	39.99%	35.48%	48.19%	50.87%	47.18%	-2.62%	-1.80%
Brandsen	27.13%	31.60%	32.83%	37.00%	39.84%	41.46%	-1.63%	-1.24%
Cañuelas	33.63%	37.76%	39.94%	43.19%	45.89%	47.33%	-1.43%	-2.17%
Ensenada	42.82%	51.35%	58.60%	55.15%	58.38%	62.94%	-5.30%	-7.99%
Esteban Echeverría	32.83%	37.21%	39.31%	45.61%	48.20%	48.46%	-1.79%	-3.63%
Ezeiza	34.88%	42.77%	52.54%	47.07%	50.68%	60.21%	-4.28%	-4.52%
Florencio Varela	40.68%	45.05%	44.12%	56.00%	57.41%	56.50%	-2.96%	-2.94%
La Matanza	39.45%	43.50%	44.81%	53.21%	54.71%	53.68%	-2.55%	-4.89%
Lanus	35.50%	37.97%	39.93%	46.13%	45.99%	44.61%	-2.61%	-5.95%
Lobos	23.19%	27.16%	33.75%	29.95%	32.73%	37.87%	-1.19%	-2.64%
Lomas de Zamora	37.23%	41.14%	41.92%	49.79%	51.23%	49.82%	-2.47%	-4.66%
Magdalena	22.89%	28.26%	21.87%	32.80%	34.57%	23.07%	-3.60%	-8.71%
Presidente Peron	35.72%	43.82%	41.68%	53.44%	55.23%	51.32%	-6.31%	-8.08%
Punta Indio	27.68%	33.50%	35.79%	35.71%	39.60%	45.40%	-1.93%	1.58%
Quilmes	36.02%	40.24%	40.50%	48.49%	50.11%	50.84%	-2.60%	-2.13%
San Vicente	39.48%	48.43%	63.78%	50.99%	55.38%	67.10%	-4.56%	-8.19%
Average Spread vs. President	-	5.27%	7.95%	-	2.33%	3.87%	-2.94%	-4.08%
GBA Area	-	4.71%	8.23%	-	1.94%	3.79%	-2.77%	-4.45%

Source: TPCG Research based on CNE

- » In August, Mr. Massa underperformed Mr. Kicillof and the mayors considerably in the Greater GBA. Mr. Massa trailed Governor Kicillof by 4.7pp and the Peronist mayors by 8.2pp.
- » Mr. Massa's deficit was even more substantial in the 3rd district, which comprises the southern and the western munis, the backbone of the Kirchnerist apparatus, trailing Mr. Kicillof by about 5.3pp of votes.
- » This underperformance cost Mr. Massa about 700,000 votes, which would have put him ahead of Mrs. Bullrich and JxC.
- » If Mr. Massa was going to bounce back, he needed the Peronist Machinery to prevent voting leaks to LLA or JxC. And the machinery delivered massively, with an additional 1.3mn votes all of which voted the complete ballot, turning it into a party victory.

Mr. Massa also benefitted from a split electorate who couldn't coordinate on a vehicle to express its mandate for change

Massa		
	Votes	%
PASO	5.336.811	19,4%
1st round	9.825.891	35,7%
Change	4.489.081	16,3%
<i>of Which</i>		
Retained votes from UxP	1.297.238	4,7%
Grabois*	1.297.238	4,7%
Votes gained	3.477.703	12,6%
From Other Candidates	1.186.835	4,3%
Other	579.617	2,1%
Bregman	331.210	1,2%
Solano	110.403	0,4%
Bullrich	82.802	0,3%
Larreta	82.802	0,3%
Milei	0	0,0%
Schiaretti	0	0,0%
To increase in positive votes	2.290.868	8,3%
Blank/Null	772.823	2,8%
Absent	1.518.045	5,5%
Votes Lost	285.861	1,4%
To Other Candidates	226.412	1,4%
Bregman	60.218	0,2%
Bullrich	55.712	0,2%
Schiaretti	55.448	0,2%
Milei	55.034	0,2%
To increase in positive votes	59.449	0,3%
Absent	0	0,1%
Blank/Null	59.449	0,2%

*Mr. Grabois obtained 1,477,890 votes in the PASO

Milei		
	Votes	%
PASO	7.491.825	27,1%
1st round	7.979.956	29,2%
Change	488.131	2,1%
<i>of Which</i>		
Retained votes	-	-
Votes gained	1.568.474	5,7%
From Other Candidates	715.444	2,6%
Larreta	357.722	1,3%
Bullrich	302.688	1,1%
Massa	55.034	0,2%
Grabois	0	0,0%
Bregman	0	0,0%
Solano	0	0,0%
Schiaretti	0	0,0%
Other	0	0,0%
To increase in positive votes	853.030	3,1%
Blank/Null	412.756	1,5%
Absent	440.273	1,6%
Votes Lost	1.080.343	4,3%
To Other Candidates	931.720	4,3%
Schiaretti	693.103	2,5%
Bregman	210.761	0,7%
Bullrich	27.856	0,1%
Massa	0	0,0%
To increase in positive votes	148.623	0,5%
Absent	0	0,0%
Blank/Null	148.623	0,5%

Bullrich		
	Votes	%
PASO	4.201.762	15,2%
1st round	6.323.311	22,9%
Change	2.121.549	7,7%
<i>of Which</i>		
Retained votes from JxC	2.172.768	-
Larreta*	2.172.768	7,8%
Votes gained	334.272	1,2%
From Other Candidates	83.568	0,3%
Massa	55.712	0,2%
Milei	27.856	0,1%
Grabois	0	0,0%
Bregman	0	0,0%
Solano	0	0,0%
Schiaretti	0	0,0%
Other	0	0,0%
To increase in positive votes	250.704	0,9%
Blank/Null	55.712	0,2%
Absent	194.992	0,7%
Votes Lost	385.490	1,4%
To Other Candidates	385.490	1,4%
Milei	302.688	1,1%
Massa	82.802	0,3%
Schiaretti	0	0,0%
Bregman	0	0,0%
To increase in positive votes	0	0,0%
Absent	0	0,0%
Blank/Null	0	0,0%

*Mr. Larreta obtained 2,756,298 votes in the PASO

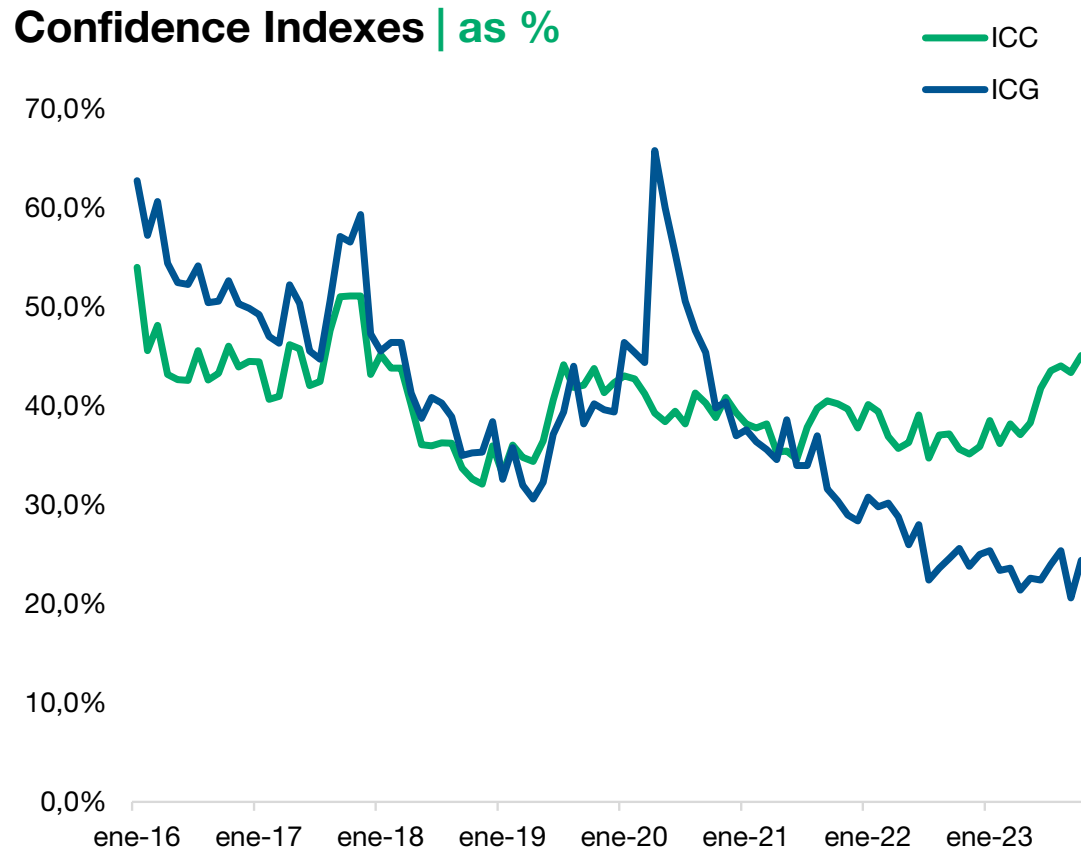
Schiaretti		
	Votes	%
PASO	887.172	3,4%
1st round	1.774.344	6,5%
Change	887.172	3,1%
<i>of Which</i>		
Retained votes	-	-
Votes gained	887.172	3,2%
From Other Candidates	831.724	3,0%
Milei	693.103	2,5%
Larreta	83.172	0,3%
Massa	55.448	0,2%
Bullrich	0	0,0%
Grabois	0	0,0%
Bregman	0	0,0%
Solano	0	0,0%
Other	0	0,0%
To increase in positive votes	55.448	0,2%
Blank/Null	55.448	0,2%
Absent	0	0,0%
Votes Lost	0	0,0%
To Other Candidates	0	0,0%
Milei	0	0,0%
Bullrich	0	0,0%
Massa	0	0,0%
Bregman	0	0,0%
To increase in positive votes	0	0,0%
Absent	0	0,0%
Blank/Null	0	0,0%

Source: TPCG Research based on Isonomía Consultores

Mr. Massa's gain between the Primaries and the Generals came from i) retaining all of the Grabois, ii) securing 1.2mn votes from people who supported left-wing or smaller candidates, and iii) 2.3mn new votes from people who had either failed to turn out or voted blank in the Primaries (Mr. Massa got about 2/3s of the increase in participation).

On the opposition side, voters failed to polarize, with Mr. Schiaretti doubling his vote, mostly on the back getting votes from Mr. Milei. Mr. Milei added some votes from blank ballots and JxC but lost about 700,000 to Mr. Schiaretti. JxC collapsed, though Mrs. Bullrich lost as many of her own votes as she failed to retain Mr. Larreta's.

Finally, Mr. Massa's comeback is also grounded on a massive increase in fiscal impulse, which generated a short-term consumption boom.



Source: TPCG Research based on UTDT

- » One of the question that perplexes the market is how could Mr. Massa do so well when the economy is so bad. One obvious answer is that, despite inflation, unemployment remains low and welfare taxes prevent the lowest classes from suffering inflation fully.
- » Mr. Massa pivoted economic policy after the August agreement with the IMF, abandoning fiscal discipline and increasing fiscal impulse by about 2pp of GDP. The Government enacted a massive rebate of VAT, scrapped income tax to individuals, increased welfare transfers with an IFE like program, froze all tariffs, and has kept the official FX fixed since Aug 14th.
- » In this context, the Government managed to keep disposable income growing faster than inflation, something that's reflected by the substantial decoupling of the consumer confidence index from the confidence in the government index. Agents expect to be worse in the future, but continue to consume in the short run.

Though Mr. Massa emerged victorious from the first round, his path to the presidency is still not as clear as Mr. Milei's.

	Number of Votes
Valid Positive Votes	26,291,718
50% threshold	13,145,859
Receptive Milei Voters	11,906,802
Milei Votes	7,884,336
Hard Bullrich votes	4,022,466
Receptive Massa voters	10,355,915
Massa Votes	9,645,983
Bregman Votes	709,932
Battleground	4,029,001
Schiaretti Votes	1,784,315
Rest of JxC votes	2,244,686

Source: TPCG Research based on CNE

Election	Peronist Performance in the first round	Result
1983	40.16%	Defeat in First round
1989	47.51%	Win in First round
1995	49.94%	Win in First round
1999	38.27%	Defeat in First round
2003	46.70%	Two Peronist Candidates in 2nd Round
2007	45.28%	Win in First round
2011	54.11%	Win in First round
2015	37.08%	Defeat in Second Round
2019	48.24%	Win in First round
2023	36.68%	-

Source: TPCG Research based on CNE

We find Mrs. Bullrich's hardcore voters, which are represented by her voter tally in the PASO, should align more easily with Mr. Milei than with Mr. Massa. Instead, the latter can only fish easily in the FIT pond, which is much shallower. So, at a first glance, LLA Avanza parts from a better position to edge UxP in the ballotage.

To win, Mr. Massa needs to capture near all of the remaining, softer, JxC votes in addition to the votes left by Mr. Schiaretti. Of the votes up for grabs, Mr. Massa needs to secure at least 70%. Worse yet, despite a massive election, Mr. Massa barely reached the Peronist floor. Peronism never won a presidential election with a 1st round under 40%.

While Mr. Milei remains a favorite to win, he'll face a stiff Peronist opposition in Congress. In the House, Peronism secured 14 seats more than expected.

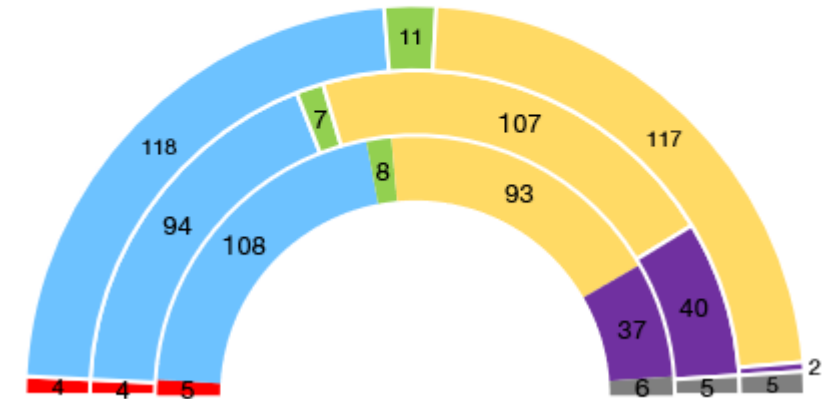
Deputies Election	PASO			1st Round		
	UxP	JxC	LLA	UxP	JxC	LLA
Buenos Aires	31.3%	28.9%	21.9%	43.6%	26.6%	25.4%
City of Buenos Aires	22.9%	47.6%	17.9%	31.5%	42.6%	20.4%
Catamarca	43.4%	20.6%	14.2%	52.5%	21.7%	25.8%
Chaco	33.8%	25.8%	26.1%	45.5%	25.8%	28.6%
Chubut	23.2%	23.2%	37.3%	32.9%	23.0%	38.0%
Córdoba	8.0%	25.3%	33.1%	12.6%	22.4%	33.0%
Corrientes	29.3%	34.7%	27.4%	38.7%	33.9%	27.3%
Entre Ríos	30.4%	27.6%	16.5%	39.7%	36.6%	23.7%
Formosa	44.9%	21.3%	23.6%	54.4%	15.7%	29.9%
Jujuy	22.2%	22.7%	32.9%	30.9%	23.9%	38.2%
La Pampa	28.2%	30.5%	-	58.0%	37.9%	-
La Rioja	30.2%	19.9%	33.0%	41.4%	12.7%	38.1%
Mendoza	16.3%	27.1%	43.6%	43.2%	26.8%	24.2%
Misiones	23.7%	19.1%	1.5%	64.9%	28.3%	-
Neuquén	16.0%	21.1%	33.3%	29.2%	20.7%	35.6%
Río Negro	22.6%	19.5%	34.1%	32.9%	16.6%	31.0%
Salta	23.5%	17.3%	47.5%	36.1%	13.3%	40.0%
San Juan	30.9%	28.8%	30.6%	36.4%	27.1%	36.5%
San Luis	16.9%	23.9%	43.2%	27.2%	23.6%	41.1%
Santa Cruz	17.7%	12.2%	-	36.8%	15.0%	-
Santa Fe	19.9%	30.6%	34.4%	29.1%	27.0%	32.3%
Santiago del Estero	50.9%	4.6%	-	81.0%	10.8%	-
Tierra del Fuego	21.2%	17.8%	29.5%	34.2%	13.2%	30.5%
Tucumán	32.3%	23.3%	27.6%	47.0%	18.1%	30.3%

Source: TPCG Research based on CNE

House of Representatives | Seats

Outer Ring: Current House
Middle Ring: Post- PASO House
Inner Ring: Future House

- Left
- UxP
- Fed. Peronism
- JxC
- Liberals
- Other



Source: TPCG Research based on CNE

Mr. Massa's surge allowed Peronism to win 15 Congressional races in the provinces, up from 10 in the PASO. Peronism took 3 Congressional districts from LLA and two from JxC. Additionally, because Congressional representation is mostly proportional, Peronism picked up additional seats, even in districts it won in the Primaries.

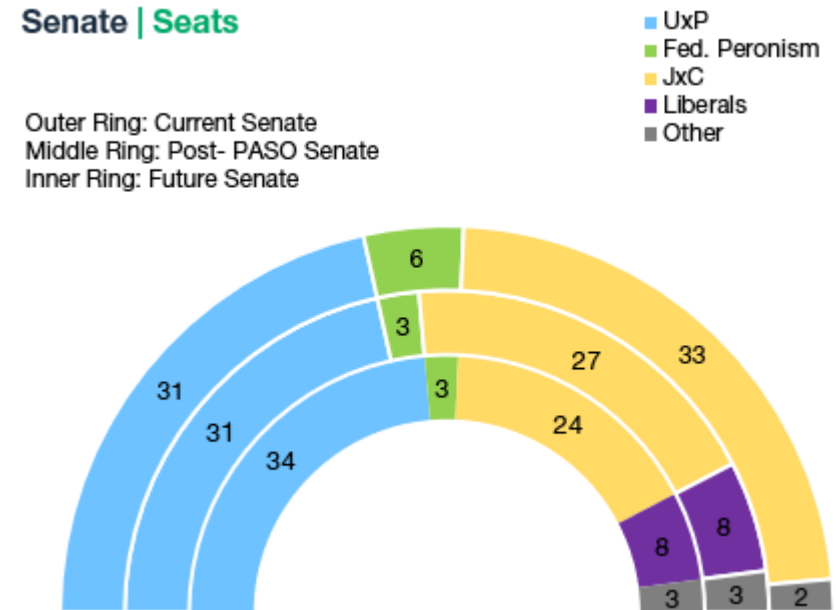
After the PASO, Peronism seemed on track to losing 24 seats, which, combined with more moderate JxC losses and the Libertarian gains, would have given Mr. Milei a path to a majority in the House. Mr. Massa's surge added 14 seats to the Peronist caucus relative to the primaries, and smaller LLA and JxC caucuses. Mr. Milei needs all of JxC to control the House.

In Congress, Peronism picked three additional seats. Between the UP caucus and the Federal Peronism senators, Peronism would have control of the Senate.

