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TPCG ARGENTINA
STRATEGY VIEW

Argentina – Strategy
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The 2023 Year Ahead: I want to hold you, but my senses tell me to stop

- **Argy EXD bonds have rallied 60% since mid-October, rebounding back into the low 30s, the highest levels since before Mr. Guzman quit in June.** Global factors explain about 30% of the recent rally in a context where three idiosyncratic drivers increasingly explain Argy's performance: (i) the prospect of regime change, (ii) the perceived improvement in economic policy, and (iii) the expectation that the government may muddle through the FX market.
- **In our view, the rally is likely to run out of steam in the short run, in a context where the good news related to the regime change looks fully priced in, but the challenges around rolling over the ARS debt and the impact of the drought on the FX market are not.** In our view, the rally has turned the ARGENT curve too rich, too fast. Following the inflow of about USD20bn in one-offs, the market pivoted towards pricing Argentina 2024, following the regime change, overlooking, in our view, the challenges of 2023. The main challenge in the short run is that the 4Q rebuilding of the reserve position may not be enough to muddle through the FX market in 2023. The government launched a repurchase program to extend the rally's depth, but we're skeptical about its financing.
- **The regime change looks like the clearest driver of idiosyncratic performance in a context where most polls point to JxC winning the presidency and congressional control.** The government's approval ratings continued to crater during 4Q22, dropping to the lowest point on record, plummeting beyond the weakest point of the Macri Administration. Most polls suggest that JxC is polling in the mid-to-high 30s, with the FdT lagging by about 7 to 10pp. Mrs. Kirchner's decision to self-exclude from the race makes the scenario even more complex for Peronism in a context where CFK polls as the FdT's ceiling rather than its floor. On the other hand, without CFK in the race, the JxC primary should become more orderly, as the upside for the more liberal wing is capped. The moderates have a better chance of securing Congressional control by being competitive with independent voters, more so in a context where a large Libertarian caucus could help Juntos to build a sizeable majority to pass its reforms agenda.
- **The green shoots in economic policy are likely to come under stress as we move into 2Q23 and 3Q23 on the back of the challenges to attain equilibrium in the ARS market.** The government's betting on reaching the elections with inflation on a downward path, a stable BCS, and the monetary market under control. Mr. Massa took office with a rudimentary, albeit effective, stabilization plan: (i) source hard currency to prevent the FX market from collapsing, and (ii) trim fiscal dominance to prevent the excess ARS from pressuring on inflation and the FX market. Though Mr. Massa has trimmed the primary deficit by over 0.5pp of GDP since July, focusing on the primary deficit seems "too little, too late." Looking ahead, the money supply looks highly inelastic, being encumbered by the need to (i) finance the primary deficit, (ii) support the ARS curve, (iii) purchase USD in the FX market, and (iv) cover the quasi-fiscal deficit. On the other hand, our model suggests that money demand will continue deteriorating. In this context, we believe the need to rely on inflation tax will continue to increase in 2023, potentially increasing between 10 and 20% in real terms, adding to FX and CPI pressures.
- **Finally, we believe that the market underestimates the drought's severe impact on exports and the FX market. In our baseline scenario, we expect Agri-flows to drop by USD12bn.** Currently, about 90% of the country's sowed area is suffering through some degree of water shortage, about 75% of the early grain is in regular to bad condition, with about 40% of the early corn already lost. On the soy side, yield drops could dip about 20%, resulting in a 36mn ton harvest, down from 42.2mn last year. Factoring the remaining crops, we estimate that Agri-flows could drop by USD12bn, from USD40bn to USD28bn. Still, early estimates of yield suggest that the deterioration could be even higher, with early crop yields in the core area dropping by -50%yoy, which would widen

the hard currency shortfall to about USD16bn. We estimate that the government could get about USD4bn back of these on the back of lower energy imports (which is why it makes no sense to "finance" the repurchase program with the savings from LNG purchases). In this context, the two pillars that stabilized the FX market in 2022 are likely to disappear. The drought could cut exports by over USD10bn, vaporizing the current account surplus, and IMF financing will turn negative in net terms.

- **Given the challenges described in the previous sections, modeling a single base scenario for 2023 doesn't look like the proper approach. Instead, we opt to model a surface of scenarios based on informational nodes depending on the evolution of the harvest and the ARS market.** Our constructive scenario assumes that weather conditions follow along the path of 2022, with humidity conditions improving in January and February, driving a bounce in yields and minimizing the deterioration of the harvest. With the additional inflow of hard currency, we model a more nuanced drop in real money balances, driving a more supportive rollover ratio for the Treasury, resulting in a moderate inflationary deceleration, with the CPI ending 2023 at 87%yoy, above Mr. Massa's target but below the 2022 print. The more supportive conditions would allow using the official FX as an anchor and drive compression of the "brecha" by easing some import restrictions. In this context, under our constructive scenario, we expect the official fixing to end 2023 at USDARS290 and the "brecha" to average 60% during the year.
- **Our baseline set of scenarios has an inflationary acceleration relative to 2022 and significant risks that the government may not be able to muddle through the FX market.** Our baseline scenario assumes that weather conditions stabilize, capping the deterioration to average yields. In this scenario, we assume that Agri-flows drop by USD10bn, driving a substantial deterioration of the NIR position and forcing a tightening of FX controls. Under this scenario, we model a 2pp of GDP drop in money demand, which would force the government into increasing the use of inflationary tax by 10% in real terms to compensate for lower seigniorage and a weaker rollover ratio. This set of assumptions results in an inflationary acceleration, with the CPI ending 2023 at 120%yoy, with the monthly print re-accelerating starting in March and peaking in 3Q. With a significant FX shortfall, we see little margin to decelerate the crawling peg in 2023, and we model the official fixing devaluating in lockstep with inflation. The additional FX controls are likely to keep the BCS premium from compressing, averaging 75% in the year.
- **The risks of a macroeconomic accident increase substantially under our bear scenario, where we model the effects of a severe drought and a sharp drop in the rollover ratio.** Our bear scenario assumes weather conditions continue to deteriorate, pushing the soy harvest below 30mn tons and widening the FX shortfall to over USD16bn. In this context, we see almost no chance of compensating for this shortfall or avoiding a REER correction. Under this scenario, we model the official fixing weakening almost 60% to USDARS415 and the brecha widening to almost 100% on average on the back of more stringent controls. With the prospect of a REER correction inevitable, in this scenario, we model a deeper deterioration of real money balances and the rollover ratio, pushing the government into needing a substantial increase in inflation tax revenue to avoid reprofiling the ARS debt. When we combine the passthrough and the monetary impulse to inflation, we find that inflation in our bear scenario could accelerate to 140-150%yoy.
- **In our view, with the regime change fully priced into the ARGENT curve, the effects of an elusive ARS equilibrium only partially priced, and the impact of the drought severy underestimated, we believe that Globals have a substantial drawdown risk in the short term.** We remain highly constructive of the post-2023 Argentina and continue to see an upside even in the simulations where we assume a credit event with probability 1. The problem is not the medium run but rather getting there. Of the three drivers of the idiosyncratic performance of the past few months' rally, the regime change seems to be fully priced in. On the other hand, we feel that the market underestimates the impact of a negative outcome in the ARS market and the credit risk associated with the drought's effect. Before accepting the need for a REER correction, to keep the current account, especially the trade balance, running, we expect the government to fully clot the financial account, even if that means entering arrears. In this context, with bonds already above 30c, we see a substantially front-loaded drawdown risk to the ARGENT curve. While we see some chance that bonds could remain around the 30c mark under our constructive scenario, under our baseline scenario, we would expect bonds to weaken back into the low-20s. In our bear scenarios, the drop could bottom out in the teens. If we look beyond the 1H23 downside risks, we remain constructive, with end-year price targets in the mid-30s for the ARGENT curve and low-40s for 2024.

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Strategy – Argentina

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The 2023 YA: I want to hold you, but my senses tell me to stop

The starting point: a massive rally back into the low-30s.

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Argy EXD bonds have rallied 60% since mid-October, rebounding back into the low 30s, the highest levels since before Mr. Guzman quit in June. 2022 has been a rollercoaster for valuations on Argy's EXD side. After a weak 1Q, bonds strengthened in February as the government finalized the SLA for a new EFF program with the IMF, compressing spreads down to slightly below 1700bp by late April. The cracks started to appear in May in the context of widening fiscal impulse, falling ARS rollover, and an underperforming FX market. By mid-June, spreads were back to pre-IMF deal levels, and then, all hell broke loose in July after Mr. Guzman resigned. During Mrs. Batakis' ill-fated tenor, spreads skyrocketed to almost 3000bp, the widest since before the restructuring, as bond prices collapsed into the teens. The landing of Mr. Massa and his team changed the dynamics. In August, Mr. Massa shored up the ARS market by tagging an FX option to linkers and stabilized the FX market through a differentiated exchange rate for soy exporters. Still, the relief was short-lived. As soon as the government ended the differentiated facility for grain exporters, the FX market tanked again, sending bonds tumbling down again into the teens. The recent rally, initiated in mid-October, was the final twist in the 2022 rollercoaster. A combination of a higher global appetite for risk and idiosyncratic economic policy moves seeking to reduce the risk of the government running out of hard currency in 2023 drove a 60% rally that pushed bonds back into the low-30s.

Figure 1: Argy bond valuations have been a rollercoaster during 2022, ending on a substantial rally.

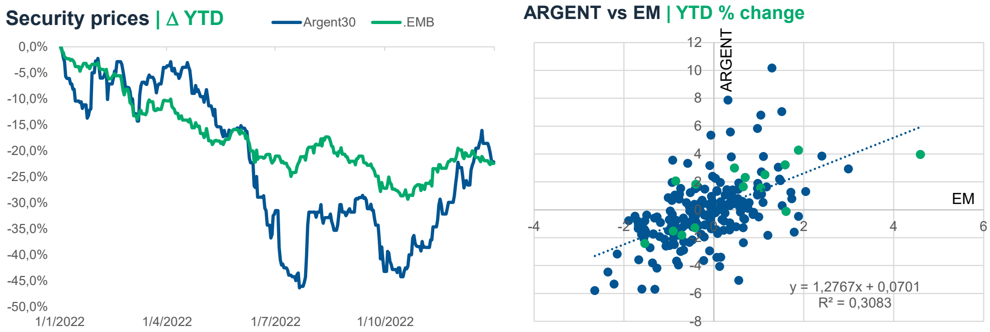
	MD	YTM	PX (Conv.)	Total Return (bps)				
	17-ene.-23			17-Jan - 16-Oct	15-Oct - 13-sep	12-sep - 28-Jul	27-Jul - 1-Jun	31-May - 1-Jan
PDI 2029	3,0	33,1	32,25	6.614	-2.047	1.957	-3.020	-1.728
Argent30	3,1	30,2	33,00	6.831	-2.142	1.979	-2.829	-1.570
Argent38	5,1	20,9	36,25	5.453	-1.843	1.615	-2.500	-584
Argent46	4,8	21,9	30,50	6.152	-2.058	1.884	-2.719	-1.099
Argent41	6,1	18,4	33,25	5.415	-1.968	1.710	-2.523	-554
Argent35	6,0	21,0	30,00	6.206	-2.049	2.004	-2.682	-1.342
EMBI	-	-	-	1.299	-964	-53	-514	-1.633

Source: TPCG Research based on the TPCG Trading Desk

Global factors explain about 30% of the recent rally in a context where idiosyncratic drivers increasingly explain Argy's performance.

Global factors explain about 30% of the recent rally in a context where idiosyncratic drivers increasingly explain Argy's performance. Since mid-October, EM bond prices rebounded 13%, recovering slightly over half of what they lost between January and mid-October. Argy bonds outperformed the EM space by a wide margin, rallying 60%. As the Argy economy slipped further into distressed territory in 2022, the ARGENT curve decoupled from the EM space, trading closer to idiosyncratic catalysts. The IMF program, the reshufflings of the economic team, the tightening of FX controls, and the differentiated FX rates for grain exporters all became drivers of alpha YTD. We estimate that the Argy beta dropped to 1.27 as idiosyncratic drivers dominated price action. In this context, on beta-adjusted terms, the EM rally explains about 17pp of the 60% rally or roughly one-third. In other words, an improved global appetite for risk contributed to the Argy rally, albeit far less than domestic matters.

Figure 2: Global factors explained one-third of the 4Q22 rally in the ARGENT curve.



Source: TPCG Research based on the TPCG Trading Desk

Among the domestic catalysts of alpha, we believe that the prospect of regime change, the perceived improvement in economic policy, and the expectation that the government may muddle through the FX market are the three critical drivers of the recent price action.

Among the domestic catalysts of alpha, we believe that the prospect of regime change, the perceived improvement in economic policy, and the expectation that the government may muddle through the FX market are the three critical drivers of the recent price action. At distressed levels, the case for holding Argy paper seemed clear cut: betting to clip a few more coupons than what the market priced and hope for a better-than-expected recovery. The change in the economic team, which resulted in a shift in more market-friendly decision-making and fiscal consolidation, contributed to the improvement in the expected recovery. Similarly, the inflow of hard currency resulting from the two differentiated FX regimes for grain exporters (potentially contributing USD11bn between September and December), the USD5bn boost to the PBOC swap line, and USD700mn from the IADB improved the odds that the government might muddle through the FX market during 2023. In this context, the market started pricing a higher chance of cashing in the 2023 coupons. Finally, as we enter the election year with the government's approval rating at rock bottom, creditors bumped the regime change scenario into the baseline. All in all, the mix of these drivers compressed the implicit default probability for the end-2023 marginally, increasing the value of the cash flows in 2023 (the total value of the cash flows dropped because the default probability term structure steepened for 2025-EOL). The implicit recovery. According to our valuation model based on Merrick (1999), improved by almost 9c, explaining the rally.

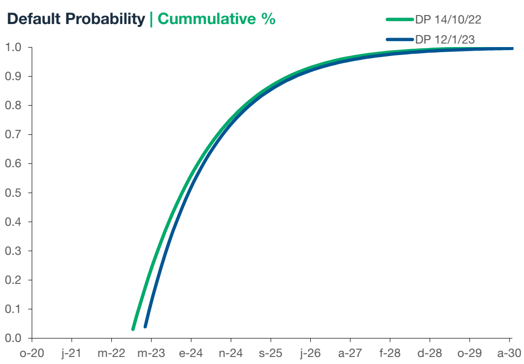
Figure 3: The prospect of additional FX inflows, better economic governance, and a regime change compressed the 2023 default probability and boosted the expected recovery on the ARGENT curve

Calibrated to market PX (14/10/2022)

NPVs under default prob. term structure implicit in market prices						
	Clean PX	V_0	Discounted Cash Flows			Recovery Value
			Total	2022-2024	2025-EOL	
Argent29	19,25	21,08	7,08	1,08	5,99	14,27
Argent30	19,53	20,78	6,61	1,79	4,81	14,30
Argent35	18,38	17,53	3,60	2,38	1,22	14,32
Argent38	23,38	19,37	6,06	4,34	1,73	14,32
Argent41	21,38	18,35	4,95	3,80	1,15	14,32
Argent46	18,75	18,78	4,86	2,38	2,47	14,32
Avg excl PDI	**20,28**	**18,96**	**5,22**	**2,94**	**2,28**	**14,31**

Calibrated to current market PX

NPVs under default prob. term structure implicit in market prices						
	Clean PX	V_0	Discounted Cash Flows			Recovery Value
			Total	2023-2024	2025-EOL	
Argent29	30,38	33,28	7,68	0,73	6,95	25,61
Argent30	31,25	33,06	7,35	1,73	5,62	25,71
Argent35	28,90	29,18	3,42	1,93	1,49	25,78
Argent38	34,98	30,86	5,13	2,99	2,14	25,78
Argent41	31,98	29,74	4,00	2,57	1,44	25,78
Argent46	29,25	30,60	4,83	1,93	2,90	25,78
Avg excl PDI	**31,27**	**30,69**	**4,95**	**2,23**	**2,72**	**25,77**



Source: TPCG Research based on the TPCG Trading Desk

In our view, however, none of the drivers are as clear-cut as the rally suggests. In this context, we believe that 2023 will be a challenging year for Argy assets, with draw-down risks very front-loaded and the upside coming in 2H.