Senatorial Elections	PASO			1st Round		
	UxP	JxC	LLA	UxP	JxC	LLA
Buenos Aires	31.46%	28.96%	21.93%	43.92%	26.43%	25.41%
Formosa	45.01%	21.19%	24.00%	54.23%	15.55%	30.20%
Jujuy	22.37%	22.68%	33.3%	30.48%	24.05%	38.0%
La Rioja	31.04%	19.51%	32.5%	42.40%	11.97%	37.79%
Misiones	23.84%	19.29%	-	65.08%	28.27%	-
San Juan	31.09%	28.66%	30.60%	36.41%	26.97%	36.6%
San Luis	16.72%	23.67%	43.5%	27.19%	23.12%	41.5%
Santa Cruz	17.68%	11.81%	-	35.89%	14.71%	-

Source: TPCG Research based on CNE

Senate | Seats



Source: TPCG Research based on CNE

Senators in Argentina are allotted two for the winning party and one for the second. Peronism added three seats to its Senate caucus by flipping the La Rioja race (1 seat, from 2nd to 1st), and beating JxC for second place in Jujuy and San Luis (1 seat each, from 3rd to 2nd). By contrast, JxC ended up losing 9 seats, 3 more than expected after the PASO.

By gaining an additional 3 seats than expected, the UP caucus expanded to 34. On the other hand, the Federal Peronism caucus is shrinking from 6 to 3, but with closer ties to the larger UP caucus. In other words, Peronism has a path to controlling the Senate, even if the Libertarians and JxC were to work together.

With a massive fiscal impulse, an underperforming JxC and increasing participation rates, UxP was able to flip many provinces to its favor.

Presidential Election results, votes as % of registered voters	2019				2023					
	PASO		1st Round		PASO			1st Round		
	UxP	JxC	UxP	JxC	UxP	JxC	LLA	UxP	JxC	LLA
Buenos Aires	37.8%	22.3%	41.9%	28.8%	22.3%	20.3%	17.1%	32.8%	18.4%	19.7%
City of Buenos Aires	24.9%	33.6%	26.6%	39.4%	16.4%	33.6%	12.4%	24.2%	30.8%	14.8%
Catamarca	36.8%	16.4%	41.4%	24.9%	26.7%	13.6%	16.4%	30.5%	12.2%	22.8%
Chaco	39.1%	17.8%	42.6%	27.2%	21.9%	16.8%	18.3%	31.3%	17.3%	19.9%
Chubut	35.7%	15.9%	39.0%	21.8%	15.4%	16.5%	26.7%	23.5%	15.0%	25.5%
Córdoba	21.4%	34.0%	22.5%	47.0%	5.8%	16.9%	22.6%	21.8%	17.0%	25.2%
Corrientes	37.6%	23.5%	40.6%	33.2%	19.7%	23.0%	19.6%	28.1%	24.3%	20.3%
Entre Ríos	33.5%	26.7%	35.2%	35.3%	20.9%	23.1%	15.8%	24.6%	22.2%	22.0%
Formosa	46.6%	17.1%	50.0%	21.8%	31.0%	14.4%	16.9%	39.1%	11.5%	21.7%
Jujuy	28.7%	18.1%	37.1%	33.3%	15.2%	17.4%	29.2%	25.0%	15.4%	28.9%
La Pampa	37.2%	24.0%	40.0%	30.2%	19.2%	19.3%	22.3%	26.8%	16.9%	25.8%
La Rioja	33.1%	20.8%	29.6%	27.8%	20.6%	13.3%	23.9%	32.3%	9.3%	29.6%
Mendoza	31.2%	28.8%	30.1%	39.8%	12.0%	20.1%	31.9%	17.9%	19.3%	31.7%
Misiones	39.9%	18.7%	44.9%	26.4%	17.8%	12.5%	28.3%	28.0%	10.6%	31.1%
Neuquén	34.1%	21.1%	38.2%	29.9%	14.5%	16.8%	28.7%	24.5%	15.8%	28.3%
Río Negro	39.5%	16.4%	44.0%	22.0%	18.1%	14.3%	25.3%	28.1%	13.5%	25.1%
Salta	32.8%	13.9%	36.3%	25.9%	15.3%	10.9%	31.3%	27.6%	10.2%	29.7%
San Juan	41.6%	20.0%	42.9%	28.4%	20.3%	19.5%	23.9%	25.6%	17.9%	27.0%
San Luis	31.8%	24.5%	33.0%	35.6%	11.9%	16.1%	32.8%	20.8%	16.0%	33.2%
Santa Cruz	32.6%	13.3%	42.8%	20.2%	14.6%	10.7%	19.9%	25.3%	10.9%	24.3%
Santa Fe	31.1%	24.1%	33.2%	33.9%	13.9%	20.9%	23.3%	21.4%	19.4%	23.4%
Santiago del Estero	54.8%	10.0%	59.3%	14.5%	36.0%	7.2%	18.2%	50.3%	6.2%	17.6%
Tierra del Fuego	38.5%	13.9%	47.0%	27.6%	20.1%	14.3%	24.2%	27.6%	10.8%	24.4%
Tucumán	44.9%	18.8%	41.9%	19.2%	24.0%	15.9%	26.3%	36.1%	11.7%	28.0%

Source: TPCG Research based on CNE

- » We identify three key factors which allowed UxP to outperform its voter tally in the PASO by a large margin. Firstly, the Peronist machinery was put to work at full capacity, mobilizing the increase in voter turnout, which mostly favored Mr. Massa, especially in PBA.
- » In second place, JxC lost significant traction relative to the PASO. Mrs. Bullrich lost nearly 450k votes, in a context of a massive increase in the participation rate. This conveys she was unable to retain a sizable portion of Mr. Larreta's voters, who align more closely to the UCR, votes which flocked right to Mr. Massa, fueling his overperformance.
- » Finally, the massive fiscal stimuli program greenlighted by the government in the months since the PASO were also effective to traction votes back to UxP, even if it cost Mr. Massa a pretty penny. With this, Peronism was able to flip 8 provinces back to its favor, 2 from JxC, and 6 from the libertarians.

It's not just that the Peronist opposition is stronger, it's that Kirchnerism remains alive and well, contrary to expectations about its demise.

UxP votes	PASO				General Elections			
	2019	2023	Δ Votes	as % of 2019	2019	2023	Δ Votes	as % of 2019
CABA	637,891	397,054	-240,837	-37.8%	719,655	600,832	-118,823	-19.8%
as %	34.1%	24.0%	-10.2%		35.5%	32.2%	-3.2%	
PBA	4,661,544	2,831,078	-1,830,466	-39.3%	5,294,879	4,224,688	-1,070,191	-25.3%
as %	52.3%	34.3%	-18.0%		52.2%	42.8%	-9.4%	
1st electoral section	1,621,631	999,368	-622,263	-38.4%	1,774,215	1,507,235	-266,980	-17.7%
as %	52.1%	34.3%	-17.8%		52.1%	43.3%	-8.8%	
3rd electoral section	1,893,681	1,139,710	-753,971	-39.8%	2,015,563	1,729,564	-285,999	-16.5%
as %	59.8%	39.6%	-20.2%		59.5%	49.9%	-9.6%	
Rest of PBA	1,146,232	692,000	-454,232	-39.6%	1,505,101	987,889	-517,212	-52.4%
as %	43.5%	28.2%	-15.3%		48.2%	33.9%	-14.4%	
Other Provinces	6,322,983	3,232,557	-3,090,426	-48.9%	6,931,503	5,178,164	-1,753,339	-25.3%
as %	49.1%	25.5%	-23.6%		47.3%	35.5%	-11.8%	

Source: TPCG Research based on CNE

- » A big part of the post-PASO bull case was that Kirchnerism was on its last legs. The Primaries, with Peronism perforating its historical floor suggested that Mrs. Kirchner and La Campora was starting to lose its grip on its traditional electorate. Mr. Milei had made massive inroads into the Kirchnerist electorate, concentrating his gains on the Greater BA, the northern and the southern Provinces, where the Kirchners are stronger.
- » Still, the 1st round also suggests that calls for Mrs. Kirchner's eclipse could be rash. Mr. Massa improved considerably in the City of BA and the Greater BA area, overperforming the rest of the country by a huge margin. In the Greater BA area, the stronghold of Kirchnerism, Mr. Massa got almost 45% of the vote, compared to 32% in the City of BA, 34% in the rest of PBA and 35.5% in the rest of the country.
- » La Campora clinched 12 munis in the Greater BA area, beating some traditional Peronists like Mr. Zabaleta.

Agenda

Election surprise. Massa leapfrogs Mr. Milei and Mrs. Bullrich to 1st place.

- Mr. Massa comes 1st with almost 37pp of the vote to Mr. Milei's 30pp. JxC collapsed.
- Mr. Massa's blowout night hinged on three drivers: (i) the Peronist machinery, that boosted turnout, (ii) the JxC breakup, and (iii) the additional fiscal impulse.
- Mr. Milei remains favorite, but he'll face a stronger, more unified Peronism if he wins.

The next Gov't top priority is to stabilize, preventing a crisis in 2024.

- Mr. Massa added almost 2pp of GDP in fiscal impulse since the primaries.
- On the FX side, after the Aug. 14th deval, Mr. Massa froze the official fixing, increasing the FX market inconsistencies and leading to tightening controls.
- Inflation has accelerated considerably, and the "brecha" widened to record levels.

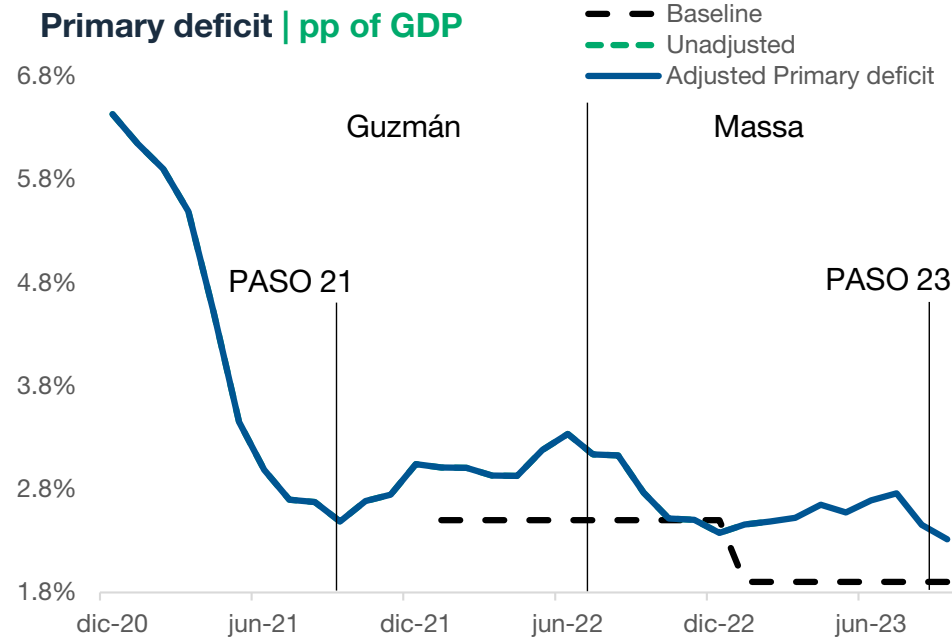
A new bull case for Argentina. Could Mr. Massa get a program right out of the gate?

- The 1st round buried creditors' bull case about the Argy electorate shifting to the right.
- Still, while the electorate seems less ready for a stabilization program, it remains critical.
- With a crumbling economy and an impending dispute for the leadership of Peronism, Mr. Massa could surprise with a stabilization program.

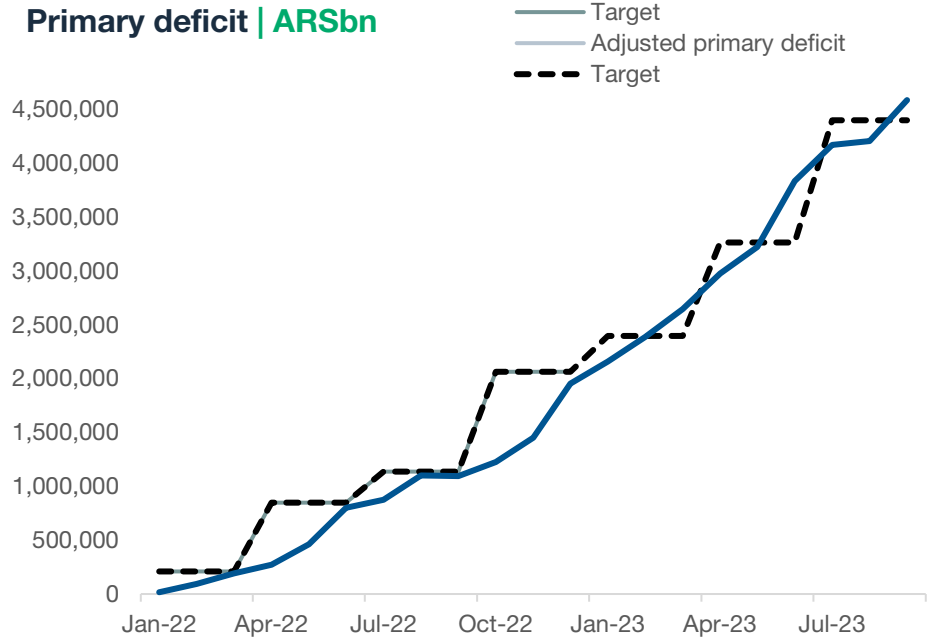
The problem is that the bear case gets worse as the opposition implodes.

- With Mr. Milei remaining favorite to win, the bear case for Argentina remains the same: the risk of a Milei Administration with no governability.
- The outcome of the 1st round turns that scenario even scarier, as Mr. Milei could face a stronger Peronist opposition, unified behind Mr. Massa.

The IMF program conditioned the Peronist campaign before the primaries, limiting spending and preventing a REER appreciation



Source: TPCG Research based on the Treasury



Source: TPCG Research based on the Treasury & BCRA

The Government has been deviated from the primary deficit target throughout the year. After a consolidation in 2H23, Mr. Massa increased fiscal impulse, widening the primary deficit and clashing with the IMF targets. The need to roll-over the Jun-July maturities forced Mr. Massa into unwinding part of the fiscal impulse before the primaries.

Since the agreement with the IMF was finalized, Mr. Massa stepped up spending and cut taxes, pushing the primary deficit away from the IMF program's baseline. Mr. Massa missed the end-September target, and the fiscal dynamics point towards a substantial divergence before the November review.

Since the primaries, Mr. Massa has increased fiscal impulse by 2pp of GDP

Discretionary measure	ARS bn	pp of GDP
Tax cuts	1,408	0.8%
Income tax cuts	466	0.3%
VAT rebate to pensioners	326	0.2%
VAT rebate to general population	610	0.4%
Supplement payment to household employees	5	0.0%
Spending increases	646	0.4%
Supplement payment to pensioners	555	0.3%
Food stamps supplement	41	0.0%
Supplement to welfare plans	26	0.0%
Supplement payment to public employees	24	0.0%
Total	2,053	1.2%

- » To finalize the 5th and 6th Reviews with the IMF, Mr. Massa was forced to devalue to currency by 25%, propelling inflation to the two-digit race, with a substantial political cost.
- » Since then, Mr. Massa has abandoned any semblance of fiscal discipline, increasing fiscal impulse by 2pp of GDP (1.2pp in 2023 and 0.8pp in 2024 commitments) to soften the impact of the deval and inflation on (i) disposable income and (ii) on his voter support.
- » For the rest of 2023, Mr. Massa has committed about 1.2pp of GDP, 0.8pp in tax cuts and 0.4pp in spending increases, concentrated in income tax cuts to the highest unionized wages (a Peronist constituency), VAT rebates and transfers to pensioners. Looking at 2024, Mr. Massa has effectively scrapped the income tax.
- » We estimate that Mr. Massa's fiscal impulse increase would push the 2023 primary deficit close to 4pp of GDP, a 2pp deviation from the IMF target.

Source: TPCG Research based on the Treasury

The primary deficit widened substantially in 3Q23, despite the levy to all imports, faster inflation and Soy Dollar 3. Spending bounced back considerably.

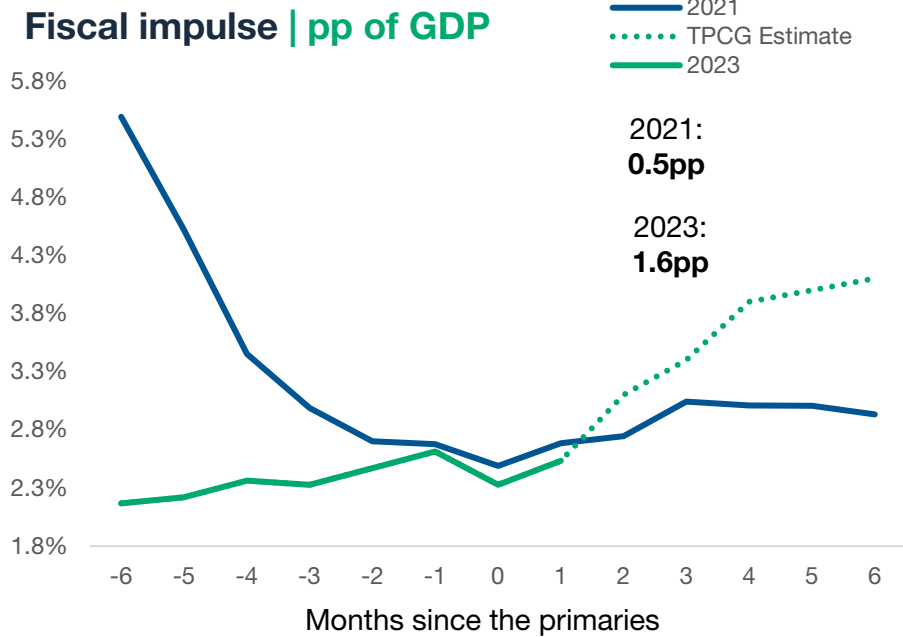
	2H22			1H23			Jul-Sept 2023		
	ARSbn	%yoy		ARSbn	%yoy		ARSbn	%yoy	
		Nominal	Real		Nominal	Real		Nominal	Real
Revenues	8917	90.8%	3.0%	11782	89.1%	-9.1%	8930	107.4%	-8.3%
Tax revenues	5455	92.0%	3.7%	6872	85.9%	-10.6%	5277	102.9%	-10.3%
Social security contributions	2482	85.5%	0.2%	3767	110.2%	1.0%	2713	128.5%	1.0%
Income from Treasury property	541	137.6%	28.4%	609	20.3%	-42.2%	517	64.5%	-27.3%
Included in EFF target	291	27.6%	-31.1%	609	32.0%	-36.6%	517	244.2%	52.1%
Not included in EFF target	251			0			0		
Non-tax revenues	438	64.2%	-11.3%	534	125.2%	8.2%	423	107.1%	-8.5%
Primary spending	9821	67.2%	-9.7%	13663	95.5%	-6.0%	9682	118.2%	-3.6%
Personnel spending	1231	91.0%	3.2%	1678	122.1%	6.8%	1319	135.8%	4.2%
Social Security	5344	71.3%	-7.5%	7634	90.5%	-8.4%	5116	125.2%	-0.5%
Subsidies	1210	36.8%	-26.1%	1673	79.9%	-13.5%	1008	46.2%	-35.4%
Energy	946	34.6%	-27.3%	1290	81.5%	-12.7%	761	31.7%	-41.8%
Transportation	250	51.5%	-18.2%	347	64.8%	-20.8%	229	121.8%	-2.0%
COVID & other	14	-13.8%	-53.4%	35	330.3%	106.9%	17	110.7%	-6.9%
Transfers to Provinces	319	38.0%	-25.5%	379	60.6%	-22.8%	409	194.7%	30.2%
Capex	876	117.3%	17.4%	1173	157.0%	23.6%	906	117.6%	-3.8%
Other	841	42.4%	-23.1%	1126	86.9%	-10.1%	924	155.8%	13.0%
Primary balance	-904	-24.6%	-59.3%	-1881	148.8%	19.6%	-752	472.3%	152.9%
Interest payments	1004	165.4%	43.3%	1278	161.4%	25.6%	898	139.7%	5.9%
Overall balance	-1908	20.9%	-34.7%	-3159	153.7%	22.0%	-1650	226.0%	44.1%

Source: TPCG Research based on the Treasury

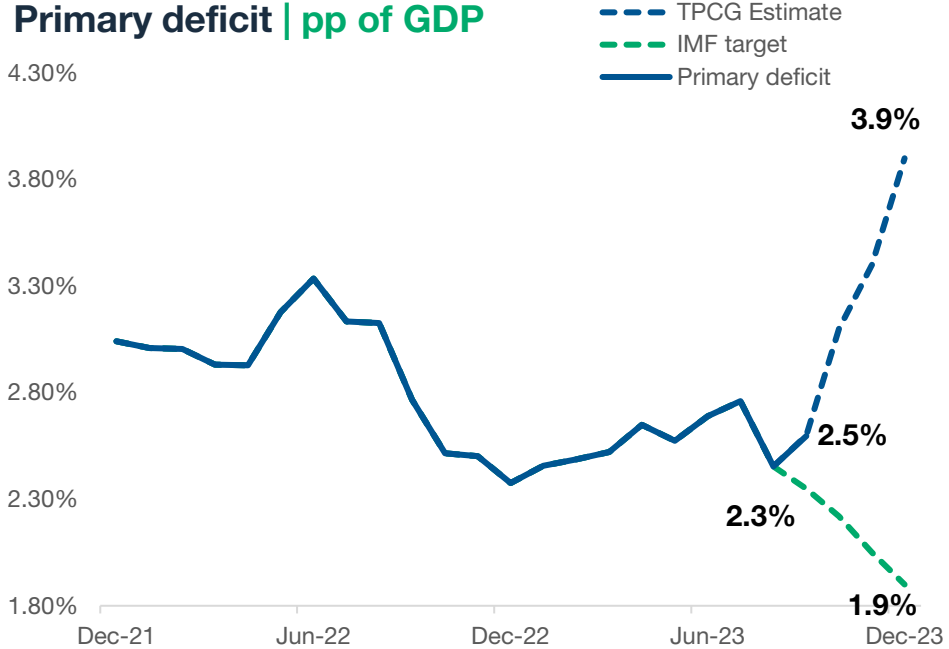
Since Mr. Guzman quit, Mr. Massa's fiscal policy has gone through three distinct periods. During 2H22, Mr. Massa turbocharged revenues by hiking taxes and boosting revenues through the differentiated FX for grain exporters, while cutting spending. In 1H23, fiscal consolidation stalled despite continued spending cuts as revenue collapsed.

Since July, spending has accelerated considerably, with personnel spending, SocSec, transfers to provs, and other spending growing in real terms. Revenues remained stable on the back of version 3 of the Soy Dollar and, more importantly, the levy of 7.5% on all imports, which boosted tax revenue.

Mr. Massa's increase in fiscal impulse dwarfs Mr. Guzman's 2021 Plan Platita, deviating substantially from the targets agreed with the IMF.



Source: TPCG Research based on the Treasury



Source: TPCG Research based on BCRA & IMF

We estimate that, between the pre-election boost to spending and the discretionary measures announced since the primaries, fiscal impulse will increase by about 1.6pp of GDP between now and December. The increase in the fiscal impulse is about 3X what Mr. Guzman applied in 2021, which eventually resulted in a massive drop in money demand.

YTD, the Government is deviated from the primary deficit target by about 0.4pp. In August, Mr. Massa compressed the primary deficit to secure the approval of the 5th and 6th Review, but since then, the Government abandoned all semblance of fiscal discipline. If we factor in the recent announcements, the deficit could climb to 3.9pp, a 100bp deviation.

Mr. Massa also added 0.8pp of GDP to the 2024 primary deficit by basically scrapping the income tax to individuals.

Total Impact on Income	ARSmn	USDmn	% of GDP
Treasury	-1,054,993	-1,738	-0.30%
AFIP	-55,615	-92	-0.02%
Judicial Power	-100,503	-166	-0.03%
ATNs Fund	-28,715	-47	-0.01%
Provinces	-1,687,299	-2,780	-0.48%
Total	-2,927,125	-4,822	-0.84%

- » The Government's modification of the income tax to individuals involves increasing the Minimum Taxable income to 180 times minimum wage, or about ARS27mn per year currently, up from ARS11.9mn until last month.
- » With the proposed amendment, over 99% of taxpayers would be exempted from income tax, leaving about 90,000 individuals levied.
- » The total revenue loss amounts to 0.8pp of our 2024 GDP estimate, of which 0.4pp would be footed by the Federal Government and the rest by provinces. Still, because Mr. Massa has vowed to compensate provinces by including other levies in the "Coparticipacion" framework, such as the new 7.5% tax on imports, we estimate that the Federal Government will end up on the hook for the total impact of the measure. In other words, Mr. Massa not only leaves behind a 1pp of GDP deviation in 2023, but he also leaves an 0.8pp check that the next administration will need to cover.

Source: TPCG Research based on OPC

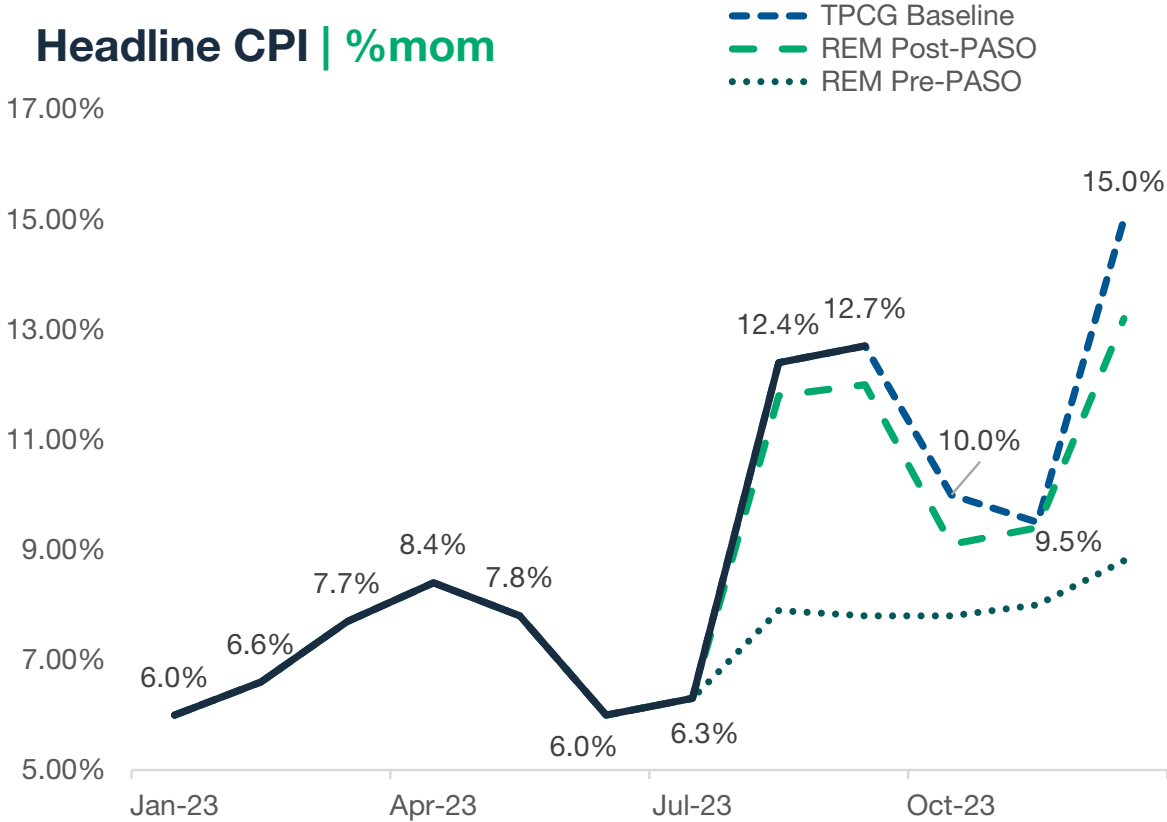
While revenues could beat IMF expectations marginally, spending is going to outpace the program's baseline considerably.

	2022	Jan-Sept	2023	
			IMF	CY TPCG
Revenues	18.4%	18.8%	17.6%	18.0%
Tax revenues	11.1%	11.2%	10.6%	10.8%
Social security contributions	5.2%	5.8%	5.6%	5.4%
Income from Treasury property	1.3%	1.0%	1.0%	1.0%
Non-tax revenues	0.8%	0.9%	0.5%	0.8%
Primary spending	20.4%	21.4%	19.6%	21.9%
Personnel spending	2.4%	2.7%	3.2%	3.1%
Social Security	11.4%	11.8%	10.9%	11.9%
Subsidies	2.6%	2.4%	2.3%	2.9%
Energy	2.0%	1.8%	1.5%	2.3%
Transportation	0.6%	0.5%	0.8%	0.6%
COVID & other	0.0%	0.0%	0.0%	0.0%
Transfers to Provinces	0.7%	0.7%	0.9%	1.3%
Capex	1.6%	1.9%	1.5%	1.6%
Other	1.8%	1.9%	0.8%	1.1%
Primary balance	-2.0%	-2.5%	-2.0%	-3.9%
Interest payments	1.8%	2.1%	2.2%	2.2%
Overall balance	-3.8%	-4.6%	-4.2%	-6.1%

Source: TPCG Research based on the Treasury

- » In August, the Government and the IMF staff agreed to a fiscal path consistent with the 1.9pp of GDP target for end-2023, despite the expected weakening in revenue.
- » Since then, though revenues have outperformed the baseline on the back of the income from the differentiated FX for grain exporters and an uptick in inflation, Mr. Massa's spending announcements are likely to derail the fiscal target.
- » All in all, we estimate that revenue is likely to deteriorate relative to Jan-Aug, but to hold better than what the IMF baseline expects. Primary spending, on the other hand, is likely to accelerate considerably, with personnel spending, and social security increasing in real terms due to the proposed discretionary transfers to the private sector, subsidies bouncing back on the back of frozen tariffs, and transfers to provinces re-accelerating to finance the campaign in the interior.

The post-PASO political economy and expectations deterioration is consistent with a sharp increase in inflation.

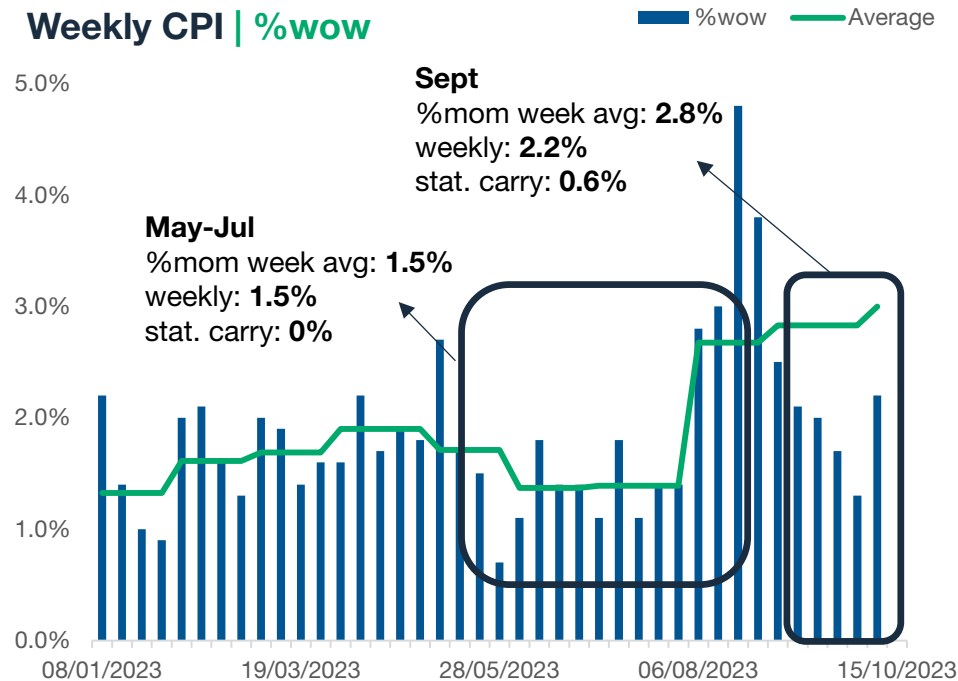


Source: TPCG Research based on Indec & BCRA

- » After the primary, the Government engaged in a 25% jump of the official fixing to USDARS350.
- » Rushed by the Gov't to contain a derailing FX market after the PASO, the devaluation failed in two critical areas (i) it didn't compress the BCS premium, and (ii) it didn't drive a REER correction, as the passthrough was complete.
- » Most of the failure comes on the back of the Government getting cornered into a situation where it didn't have the firepower to maintain the FX framework, no program, and no support from the IMF.
- » The problem is that most of these conditions are likely to replicate in the coming weeks, in a context where the Government is likely to finance the increase in fiscal impulse with additional money printing, net reserves continue to deteriorate, and the market cements its devaluation expectations. In this context, agents have reset their expected inflation path substantially over the past month.

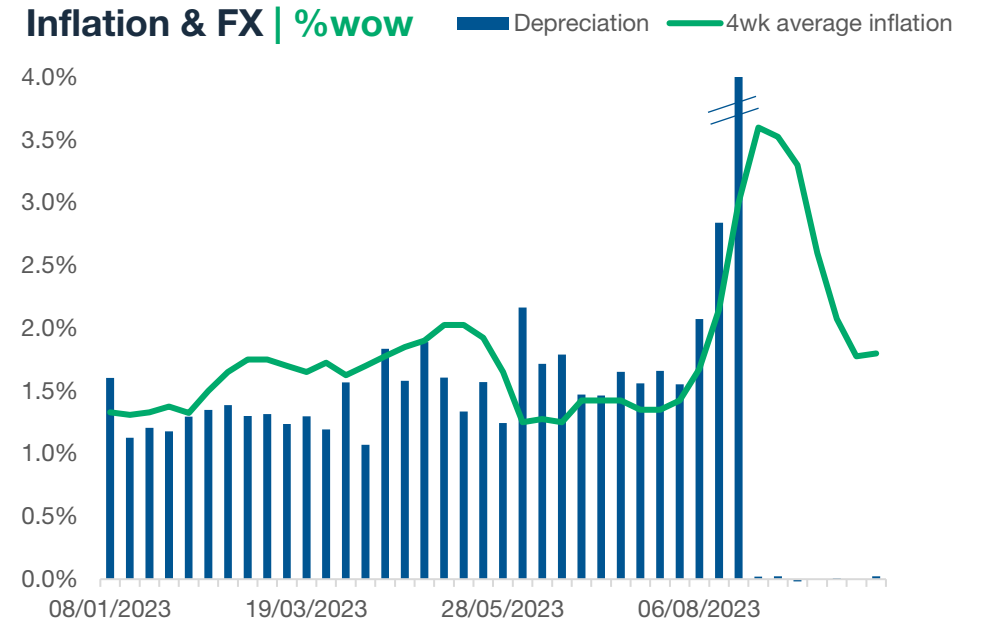
High-frequency inflation remains stubbornly elevated despite the Government freezing the official fixing

Weekly CPI | %w^{ow}



Source: TPCG Research based on the Treasury

Inflation & FX | %w^{ow}

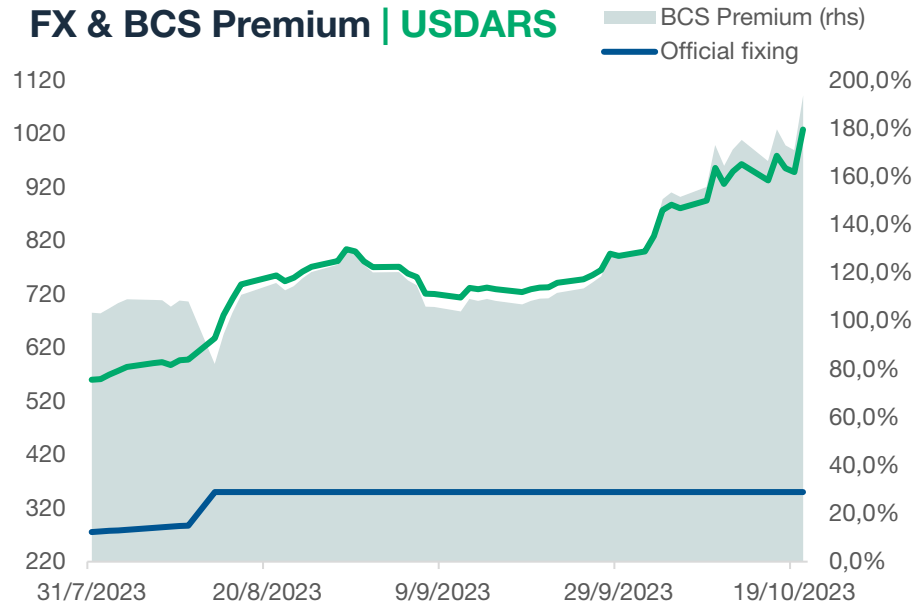


Source: TPCG Research based on the Treasury & BCRA

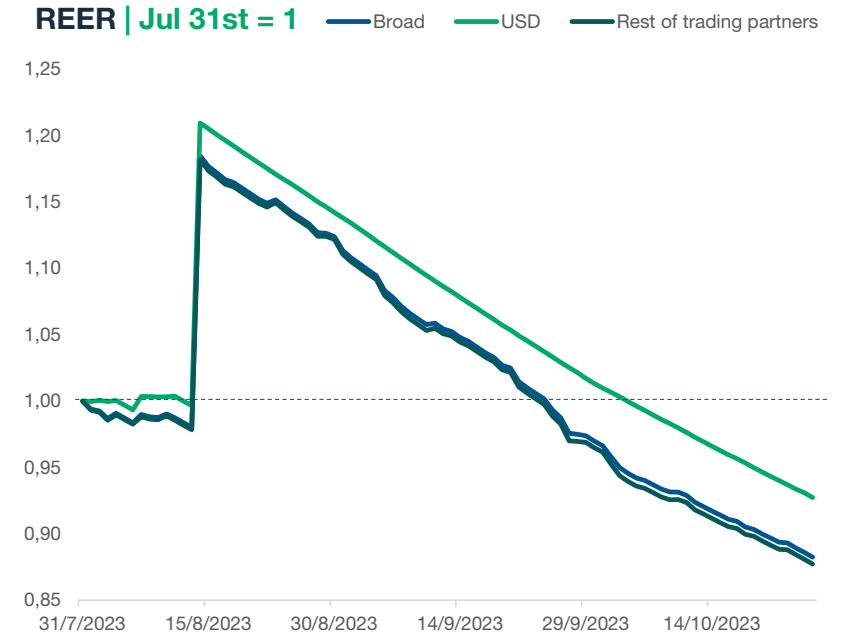
Before the deval, weekly and monthly inflation were mostly aligned in a process of gradual deceleration following the Mar-Apr spike of the CPI. Since the deval, monthly CPI prints decoupled from the weekly gagues. August mom print undershot the weekly prints of the second half of the month. In Sept, statistical carry explained 1/3rd of the print.