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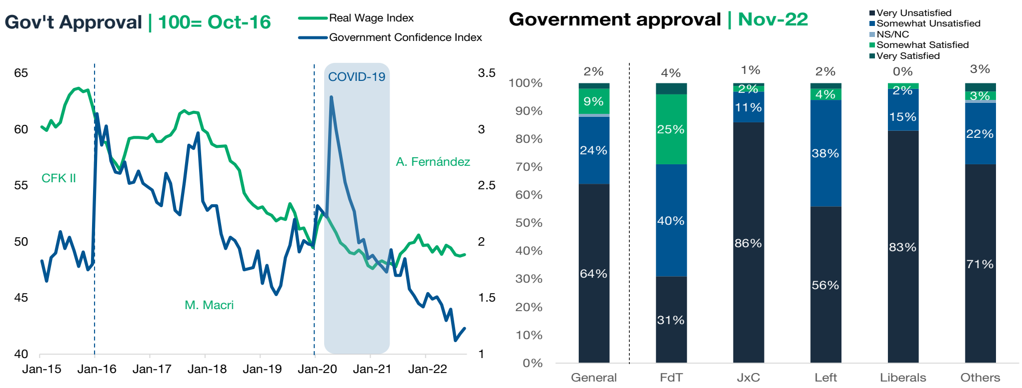
In an attempt to extend the rally and stabilize the parallel FX, Mr. Massa launched today a USD1bn bond repurchase program. The question is, where will the money come from? After announcing that the government had accomplished its fiscal and NIR PCs for 2022, Mr. Massa surprisingly announced a USD1bn repurchase program for EXD bonds starting today. The repurchase would focus on the shorter-tenor paper, especially the notes maturing in 2029 and 2030. The mechanism for the repurchase includes the Treasury giving the BCRA an order to execute daily at a given spread to UST and size. As per the brief instructions that the government published, the spread would be determined "taking into account market prices." The USD1bn amount is apparently market value, but details stipulating the average size of the orders or how long the government expects the program to run are still scarce. While the government expects the program is likely to support valuations in the ARGENT curve a little longer, we believe it could have the opposite effect, giving many creditors who were starting to feel uneasy about the depth of the rally a way out, especially when we believe that the government can't afford its repurchase program. Mr. Massa argued in his taped announcement that despite the prospect of a deterioration in Agri-flows, he expected lower energy import payments to compensate. As we'll see in the coming pages, we expect the dynamics of the economy to take a turn for the worse in 2Q and 3Q, cutting the rally short. A hard currency shortage is at the core of this deterioration in the outlook, resulting from a substantially worse than previously expected drought. While still too early fully assess the drought's impact on Agri-flows, we estimate that the hit could range between USD8-16bn, depending on how bad the climatic conditions get in the coming weeks. In our piece, we estimate that energy payments could compensate for about USD3-4bn, leaving a substantial hard currency shortfall that's likely to press on inflation and the "brecha." In other words, the FX market was barely capable of keeping up with the debt schedule as it was (USD1.3bn in Eurobonds, plus USD4.7bn in provincial and corporate debt). An obvious financing source would be the SDR4.2bn in net financing that the IMF chipped in at the start of the EFF program in March 2022, assuming that the Staff is on board with the announcement. Alternatively, the government could be thinking that a tighter sovereign credit risk could allow corporate borrowers to refinance a higher share of the USD3bn maturities they face this year, creating some savings. In fact, Mr. Massa argued in the taped message that "over the coming months, we'll invite the private sector to share with us this effort to improve the payments profile." An alternative would be that the government has lined up some sort of bilateral or multilateral financing line, still undisclosed.

Alpha 1: Politics & the election. A growing chance of regime change

The more robust driver of the rally seems to be the expectation of a growing chance of a regime change following the 2023 election.

The more robust driver of the rally seems to be the expectation of a growing chance of a regime change following the 2023 election. The government's approval ratings continued to crater during 4Q22, dropping to the lowest point on record, plummeting beyond the weakest point of the Macri Administration. Mr. Fernandez is substantially more unpopular than CFK was in 2015 when Mr. Macri pulled an upset win over Daniel Scioli, Mrs. Kirchner's dauphine. More interestingly, the government's approval ratings seem to be de-correlating from real wages. The traditional Kirchnerist strategy of boosting real wages and disposable income to shore up voter support seems to be faltering. Despite inflation doubling to almost 100%yoy during 2022, the Fernandez administration managed to keep real wages from eroding significantly, and still, its approval continued to drop into the mid-to-high 20s steadily. Increasingly, it seems as if the government's income policy was only preventing a complete collapse of the government's approval rather than driving voter recovery. With the government's rejection standing close to 88% and the limited traction of a supportive income policy, the market is unsurprisingly pricing that the FdT's odds of retaining power are getting slimmer by the day, pushing towards regime change.

Figure 4: The government's approval ratings continued to deteriorate as the Fernandez administration turned more unpopular than Mr. Macri's and CFK's



Source: TPCG Research based on UdeSA & UTDT

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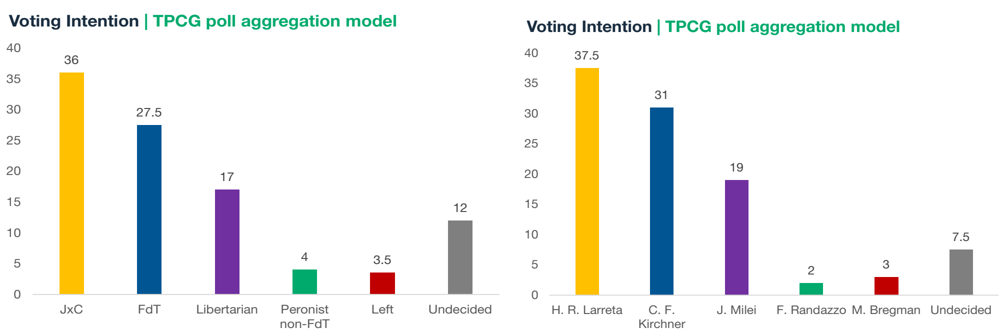
Mrs. Kirchner's decision not to run increases the odds of a regime change in a context where she outperformed a generic FdT candidate by a wide margin. Whereas the FdT commands about 27% voter support, CFK polls in the mid-30s. After being sentenced to six years in prison on fraud charges (the court acquitted her on the racketeering charges), Mrs. Kirchner announced that she wouldn't run for office next year nor seek political immunity. As a candidate, CFK is a conundrum. Her odds of winning the presidency seemed low in a context where almost 70% of voters strongly rejected her. Still, her name on the ballot increased the appeal of the FdT offering when Peronist voter support seemed at an all-time low, which could have been critical in the parliamentary election. According to our aggregation model, which averages polls weighted by the median errors of pollsters in past elections, a generic FdT candidate polls in the high-20s. Still, the generic gauge is misleading. Given CFK's mindshare over FdT voters, if she outperforms the generic candidate by almost 5pp, it means that other candidates like President Fernandez, Mr. Massa, Mr. De Pedro, etc. poll well below the generic candidate. In this context, with CFK's name off the ticket, the FdT offering weakens, increasing the odds of a regime change in the next election.

Figure 5: Mrs. Kirchner's voting intention beats a generic FdT candidate by almost 5pp.



Source: TPCG Research

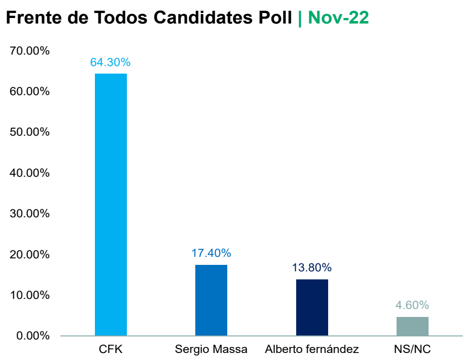
While Mrs. Kirchner's decision not to run seems like an evolution of the 2019 strategy, none of the remaining FdT candidates seems to have the potential to change the electoral

While Mrs. Kirchner's decision not to run seems like an evolution of the 2019 strategy, none of the remaining FdT candidates seems to have the potential to change the electoral landscape as Mr. Fernandez did four years ago. In a way, CFK has gone from being the Peronist floor to becoming its ceiling. CFK's decision to remove herself from the equation put the FdT candidate selection process into disarray at many levels. At the presidential level, many remain skeptical that the announcement could be just a new spin on the Kirchnerist strategy of presenting a moderate face to the electorate. In 2015, without CFK on the ticket, Mr. Scioli got the

landscape as Mr. Fernandez did four years ago. In a way, CFK has gone from being the Peronist floor to becoming its ceiling.

most votes in the first round. Still, he failed to beat Mr. Macri in the runoff by a slim margin, though he cemented a robust Kirchnerist congressional caucus in the following four years. In 2019, the strategy succeeded. By putting her name behind that of Mr. Fernandez, whom the electorate perceived as a moderate, CFK ensured a landslide win for Peronism. Recreating those conditions in 2023 looks challenging. For starters, because the 2019 experiment failed miserably at governing, independent voters are unlikely to vote for another moderate alternative acting as a trojan horse to keep Kirchnerism in power. Second, because most of the remaining candidates in the FdT share Mrs. Kirchner's critical weakness, her extremely high rejection levels, without guaranteeing the support of the Kirchnerist hardcore voters. This situation reduces the incentives for hard hitters to step up to the plate and try to fill Mrs. Kirchner's shoes. For a politician like Mr. Massa, who's playing the long game of becoming the leader of the Peronist party after 2023, running in these conditions becomes a catch-22. CFK will not be on the ticket, but her voters will remain the backbone of the Peronist tally. In this context, he'd still be bound somehow to her leadership if he won. If he lost, CFK would argue that Peronism never lost a presidential election with her on the ticket, comparing her track record of landslide wins to the 2023 candidate's loss. In other words, by sitting the election out, CFK has leapfrogged the remaining candidates wishing to lead Peronism during the coming term but has also reduced the odds of a strong candidate in 2023.

Figure 6: Unlike in 2019, the FdT candidates share CFK's weaknesses and lack her strengths.



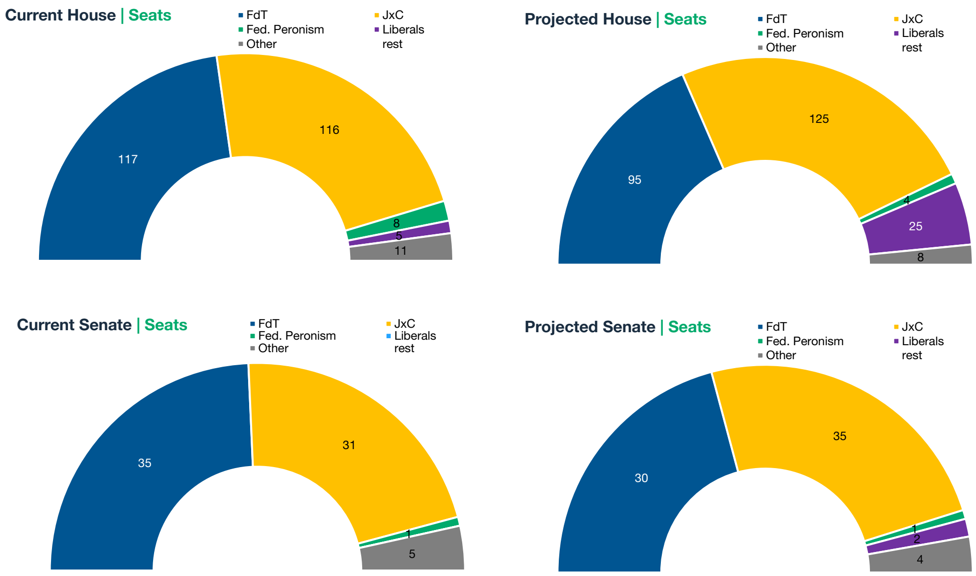
Voters approval	Positive	Undecided	Negative	Diff
FdT	22	9	69	-46
Cristina Kirchner	26	5	69	-43
Alberto Fernández	20	6	74	-54
Sergio Massa	24	12	64	-40
Axel Kicillof	25	12	63	-38
Máximo Kirchner	16	11	73	-57
JxC	31	21	49	-18
Horacio Rodriguez Larreta	40	12	48	-8
Martín Lousteau	32	25	43	-11
María Eugenia Vidal	38	11	51	-13
Patricia Bullrich	36	12	52	-16
Mauricio Macri	29	9	62	-33
Facundo Manes	25	33	42	-17
Gerardo Morales	16	42	42	-26
Federal Peronism	24	36	41	-17
Roberto Lavagna	27	31	42	-15
Juan Schiaretti	20	41	39	-19
Florencio Randazzo	22	27	51	-29
Liberals	28	21	51	-23
Javier Milei	30	14	56	-26
Jose Luis Espert	26	28	46	-20
Left	16	33	52	-36
Myriam Bergman	16	45	39	-23
Nicolás del Caño	15	21	64	-49

Source: TPCG Research based on UdeSA & Aresco

The prospect of a weak candidate at the top of the ticket cascades down to the rest of the FdT's offering, creating an opportunity for the opposition to increase its congressional caucus and carry more provinces than with CFK on the ballot.

The prospect of a weak candidate at the top of the ticket cascades down to the rest of the FdT's offering, creating an opportunity for the opposition to increase its congressional caucus and carry more provinces than with CFK on the ballot. The biggest problem that FdT has is that after the Alberto Fernandez experience, none of its candidates differentiates from CFK meaningfully. Effectively, CFK works like a ceiling for the space, with every candidate showing lower support and higher rejection levels (see Figure 6, right). Unlike the more traditional Peronist governors and Mayors, most of the Kirchenrist electoral apparatus has limited appeal without Mrs. Kirchner on the ticket. Rather than drive votes to the Presidential ballot, most of the La Campora candidates take advantage of CFK's popularity to win elections where they might be uncompetitive on their own. This problem cascades down to the entire FdT ticket, solidifying the chances of a regime change. In 2015, with Mr. Scioli polling close to 40% and Mr. Massa at 20%, Peronism (measured as the combination of Mrs. Kirchner's FPV and Mr. Massa's UNA) managed to retain a substantial majority of Congress, which limited the Marci Administration's ability to pass its reforms agenda. Going into the 2023 election year, Peronism as a whole is down from almost 60% of the votes to the low-to-mid 30s, whereas JxC continues to poll solidly in the high-30s (or even low-40s in some surveys). The FdT lost control of the House in 2021 and, for the first time since democracy returned in 1983, control of the Senate. Our poll aggregation model puts JxC at 126 seats in the Lower House and 35 in the Senate. With a large Liberal caucus, we expect a Juntos administration to have few problems articulating a non-Peronist Congressional majority. Similarly, polls suggest that Juntos could carry several provinces which have historically been Peronist strongholds and make substantial inroads into the Greater BA area counties, where Peronist mayors remain the party's backbone.

Figure 7: With the current snapshot from the polls, JxC could come very close to gaining a non-Peronist Congressional majority for the first time since 1983

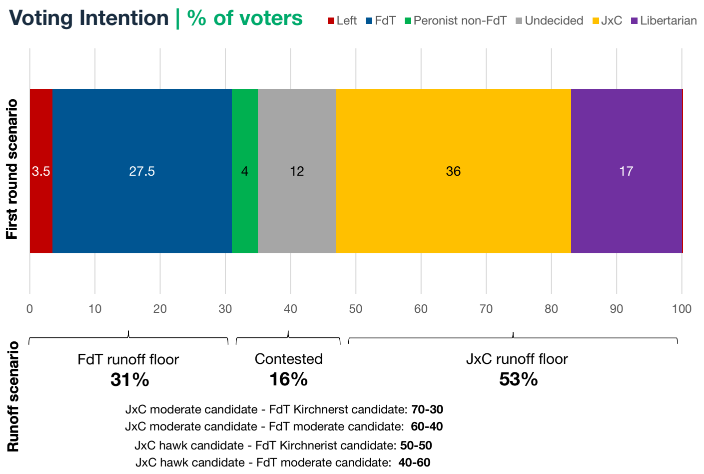


Source: TPCG Research

The odds of winning a congressional majority should shift the power balance within JxC, favoring the more moderate wing and reducing the odds of the hawks pulling an upset win in the primaries.

The odds of winning a congressional majority should shift the power balance within JxC, favoring the more moderate wing and reducing the odds of the hawks pulling an upset win in the primaries. One of our top concerns as the FdT weakened electorally was how it would impact the internal competition within JxC. In many ways, Juntos is an even more diverse coalition than the FdT, ranging from left-of-center candidates like Mr. Lousteau, which ideologically is not that far away from the big-state Kirchnerist bias, to regional “caudillos” like Mr. Morales, to moderate players like Mr. Larreta or Mrs. Vidal, to liberals like Mr. Macri or Mrs. Bullrich, who would feel more comfortable dealing with Mr. Milei, the libertarian leader than with the UCR coalition partners. CFK’s decision to skip the race should reduce the odds of JxC cracking up, as the election will be less about winning and more about doing so while securing a large majority. This new dynamic reduces the attractiveness of the more hawkish candidates in JxC. With CFK on the ballot, Mr. Macri would still be likely to pull a win, though he would have been unlikely to secure a congressional majority. The math is simple, with Peronism polling well below its historical average, the election is likely to head to a runoff. This would have been especially so with CFK on the ticket, as the election would polarize in the first round, with little to gain in the middle of the battleground. On the other hand, while the libertarians encroach on the JxC liberals’ more traditional constituency, it could also prove a path for a candidate like Mr. Macri to win the presidency despite his extremely high rejection level. In a contest between the two candidates with the highest rejection, Mr. Macri would have the upper hand over CFK. Without CFK, however, the situation reverses. The center becomes competitive again rather than polarized. We use a simple Hotelling model to rearrange the political spectrum and think about it. Going ideologically from left to right, you have the left, the FdT, the Peronist non-FdT, the undecided, JxC, and finally, the libertarians. So, while for the more liberal wing of JxC, the emergence of the libertarians is the most disruptive development in this election, the voters in the center not identifying with either JxC or the FdT represent a similar slice of the electorate as the ones that the libertarians have wooed. Mr. Macri or Mrs. Bullrich would have a hard time capturing any of these independent voters (who probably voted for Mr. Fernandez in 2019, and many voted for Mr. Scioli in 2015) if Peronism fields a more centrist candidate without CFK on the ticket. On the other hand, we believe that a more moderate JxC candidate may be much more successful with this constituency, increasing the odds of a Juntos Congressional majority after 2024.

Figure 8: With CFK off the ballot, the center will likely become a contested ground, tipping the race towards more moderate candidates.

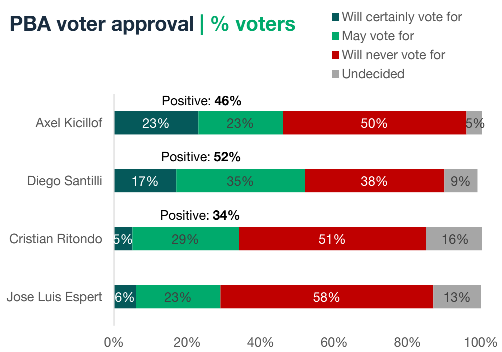


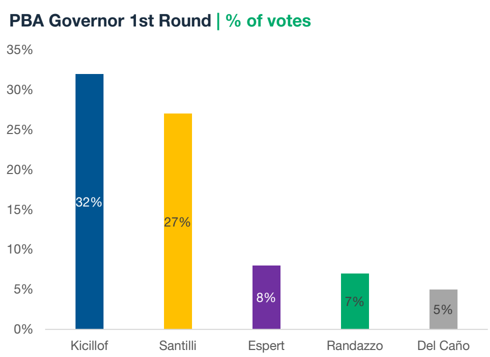
Source: TPCG Research

The electoral swing in favor of the opposition has deepened so much over the past quarter that recent polls suggest that even the Province of Buenos Aires might be in play.

The electoral swing in favor of the opposition has deepened so much over the past quarter that recent polls suggest that even the Province of Buenos Aires might be in play. As voters' mood soured and the government's rejection levels soared, Kirchnerism moved to a plan B. At La Campora, the chances of winning the next presidential elections seem written down, and the objective redefined to keeping control of Peronism after the election and retaining the Province of Buenos Aires. A few months ago, both these objectives seemed within grasp, suggesting that Kirchnerism could remain the dominant Peronist tribe over the coming four years. Now, both seem like an uphill battle, adding to the regime change story. Mr. Massa is trying to outmaneuver CFK to win the Peronist Leadership. On the other hand, recent polls suggest that Mr. Santilli has made substantial inroads into Mr. Kicillof's lead in the PBA gubernatorial race. Mr. Kicillof captures most of CFK's hardcore vote, which gives him a leg in PBA. With 46% of voters in PBA saying that they will or could vote for him, Mr. Kicillof has consistently outperformed Mr. Fernandez, and his Administration remains more popular than the Federal government. Still, Mr. Kicillof has dropped to second place in PBA voter preference, as 52% of the electorate now answers that it either will or could vote for Mr. Santilli, the front-runner in the JxC PBA primary. Mr. Kicillof still has an advantage. For about half of the voters who say they might vote for him, Mr. Santilli is a second alternative behind Messers. Randazzo and Espert, potentially the Non-Kirchnerist Peronist and the Libertarian candidates. Because there's no runoff in PBA, polls continue to project that Mr. Kicillof is the race's front-runner, with first-round simulations giving him 32% of the vote to Mr. Santilli's 27%. Still, the momentum is on JxC's side. Mr. Kicillof's lead has shrunk considerably in a context where a few months ago, he polled in the low-40s. Also, if Mr. Espert were to drop the race or join the JxC primary, the scenario would shift very quickly against the Governor's reelection.

Figure 9: The drop in the government's approval ratings is making PBA come into play. Mr. Kicillof remains the front-runner, but Mr. Santilli has made considerable inroads into his lead



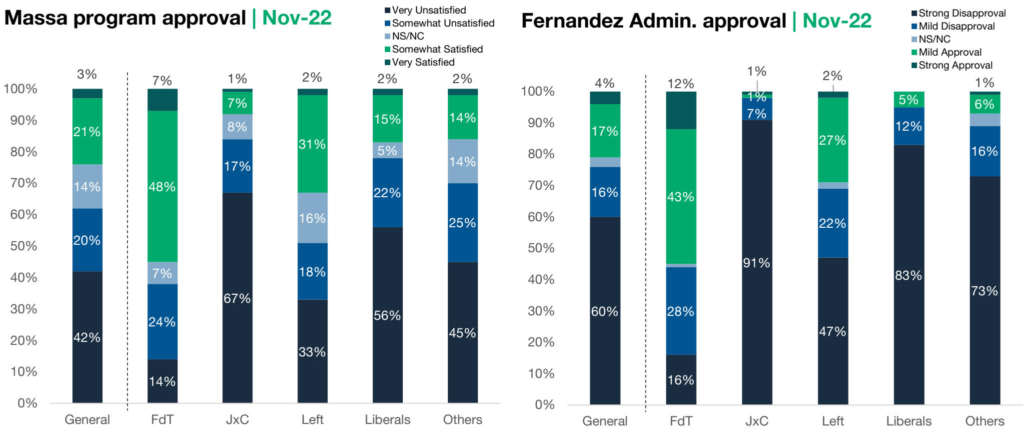


Source: TPCG Research based on Isonomia

Still, while all signs point towards a high likelihood of regime change, a series of scenarios where the government might regain competitiveness continue to exist. Top amongst them, if Mr. Massa manages to prevent a deterioration of the macro context, we would expect his voting intention to improve.

Still, while all signs point towards a high likelihood of regime change, a series of scenarios where the government might regain competitiveness continue to exist. Top amongst them, if Mr. Massa manages to prevent a deterioration of the macro context, we would expect his voting intention to improve. Mr. Massa would still imply a regime change, at least economically. Mr. Massa took a huge gamble when he accepted the finance ministry. By late June, his polling figures were even worse than CFK's and aligned with those of President Fernandez's. The plan was that if the economy stabilized, preventing the looming collapse, his approval ratings would likely benefit from the contrast with Mr. Guzman's mess. For the time being, while Mr. Massa's economic team has managed to prevent a collapse, his voting intention has not improved considerably. Most FdT voters would still pick CFK over him, and his rejection remains above 60% among the non-FdT voters. Still, recent polls suggest that Mr. Massa's gamble might be paying off. Mr. Massa's program has about 18pp lower voter rejection than the previous economic policy from the Fernandez administration. Suppose Mr. Massa manages to muddle through the FX market until the election and prevent the ARS market from imploding. In that case, the higher support for his program has some chance of spilling over into his personal voter intention. We believe this is a low-probability scenario, considering the persistent challenges to roll over ARS maturities and the risk that the drought might derail the summer crops and the FX market. But if we had to be honest, the chance of this scenario materializing is not zero, just as the chances of France tying the World Cup final twice with just a few minutes to go until the end of regulation and the end of the extension wasn't zero either.

Figure 10: Mr. Massa's program has a substantially lower rejection figure than the rest of the Fernandez Administration



Source: TPCG Research based on Isonomia

The second scenario in which the election could turn up substantially more competitive than polls suggest, involves CFK allowing a non-FdT Peronist like Mr. Schiaretti atop the ticket. We believe this is an even lower probability scenario than the previous one.

The second scenario in which the election could turn up substantially more competitive than polls suggest, involves CFK allowing a non-FdT Peronist like Mr. Schiaretti atop the ticket. We believe this is an even lower probability scenario than the previous one. Over the last two presidential cycles, CFK has tried to conceal Kirchnerism behind a more moderate figure to increase its chances among independent voters. In 2015, she picked a Kirchnerist governor, like Mr. Scioli. In 2019 she picked a former Chief of Staff for her husband, who had been retired for over a decade. Neither of these alternatives would cut muster with voters this time. Only a candidate with command of a constituency independent from CFK's could lead the Peronist ticket and credibly campaign as autonomous from Mrs. Kirchner. While Mr. Massa would fit the bill, he would only get a shot if the economy bounced back, which looks like a long shot. Bringing in a non-FdT governor like Mr. Schiaretti would be an alternative. Such a move would upset the election, allowing Peronism to better contest JxC in the critical undecided independent constituency. Still, this is an even lower probability scenario than the one where Mr. Massa's program works well enough to turn the FdT competitive. Any non-FdT governor to accept heading the Peronist ticket right now would have two conditions regarding CFK: (i) she should commit her votes to the election, and (ii) have almost no say over the coming Administration. We believe these terms are likely unacceptable to a CFK that's maneuvering to remain as Peronism's leader, even in opposition.

Alpha 2: Economic Policy Improvement. The ARS tsunami is likely to cripple the *Pax Massista*.

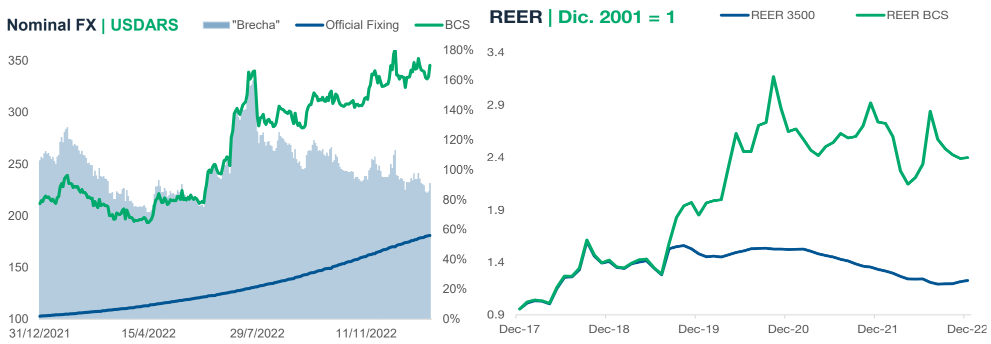
The second idiosyncratic driver of the rally is the perception that Mr. Massa's team managed to prevent the July collapse. The government's betting on reaching the elections with inflation on a downward path, a stable BCS, and the monetary market under control.

The second idiosyncratic driver of the rally is the perception that Mr. Massa's team managed to prevent the July collapse. The government's betting on reaching the elections with inflation on a downward path, a stable BCS, and the monetary market under control. It's not just domestic voters who judge Mr. Massa's program more favorably than the economic policy that preceded it; creditors also do so. By late July, the Argy economy was inches from seizing. Mr. Guzman, whom the markets had initially seen as a stalwart of rationality and then as a big part of the problem, stormed out of the Administration. During his replacement's short tenure (Mrs. Batakis), the ARS melted down, and the rollover ratio collapsed further, propelling inflation to the highest levels in over 30 years. In this context, Mr. Massa took office with a rudimentary, albeit effective, stabilization plan: (i) source hard currency to prevent the FX market from collapsing, and (ii) trim fiscal dominance to prevent the excess ARS from pressuring on inflation and the FX market. On the one side, Mr. Massa successfully raised almost USD20bn in under five months, de-escalating pressures in the FX market. On the other side, he was less successful. His attempt to rein in money printing was limited to phasing out money printing to cover the primary deficit, which is only a small part of the problem. The rest of the high-powered creation needs was financed through sterilization (a massive ramp-up in central bank debt) and higher revenue from the inflation tax. In other words, Mr. Massa kicked the proverbial can down the road. Still, the spring in the ARS market, when everyone was bracing for impact, created the perception that economic policymaking was finally on a better track. In our view, however, this driver of alpha is not sustainable in time like the regime change driver.

Among the economic policy results achieved by the Massa team, keeping the BCS roughly stable seems the most salient.