The inflation process seems to be changing. With most of the pass-through of the Aug 14th deval already fully incorporated into prices, inflation seems to be stabilizing about 2%w^{ow}, or 50bp higher than pre-deval though the FX has been stable for over a month, driven by expectations that the FX framework is unsustainable.

Expectations Driver #1: The FX framework. The Aug 14th deval failed to change dynamics, with the “brecha” and the REER more than 10% stronger than pre-PASO



Source: TPCG Research based on BCRA & TPCG Trading Desk

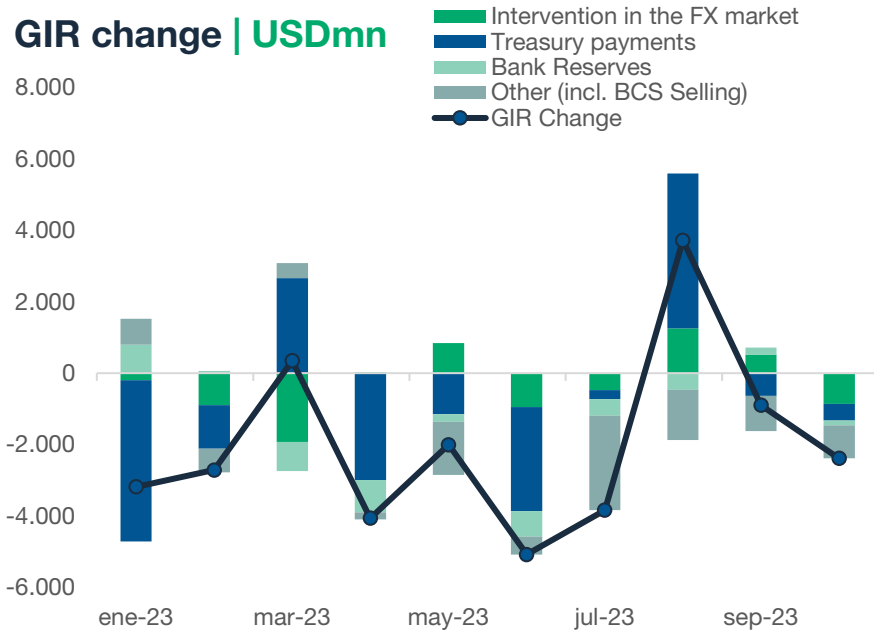


Source: TPCG Research based on BCRA

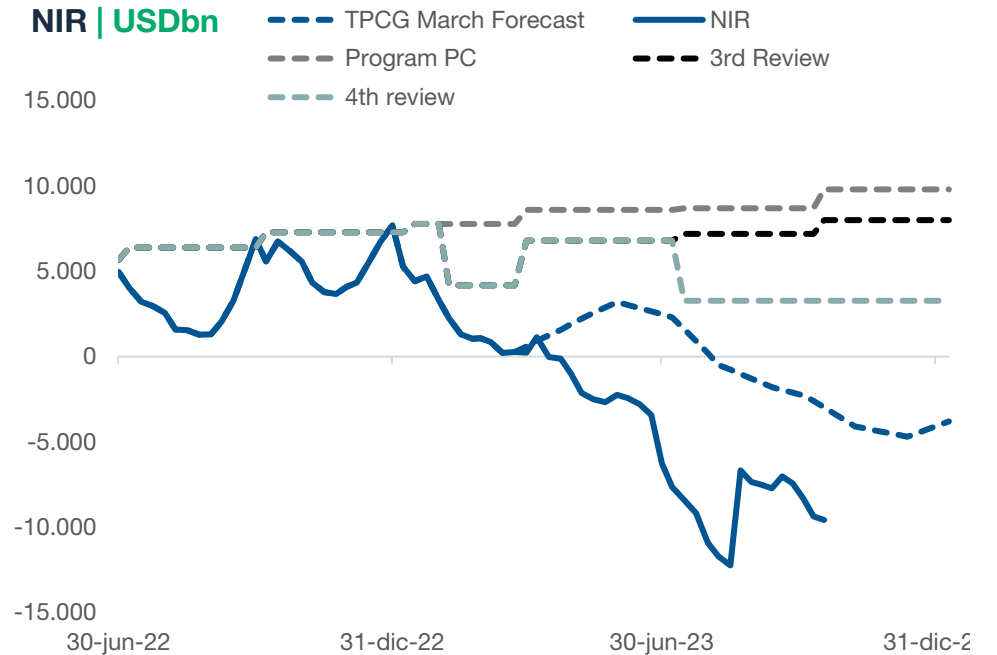
In the current condition, a devaluation is only successful if (i) it results in a compression in the BCS premium and (ii) results in a permanent REER correction. The Aug 13th deval failed on both accounts. The “brecha” widened from a little under 80% pre-devaluation to over 180% currently, with the BCS skyrocketing close to USDARS1,000.

Likewise, the REER over 10% stronger than pre-PASO levels. The Aug-Sept inflation eroded the nominal FX correction, with the bilateral REER vis-à-vis the USD about 7% appreciated relative to Jul 31st. In this context, the Government has doubled down on FX controls and has tried to use the macro-prudential regulators to disrupt the market.

The BCRA continues to drain reserves, despite buying dollars in an increasingly regulated and unsustainable FX market. The NIR position is back at critical levels.



Source: TPCG Research based on BCRA

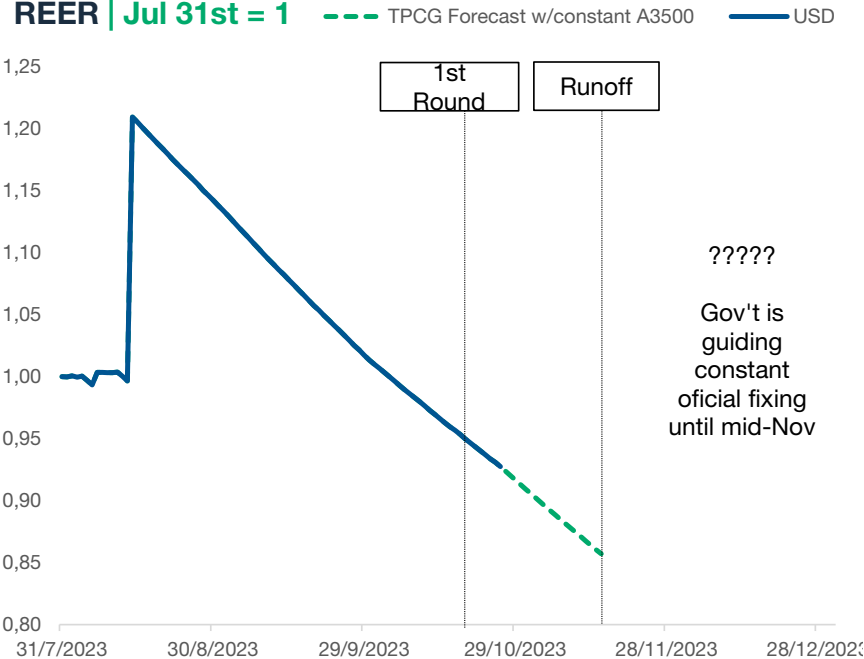


Source: TPCG Research based on BCRA & IMF

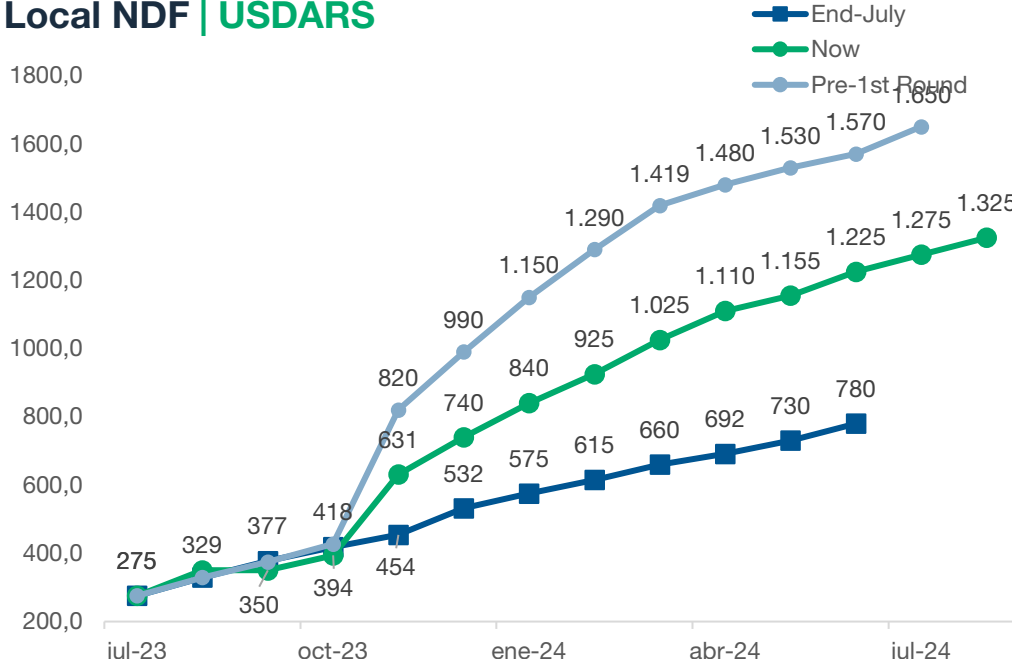
While v. 4 of the differentiated FX for grain exporters allowed the BCRA to purchase USD1.8bn in the FX market during Aug-Sept, gross reserves ended September around USD27bn, rounding a USD1bn GIR loss in 3Q23. In October, the massive selling to offset BCS pressures cost the BCRA an additional USD2bn, putting GIR at USD24.4bn.

The NIR position improved somewhat after the IMF disbursement, though in September it resumed deterioration, ending the month close to -USD6.5bn. Since then, net reserves dropped an additional USD3bn to -USD9.5bn, ending October about USD11bn below the revised IMF targets.

In this context, the market deems the current FX framework unsustainable and prices a substantial REER correction after the run-off.



Source: TPCG Research based on BCRA



Source: TPCG Research based on BCRA & ROFEX

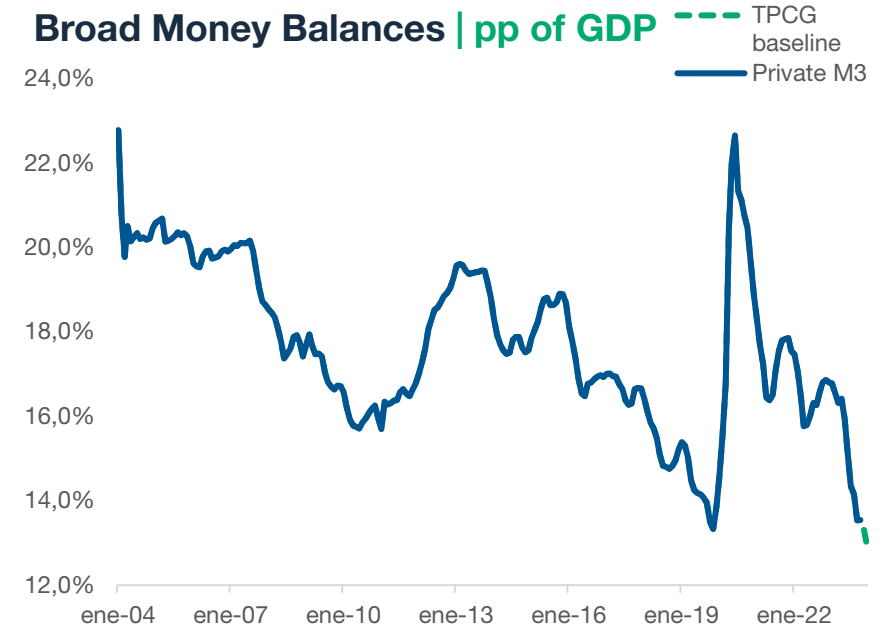
With the official fixing pegged, the bilateral FX vis-à-vis the USD is rapidly appreciating. On October 22nd, the REER vis-à-vis the USD was about 7% stronger than pre-devaluation. The Government is stating that it plans on maintaining the FX at USDARS350 until the run-off, which would imply an additional 11% appreciation.

The market believes that accumulating a 15pp appreciation of the bilateral REER relative to pre-devaluation is unsustainable and expects the peg to end after the run-off. NDFs price a repeat of the Aug devaluation, albeit without the freeze post-deval.

Expectations Driver #2: As the fiscal impulse widens, monetary financing accelerates despite the deterioration in real money balances

	Jan-Oct 2022		Jan-Oct 2023	
	Nominal	pp of Gdp	Nominal	pp of Gdp
Total High-power money creation uses	4.718.571	6,3%	13.039.878	8,8%
<i>As a pp of Base Money</i>	<i>129,1%</i>		<i>250,6%</i>	
Fiscal dominance	1.363.029	1,8%	4.872.962	3,3%
Direct monetary financing	620.051	0,8%	1.698.000	1,1%
Short term loans	620.051	0,8%	1.298.000	0,9%
Dividend transfers	0	0,0%	400.000	0,3%
Support of the ARS curve	1.260.501	1,7%	4.900.000	3,3%
USD selling for EXD maturities	-517.524	-0,7%	-1.725.038	-1,2%
FX dominance	1.058.849	1,4%	105.899	0,1%
Financial dominance	2.296.693	3,1%	8.061.017	5,4%
Interest payments	2.313.436	3,1%	10.694.131	7,2%
NDF/BCS intervention & other	-16.743	0,0%	-2.633.114	-1,8%

Source: TPCG Research based on BCRA & 1816



Source: TPCG Research based on BCRA & Indec

YTD, fiscal dominance has accelerated to 3.2pp of GDP, up from 1.8pp in Jan-Sept 2022. Most of the short-term loans have gone to purchasing USD from the BCRA to cover EXD maturities. But between outright purchases to support the ARS curve and the puts, the BCRA printed ARS4.6tn. Additionally, there's 6pp of GDP of Leliq interest payments.

After a brief stabilization in 4Q22, real money balances started to deteriorate again in 2Q23, collapsing in July and bouncing back in August post-IMF deal. Since July 2022, we've seen the most substantial de-monetization process in over 20 years, pushing private broad money balance to the lowest point since the 2001 crisis.

Expectations Driver #3: Under Mr. Massa, the Fernandez administration has accumulated a staggering amount of external arrears that will need to be normalized in 2024

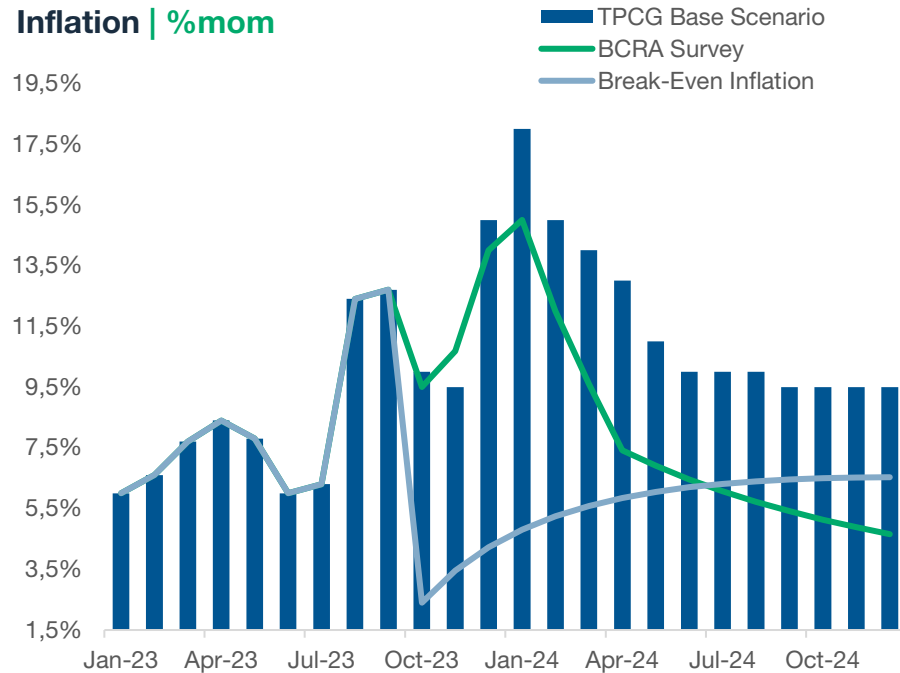
	USDmn
Increase in registered trade debt 2022-23	13.826
Unregistered trade debt 2022-23	20.000
Real services arrears	1.000
Unpaid dividend payments 2020-23	26.000
Deferred private sector debt maturities	3.500
Use of the PBOC swap line	12.500
Total accumulated arrears	76.826
As a pp of expected 2024 exports	85,4%

- » With limited access to the voluntary market, the Government has been financing the BoP shortfall with forced financing since 2020. It started by preventing private companies from paying dividends (increasing FDI flows forcibly) and deleveraging by servicing their debts on the contractual schedules, forcing them into restructuring.
- » With Mr. Massa, the forced financing moved to the trade balance, as the Government all but stopped selling USD to importers, driving (i) an increase in the registered trade debt (currently USD55bn, up from USD36bn in 4Q21), and (ii) about USD15bn in trade arrears, resulting from unpaid shipments. Similar to the trade arrears, the BCRA is accumulating real services arrears by not paying for freight and similar services.
- » Finally, there's the PBOC swap usage, from which we estimate about USD12bn have been drawn by the end of Oct.

Source: TPCG Research based on BCRA, Indec, CNV, and the Treasury

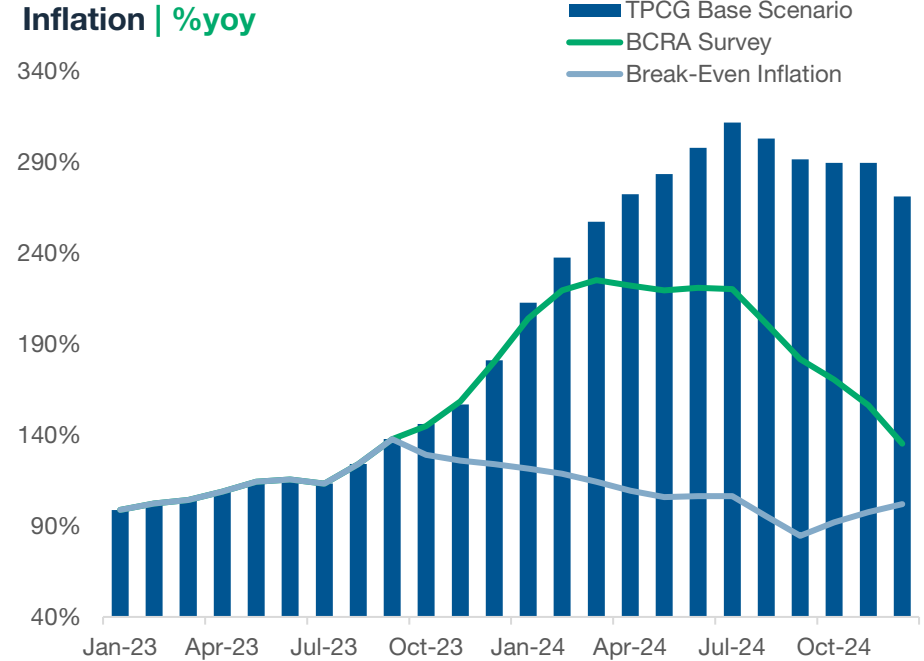
The market consensus assumes an inflationary spike in early 2024, and the yoy gauge to breach 200% before decelerating in 2H24.

Inflation | %mom



Source: TPCG Research based on the Treasury

Inflation | %yoy

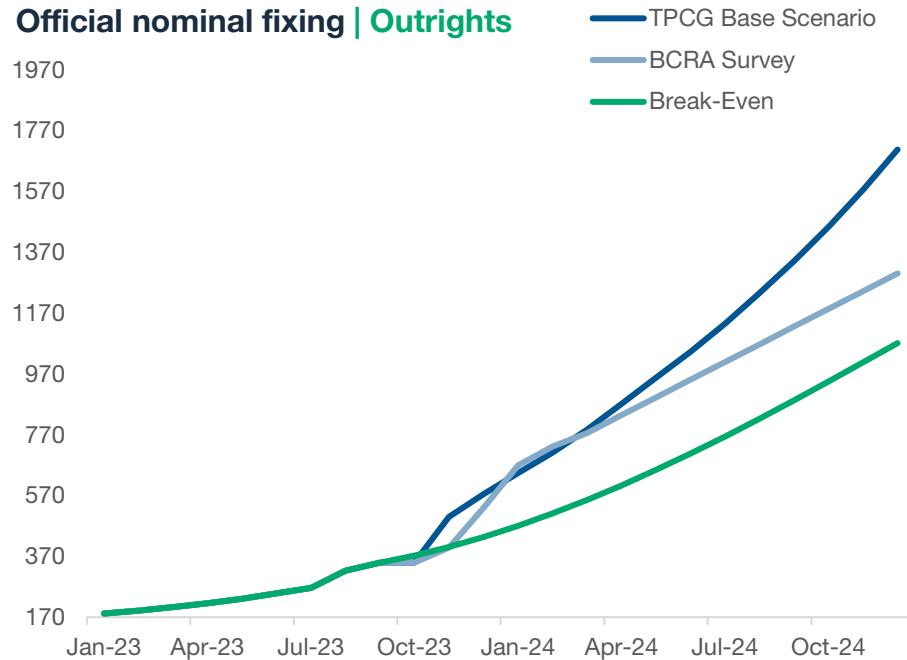


Source: TPCG Research based on the Treasury & BCRA

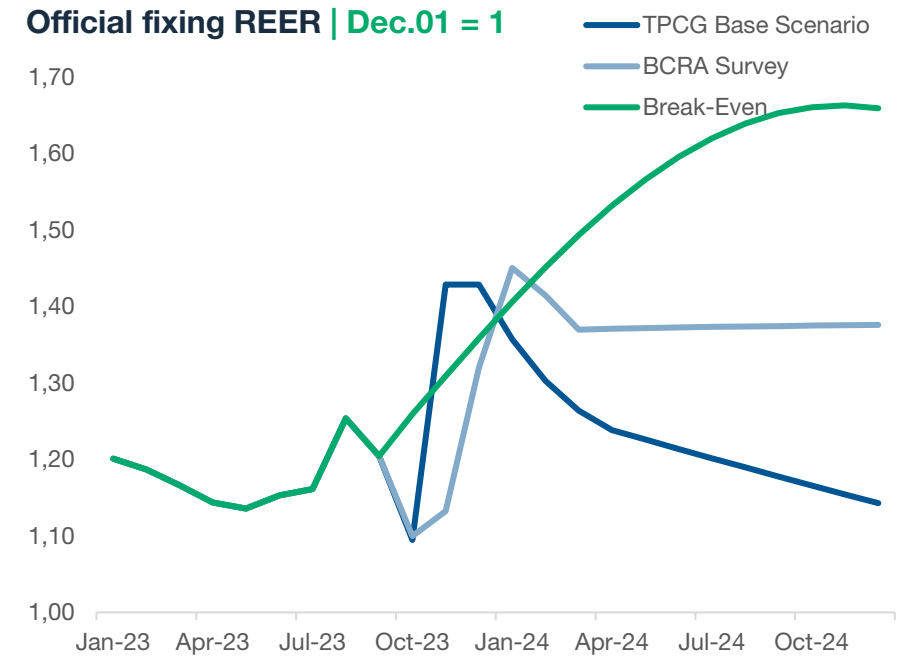
Market expectations assume a re-acceleration in the CPI after October, reaching 15%mom in December before gradually stabilizing around 5.5%mom in 2H24. Our baseline, which models an extension of the current policies rather than a new program (because we don't know who's going to win or do), yields a substantially higher monthly prints.

In this context, the market consensus assumes a stabilization program during 2024. Or at least a drastic change in policies, in a context where our baseline BVAR model assumes that under current policies, inflation is likely to stabilize close to twice the current consensus, on the back of the FX, monetary and relative price imbalances.

The dynamics of the official fixing is a critical variable. The market expects an initial depreciation and then a crawling peg roughly aligned with inflation



Source: TPCG Research based on the Treasury

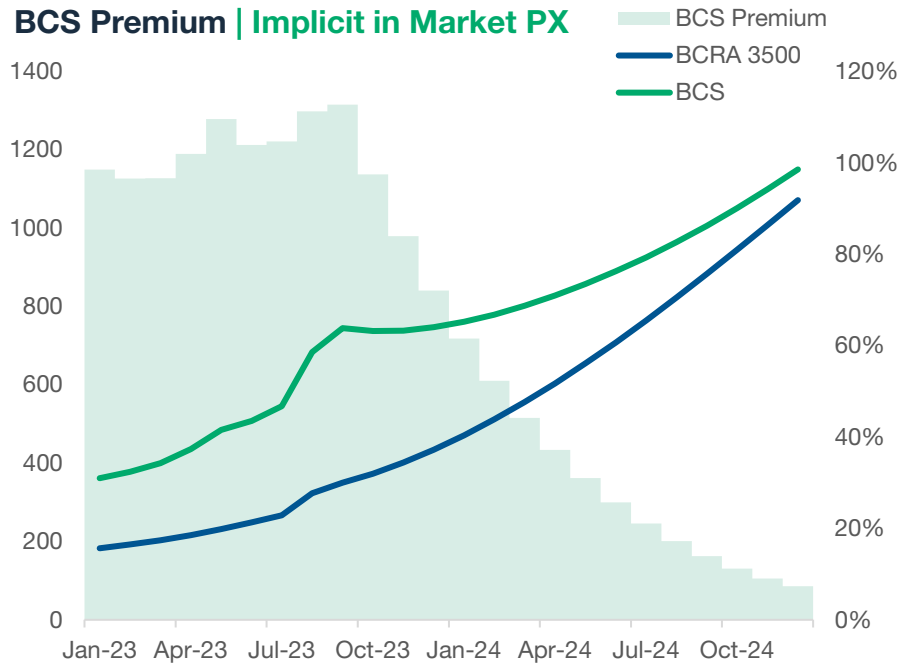


Source: TPCG Research based on the Treasury & BCRA

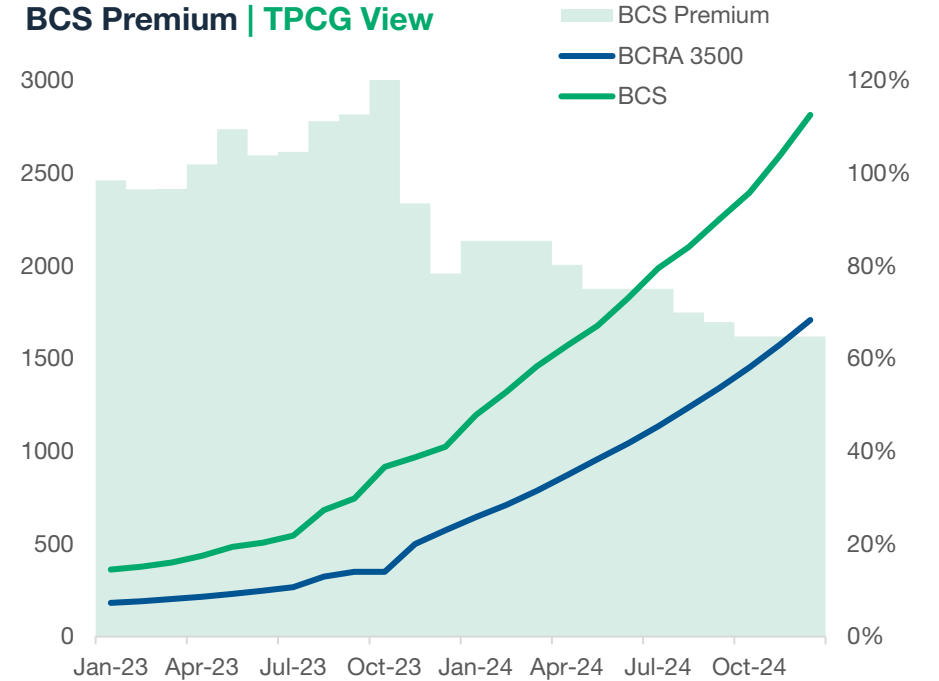
The market consensus is expecting an initial correction of the official fixing to USDARS770 by January, followed by a crawling peg at a pace consistent with inflation. Our baseline assumes a smaller deval, to around USDARS500, and a faster crawling peg after that. The breakeven is too distorted by BCRA intervention to be informative.

Because our baseline assumes higher inflation than the market's, we estimate that the REER would revert to late-2023 levels by 4Q23. The market, on the other hand, assumes a constant REER, about 40% weaker than the late-2023 level, consistent with its expectation of a stabilization program.

The market consensus assumes a “brecha” compression in 2024. Our baseline assumes a gradual slide to a multiple FX framework with an administered “brecha.”



Source: TPCG Research based on the Treasury



Source: TPCG Research based on the Treasury & BCRA

At the core of the consensus implicit scenario is a gradual compression of the brecha, from the current 180% to less than 10% by the end of 2024. The market assumes that the official fixing will move in line with inflation, whereas the BCS is likely going to lag behind prices, strengthening in real terms.

Without a substantial change in policies, we believe that the current path leads to a dual FX market framework, where the next administration seeks to turn the “brecha” into a policy instrument, which it could target. Compressing the BCS premium tighter than 60% next year would require a successful stabilization plan.

We believe that Argentina has run out of road to continuing kicking the can forward. In 2024 it's either stabilization or bust. The 1st round has improved the chances of a stability program.

Muddling through is not an option in 2024. It's stabilization or bust

If voters had repeated the PASO result on Oct23rd, stabilization would have been impossible.

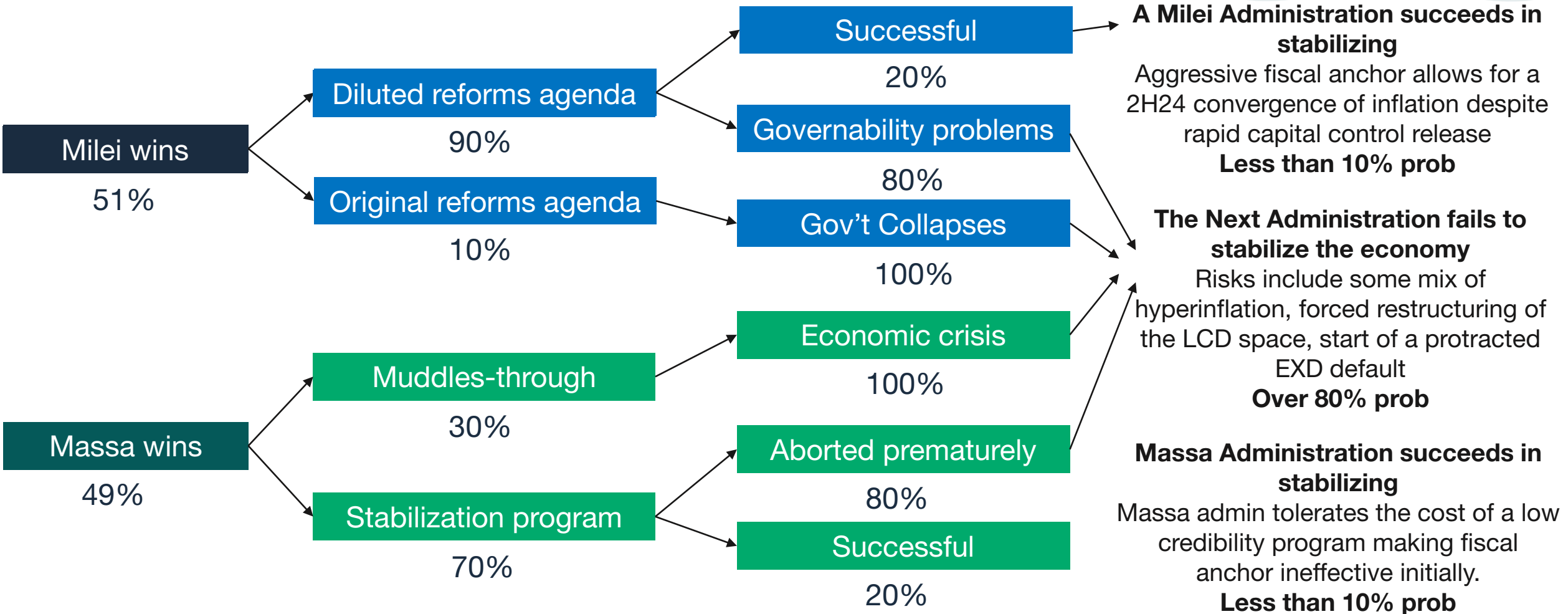
The 1st round result increases the odds of a stabilization program, though implementation remains challenging

With inflation running at 300% annualized over the past three months, its highest in over 30 years; net reserves dropping to -USD11,000bn after the October IMF payments; a primary deficit at least 1pp deviated from the IMF target, with welfare spending explaining a growing share, despite individual benefits being at their lowest in real terms; and a quasi-fiscal deficit running around 10pp of GDP; there's no space to continue muddling through. Argentina will either need to go into a stabilization program in 2024 or risk a major macroeconomic crisis.

The market read after the primaries that 2/3s of the electorate shifted to the right, creating the conditions for a stabilization program. Our take from the primaries was very different. Having beaten both established coalitions unexpectedly, Mr. Milei had zero incentive to moderate himself and his program. Mr. Massa, having finished 3rd in the worst Peronist performance in history, was in no condition to challenge CFK for the Peronist leadership, a necessary condition for a stability program. JxC, the consensus' preferred alternative, seemed dead on the water. In this context, the chances for a stability program, under the PASO scenario, seemed zero.

By reordering the PASO scenario, the electorate created two paths to a stabilization program. On the one side, Mr. Milei was forced to cut a deal with Pro and the establishment to have a chance at the Presidency, diluting his program. On the other side, Mr. Massa's comeback makes him a credible contender for the Peronist leadership, creating the conditions for a stability program.

Our probability tree post-1st round is slightly more constructive than post-PASO. We now see two low-prob paths to stabilization which didn't exist on Aug-14th.



Agenda

Election surprise. Massa leapfrogs Mr. Milei and Mrs. Bullrich to 1st place.

- Mr. Massa comes 1st with almost 37pp of the vote to Mr. Milei's 30pp. JxC collapsed.
- Mr. Massa's blowout night hinged on three drivers: (i) the Peronist machinery, that boosted turnout, (ii) the JxC breakup, and (iii) the additional fiscal impulse.
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A new bull case for Argentina. Could Mr. Massa get a program right out of the gate?

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- Still, while the electorate seems less ready for a stabilization program, it remains critical.
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- With Mr. Milei remaining favorite to win, the bear case for Argentina remains the same: the risk of a Milei Administration with no governability.
- The outcome of the 1st round turns that scenario even scarier, as Mr. Milei could face a stronger Peronist opposition, unified behind Mr. Massa.

Mr. Massa's program so far: secure USD and consolidate the primary deficit. Risks of becoming more of the same, especially with a low-credibility fiscal anchor.

1

A dual FX framework

Economic policy seems to be gradually sliding to a dual FX framework. So far, it would seem that the Administration preferred path is blending an official fixing that moves slower than inflation with the BCS. An alternative would be a more traditional trade and financial FX. Finally, there's Mr. Melconian's two-track system. Every alternative has substantial execution risks.

2

Secure additional USD

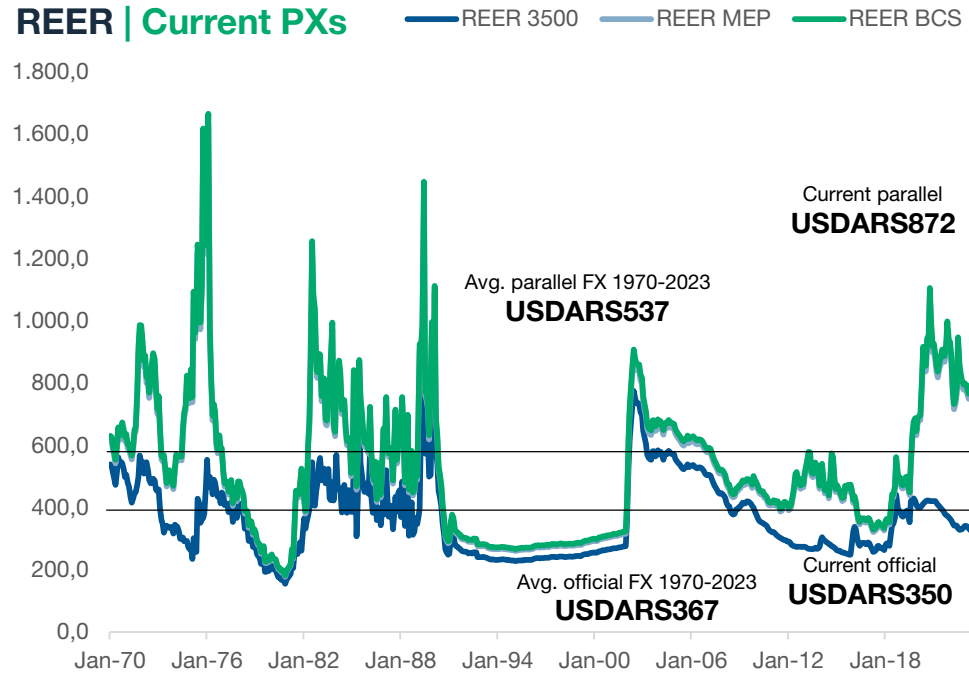
In itself, a dual FX framework would fail to ease BoP pressures substantially. Mr. Massa hinted that he would count (i) on additional flows from grains and energy and (ii) would seek a friendly LMO to defer principal payments. With about USD50bn (excl. dividends) in BoP arrears, the combination of higher inflows and sustained cap controls would allow the gov't to gradually repay these arrears, which in turn would help unwind the Leliq mess.