Among the economic policy results achieved by the Massa team, keeping the BCS roughly stable seems the most salient. When he took office, Mr. Massa's top priority was stabilizing the FX market. That involved (i) securing dollars to keep the official market running and (ii) containing the depreciation of the BCS to limit the incentive to arbitrage. Despite the recent depreciation, the BCS is trading today at USDARS350, not far from the nominal July all-time low. In other words, Mr. Massa managed to keep the BCS roughly stable throughout 2H22. With the BCRA accelerating the pace of the crawling peg to match the monthly inflation more closely, the BCS premium compressed from 150% in late July to 90%. In real terms, the BCS strengthened by 18% since the July low-point, while the official fixing weakened by -1.4%.

Figure 11: The BCS has been stable, appreciating in real terms in 2H22



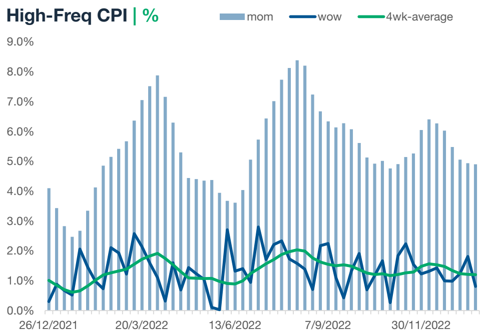
Source: TPCG Research based on BCRA, Indec, BLS, and the TPCG Trading Desk.

The inflation rate also weakened, posting a surprisingly low print in November and boosting economic policy.

The inflation rate also weakened, posting a surprisingly low print in November and boosting economic policy. Mr. Massa's top priority is to prevent a blow-up of the FX market from forcing the government into a devaluation. His second priority is to put inflation on a downward path. Polls show that inflation has moved to the top of voters' concerns, suggesting that Mr. Massa's chances of running a competitive campaign depend on inflation slowing down in the coming months. Mr. Massa has publicly stated that his target is to bring inflation below 4%mom by March. The latest prints have put some solace to the government's expectations. Inflation decelerated from 7.4%mom in July (the month before Mr. Massa took office) to 5%mom in November-December. While the yearly print reached 94.8%yoy, the highest since 1991, the government is desperate for signs of deceleration. In our view, however, there is little evidence of a sustainable slowdown in the November print. At first sight, the government's price freeze seems successful in the context of slowing foods & beverages, driving a deceleration of seasonal prices to 4.4%mom in Nov-Dec. Still, a deeper look reveals that the impact of the price freeze on the CPI surprise is limited. When we look within the foods & beverages chapter, almost every component increased more than the CPI except for three: (i) vegetables (+1.4%mom average), which are heavily influenced by seasonality, oils, fats, and butter (1.9%mom), the only of the three where we see a distinct impact of the price freeze, and (iii) beef (1.9%mom), which is the dominant driver and is related to the impact of the drought. With the drought affecting pastures, farmlands are not able to sustain as much livestock, forcing producers to sell more animals than expected, boosting beef supply, and putting prices on a downward path. If we adjust for beef prices, the CPI print would have been 0.8pp higher over the two-month period (0.4pp per month). After factoring in seasonality, the November CPI would have remained in the 6% range, and the December print would have been close to 5.6%mom. On this line, high-frequency CPI prints suggest that inflation over the two weeks of January picked up, averaging 1.6%wow, pointing to another 5%mom+ month.

Figure 12: The November inflation print seems the result of a series of one-offs rather than part of an inflationary deceleration

GBA pp mom	Jan-May	Jun-Aug	Oct	Nov	Dic
Headline CPI	5.2%	6.6%	6.6%	5.0%	5.3%
Foods and Beverages	6.0%	5.9%	6.7%	3.1%	5.5%
Beef	5.8%	2.8%	3.6%	0.9%	3.0%
Alcoholic beverages	3.8%	6.9%	5.3%	5.7%	6.7%
Clothing	6.7%	7.5%	6.7%	4.1%	4.1%
Housing & Public services	3.9%	5.9%	8.1%	10.7%	4.2%
Equipment & Home maintenance	4.6%	8.4%	4.2%	5.6%	6.3%
Healthcare	5.2%	7.1%	7.4%	3.2%	5.5%
Transportation	4.5%	5.2%	3.5%	7.2%	5.1%
Comunication	3.9%	3.0%	13.6%	5.7%	2.6%
Recreation	4.0%	7.8%	5.3%	4.3%	3.9%
Education	6.1%	4.6%	10.0%	3.6%	5.5%
Hospitality	5.6%	8.0%	8.0%	5.5%	7.4%
Rest	4.9%	7.2%	6.0%	5.9%	6.0%

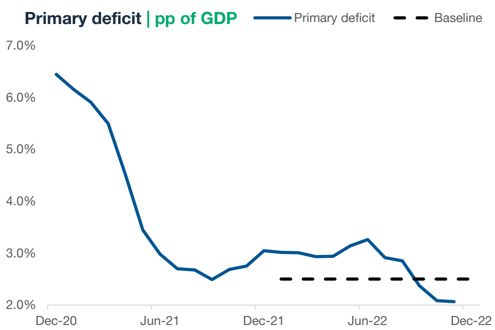


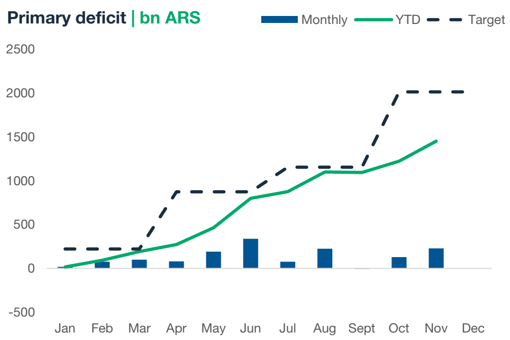
Source: TPCG Research based on Indec & Alphacast

Finally, through fiscal consolidation, Mr. Massa has avoided seeking direct monetary financing from the BCRA since July.

Finally, through fiscal consolidation, Mr. Massa has avoided seeking direct monetary financing from the BCRA since July. At the core of the Massa program is the diagnosis that money printing drives inflation and FX pressure. YTD, the BCRA has printed money to (i) finance the primary deficit, (ii) support the ARS curve and help with the rollover, (iii) purchase USD in the FX market, and (iv) pay for the interest of its own, the Leliq. With limited power to do anything about the support of the ARS curve (due to the deteriorating private sector appetite for Treasury debt), the purchase of USD (because of the NIR accumulation target), and the Leliq interest payments, the government concentrated almost exclusively on curbing the financing of the primary deficit. When Mr. Massa took office, the primary deficit ran at almost 3.1% of GDP, and monetary financing accumulated almost half a trillion pesos in 1H22. Since then, the Massa team has compressed the primary deficit to 2.1% of GDP in the 12 months that ended in November and has not drawn any direct financing from the BCRA since July. All in all, the year's ending with just ARS467bn in money printing to finance the fiscal gap, almost unchanged from 1H22. Mr. Massa slashed subsidy spending (-17.4%yoy in Jul-Nov after inflation, compared to +22.4%yoy during Mr. Guzman's 1H22), transfers to provinces (-23.3%yoy vs. +19.8%yoy), and social security spending (-5.7%yoy vs. +13.5%yoy). In other words, Mr. Massa managed to rein in Mr. Guzman's irresponsible ramp-up in primary spending, which increased 14.8%yoy in real terms during 1H22, slashing spending -6.6%yoy in July-November.

Figure 13: Massa's greatest accomplishment in 2H22 was to compress the primary deficit, correcting the fiscal slippage he received from Guzman.





	Jan-Nov 2022			Guzman			Batakis - Massa		
	ARSbn	%yoy		ARSbn	%yoy		ARSbn	%yoy	
		Nominal	Real		Nominal	Real		Nominal	Real
Revenues	**13462**	**77.7%**	**4.5%**	**6232**	**64.9%**	**8.0%**	**7229**	**90.5%**	**4.0%**
Tax revenues	8098	77.1%	4.2%	3697	61.7%	5.9%	4401	92.6%	5.2%
Social security contributions	3811	78.3%	4.8%	1792	71.6%	12.4%	2019	84.6%	0.8%
Income from Treasury property	950	185.4%	67.9%	506	241.9%	124.0%	444	140.1%	31.1%
Included in EFF target	715	114.9%	26.4%	461	211.7%	104.2%	254	37.3%	-25.1%
Not included in EFF target	235			45			190		-45.4%
Non-tax revenues	4414	65.4%	-2.8%	2029	51.0%	-1.1%	2385	79.9%	-1.8%
Primary spending	**14680**	**73.0%**	**1.7%**	**6988**	**75.3%**	**14.8%**	**7691**	**71.0%**	**-6.6%**
Personnel spending	1693	82.1%	7.1%	756	74.1%	14.0%	938	89.2%	3.3%
Social Security	8062	73.0%	1.7%	4008	73.3%	13.5%	4054	72.7%	-5.7%
Subsidies	2024	65.7%	-2.5%	930	86.9%	22.4%	1094	51.2%	-17.4%
Energy	1610	72.4%	1.4%	711	104.3%	33.8%	899	53.4%	-16.2%
Transportation	395	47.6%	-13.2%	211	51.0%	-1.1%	184	44.0%	-21.4%
COVID & other	19	-2.5%	-42.7%	8	-19.5%	-47.2%	11	15.6%	-36.9%
Transfers to Provinces	490	58.2%	-7.0%	236	83.0%	19.8%	254	40.5%	-23.3%
Capex	1166	114.4%	26.1%	456	84.1%	20.6%	710	139.8%	30.9%
Other	1244	51.7%	-10.8%	602	64.7%	7.9%	642	41.2%	-22.9%
Primary balance	**-1218**	**33.7%**	**-21.3%**	**-756**	**263.3%**	**137.9%**	**-462**	**-34.2%**	**-64.1%**
Interest payments	1249	86.9%	9.9%	489	59.8%	4.7%	760	109.7%	14.5%
Overall balance	**-2468**	**56.2%**	**-8.1%**	**-1245**	**142.2%**	**54.3%**	**-1223**	**14.8%**	**-37.3%**
EFF program PCs									
Primary balance	-1453	59.5%	-6.2%	-801	284.8%	152.0%	-652	-7.2%	-49.3%
Overall balance	-2702	71.1%	0.6%	-1290	150.9%	64.3%	-1413	32.6%	-27.6%

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

Still, as commendable as the primary deficit consolidation could be, we cannot help but note that it is too little or too late. At this point, the main challenge to the Pax Massista is the money printing to support the ARS curve and the payments on the Leliqs.

Still, as commendable as the primary deficit consolidation could be, we cannot help but note that it is too little or too late. At this point, the main challenge to the *Pax Massista* is the money printing to support the ARS curve and the payments on the Leliqs. The government's betting that maintaining a path of inflationary deceleration and stable BCS will turn its fortunes around, turning Peronism competitive again. In that context, maintaining the monetary equilibrium is critical to Mr. Massa's plan. The problem is that we've reached a point where maintaining fiscal discipline won't be enough to attain that equilibrium. Pressures are mounting for Mr. Massa to ease his consolidation, especially on capex, social security spending, and transfers to provinces. While Mr. Massa bets on stabilization to drive votes, Kirchnerism and the more traditional Peronism see fiscal impulse as a more straightforward path to voters' good side. Mr. Massa's budget reaffirms his focus on fiscal discipline. By November, the government is overperforming the IMF primary deficit PC by over 0.4pp of GDP, and the 2023 Budget extends cuts into subsidies and keeps personnel and social security spending flat in real terms to hit the 2.5% of GDP 2023 target. Still, despite the political cost of upholding the consolidation, increasingly, it seems that the support of the ARS curve and the quasi-fiscal deficit (the interest payments on the Leliq) are more likely to derail the monetary equilibrium than the financing of the primary deficit.

Maturities of ARS paper held by private creditors will increase from ARS6.2tn in 2022 to ARS14.7tn in 2023, going from 1.7X base money to 3.1X.

Maturities of ARS paper held by private creditors will increase from ARS6.2tn in 2022 to ARS14.7tn in 2023, going from 1.7X base money to 3.1X. Though voluntary external markets remain closed for Argy, Mr. Guzman benefitted from the stringent capital controls framework that prevented domestic savings from spilling into external assets to finance an unsustainable increase in primary spending. In June 2022, when Mr. Guzman resigned, Federal Government spending before interest stood at 21.5% of GDP, 5.7pp than in Dec-19 when Mr. Fernandez was inaugurated. Though Mr. Massa's fiscal consolidation has trimmed 2.1pp from primary spending, he now needs to deal with the hangover of the ARS debt. The government had to resort to several hail-marys to cover the ARS6.2tn in privately held maturities of ARS Treasury paper, including changes in regulations, remunerating bank reserves, tapping into provinces' monies and offering a myriad of indexed securities to attract interest. Still, nothing was enough, and the BCRA had to monetize about ARS1.5tn by purchasing Treasury debt in the secondary market. In 2023, maturities will more than double from ARS6.2tn to ARS14.7tn. In other words, with the rollover ratio increasingly compromised, Treasury maturities will increase from 170% of base money in 2022 to 310% in 2023, severely constraining how much the BCRA can effectively backstop without a substantial inflationary acceleration.

Figure 14: GFNs would increase from USD111bn in 2022 to USD140bn in 2023 and will require raising USD76.1bn from the private sector

GFNs	2022					2023				
USDmn	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3	Q4	Full Year
Total Needs	22,227	36,789	16,683	35,683	111,382	23,640	45,369	46,815	24,351	140,175
Primary Fiscal Deficit	1,470	4,637	2,253	7,015	15,376	1,909	3,233	3,870	3,192	12,204
Interest	2,335	1288	2,803	2,994	9,420	2,223	3,343	4,719	4,225	14,510
External	975	622	1111	923	3,631	1658	1079	1660	1055	5,452
IMF	400	388	463	628	1879	729	721	727	712	2889
Official (non-IMF)	124	127	208	247	706	314	328	321	320	1283
Private	451	107	440	48	1,046	615	30	612	23	1,280
Domestic	1,360	666	1,692	2,071	5,789	565	2264	3059	3170	9,058
Public Entities	81	66	85	182	415	37	175	272	95	579
Private	1,278	599	1,607	1,889	5,374	528	2,088	2,787	3,075	8478
Amortizations	18,422	30,864	11,627	25,674	86,586	19,507	38,793	38,226	16,934	113,462
External	5,039	4262	6,228	5997	21,525	6,541	6084	4,737	4104	21,467
IMF	3,400	3,400	4,712	5,368	16,880	5,305	5,305	3,541	3,541	17,692
Official (non-IMF)	985	414	616	460	2,474	812	407	804	427	2,451
Private	654	448	900	169	2,171	424	372	392	136	1,324
Domestic	13,383	26,602	5,399	19,677	65,061	12,966	32,709	33,489	12,830	91,995
Public Entities	1,807	11,972	287	9,011	23,079	4,039	13,636	16,270	2,350	36,296
Private	11,575	14,630	5,111	10,665	41,982	8,927	19,073	17,219	10,480	55,698
Secure sources	3,160	21,054	2,075	20,746	47,037	24,035	16,191	17,513	7,838	65,577
Treasury Deposits (+ = drawdown)	-7,861	5,425	-888	-1,355	-4,679	1,328	1,638	153	-48	3,071
IMF	9,419	4,037	0	10,092	23,548	5,319	3,990	3,325	3,325	15,958
New Financing	0	0	0	0	0	0	0	0	0	0
2018 SBA roll-over	9,419	4,037	0	10,092	23,548	5,319	3,990	3,325	3,325	15,958
Official (Not-IMF)	305	483	887	2,431	4,107	298	1,102	1,333	963	3,696
Public Entities	3,342	15,790	1,253	9,578	29,963	17,090	9,461	12,702	3,598	42,852
Other	-2,045	-4,681	823	0	-5,902	0	0	0	0	0
Private Sector Issuances (financing gap)	19,067	15,734	14,608	14,937	64,345	16,214	21,511	21,924	16,514	76,163

ARS services
ARS6.2tn
1.7X base money

ARS services
ARS14.7tn
3.1X base money

Source: TPCG Research based on Indec & Alphacast

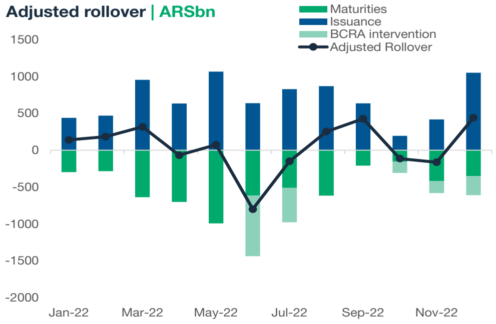
Gross financing needs would increase from USD111bn in 2022 to USD142bn in 2023, and despite the increase in secure sources -mostly cross holdings- covering them will require raising USD76.1bn from the private sector.

Gross financing needs would increase from USD111bn in 2022 to USD140bn in 2023, and despite the increase in secure sources -mostly cross holdings- covering them will require raising USD76.1bn from the private sector. Assuming that the government hits its 2.5% of GDP 2023 primary deficit target, Mr. Massa would need to raise ARS12.2bn to cover the primary gap. EXD debt services will total USD26.9bn in 2023, of which USD20.6bn are due to the IMF. Interest on Eurobonds would increase from USD706mn in 2022 to USD1.3bn in 2023. LCD services will total USD101bn, of which USD64.2bn are due to private creditors, and the remaining USD36.9bn are cross holdings. On the financing side, the EXD doesn't look challenging, provided that the government remains within the IMF program, which would mean USD19.6bn in IFI financing and a NIR accumulation consistent with covering Eurobond payments. Financing ARS needs looks like a different story altogether. In 2022, the government had to pull all the stops to raise USD64bn from the private sector. Though the program assumes the full rollover of cross-holdings and maximizing direct monetary financing, increasing public entities' financing from USD30bn to USD43bn, closing the 2023 financing program would require selling the private sector USD76.2bn in debt, or about USD18.6bn in net new money.

We expect ARS maturities to weigh heavier on high-powered money creation in 2023, in a context where the government is running out of gambits to prop the rollover ratio.

We expect ARS maturities to weigh heavier on high-powered money creation in 2023, in a context where the government is running out of gambits to prop the rollover ratio. The rollover ratio collapsed in 2Q22, culminating in the June sell-off. The government tried to prop up the rollover ratio by (i) offering to swap inflation-linked paper for FX-linked securities, (ii) having the BCRA offer a put, which allowed creditors to swap Treasury paper for CenBank debt exposure, (iii) tap into provinces' and public banks' liquid assets for financing and (iv) tilt regulations towards driving demand from regulated players like banks and insurance companies. Despite these gambits, the rollover ratio adjusted by BCRA secondary market repurchases dropped from 1.52 (ARS1.8tn in placements vs. ARS1.2tn in maturities) in 1Q22 to 0.98% in Apr-Dec, at the cost of the BCRA printing ARS1.8tn to support the ARS curve throughout 2022. In other words, the BCRA covered 32% of the Treasury's maturities in 2022, or about 40% of base money. The first obvious problem is that if the BCRA needs to cover a similar share of maturities in 2023, it would be on the hook for ARS4.7tn, about 100% base money. More importantly, the private sector's appetite for Treasury paper seems to have run down, even if the offered securities have an FX option tagged to them. The 1Q23 debt swap offered in early January is consistent with this view. The government attained a 67% rollover ratio, which given that 50% of the eligible principal was held by either the BCRA or the FGS means that private creditors only tendered about 35% of the eligible principal. More importantly, private creditors favored front-end securities, maturing in 2Q23, only increasing the Apr-September rollover challenge (for more details, please see here). Similarly, relying on public banks' or provincial money has its limits, especially in an election year. That leaves the BCRA as the only backstop for the Treasury debt.

Figure 15: Since the rollover ratio deteriorated in 2Q22, the government has tried swapping CPI-linked paper for FX-linked securities. Increasingly, the only demand for longer tenor Treasury paper is the BCRA.



USDmn	Apr-22	Today	Δ	contr
Total Treasury bonds	164,870	221,957	57,087	100.0%
ARS	48,704	83,581	34,877	61.1%
CPI-Linked bonds	18,332	48,058	29,726	52.1%
Bills	24,090	29,810	5,720	10.0%
Fixed-rate bonds	5,318	4,198	-1,120	-2.0%
FRNs	963	1,515	552	1.0%
FX Linked	5,264	26,205	20,941	36.7%
USD-L	5,264	5,679	415	0.7%
Duals	0	20,526	20,526	36.0%
Hard Currency	110,902	112,170	1,268	2.2%
Globales	67,392	68,316	924	1.6%
USD	63,207	63,816	609	1.1%
EUR	4,185	4,500	315	0.6%
Bonares	43,510	43,854	344	0.6%

Source: TPCG Research based on BCRA, IMF, and the Treasury

We estimate that the combination of money printing to cover the primary deficit, support the ARS curve, and purchase Dollars in the FX market could result in high-power money creation close to ARSXXtn or YY% of base money.

We estimate that the combination of money printing to cover the primary deficit, support the ARS curve, and purchase Dollars in the FX market could result in high-power money creation close to ARS12n or 235% of base money. Though the Massa economic team managed to keep money printing to cover the primary deficit below the IMF target (ARS620bn effective vs. an ARS654bn PC), the 2022 figures suggest it might not be enough to reach a good monetary equilibrium. Under our 2023 base scenario, the BCRA will need to finance (i) about ARS883bn to cover a little under one-third of the ARS2.8tn primary deficit (as per the IMF PC); (ii) print ARS1.4tn to purchase about USD5bn in the FX market (USD1.3bn to cover EXD bond maturities and USD4.8bn to add to the NIR position and hit the external PC); (iii) at least ARS6.8tn to cover the interest payments on the Leliq; (iv) ARS3-ARS3.5tn to support the ARS curve. All in all, we estimate that uses in 2023 could increase to ARS12tn, more than double that in 2022. As a percentage of base money, uses would climb from 186% (ARS6.8tn in uses during 2022 compared to an ARS3.6tn end-2021 monetary base) in 2022 to about 235% in 2023 (ARS12.1tn in uses compared to an ARS5.2tn monetary base).

Figure 16: 2023 ARS gross money printing needs would total ARS12tn

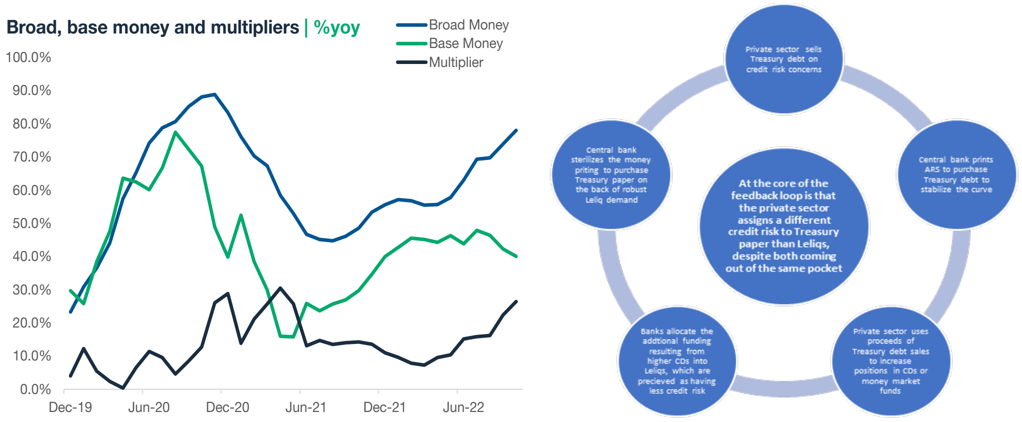
	Nominal		pp of GDP	
	2022	2023f	2022	2023f
Total High-power money creation uses	6,784,524	12,081,600	8.4%	8.2%
As a pp of Base Money	*185.7%*	*233.7%*		
Fiscal dominance	2,157,893	3,883,000	2.7%	2.6%
Direct monetary financing	620,051	883,000	0.8%	0.6%
Short term loans	620,051	883,000	0.8%	0.6%
Dividend transfers	0	0	0.0%	0.0%
Support of the ARS curve	1,864,000	3,000,000	2.3%	2.0%
USD selling for EXD maturities	-326,158	0	-0.4%	0.0%
FX dominance	1,453,877	1,398,600	1.8%	1.0%
Financial dominance	3,172,754	6,800,000	3.9%	4.6%
Interest payments	3,381,862	6,800,000	4.2%	4.6%
NDF/BCS intervention & other	-209,108	0	-0.3%	0.0%

Source: TPCG Research based on the Treasury, IMF, BCRA

The big question is how much of this money printing the BCRA will be able to compensate through sterilization. In 2022, the Leliq outstanding doubled as the private sector chose to substitute Treasury debt for CenBank debt.

The big question is how much of this money printing the BCRA will be able to compensate through sterilization. In 2022, the Leliq outstanding doubled as the private sector chose to substitute Treasury debt for CenBank debt. Throughout 1H22, the BCRA was able to sterilize most of its high-powered money creation. Broad money accelerated on the back of the money multiplier and the feedback loop of creditors swapping the Treasury paper they sold to the BCRA for CDs and money market positions, driving Leliqs. Leliqs account for 68% of deposits today, and their annualized carrying costs are close to 7% of GDP. In other words, keeping the BCRA debt current would require increasing the Leliq outstanding from ARS9tn to ARS16tn. To finance this increase, deposits should increase by at least 55%yoy in 2023, and the private M3 multiplier to accelerate from 3.8 to 5.4. The 2022 increase in the multiplier in the context of falling real money balances because the private sector assumes that Certificates of Deposits and Leliqs have a different credit risk than Treasury paper. This view drove a perverse feedback loop where creditors sought to trim their exposure to Treasury securities, usually selling to the BCRA, the only buyer. In this transaction, the BCRA would create high-powered money, and creditors would use the monies to purchase CDs from banks or place them in money markets (which in turn placed the money in CDs), increasing banks' liquidity. Banks later used the newfound liquidity to purchase Leliqs, which allowed the BCRA to sterilize its original money printing. Over the past few months, however, the money multiplier stabilized and even started to decelerate (remember that sterilizing all of the quasi-fiscal deficit in 2023 would require the multiplier to re-accelerate substantially). With weaker deposit growth, more of the Leliq interest payments are becoming unsterilized base money, accelerating and becoming the prime driver for broad money growth.

Figure 17: Further increase in the BCRA's remunerated liabilities to compensate for dominances seems limited



Source: TPCG Research based on the Treasury, IMF, BCRA

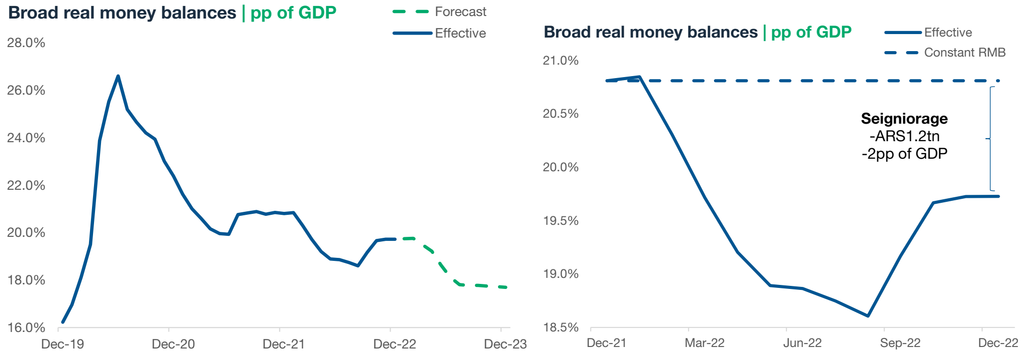
Our money demand model suggests that we should also expect little from seigniorage in a context where we expect real money balances to drop by around 1.5pp of GDP in 2023.

Our monetary framework suggests that if the government cannot trim dominances or compensate via sterilization, it will need to finance the faster high-powered money creation with seigniorage or inflation tax revenue. When we started thinking about the 2023 monetary equilibrium, we developed a fiscalist framework to analyze the money market equilibrium, where money creation needs are defined as uses and the means to finance that money creation are sources, much like a budget constraint (please see here for details)**.** Being dominances, the BCRA has little control over its money creation. The primary deficit and the need to support the ARS curve result from Treasury policy choices. A higher fiscal impulse increases the need for monetary financing of the primary deficit, all else equal. Likewise, suppose the Treasury piles up debt inconsistently or seeks to refinance at lower-than-market rates. In that case, credit risk concerns hurt the rollover ratio, increasing the need to print money to support the ARS curve. FX purchases result from the REER (which is, at least partially, under BCRA control), the brecha, and, more importantly, the government's need to build up the NIR position to face EXD payments, imports, and other external needs. Because these needs are not correlated with the ARS market equilibrium, we treat the FX dominance as beyond the BCRA's control. The final use, the quasi-fiscal deficit, is predetermined by the BCRA's past policy rate choices and its remunerated liability accumulation to sterilize. With little control over the uses side, the BCRA needs to balance the equation by raising enough sources. The prime instrument is sterilization, or the accumulation of BCRA remunerated liabilities. Seigniorage is unlikely to contribute much in a context where demand for real money balances has been consistently dripping, and the macro scenario is always on the verge of a collapse in money demand. In other words, if sterilization is insufficient to finance the uses, the government needs to increase the inflation rate to raise more revenue through the inflation tax

Our money demand model suggests that we should also expect little from seigniorage in a context where we expect real money balances to drop by around 2pp of GDP in 2023.

Our money demand model suggests that we should also expect little from seigniorage in a context where we expect real money balances to drop by around 2pp of GDP in 2023. In 1H22, broad money demand plummeted by almost 2pp of GDP in a context of high uncertainty. The biggest accomplishment of the Massa program, that feeling that Argy has pulled away from the brink, is the result of money demand stabilizing after its slide in June-July. Still, our money demand model suggests that the drivers behind the stability of real money balances may begin to dilute during 1Q23. Like bonds, money demand rebounded because the government managed to rein in the FX market, offered a policy mix that was conducent towards preventing -for now- a blow-up of the ARS space, and offered the prospect of inflation decelerating. The drought and the rising chance of the weakest harvest since 2018 are likely to erode the confidence in the government's ability to prevent a REER correction and the brecha from widening further over the short run. Likewise, the market's expectation for an additional fiscal impulse to contribute votes is also likely to press on the BCS, especially if the BCRA starts cutting rates in 1Q23, as seems likely following the pricings in the Treasury's auctions. Finally, high-frequency gauges suggest that the November CPI deceleration is unlikely to replicate in December or 1Q23, in a context where weekly inflation over the past five weeks is consistent with a low-to-mid 5% inflationary pace. We compute the combination of increasing depreciation, inflationary, and brecha expectations into our real money balances model and find that we should expect money demand dynamics to track those of 2Q22, turning seigniorage negative for a second year in a row.

Figure 18: Our money demand model suggests that real money balances could behave in 2023 like in 1H22.