3

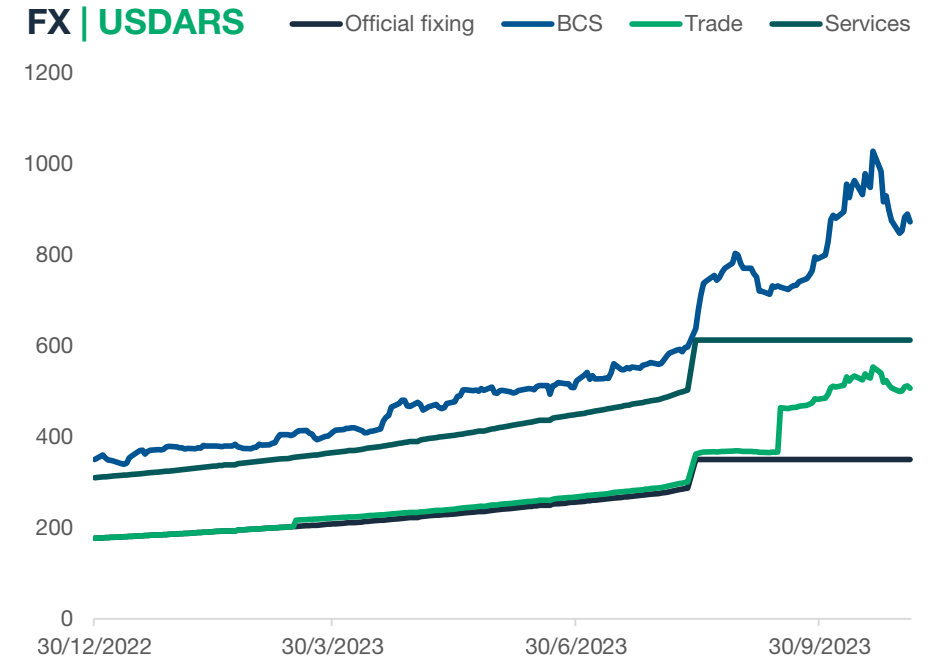
Achieve a primary surplus

Mr. Massa's anchor would be fiscal, trying to overachieve the 0.9pp of GDP deficit target of the EFF. Mr. Massa would seek to cut subsidies faster and eliminate some tax exemptions to achieve a 1pp of GDP primary surplus in 2024. We believe that the fiscal anchor would not become operative until after the 2025 mid-terms on account of Mr. Massa's weak credibility and the market expecting him to deviate.

The case for a multiple FX market at first is grounded on a trade FX that looks competitive in historical terms and a parallel FX that's extremely weak



Source: TPCG Research based on BCRA, INDEC and the TPCG Trading Desk



Source: TPCG Research based on the Treasury & BCRA

In our view, at the core of the FX tensions is one of the widest parallel market premiums in history. In real terms, the parallel FX is almost 40% weaker than the 1970-23 average, and the “brecha” is the highest if we exclude hyperinflationary periods. In other words, with a more rational FX-monetary-fiscal framework, it should strengthen in real terms.

The trade FX, on the other side, doesn't look badly misaligned. The official fixing is roughly in line with the 1970-2023 average. More importantly, most trade transactions clear at a weaker FX, which blends 70% of the official fixing and 30% of the BCS, yielding a USDARS506 trade FX, about 30% weaker than the 1970-23 average and similar to that of 2007.

Mr. Massa would have three alternatives to split the FX market

Traditional framework w/ trade and financial FXs

How it'd work: Under a traditional multiple FX market framework, the Gov't creates a trade FX market, where the rate is stronger, to contain the impact of the REER correction on critical tradable goods. Services and financial transactions get routed at a financial FX to contain outflows.

Pros: Allows “brecha” targeting if the financial is dirty. Minimizes trade REER correction.

Cons: Too easy to arbitrage, would fail to yield significant reserves gain without a weaker trade REER to compensate for “brecha”. Trade FX still needs to be set at a REER consistent with trade surplus. Creates currency mismatches for corporates.

Current framework: trade as a blend of official and BCS.

How it'd work: The Gov't creates differential rates based on (i) different levies on FX transactions or (ii) allowing exporters to keep some USD from inflows to sell at the BCS. Mr. Kicillof designed the original version of this framework in 2006, and it's been Kirchnerism's preferred implementation since 2011.

Pros: Better “brecha” targeting by decoupling official FX from trade FX. Could allow for multiples FXs depending on different blends.

Cons: Devastates demand for USD-L paper, reducing the Treasury's roll-over alternatives. Taxation based differential FX hitting limits.

Melconian-type two track FX system.

How it'd work: A two-track market, a subsidized FX and a free FX. Agents choose a track and channel all their flows into it. Two main cap controls: (i) you can't change tracks, (ii) within the subsidized track, arrears are released in quotas.

Pros: Extremely hard to arbitrage. Allows the policy maker to (i) normalize most of the FX market while (ii) match arrears with inflows.

Cons: Having agents choose tracks is dangerous, could lead to high pass-through.

Mr. Massa is likely to go for a very gradual capital controls release, in a context where the rebound in the trade surplus won't be enough to cover the arrears.

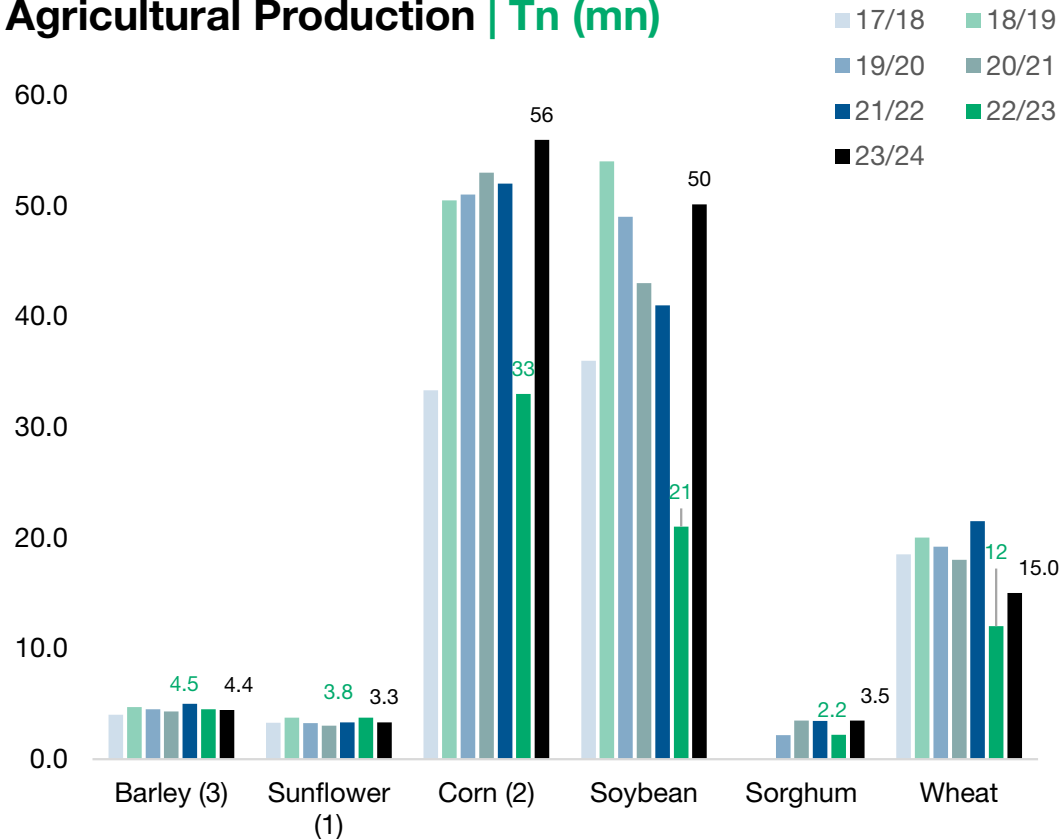
	CY	Jan-Jul	Aug-Dec	CY	Unfeasible	Feasible
Current Account	4.779	-6.417	-6.083	-12.500	-9.300	6.700
Trade Balance	21.817	3.569	1.431	5.000	7.700	22.700
Exports	90.533	39.570	26.930	66.500	92.700	92.700
Agri-flows	40.438	12.957	7.043	20.000	42.000	42.000
Energy exports (Indec)	8.398	4.385	3.915	8.300	8.700	8.700
Rest	41.697	22.228	15.972	38.200	42.000	42.000
Imports	-68.715	-36.001	-25.499	-61.500	-85.000	-70.000
Energy imports (Indec)	-12.868	-5.514	-1.986	-7.500	-2.000	-2.000
Rest	-55.847	-30.487	-23.513	-54.000	-53.000	-53.000
Import arrears					-30.000	-15.000
Unpaid imports					-15.000	-15.000
Repayment of trade debt					-15.000	
Services Balance	-10.106	-3.872	-4.128	-8.000	-7.000	-6.000
Income Balance	-6.932	-6.113	-3.387	-9.500	-10.000	-10.000
Capital & Financial account	2.106	-13.971	4.006	-9.965	-16.225	-3.335
Retail dollarization	-779	-772	-28	-800	0	0
Non-residents net lending	-4.613	-2.247	-1.653	-3.900	-2.000	-2.000
Treasury Net indebttness	7.857	-7.081	7.416	335	-14.225	-1.335
IFIs	1.349	1.610	-610	1.000	-12.500	0
Public sector dollarization	31	128	372	500	0	0
Net payments	-390	-843	1.843	1.000	-390	0
IMF	6.867	-7.976	5.811	-2.165	-1.335	-1.335
Rest	-359	-3.871	-1.729	-5.600	0	0
Valuation effects	-1.951	-117	117	0	0	0
Change in reserves	4.934	-20.505	-1.960	-22.465	-25.525	3.365

Source: TPCG Research based on BCRA & Indec

- » Between a better harvest and higher energy sales, we expect exports to improve by USD26bn in 2024, creating a path towards normalizing the FX market.
- » The biggest problems is the arrears that Mr. Massa has accumulated. Repaying all of trade debt (both registered and unregistered), the services arrears and unwinding the usage of the PBOC swap line would consume all of the export recovery plus about USD25bn in reserves, depleting the Gross International Reserves position and dipping the net position even further into the red.
- » In this context, we expect a Massa Administration to use the FX controls framework to force the private sector into refinancing at least half of the trade and the services arrears. Parallely, we would expect the Gov't to seek a reprofiling of the PBOC swap and an LMO to defer the principal payments on the Eurobonds.
- » Assuming it all materializes, Mr. Massa could go about halfway into normalizing the FX market in 2024 and still accumulate a few reserves.

Outlook of the 2023-24 Harvest: Our baseline expects a 55mn ton increase in output, worth about USD21bn. A substantial improvement, but less than expected

Agricultural Production | Tn (mn)



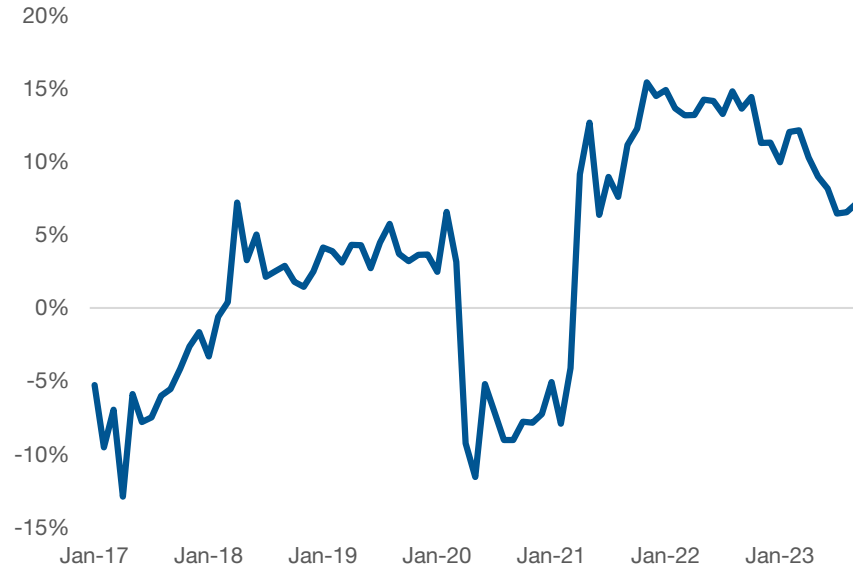
(1) Largest planted area in the last 11 years, mainly in Prov. of Bs As. (2) +27% area 22/23 vs 17/18 (3) -25% area 23/24 vs 22/23

Source: TPCG Research based on Viterra estimates

- » We expect the wheat harvest to increase from 12mn tons in 2022-23 to 15mn in 2023-24, a 25% increase, which translates to an additional USD1bn.
- » Our baseline for the soy harvest is a rebound from 21mn tons in 2023 to about 50mn in 2024, adding USD14.5bn to agri flows.
- » Finally, we expect a 23mn increase in corn output, to 56mn tons, which should increase the value of the harvest by USD4.6bn.
- » All in all, we expect a 55mn ton increase in the output of the three major crops, adding about USD21bn to the total value of the harvest relative to 2022-23.

Similarly, on the energy side we're seeing the increase in output cooling off

Argentine crude oil production | % change yoy



Source: TPCG Research based on Energy Secretariat

Argentine natural gas production | % change yoy



Source: TPCG Research based on Energy Secretariat

The other big story underpinning the 2024 BoP was the expectation of moving from an energy trade deficit to a surplus. Still, we're also seeing some teething pains. Crude, condensate and gasoline production is decelerating sharply in 2023. After growing 12%yoy in 2021-22, production slowed to +6%yoy in Jul23.

Natural gas output is also slowing down considerably, after expanding 12%yoy in the post-pandemic, it dropped -0.8pp over the past 12 months. The drivers for the slowdown in crude and in natural gas are different, but they coalesce to paint a less supportive picture than the one we had a few months ago.

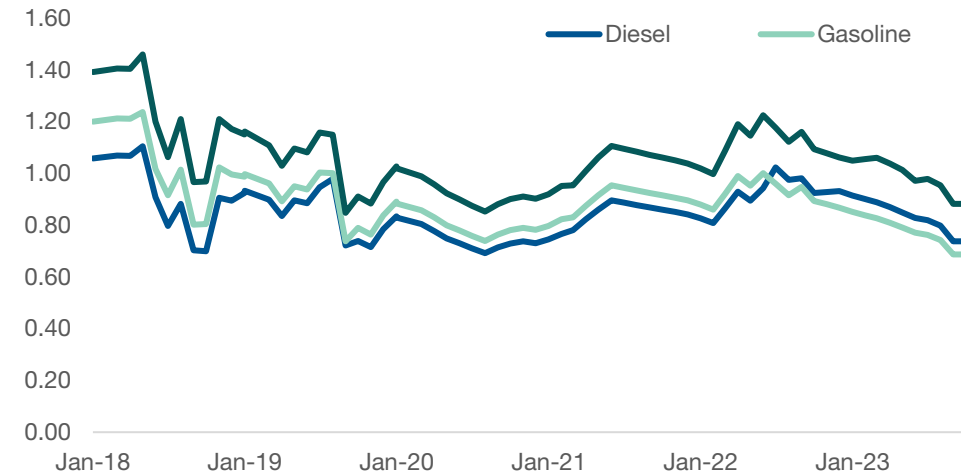
The biggest roadblock to increasing oil production is in the domestic downstream, where prices in the pump are about half of the historical average.

Argentine crude oil production | KBBLD



Source: TPCG Research based on Energy Secretariat

YPF's gasoline and diesel pump price in City of BA | USD/liter



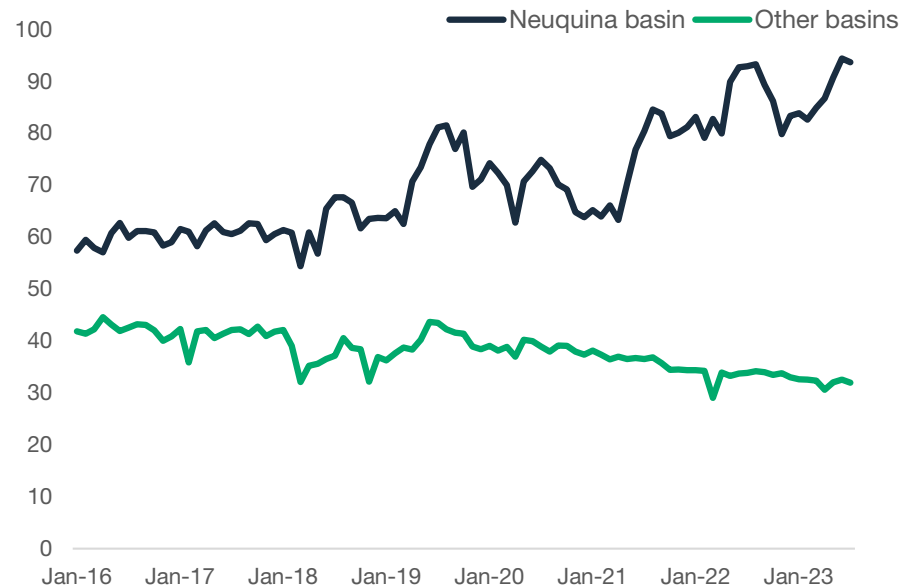
Source: TPCG Research based on Energy Secretariat & YPF

Crude production YTD increased by 1.8%, down from +6.4pp in Jan-Aug 2022. If we add condensate and gasoline production, production is accumulates 5 months of contraction. In our view, the problem gravitates around a domestic market where prices trade at a substantial discount relative to Brent and the more attractive export prices.

The domestic price distortion upstream is mostly explained by a downstream problem. Prices at the pump have dropped to a 5-year low on the back of the Gov't price guidelines. Under a unified FX market, liquid fuels would need to increase by at least 3.5/4X to return to the historical USD1.2 / 1.3 per liter average.

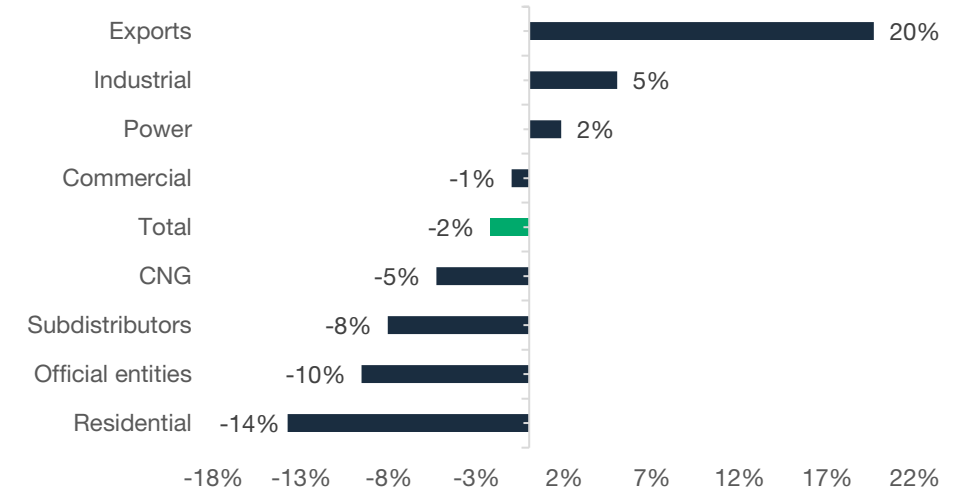
In natural gas, the slowdown gravitated around (i) a drop in demand, (ii) midstream infrastructure development, and (iii) Gov't decisions on LNG imports.