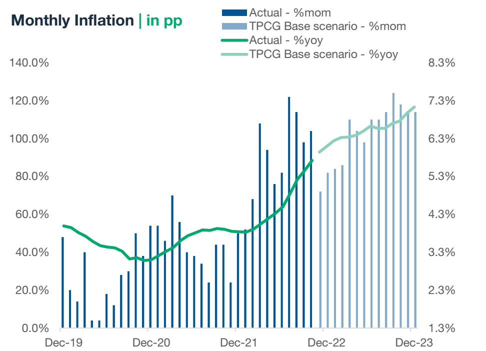
Source: TPCG Research based on the BCRA and INDEC

With limited sterilization and seigniorage working the wrong way, it would take a substantial increase in inflation tax revenue to balance the equation. All else equal, it would require inflation to accelerate to 120%yoy to raise enough revenue.

With limited sterilization and seigniorage working the wrong way, it would take a substantial increase in inflation tax revenue to balance the equation. All else equal, it would require inflation to accelerate to 120%yoy to raise enough revenue. Net of BCRA debt payments, sterilization barely compensated for the effect of dropping money demand in 2022. In this context, authorities had to rely on inflation tax to cover the ARS4.7tn in uses, plus the slippage to the money market and credit. In this context, our BVAR model, which identifies multiple causes for inflation, singled out that the monetary driver had gone from explaining 20pp of the 53% inflation in 2021 to accounting for 65pp of the 96% in 2022. The picture for 2023 under our base scenario doesn't look that different. With uses increasing almost 1.3pp of GDP and sterilization once again barely being enough, we estimate that inflation tax would, once again, need to raise about 15pp of GDP, increasing as much as the increase in uses. Of course, because real money balances have deteriorated, that would require a faster rate to compensate for a smaller tax base. Our BVAR model estimate that inflation is likely to increase by 20pp in 2023 relative to 2022 just to accommodate the additional tensions in the monetary market, pushing our point estimate for the 2023 CPI to the 120-150% range.

Figure 19: With seigniorage remaining negative and limited sterilization, the increase in money creation would need to be covered with inflation tax

	2022		2023 (f)	
	ARSbn	pp of GDP	ARSbn	pp of GDP
High-powered money creation uses	6,524,756	7.9%	12,081,600	8.2%
Fiscal dominance	1,875,310	2.3%	3,883,000	2.6%
FX dominance	1,479,274	1.8%	1,398,600	1.0%
Financial dominance	3,170,173	3.8%	6,800,000	4.6%
High-powered money creation sources	6,524,756	7.9%	12,081,600	8.2%
Sterilization (+ means increase in BCRA remunerated liabilities)	4,975,040	6.0%	4,556,000	3.1%
Seigniorage	-1,171,717	-1.4%	-4,320,000	-2.9%
Slippage to the money multiplier and credit	-8,522,677	-10.3%	-10,000,000	-6.8%
Required inflation tax	11,244,111	13.6%	21,845,600	14.8%



Source: TPCG Research based on the BCRA and INDEC

In other words, under the current policy mix, the government will need to accept a higher inflation rate to balance the monetary equation. The

In other words, under the current policy mix, the government will need to accept a higher inflation rate to balance the monetary equation. The problem is that this choice is not politically consistent. We argued that in 2023, the government would find itself between a rock and a hard place to balance the monetary market. Well, let me introduce you to the rock. With an excess of uses and a shortage of sources, the government would need to accept a higher inflation rate to compensate for dropping seigniorage and the limits to sterilization. A few months ago,

problem is that this choice is not politically consistent.

former Minister Guzman ridiculed those economists who voiced their doubts about the sustainability of the ARS financing program, arguing that there could be no sustainability issues with local currency debt. Mr. Guzman's assertion hides a painfully strong assumption: that the policymaker is willing to tolerate ever-growing inflation (and, at the limit, slipping into hyperinflation) to service ARS debt. The government's response to the more-than-likely CPI reacceleration in October suggests that such an assumption is wrong. There are two reasons for it: political and economic. On the political side, inflation around 100%yoy is a death knell for candidacies and political projects. It's extremely hard to keep disposable income from eroding at these inflation levels, with wage resets coming too little, too late, pensions falling well behind the curve, etc. In other words, CFK may be asking for more fiscal impulse to be competitive in 2023, but there's no amount of additional stimuli to compensate for the drag of 6-7%mom inflation. On the economics side, history suggests that demand for real money balances becomes increasingly unstable with inflation at these levels. June is a great example of how quickly a drop in money demand may unhinge the economy. In other words, trying to eek additional revenue from the inflation tax to finance uses risks putting inflation on a spiraling path, which we could define as monthly inflation suddenly jumping from the current 6-7%mom range to a 10-15%mom range. History suggests that once monthly inflation gets to double digits, stability in money demand becomes almost impossible to secure, setting the stage for a quick deterioration of the outlook after 1Q23.

The constraints on finding additional sources bring us around to the hard place. If seeking additional inflation tax revenue proves too risky, then the government needs to find a way to cut uses. The ARS curve and the Leliq appear as the main sources of savings.

The constraints on finding additional sources bring us around to the hard place. If seeking additional inflation tax revenue proves too risky, then the government needs to find a way to cut uses. The ARS curve and the Leliq appear as the main sources of savings. Our almost fiscalist approach to the monetary equilibrium points us towards an alternative path to avoid abusing the inflation tax. If sources aren't enough (assuming the government is unwilling to risk inflation spiraling out of control to generate enough inflation tax revenue), then the policymaker needs to cut uses. To some extent, the Massa program is aware of this path, as it has been trying to reduce money printing to cover the primary deficit. The problem is that the primary deficit lever doesn't look potent enough to compensate for the shortage in sources. Even if the government shocked the primary deficit to zero in 2023, finding a monetary equilibrium would still require increasing the inflation rate. Moreover, such a policy is not politically consistent, as it would saddle the FdT with the cost of deeper-than-expected consolidation and faster inflation in an election year. We see little chance of the government going this route. Similarly, purchasing less USD in the FX market doesn't seem viable. It would force the government into missing the EFF program's NIR target. Worse yet, it would increase concerns about the economy's external equilibrium, creating an additional driver of instability to real money balances. That leaves us with only two potential sources of savings: reducing money printing to support the ARS curve and the quasi-fiscal deficit, which combined explain almost 80% of uses. Of course, the BCRA cannot just decide to end the BCRA put or to pay the interest on its Leliqs partially. The moment the BCRA decides to curtail how much money it prints for either of these uses, the ARS space will need restructuring.

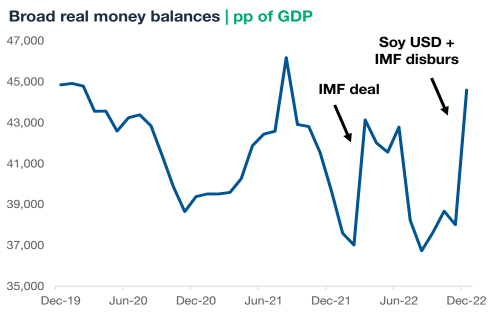
Alpha 3: The drought risks the chances of the government muddling through the FX market

Since Mr. Massa took office, the government has raised almost USD20bn in hard currency, combining the differentiated FX for soy exporters, IFI financing, and the changes in the PBOC line.

Since Mr. Massa took office, the government has raised almost USD20bn in hard currency, combining the differentiated FX for soy exporters, IFI financing, and the changes in the PBOC line. Gross international reserves increased by USD6.37bn between August and December, ending 2022 at USD44.6bn, the highest since the government received the SDR endowment from the IMF's recap in August 2021. Unlike Mr. Guzman and Mrs. Batakis, who concentrated unsuccessfully on containing the drainage of reserves, Mr. Massa focused on sourcing hard currency. His first move was restarting the IMF deal, which was on its last legs when Mr. Guzman stormed out in June. Mr. Massa committed to the program's target, introducing discretionary policies to ensure their accomplishment, and the IMF acquiesced to restarting disbursements, chipping USD9.8bn between September and December. Likewise, Mr. Massa restarted talks with the remaining IFIs to refinance payments. Between January and July, the government paid IFIs other than the IMF USD2.5bn net, as the rollover ratio deteriorated on the back of creditors' doubts about the sustainability of the IMF deal. Mr. Massa managed to assuage those fears, cutting net payments between August and December to just USD350mn. Another political negotiation led to the Chinese government authorizing Mr. Massa to convert USD5bn from the PBOC swap line into Dollars, increasing the BCRA's firepower. The final rabbit Mr. Massa pulled from his hat was the differentiated FX for soy exporters, which contributed USD11.3bn to reserves in 2022.

Figure 20: The government raised almost USD20bn on the back of the differentiated FX for soy exporters and other one-offs

USDmn	Jan-Jul	Aug-Dec
Starting International Reserves	39,662	38,232
Differentiated FX for soy exporters		11,280
September		8,125
December		3,155
Net IFI disbursements	3,090	1,321
IMF	5,566	1,671
Disbursements	13,661	9,837
Payments	-8,095	-8,166
Other	-2,476	-350
Other Debt Payments	-2,439	-245
Rest	-2,081	-5,990
FX Intervention excl. Soy	562	-6,018
Other	-2,643	28
Ending International reserves	38,232	44,597
Change in GIR	-1,431	6,365

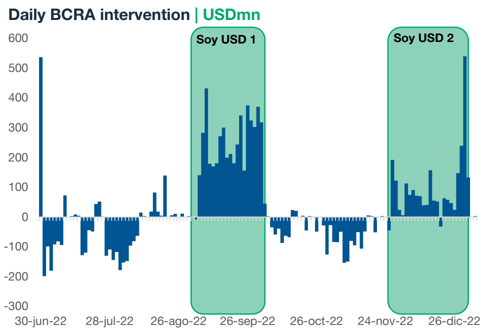


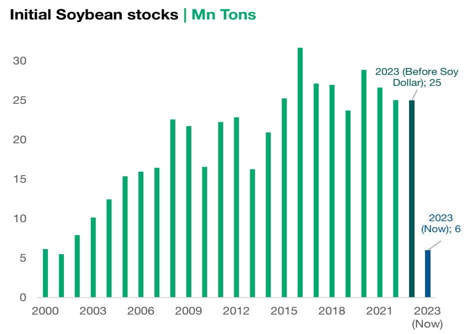
Source: TPCG Research based on the BCRA and IMF

The differentiated FX for soy exporters was a game changer, but after two taps, it left few grain inventories to sell in 1Q23.

The differentiated FX for soy exporters was a game changer, but after two taps, it left few grain inventories to sell in 1Q23. Soy exporters sold USD11.3bn in September and December in the context of an incentive program offering them a differentiated FX for a limited time. Initially, the differential FX was set to match the domestic price of soy in ARS with international prices (at the official fixing). In other words, it wasn't so much a way to compensate the brecha as it was a convoluted export tax rebate, where the Treasury still collects the levy, but producers get it back from the BCRA. This mechanism offers producers the chance to sell without the wedge introduced into prices by export taxes but maintains (actually increases) the revenue for the Treasury. Everybody was happy. Well, except for the BCRA. Still, despite the monetary consequences of the move, the uptick in agri-sales allowed the BCRA to purchase USD4.97bn in September and USD1.99bn in December, almost USD7bn, which compensated for the USD2.98bn in sales in the remaining months of 2H22. In other words, under normal conditions, the FX market continues to operate under a structural deficit, which forces the BCRA to sell Dollars. This situation remains true after the end of the second tap of the differentiated FX, as the FX market plummeted from a USD100mn surplus per day in December to USD11mn in January. A third instance of the incentive program for exporters in the short run looks challenging. For starters, few soy inventories are left after the program's first two taps. Before the incentive program for exporters, we estimated that the initial stocks for the 2022-23 harvest stood at 25mn tons of soy. Most of it has been sold to arbitrage the differentiated FX, leaving about 5-6mn tons in inventories, the lowest since 2001 (about a fifth of a severely outdated USDA estimate). Most importantly, it is likely that these inventories are either composed of low-quality or indisposable grain. In other words, there's no grain availability to offer a new differentiated FX for soy exporters. An alternative would be to extend the program incentives to different types of grain, beef, or other exportable goods. On the grain side, corn inventories are also low, and the wheat output deteriorated by almost -50%yoy, trimming exportable grain by almost -90%yoy. So there's little to gain on that side. Ultimately, the problem is that, unlike soy, most of these other exportables have significant domestic absorption, meaning that offering differentiated FX to their producers would have a sizeable impact on the CPI.

Figure 21: The BCRA only purchases USD with the differentiated FX.





Source: TPCG Research based on the BCRA and DIMEAGRO

The wheat harvest was badly hit by the 4Q drought, shaving about USD3.5bn in agri flows during 1Q23. Combined with the drop in soy inventories, we expect

The wheat harvest was badly hit by the 4Q drought, shaving about USD3.5bn in agri flows during 1Q23. Combined with the drop in soy inventories, we expect a USD4.5-4.7bn agri-flow shortfall in 1Q23, reducing the chances of a differentiated FX v3 in the short run. The winter crops suffered through one of the most challenging springs in recorded history: frost and sleet in September, drought, and extreme heat in October, November, and December. The drop in the sowed area, from 6.9mn hectares in 2021 to 6.1mn in 2022, as producers aborted the late-

a USD4.5-4.7bn agri-flow shortfall in 1Q23, reducing the chances of a differentiated FX v3 in the short run.

cycle wheat, already signaled a cap to the total output of around 15-20% from the outset. But then, as conditions deteriorated, the outlook became much worse. With about 70% of the sowed area under severe or extreme duress because of the drought, the yields dropped from 35 quintiles per hectare in 2021 to 23.3 in 2022, the lowest since 2010. In this context, the wheat harvest dropped -50%yoy, from 23mn tons to 11.5mn tons. Of course, the output figures underestimate the problem that the dismal weak harvest poses to the FX market. Because domestic wheat absorption stands at around 10mn tons, exportable grain dropped from about 13mn tons in the 2021-22 harvest to 1.5mn tons in the 2022-23 harvest, a -88.5%yoy drop in the grain available to sell abroad. The weakest harvest since 2015 resulted from the dryest spring in 35 years. Rainfall between September and December averaged 100mn in the core area, about a third of what was necessary to maintain humidity in the soil. Worse yet, 2022 was the third year in a row with water scarcity, compounding the problem. At USD300 a ton, the 11.5mn in lost output could shave USD3.5bn from the USD market, concentrated in 1Q23. Prices are also about 20% below the 1Q22 average, shaving another USD1bn. We expect agri-flows to drop by an additional USD1-1.2bn on the back of low soy inventories, which means there's limited grain to sell in 1Q22. Still, most of that is likely to be offset by financing to purchase grain in 2Q. All in all, we estimate that the agri-flows shortfall during 1Q23 could total USD4.5-4.7bn.

Figure 22: The wheat harvest dropped -50%yoy, reducing exportable grain by -90%yoy.