Argentine natural gas production | MMm3/d



Source: TPCG Research based on Energy Secretariat

Natural gas dispatched % YoY Chng Jul-YTD

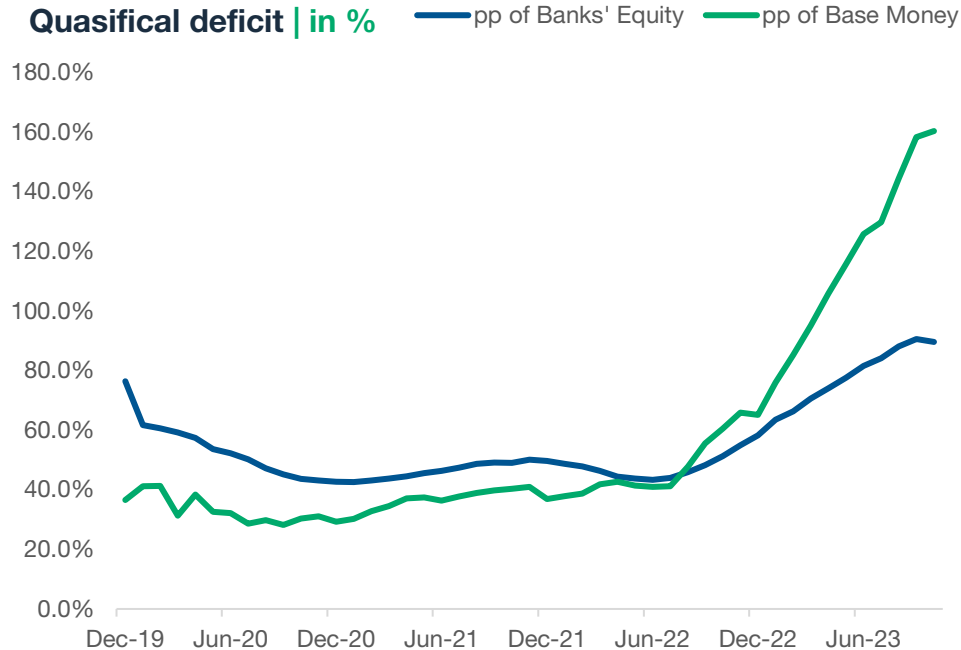


Source: TPCG Research based on Energy Secretariat

On the natgas side, while the Neuquina Basin production continues to increase and total production reached 140MMm3d in the winter, increase in production slowed to a point where it wasn't enough to compensate for the decline of the remaining basins. Part of the problem was the midstream constraints, which the NK pipeline eased but didn't solve.

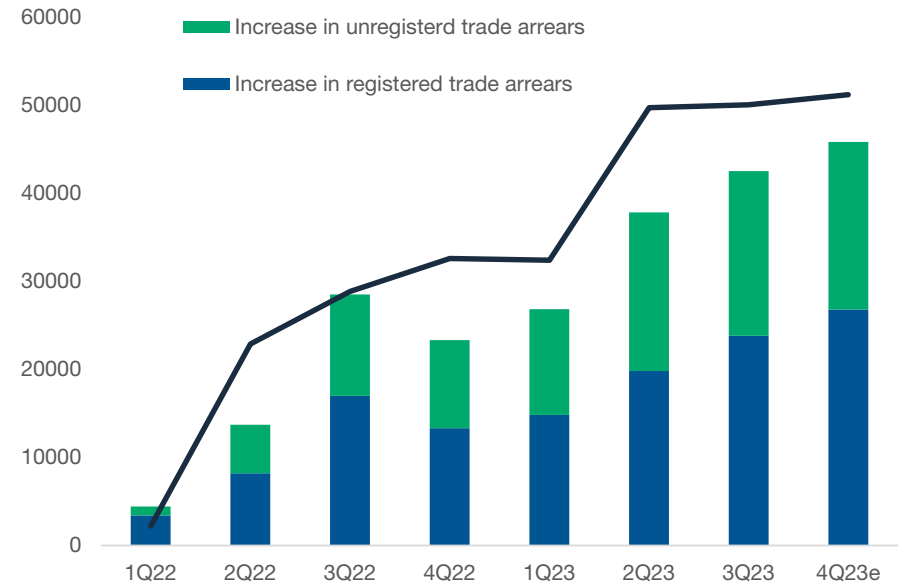
The rest of the problem is (i) a mild winter that led to reduced demand and (ii) the government decision not to prioritize domestic supply and resell the contracted LNG cargoes. After the 2022 fiasco, the Government contracted LNG cargoes early in the year and used most of them despite weak demand and growing production, leading to a growth in exports.

The BCRA's remunerated liabilities problem is tied to the external arrears. Behind every agent remaining long ARS, there's a USD claim against the BCRA.



Source: TPCG Research based on BCRA

Public securities vs BoP arrears | Official USD mn



Source: TPCG Research based on BCRA and Indec

The biggest constraint on the capital controls release is the mess in the ARS market. The BCRA's quasifiscal deficit has ballooned to about 170% of base money in yearly terms, and explains almost 80% of banks' equities. After the latest rate hike, it's running slightly above 10pp of GDP per annum.

Still, the ARS mess is the mirror image of the BoP arrears. Over the past two years, the capital controls framework has (i) allowed the BCRA to accumulate about USD50,000bn in trade arrears, and (ii) forced agents into remaining long ARS. If we look at the increase in BCRA and Treasury securities, the figure is similar to the accumulated arrears.

Mr. Massa has hinted that he would seek a robust fiscal anchor, gunning for a 1pp primary surplus in 2024, outperforming the EFF's -0.9pp primary deficit target.

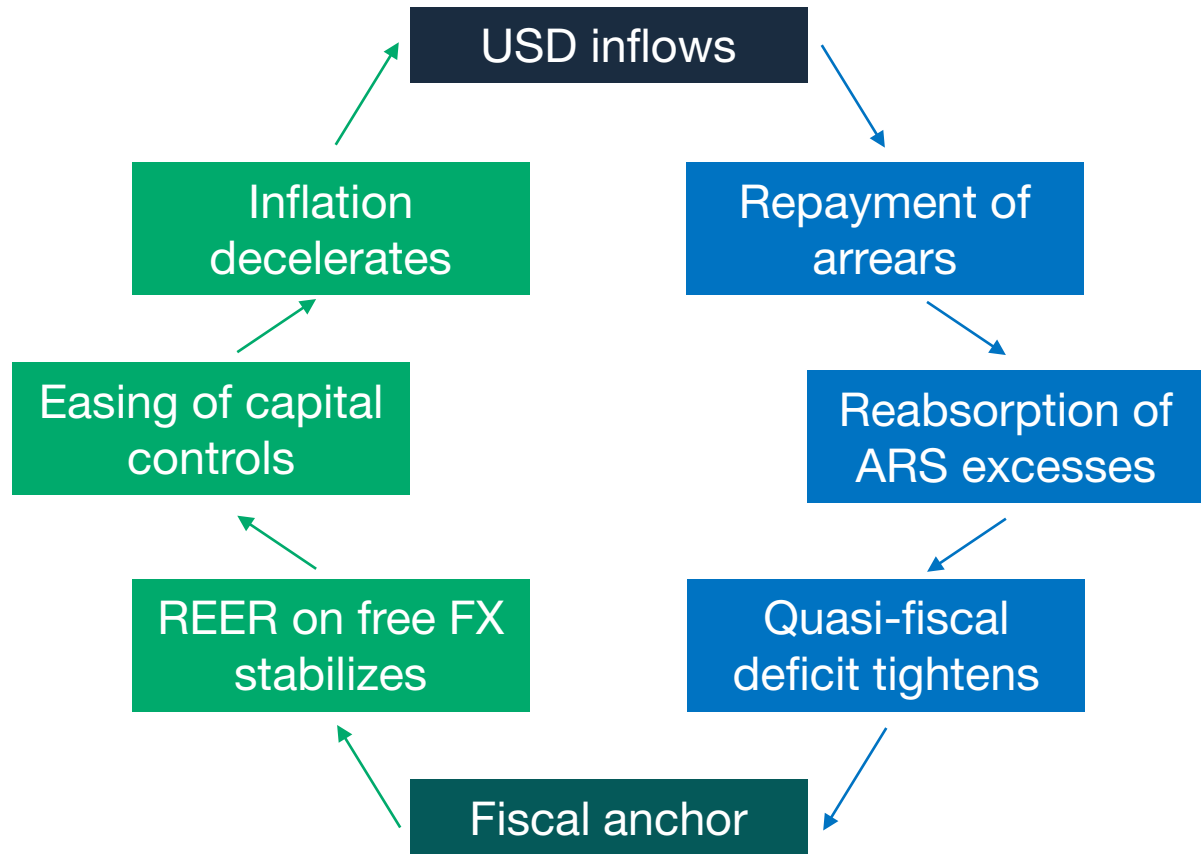
	2022	2023 Jan-Sept	2023 CY		2024 CY	
			IMF	TPCG	IMF	Massa
Revenues	18.5%	17.0%	17.6%	18.0%	18.1%	18.5%
Tax revenues	11.2%	10.1%	10.6%	10.8%	11.2%	11.4%
Social security contributions	5.2%	5.2%	5.6%	5.4%	5.3%	5.6%
Income from Treasury property	1.3%	0.9%	1.0%	1.0%	1.0%	1.0%
Non-tax revenues	0.8%	0.8%	0.5%	0.8%	0.6%	0.5%
Primary spending	20.5%	19.3%	19.6%	21.0%	19.6%	17.5%
Personnel spending	2.4%	2.5%	3.2%	3.1%	3.1%	2.8%
Social Security	11.4%	10.6%	10.9%	11.5%	11.4%	11.0%
Subsidies	2.6%	2.2%	2.3%	2.4%	1.6%	0.7%
Energy	2.0%	1.6%	1.5%	1.8%	1.1%	0.5%
Transportation	0.6%	0.5%	0.8%	0.6%	0.5%	0.2%
COVID & other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Transfers to Provinces	0.7%	0.7%	0.9%	1.1%	0.8%	0.6%
Capex	1.6%	1.7%	1.5%	1.7%	1.4%	1.4%
Other	1.8%	1.7%	0.8%	1.2%	1.3%	1.0%
Primary balance	-2.0%	-2.3%	-2.0%	-3.0%	-0.9%	1.0%
Interest payments	1.8%	1.9%	2.2%	2.2%	3.1%	3.1%
Overall balance	-3.8%	-4.2%	-4.2%	-5.2%	-4.0%	-2.1%

- » Mr. Massa plans require a substantial fiscal anchor to compensate for the REER correction, the capital controls release, and the relative price corrections.
- » In this context, Mr. Massa announced his intention to seek a 1pp of GDP primary surplus, putting forward a program with a fiscal consolidation about 2pp of GDP higher than the IMF EFF and about 1pp higher than the JxC program.
- » Mr. Massa's problem is that his vow to consolidate the primary deficit is not credible. The market has already seen Mr. Massa tighten the deficit and then deviate massively to win elections. Especially when his commitment with fiscal discipline could clash with a Peronist party leadership contest in 2024-25.
- » Without credibility, the fiscal anchor won't be operative from the start, preventing inflation from converging rapidly. In this context, the political cost of running a stabilization program, without the benefit of disinflation could push the Massa administration to abort it.

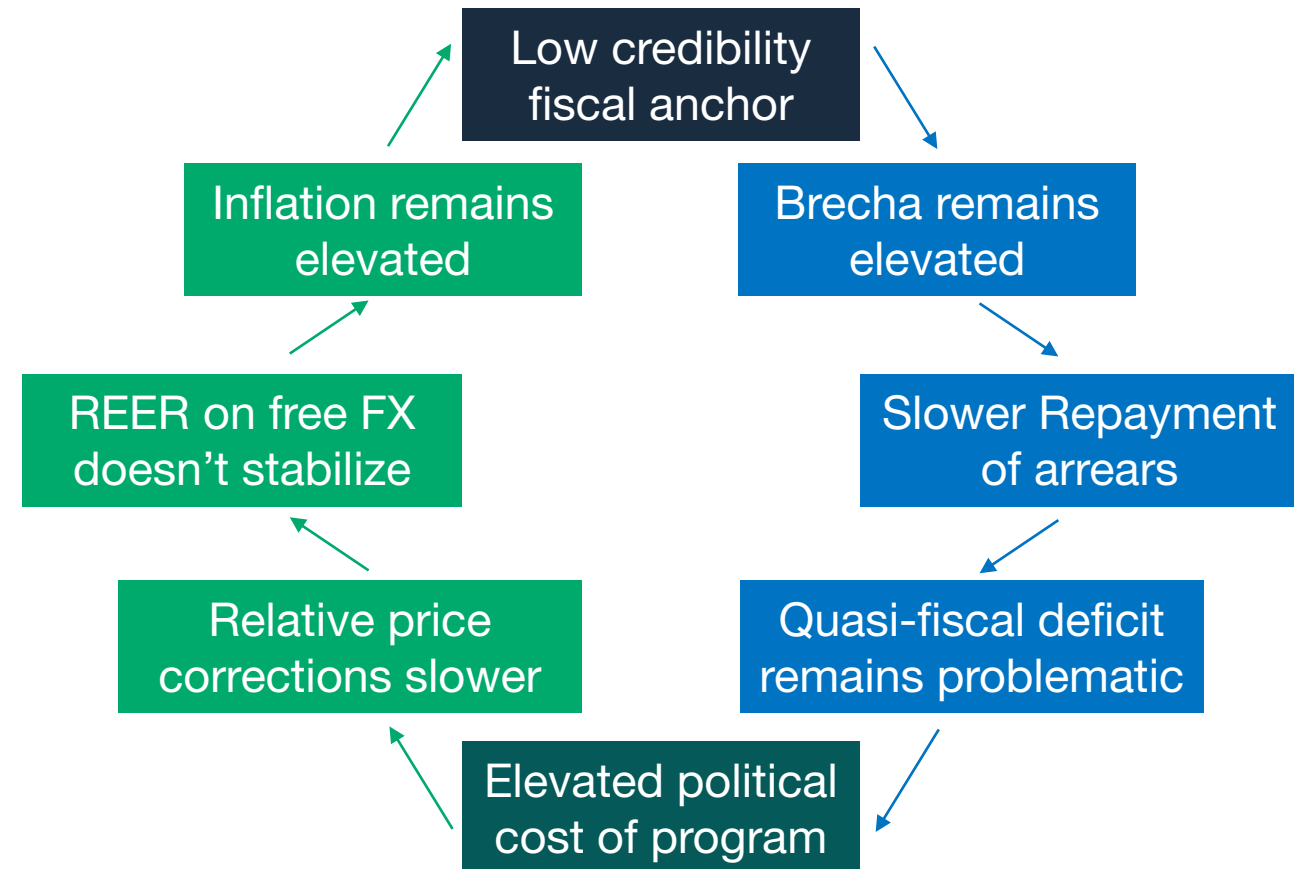
Source: TPCG Research based on BCRA & Indec

The Massa program: theory vs how its likely to turn out

Theory



Reality



Agenda

Election surprise. Massa leapfrogs Mr. Milei and Mrs. Bullrich to 1st place.

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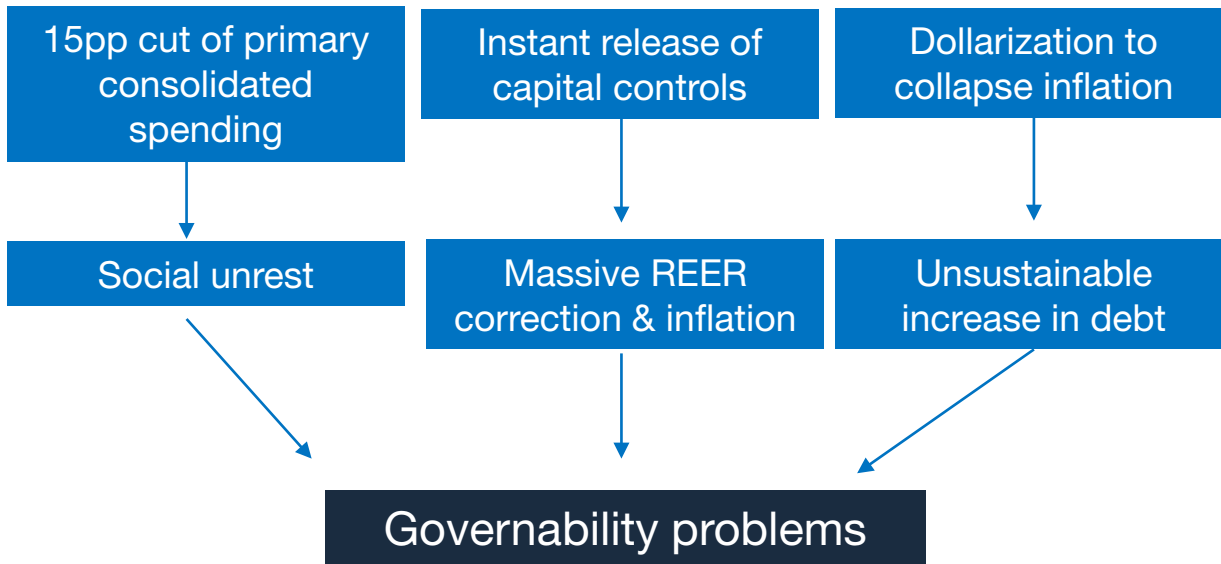
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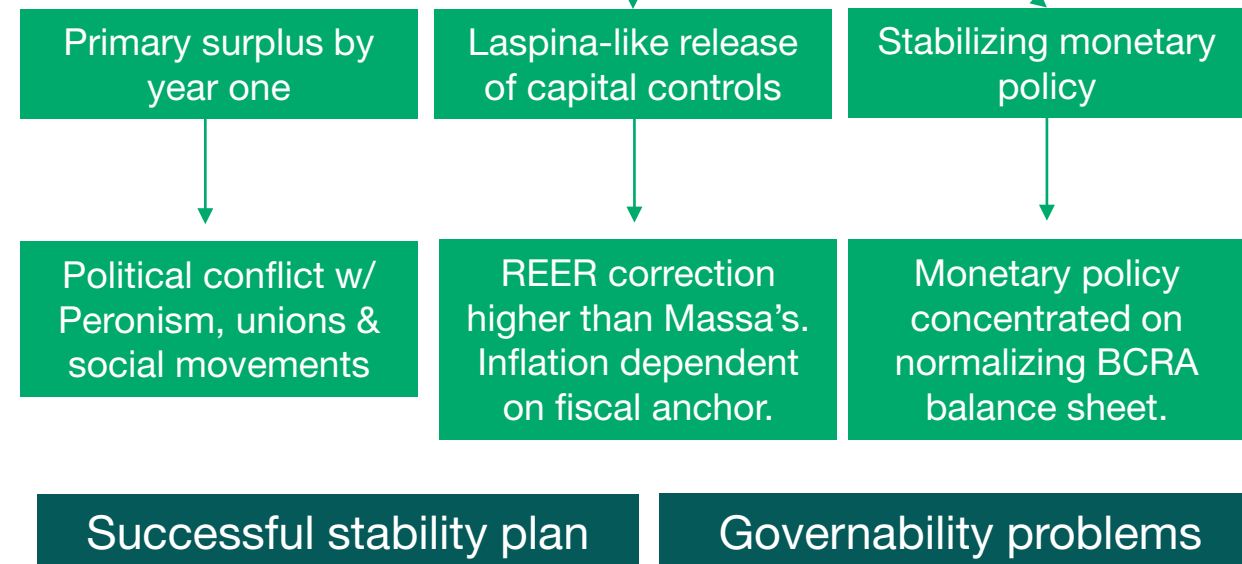
- With Mr. Milei remaining favorite to win, the bear case for Argentina remains the same: the risk of a Milei Administration with no governability.
- The outcome of the 1st round turns that scenario even scarier, as Mr. Milei could face a stronger Peronist opposition, unified behind Mr. Massa.

The result of the 1st Round buried Mr. Milei's chances of going at it on his own. The path going forward includes a deal with Pro and a diluted program

The original Milei program



A Milei-Pro program



The day after the PASO, the market assumed that Mr. Milei would pivot to a more moderate platform and enter a deal with JxC. From a purely political point of view, he'd probably would have had better chance of winning in the 1st round if he had moderated. Still, we believe that was never an option after Mr. Milei had beaten the two establishment coalitions disruptively.