	1Q23 Agri flows	Wheat	Rest
2015-16	3200	667	2533
2016-17	5901	1396	4504
2017-18	4823	1724	3099
2018-19	4681	1726	2955
2019-20	4189	2790	1399
2020-21	3493	2303	1191
2021-22	6724	5489	1235
2022-23	**2000**	**850**	**1150**

Campaign	Total (mn tn)	Sowed area (mn ha)	Yield (qq/ha)
Wheat			
2012/13	5.7	3.6	25.1
2013/14	6.7	3.6	26.5
2014/15	9.6	4.2	27.9
2015/16	6.4	3.6	28.0
2016/17	12.7	4.7	33.6
2017/18	13.3	5.5	30.8
2018/19	14.8	6.2	29.6
2019/20	11.1	6.6	28.0
2020/21	15.0	6.5	27.0
2021/22	23.0	6.9	35.0
2022/23	11.5	5.9	23.3

Source: TPCG Research based on the BCR and BCBA

Looking beyond 1Q, the drought has substantially impacted the summer crops, driving us to lower our estimate of the soy harvest to 36mn tons and the corn harvest to 44mn tons.

Looking beyond 1Q, the drought has substantially impacted the summer crops, driving us to lower our baseline estimate of the soy harvest to 36mn tons and the corn harvest to 43mn tons. Combined with the drop in the wheat harvest, we expect agri-exports to drop by about USD17-18bn in 2023. The effect of the drought on the winter crops is a problem but not the most critical risk to the 2023 FX market scenario. By mid-January, humidity conditions have only worsened since November, putting the summer crops under extreme duress too. Currently, about 90% of the country's sowed area is suffering through some degree of water shortage, with about 60% in severe or worse conditions. At the current temperatures, we estimate that soils require between 35 and 50mm per week to sustain crops, translating to about 140 to 220mm per month. Over the past month, rainfall has accumulated less than 50mm, and MTD rains have only accumulated 30mm on average. About 75% of the early grain is in regular to bad condition, with about 40% of the early corn already lost. Worse yet, temperatures remained in the upper range of the historical records. In this context, even the prime areas, which normally have corn yields close to 100qq/ha are averaging between 75 and 65qq/ha, reducing the odds that the late corn could compensate for the weakness of the early crops. Our baseline scenario assumes, in line with INTA estimates, that the La Niña phenomenon could weaken in January and February, leading to a more normal rainfall cycle in 1Q23. In this context, our baseline scenario assumes no additional deterioration in yields. Under our base scenario, we estimate that the corn harvest will likely total 43mn tons, a -15% yoy drop. On the soy side, yield drops could dip about 20%, resulting in a 36mn ton harvest, down from 42.2mn last year. At current prices, that would imply a USD16bn drop in the value of the harvest in 2023, and about USD17 to 18bn in agri-exports, after subtracting an inelastic domestic absorption.

Figure 23: Under our baseline scenario, we estimate a USD16bn drop in the value of the harvest in 2023

	Value of harvest					
	Total Value (USDmn)	Production Total (mn tn)	Sowed area (mn ha)	Yield (qq/ha)	Price (May future avg YTD)	Initial stocks (USDA & TPCG Estimate)
Soybean						
2019-20	15,945	50.7	17.2	30.5	314.5	28.9
2020-21	23,846	45.0	16.9	27.7	529.9	26.7
2021-22	25,742	42.2	16.1	27.7	610.0	25.1
2022-23f	19,800	36.0	17.1	22.2	550.0	5.0
Corn						
2019-20	6,736	51.5	7.26	82.4	130.8	2.4
2020-21	12,126	52.0	7.3	83.2	233.2	3.9
2021-22	19,380	51.0	8.64	68.8	380.0	1.1
2022-23f	12,900	43.0	7.9	63.4	300.0	
Wheat						
2019-20	3,881	19.5	6.8	29.9	199.0	1.7
2020-21	3,919	17.0	6.5	28.6	230.5	1.7
2021-22	7,360	23.0	6.9	35	320.0	2.2
2022-23f	3,910	11.5	5.9	23.3	340.0	
Total						
2019-20	**26,561**	**121.7**	**31.3**	**-**	**218.3**	**33.0**
2020-21	**39,891**	**114.0**	**30.7**	**-**	**349.9**	**32.3**
2021-22	**52,482**	**116.2**	**31.6**	**-**	**451.7**	**28.3**
2022-23f	**36,610**	**90.5**	**30.9**	**-**	**404.5**	**5.0**

Source: TPCG Research based on the BCR, DIMEAGRO, and USDA

We model two alternative scenarios, a more favorable and a negative, depending on the evolution of weather conditions throughout January and early February. We believe that risks are biased towards the downside, making our bear scenario more likely than the constructive one.

We model two alternative scenarios, a more favorable and a negative, depending on the evolution of weather conditions throughout January and early February. We believe that risks are biased towards the downside, making our bear scenario more likely than the constructive one. By this time last year, summer crops were also suffering from humidity shortfall and excess heat. The prospect of the harvest was hardly encouraging, with estimates pointing to significant risks that soy output could break the 40mn threshold for the first time since 2018. Despite the unflattering prospects, rain conditions improved starting January's second fortnight and February, improving yields by about 10% relative to what was expected at this time last year. We model our more constructive scenario based on that experience. A 10% boost in yields would bring the soy harvest back to 40mn tons and corn production to 47mn, increasing the value of the 2023 harvest by about USD4bn relative to our baseline scenario. Of course, improving weather conditions would mean little for the wheat harvest, which is already being sold. Despite the additional agri-flows, our more constructive scenario still has an implicit drop in agri-flows of about USD12bn relative to 2022. Still, when we look at weather models, we believe that risks are biased towards humidity conditions normalizing slower than our baseline scenario assumes, resulting in a continued deterioration of yields throughout 1Q. We model our bear scenario assuming that yields could deteriorate an additional 15% relative to expectations, resembling more closely the current situation. That would mean cutting the soy harvest by 5.5mn tons relative to our base scenario, to 30.6mn, and corn production to 36.6mn, about 10mn less than in our base scenario. Our bear scenario would shave another USD5bn from agri-flows in 2023 relative to 2022, widening the hard currency deficit to USD22bn.

Figure 24: Our alternative scenarios for the summer crops

	Constructive scenario Value of harvest					
	Total Value (USDmn)	Production Total (mn tn)	Sowed area (mn ha)	Yield (qq/ha)	Price (May future avg YTD)	Initial stocks (USDA & TPCG Estimate)
Soybean						
2019-20	15,945	50.7	17.2	30.5	314.5	28.9
2020-21	23,846	45.0	16.9	27.7	529.9	26.7
2021-22	25,742	42.2	16.1	27.7	610.0	25.1
2022-23f	22,000	40.0	17.1	24.7	550.0	5.0
Corn						
2019-20	6,736	51.5	7.26	82.4	130.8	2.4
2020-21	12,126	52.0	7.3	83.2	233.2	3.9
2021-22	19,380	51.0	8.64	68.8	380.0	1.1
2022-23f	14,100	47.0	7.9	69.3	300.0	
Wheat						
2019-20	3,913	19.5	6.8	29.9	200.7	1.7
2020-21	4,055	17.0	6.5	28.6	238.5	1.7
2021-22	7,360	23.0	6.9	35	320.0	2.2
2022-23f	3,910	11.5	5.9	23.3	340.0	
Total						
2019-20	**26,594**	**121.7**	**31.3**	**-**	**218.5**	**33.0**
2020-21	**40,026**	**114.0**	**30.7**	**-**	**351.1**	**32.3**
2021-22	**52,482**	**116.2**	**31.6**	**-**	**451.7**	**28.3**
2022-23f	**40,010**	**98.5**	**30.9**	**-**	**406.2**	**5.0**

	Bear scenario Value of harvest					
	Total Value (USDmn)	Production Total (mn tn)	Sowed area (mn ha)	Yield (qq/ha)	Price (May future avg YTD)	Initial stocks (USDA & TPCG Estimate)
Soybean						
2019-20	15,945	50.7	17.2	30.5	314.5	28.9
2020-21	23,846	45.0	16.9	27.7	529.9	26.7
2021-22	25,742	42.2	16.1	27.7	610.0	25.1
2022-23f	16,830	30.6	17.1	18.9	550.0	5.0
Corn						
2019-20	6,736	51.5	7.26	82.4	130.8	2.4
2020-21	12,126	52.0	7.3	83.2	233.2	3.9
2021-22	19,380	51.0	8.64	68.8	380.0	1.1
2022-23f	10,965	36.6	7.9	53.9	300.0	
Wheat						
2019-20	3,843	19.5	6.8	29.9	197.1	1.7
2020-21	4,111	17.0	6.5	28.6	241.8	1.7
2021-22	7,360	23.0	6.9	35	320.0	2.2
2022-23f	3,910	11.5	5.9	23.3	340.0	
Total						
2019-20	**26,524**	**121.7**	**31.3**	**-**	**217.9**	**33.0**
2020-21	**40,083**	**114.0**	**30.7**	**-**	**351.6**	**32.3**
2021-22	**52,482**	**116.2**	**31.6**	**-**	**451.7**	**28.3**
2022-23f	**31,705**	**78.7**	**30.9**	**-**	**403.1**	**5.0**

Source: TPCG Research based on the BCR, DIMEAGRO, and USDA

Crude exports and tighter LNG imports could trim the hard currency shortfall in our base scenario by about USD4bn. The government is seeking alternate hard currency sources, like selling 5G spectrum or a new tax amnesty.

Crude exports and tighter LNG imports could trim the hard currency shortfall in our base scenario by about USD4bn. The government is seeking alternate hard currency sources, like selling 5G spectrum or a new tax amnesty. Energy comes to mind as the single most important source of hard currency to compensate for the lost inflows due to the drought. For starters, the government has revamped the crude pipeline to Chile, clearing the path to increasing oil exports. The problem is that with the future prices' curve inverted, the increase in volume is likely to be offset by lower prices, adding less than USD300mn to exports. On the LNG side, the pipeline is scheduled to be online by late June. Natural gas imports take place for around 160 days between early May and September. In 2022, the government imported about 17mn M3 per day over those 160 days in LNG, at an average cost of USD28.8MMBTU, with a total cost of USD2.9bn. The Nestor Kirchner Pipeline's commencement date is June 20th, so it would be operational for about 100 of the 160 days in which the government needs to import LNG, transporting 11mn M3 per day. Assuming an LNG price of around USD24MMBTU, substituting 11mn M3 per day over 100 days of Qatarese LNG (which is roughly equivalent to the output Bahia Blanca regasification plant, scheduled to be phased out in 2023) with Vaca Muerta NatGas would save a little under USD900mn (11mn M3 per day x 100 days x USD22MMBTU / 27.096). The government will need to continue purchasing liquid fuels from abroad, though the average price is likely to drop, chipping in another USD-USD1.5bn in savings. All in all, the energy deficit could tighten by about USD3.5-4bn in 2023, including the lower import prices. In other words, while the coming online of the crude pipeline to Chile and the Nestor Kirchner pipeline for NatGas will help trim the energy deficit considerably, they won't contribute enough in 2023 to compensate for the shortfall in grain sales. In this context, the government is seeking alternate sources of hard currency. Taking a page from 2014 (yes, the Kirchnerist administrations pass, the gambits remain), the government is considering selling the 5G spectrum. While telcos are unenthusiastic about deploying the monies to light up a 5G network, spectrum sales are very rare, forcing them to participate in the bidding process. In the last big sale, the 2014 auction for the 4G spectrum, however, the government raised just USD400mn. In this context, Mr. Massa's silver bullet for 2023 seems to be the tax amnesty. With a new deal for automatic information exchange with the IRS going into effect in 2023, Mr. Massa plans on offering a tax amnesty for residents with undeclared monies in the US. While the 2016 tax amnesty was very successful, the government believes that substantial undeclared monies remain in havens such as Delaware, which the new information exchange would uncover. The rumored penalty, around 2.5% of assets converted at the official fixing if the resident brings the money or double if he opts to leave the monies abroad, should set the incentives for some repatriation. The additional flows would (i) help the BCRA reserves, compensating partially for the grain shortage, and (ii) provide additional revenue for the government. In other words, the tax amnesty is the government's 2023 Soy Dollar.

Even without the drought, the FX market dynamics were poised to continue to deteriorate. Despite exports increasing by over USD12bn in 2022, the BCRA only added reserves because of the net financing from the IMF.

Even without the drought, the FX market dynamics were poised to continue to deteriorate. Despite exports increasing by over USD12bn in 2022, the BCRA only added reserves because of the net financing from the IMF. Exports in 2022 totaled over USD90bn, about USD15bn more than in 2021. When he took office in 2019, former Minister Guzman forecasted that if he could get exports to grow to USD90bn, Argentina's FX market problems would end. Well, no. Despite the record export inflows driven exclusively by a positive terms of trade shock, explained in almost equal parts by higher agri-flows and higher non-Agri exports, we estimate that the current account surplus deteriorated from USD5.5bn in 2021 to USD5bn in 2022. Imports increased by USD8bn, driven by higher energy costs, diluting about half of the export windfall from the trade surplus. The rest of the additional export flows covered the widening services deficit on the back of tourism spending, and the growing income deficit as bonds started to step up, increasing interest payments. In this context, with the current account remaining flat to marginally tighter in 2022, reserve accumulation came from the financial account, which went from a USD5.7bn deficit in 2021 to USD2.7bn surplus in 2022. Most of the inflows correspond to the disbursements of the IMF program, which totaled USD6.895bn in net terms during 2022. By the end of the year, the BCRA not only holds the USD4.177bn in net financing that the program ringfenced to boost the NIR but also the monies to cover the 1Q23 payments. While those don't add to the NIR, they do add to the GIR and the BoP. Additionally, the government received USD1.1bn in net IFI principal financing, less than the program's baseline and negative if we subtract interest payments, but positive in terms of the financial account. These inflows were enough to cover USD1bn in retail dollarization, USD4.7bn in corporate and provincial debt payments, and accumulate USD4.9bn in reserves. In other words, without net IMF financing, the BCRA GIR position would have continued to deteriorate in 2022, despite the record export inflow.

Figure 25: We expect the current account surplus to vaporize in 2022 and IMF net financing to turn negative, making the FX market substantially more hostile in 2023

			2022e			2023f		
	2020	2021	Jan-Nov 2022	Dec-22e	2022e	Constructive	Base	Bear
Current Account	**243**	**5,590**	**2,560**	**2,357**	**4,948**	**-172**	**-2,291**	**-7,571**
Trade Balance	8,407	15,312	18,659	3,407	22,066	17,328	16,709	12,929
Exports	50,557	76,467	82,809	8,507	91,316	83,828	80,209	74,429
Agri-flows	20,274	32,808	36,732	3,707	40,438	30,828	28,209	24,429
Rest	30,282	43,659	46,077	4,800	50,877	53,000	52,000	50,000
Imports	-42,149	-61,154	-64,150	-5,100	-69,250	-66,500	-63,500	-61,500
Energy imports	-2,640	-5,843	-12,419	-600	-13,019	-7,500	-7,500	-7,500
Rest	-39,509	-55,311	-51,731	-4,500	-56,231	-59,000	-56,000	-54,000
Services Balance	-1,584	-4,460	-9,633	-900	-10,533	-10,500	-12,000	-13,500
Income Balance	-6,662	-5,276	-6,435	-150	-6,585	-7,000	-7,000	-7,000
Capital & Financial account	**-7,969**	**-5,696**	**-1,532**	**4,233**	**2,701**	**-4,415**	**-4,415**	**-4,415**
Retail dollarization	-3,134	-571	-868	-80	-948	-1,000	-1,000	-1,000
Non-residents net lending	-6,008	-4,268	-4,564	-200	-4,764	-2,700	-2,700	-2,700
Treasury Net indebtness	365	568	3,924	3,477	7,401	-1,715	-1,715	-1,715
IFIs	756	213	690	456	1,146	1,000	1,000	1,000
Public sector dollarization	-102	72	67	0	67	0	0	0
Net payments	-289	-306	-390	-287	-677	-550	-550	-550
IMF	0	589	3,557	3,308	6,865	-2,165	-2,165	-2,165
Rest	807	-1,426	-24	1,035	1,012	1,000	1,000	1,000
Valuation effects	**2,265**	**381**	**-2,682**	**0**	**-2,682**	**0**	**0**	**0**
Change in reserves	**-5,460**	**275**	**-1,654**	**6,590**	**4,936**	**-4,587**	**-6,707**	**-11,986**

Source: TPCG Research based on the BCR, DIMEAGRO, and USDA

When we look at 2023, the two pillars that stabilized the FX market in 2022 are likely to disappear. The drought could cut exports by over USD10bn, vaporizing the current account surplus, and IMF financing will turn negative in net terms.