The 1st round result put Mr. Milei in a tough spot. He needed to choose between having a shot at the presidency and ideological purity. He chose a deal with Mr. Macri. That deal allows for a more moderate program, with better chances than success and a more robust political platform. He'd also need to face a steeper Peronist opposition, with control of Congress.

Contrary to Mr. Massa’s, the fiscal anchor under Mr. Milei would be credible. Cutting 15pp of GDP may look unfeasible, but attaining a primary surplus isn’t.

	in pp of GDP					
	Dec-19	Dec-20	Dec-21	Jun-22	Dec-22	Sep-23
Total outlays	18.6%	26.2%	22.8%	22.9%	22.3%	21.2%
Inflexible spending in the short term	12.4%	17.1%	13.2%	13.3%	13.2%	12.5%
Social Security	9.5%	15.1%	11.8%	11.9%	11.4%	10.6%
Interest payments	2.8%	2.0%	1.5%	1.4%	1.8%	1.9%
Flexible spending in the short term	6.2%	9.2%	9.6%	9.6%	9.1%	8.7%
Opex	2.8%	3.3%	3.3%	3.2%	3.2%	3.1%
Personnel spending	2.1%	2.6%	2.3%	2.3%	2.4%	2.5%
Other opex	0.7%	0.8%	1.0%	0.9%	0.7%	0.7%
Subsidies	1.3%	2.6%	3.0%	3.0%	2.6%	2.2%
Energy	0.8%	1.8%	2.3%	2.4%	2.0%	1.6%
Transportation	0.5%	0.7%	0.7%	0.6%	0.6%	0.5%
Transfers to Provinces	0.5%	1.2%	0.8%	0.8%	0.7%	0.7%
Capex	0.9%	1.0%	1.4%	1.4%	1.6%	1.7%
Universities	0.6%	0.8%	0.6%	0.6%	0.6%	0.6%
SOE deficit & Other	0.2%	0.3%	0.5%	0.5%	0.4%	0.4%

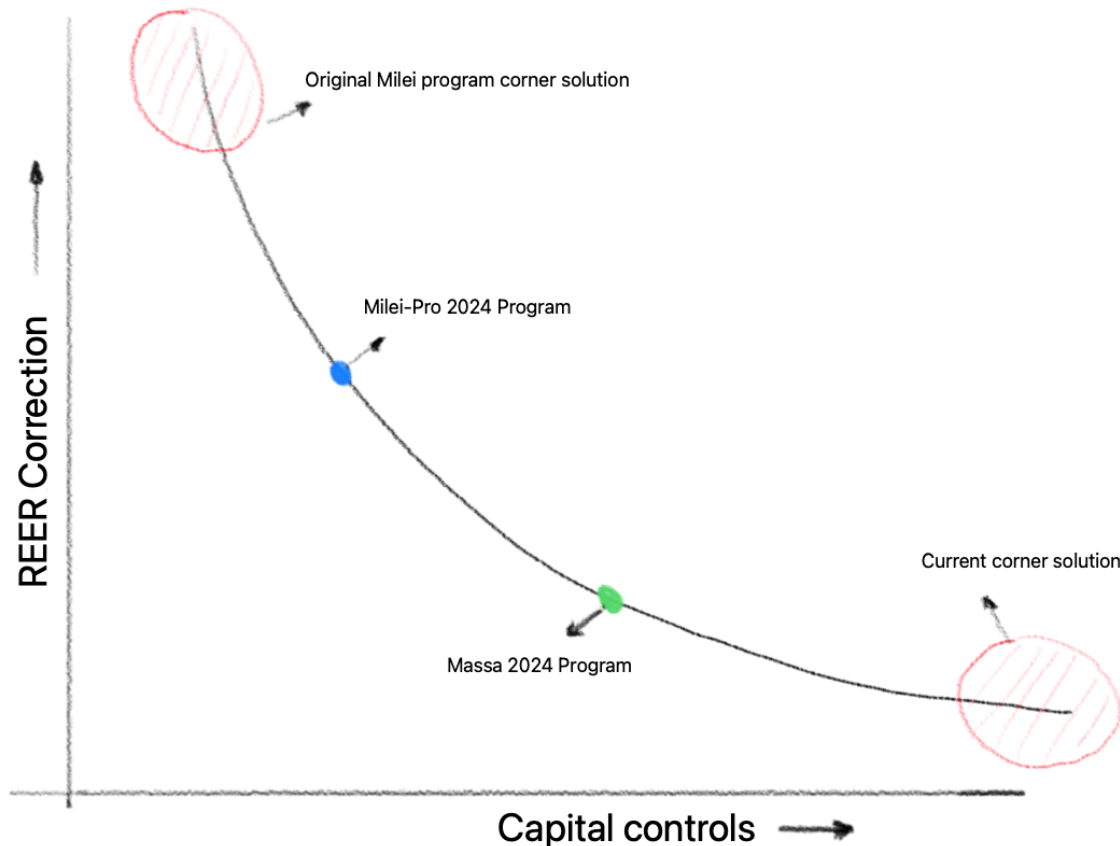
Source: TPCG Research based on the Treasury

Source: TPCG Research based on BCRA & IMF

While cutting the 15pp of GDP that Mr. Milei vowed to in his “chainsaw plan” looks unfeasible, getting a 3-4pp in spending cuts isn’t impossible. Opex stands about 3.1pp of GDP, of which the Government could possibly get about 0.5pp in savings. Adding 2pp in savings from subsidies and 1pp between capex and provinces, would result in a balanced primary.

Additionally, the next administration would benefit from about 1pp of GDP in additional export taxes from a higher grain output. In this context, shooting for a primary surplus in 2024 is possible. Still, the remaining spending, especially regarding social security and interest payments are likely to prove highly inflexible.

The biggest challenge remains hitting the correct sequence to release capital controls without accelerating inflation or exaggerating the REER correction

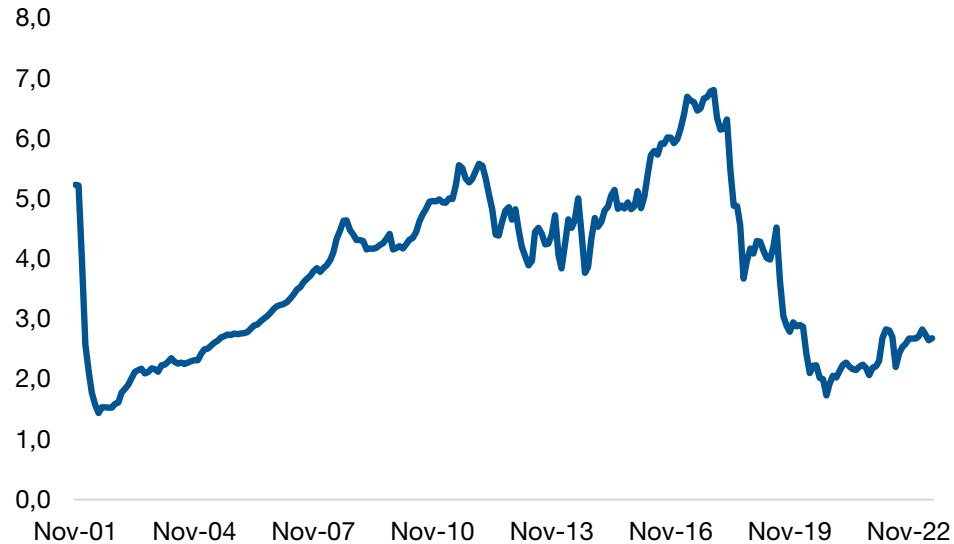


Source: TPCG Research based on BCRA & Indec

- » One of the biggest risks of the original Libertarian program was that it included an instantaneous release of capital controls. A corner solution which, with almost no reserves and no financing, would have resulted in an explosive REER correction that would have a destabilizing effect on inflation.
- » That would have meant going from one corner solution (a Kafkaian capital controls framework preventing a REER correction) to another. Mr. Massa proposes a less disruptive move, releasing the current controls very gradually accepting a controlled REER correction.
- » Mr. Milei's 1st round failure forced him into a deal with Mr. Macri, that potentially takes his original corner solution off the table. In this context, a Milei-Pro program could likely include a quick release of capital controls, like the one Mr. Laspina proposed a few months ago rather than an instantaneous one.
- » The path to that would come by quickly normalizing new flows, leaving the arrears trapped in the remaining capital controls, moderating the REER correction.

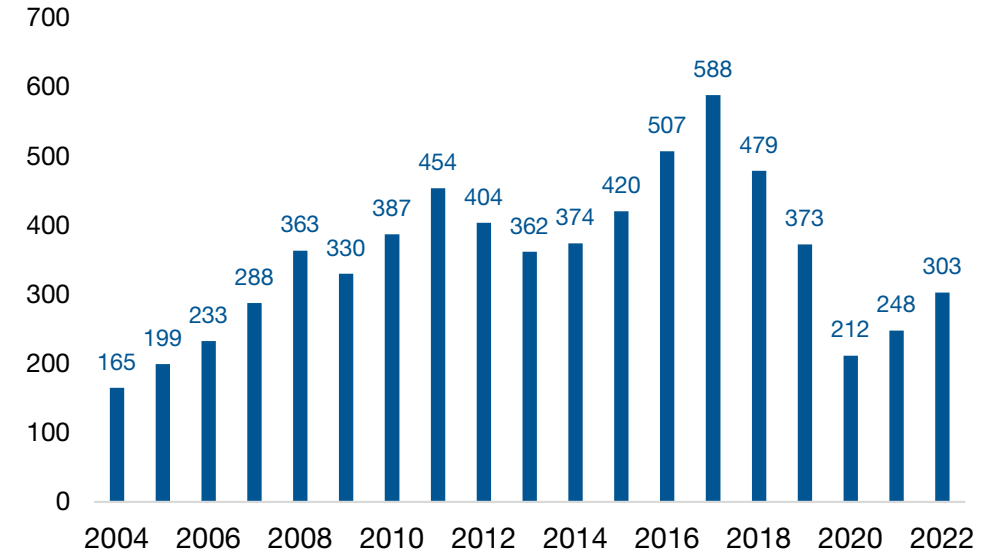
Hitting the correct sequence for the capital controls is critical, because the electorate's mandate is to stabilize the economy and income

Nominal Salary Index | in USD (BCS)



Source: TPCG Research based on the Indec

Annual GDP | in USDbn (BCS)

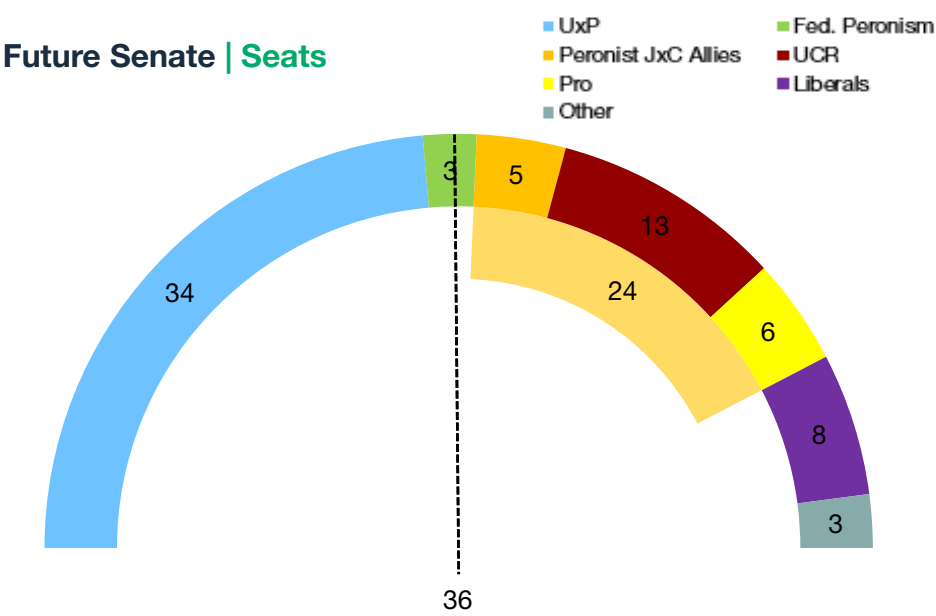
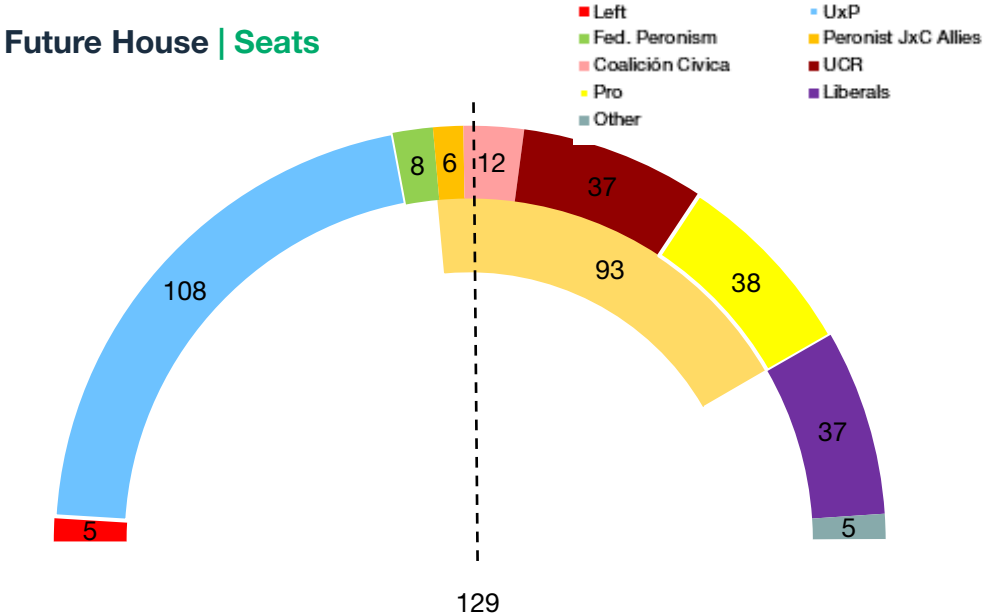


Source: TPCG Research based on Indec & TPCG Trading Desk

Over the past six years, wages and income have deteriorated in dollar terms by about 50 to 60%. In this context, it's unsurprising how many low-income voters support an alternative that staves further deterioration of real incomes. Mr. Milei's fiscal and deregulation policies are likely to hit disposable income further.

This pillar is the most challenging of LLA's plan, especially in a context where Mr. Milei's political support will depend critically on him delivering here. LLA will begin with a very weak political clout, requiring continued voter support to keep Congress running.

Mr Milei's problem is that after the 1st round, he'll face a stronger Peronist opposition, with control of both houses of Congress.

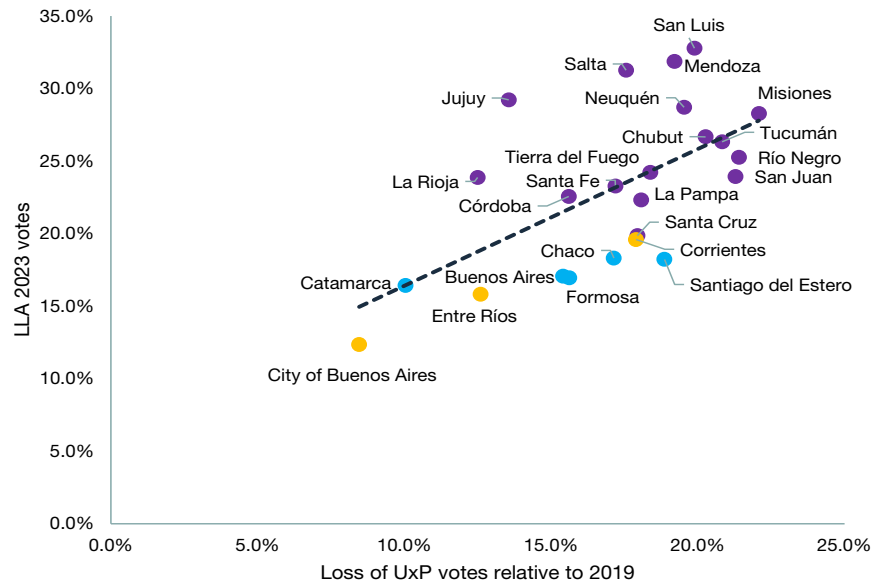


With the gains in seats following the 1st round, if Mr. Massa adds the Federal Peronism's and the JxC Peronist allies' representatives to the UP caucus, he would come within one vote of controlling the House. Assuming some UCR leaks (or flip-flopping Libertarian representatives), Peronism would likely have control of the House.

In the Senate, things are even harder. Between the UP and the Federal Peronism caucuses, voters have returned a Senate under Peronist control. Mr. Milei would need to seek support across the aisle even if he managed to secure an alliance with all of JxC. In other words, governability risks under Milei seem now larger than pre-1st round.

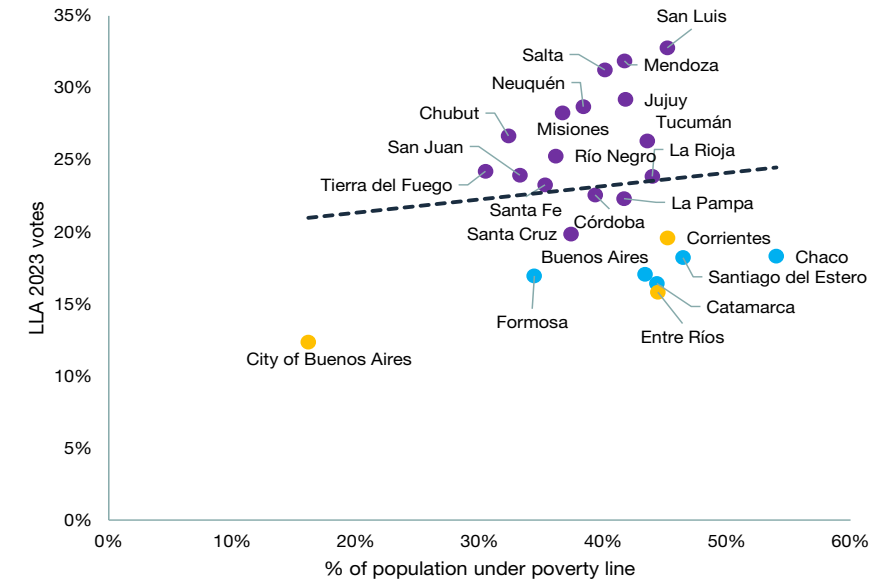
At the end of the day, Peronism and Mr. Milei will clash for the same electorate. Mr. Milei's votes correlate highly with Peronism's losses and social vulnerability indices.

Presidential Election Performance | in pp



Source: TPCG Research based on CNE

LLA Election Performance | in pp



Source: TPCG Research based on CNE & Indec

Mr. Milei's voters would come either from Peronism or JxC. The figures suggest that it was mostly from Peronism. We find that there's a strong correlation between the vote loss of Peronism and the Libertarians' gains. Mr. Milei won in those Provinces where Peronist support collapsed by over 15pp.

Finally, there's a high correlation between poverty and the Libertarians' performance. The backbone of Mr. Milei's votes seems to come from low-to-middle-income families, most of whom receive transfers from the Federal Government in the shape of social assistance, economic subsidies, or public services like State-run healthcare and schooling.

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