When we look at 2023, the two pillars that stabilized the FX market in 2022 are likely to disappear. The drought could cut exports by over USD10bn, vaporizing the current account surplus, and IMF financing will turn negative in net terms. We build three FX market scenarios around our expected prospect for the summer crops' harvest. Our constructive scenario assumes that grain exports drop by USD10bn. Our base scenario sees agri-flows dropping by almost USD13bn. Finally, our bear scenario assumes a cut in grain exports of around USD16bn. As we argued, energy might cushion the blow somewhat, and the government will try to tighten the import compression further (more so in our base and bear scenarios than in the constructive case). Even then, in the best-case scenario, with a drop in grain production due to the drought and little inventories following the two periods of differentiated FX for soy exporters to make it through 2022, we expect the current account surplus to vaporize in 2023. Under our base scenario, we expect a USD2.3bn current account deficit, totaling a USD7.3bn deterioration relative to 2022. The deterioration can run as deep as USD12.5bn in our bear scenario, with the current account deficit widening to USD7.5bn. Unlike in 2022, we see little solace from the financial account. Retail dollarization is likely to continue dripping. Corporate and provincial debt principal payment schedules imply a USD2.7bn outflow, with little chance of non-resident monies pouring in to plug the gap. And, of course, the IMF financing will turn negative in 2023, going from USD6.9bn in net inflows to -USD2.2bn in net outflows. All in all, we see the BCRA losing reserves even in a best-case scenario in 2023. We believe that our constructive scenario is what's currently priced into bonds. It's a scenario where muddling through the FX market, with a little help from the PBOC and IFIs, plus some rabbits that Mr. Massa could pull from his hat (5G, tax amnesty, etc.), is possible. We believe that our base scenario is not fully priced in. In this scenario, muddling through 2023 is much less likely, forcing the government to further tighten capital and import controls. This is a scenario where inflationary pressures and the "brecha" continue to increase. Compounded with the complexities of attaining equilibrium in the ARS market, our base scenario is one where FX and local market pressures would concurrently lead to an acceleration in nominality during 2Q23, one that's more than likely not politically consistent. Our bear scenario is one where it's impossible to navigate through 2023 without a REER correction. The magnitude of the shock exceeds any instruments that the policymaker has available to throw at the FX market. Still, you have to assume that the government will not acquiesce to a devaluation without trying every one of these policy instruments beforehand. In other words, before letting the official fixing go, the government is likely to fully restrict the financial account and introduce a multiple FX framework formally. We believe that the risk that the sovereign goes into arrears and forces corporate and provincial borrowers into arrears, too, embedded in this scenario, is nowhere close to being priced at the moment. Worse yet, when we look at the dynamics of the drought and the evolution of the crops, the probabilities between these scenarios are not evenly split. Our bear scenario is significantly more probable than our constructive one at this point.

Figure 26: Corporate and provincial payments in 2024 total 4.6bn, 2.1bn in interest, and USD2.7bn in principal

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Total
Corps													
Interest	182	87	59	83	76	112	189	76	56	81	71	111	**1184**
Principal	43	180	227	421	105	48	318	207	106	41	119	56	**1873**
Total	**224**	**267**	**286**	**504**	**181**	**161**	**507**	**283**	**163**	**122**	**190**	**168**	**3057**
Provs													
Interest	16	51	229	28	15	91	15	60	227	27	14	87	**861**
Principal	35	36	194	35	10	138	35	36	69	35	10	138	**770**
Total	**51**	**86**	**423**	**63**	**24**	**230**	**50**	**96**	**296**	**62**	**24**	**225**	**1631**

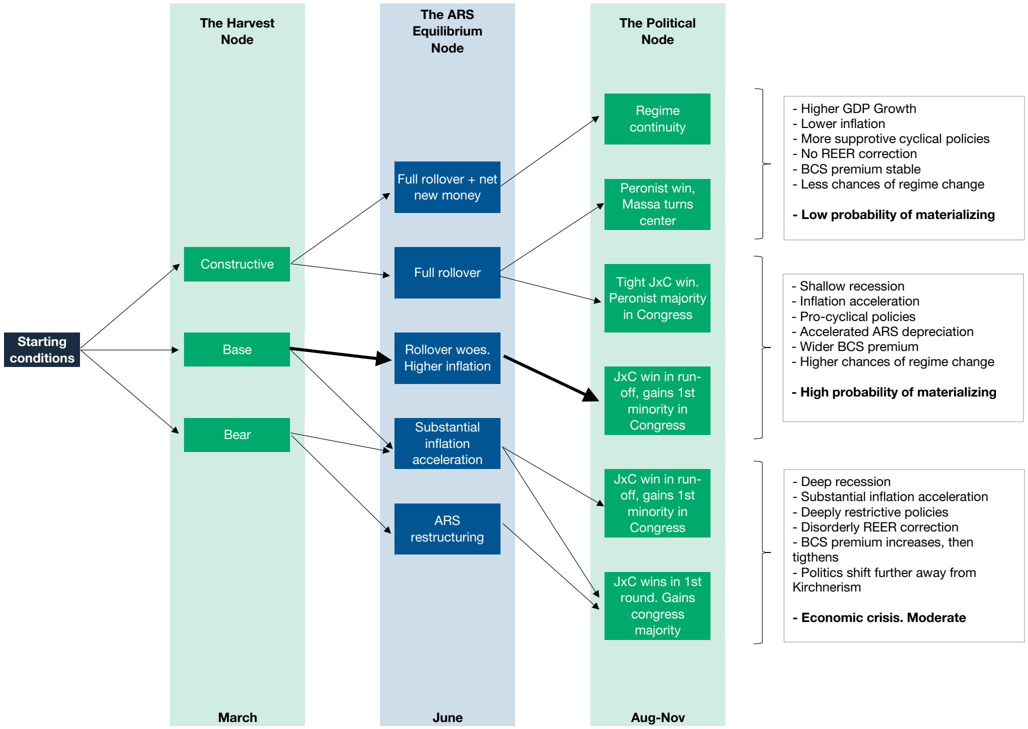
Source: TPCG Research

2023 Scenarios: Mr. Massa and the multiverse of madness

Given the challenges described in the previous sections, modeling a single base scenario for 2023 doesn't look like the proper approach. Instead, we opt to model a surface of scenarios based on informational nodes depending on the evolution of the harvest and the ARS market.

Given the challenges described in the previous sections, modeling a single base scenario for 2023 doesn't look like the proper approach. Instead, we opt to model a surface of scenarios based on informational nodes depending on the evolution of the harvest and the ARS market. Despite being well into January, the uncertainty remains too elevated to model a single base scenario that can effectively work as a blueprint for the rest of the year. We prefer a more bayesian approach, modeling each of the challenges we outlined in the previous sections as information nodes. These nodes are not independent of one another. Suppose the drought deteriorates the summer crops' harvest consistent with our bear scenario. In that case, the ARS equilibrium node is likely to tilt towards the least constructive outcomes, and the election node is likely to reinforce the odds of a regime change. On the other side of the outcome tree, a better-than-expected harvest would give the government better odds of attaining an ARS equilibrium with lower-than-baseline inflation, improving the FdT's expected electoral performance. The interaction of three informational nodes creates a surface of scenarios. From this surface, we'll pick the scenarios we believe have the higher probability of materializing, modeling GDP growth, inflation, FX (official and parallel), monetary policy rate, and borrowing rate. In our view, the most likely path is our baseline estimate for the harvest, leading to further challenges in rolling over the Treasury and the BCRA ARS debts and potentially setting the stage for a JxC win in the election, including control of Congress with some support of the Libertarian caucus.

Figure 27: Our surface of scenarios resulting from our informational node approach to model the different challenges of 2023



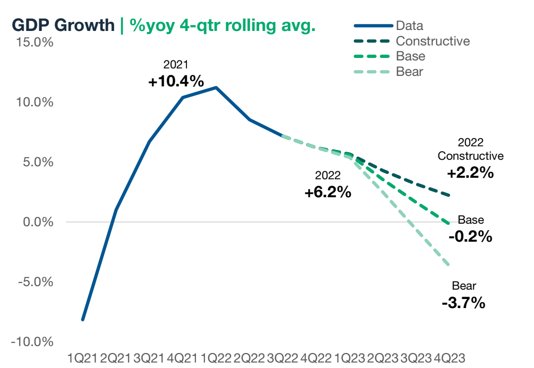
Source: TPCG Research

In our base case scenario, GDP is likely to end 2023 flat. Our constructive scenarios may make GDP growth around 2%yoy attainable. In the scenarios around the bear paths of our tree, the recession could worsen to -4%yoy.

In our base case scenario, GDP is likely to end 2023 flat. Our constructive scenarios may make GDP growth around 2%yoy attainable. In the scenarios around the bear paths of our tree, the recession could worsen to -4%yoy. GDP in 2022 has overperformed our expectations, posting a 6.4%yoy growth over the first three quarters of the year, though it started to slow down in 3Q. Final sales, which averaged two-digit growth in 2021 and 1H22, slowed to 6.9%yoy in 3Q22, despite private consumption remaining extremely robust with a 10.2%yoy growth. Public consumption flattened on the back of Mr. Massa's consolidation (+5%yoy in 1H22 vs. -0.2%yoy in 3Q22), and exports plummeted (+9%yoy in 1H22 vs. -4.6%yoy in 3Q22), explaining the deceleration in final sales. GDP slowed down by less than final sales in 3Q because (i) imports also slowed down on the back of the government-imposed restrictions and (ii) the private sector rebuilt inventories that had collapsed in 2Q, in a context where output slowed, but final sales continued to expand at full speed. Looking ahead, we expect GDP to decelerate marginally in 4Q, averaging 6.2%yoy in 2022. In 2023, we expect 1Q to be almost flat in seasonally adjusted terms relative to 4Q22 on the back of the hit to the winter corps. Our scenarios begin to diverge in 2Q. Under our constructive scenarios, GDP would drop between 0% and -0.75%qoq seasonally adjusted. In the baseline part of the scenario surface, we expect a -1.5 to -2.5%qoq seasonally adjusted drop in output, mostly linked to the harvest and the connected industries. In the bear set of scenarios, the 2Q drop could drop about 5%qoq seasonally adjusted, similar to the 2018 drought. In 2H, our scenarios diverge further, while on a quarterly basis, our constructive scenarios usually follow a V-shaped recovery, with the economy ending the year with sequential quarterly expansions in 3Q and 4Q. On the other hand, our baseline scenario has a U-shaped quarterly evolution, with the 3Q flat relative to the 2Q and a minor expansion in 4Q. Our bear scenarios are L-shaped, with consecutive contractions in 2Q and 3Q, with output stabilizing in 4Q. All in all, we average our constructive scenarios and come to a 2.2%yoy GDP growth, zero in our baseline set of scenarios and -3.7% in the more bear part of our scenario surface.

Figure 28: We expect GDP growth to stall in 2023, though the odds remain tilted towards the downside and recession

	2021	1Q22	2Q22	3Q22	2022YTD
Final Sales	12.8%	9.9%	11.3%	6.9%	9.4%
PCE	10.0%	10.9%	10.9%	10.2%	10.7%
Public consumption	7.1%	5.0%	5.0%	-0.1%	3.2%
Investment	33.4%	10.6%	19.1%	14.0%	14.6%
Exports	9.2%	8.9%	9.2%	-4.6%	4.0%
Imports	22.0%	26.8%	23.1%	21.0%	23.5%
Inventories & Other	-11.3%	11.6%	-337.7%	366.5%	-105.7%
GDP	10.4%	6.0%	7.1%	5.9%	6.4%

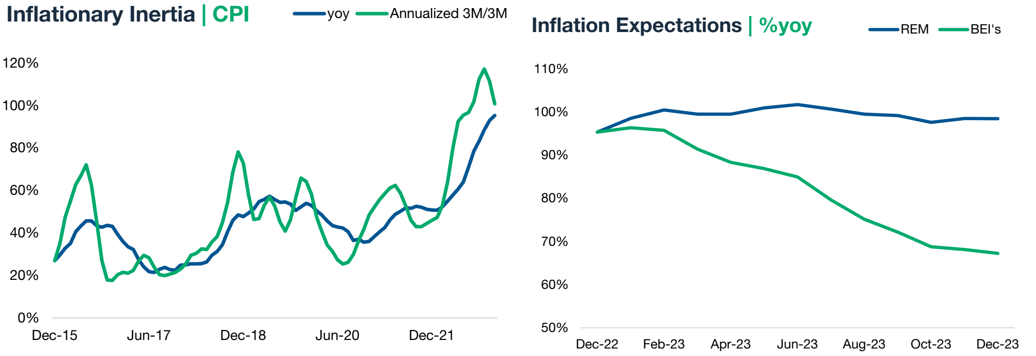


Source: TPCG Research based on Indec

Inflation is the make-or-break variable in our scenarios. The government is banking its political fates on a deceleration. However, our models suggest that there's only a fine line for deceleration, with most scenarios pointing to higher price pressures.

Inflation is the make-or-break variable in our scenarios. The government is banking its political fates on a deceleration. However, our models suggest that there's only a fine line for deceleration, with most scenarios pointing to higher price pressures. Our BVAR model identifies four critical drivers for inflation in 2023: (i) the FX and the passthrough, (ii) monetary policy, (iii) income policy, and (iv) expectations and inertia. The starting point for expectations and inertia is potentially the worst since 1991. Inflation in 4Q22 averaged 5.5%mom, higher than the 3.3%mom in 4Q21 and the 3.8%mom in 4Q19. In other words, despite Mr. Massa's success in bringing inflation down from the 3Q22 peak, 2023 begins with the highest inflationary inertia in over 30 years in a context where core inflation remains stubbornly above 5%mom. Expectations remain highly correlated with inertia. Though the government's targeting a 60% inflation for 2023, the consensus in the BCRA survey of professional forecasters yields 98.4%yoy (median), marginally higher than 2022's 95.4%yoy. Interestingly, breakeven inflation implicit in the arbitrage between linkers, and fixed-rate bonds does point towards a substantial CPI deceleration (67%yoy Dec/Dec). However, we believe most of it is an artifact of the extremely wide credit risk premium charged to linkers. In our view, however, the FX, monetary, and income policies will likely dominate the CPI. Other determinants of our CPI BVAR model seem less relevant this year. Fiscal impulse is likely to offset the other drivers partially. Still, it doesn't look like an independent policy variable, given the government's focus on limiting money printing and the IMF program targets. A widening output gap should also contribute to lower inflation, but bottlenecks related to import restrictions are more than likely to dilute that effect.

Figure 29: Expectations and inertia point towards further inflation acceleration in 2023

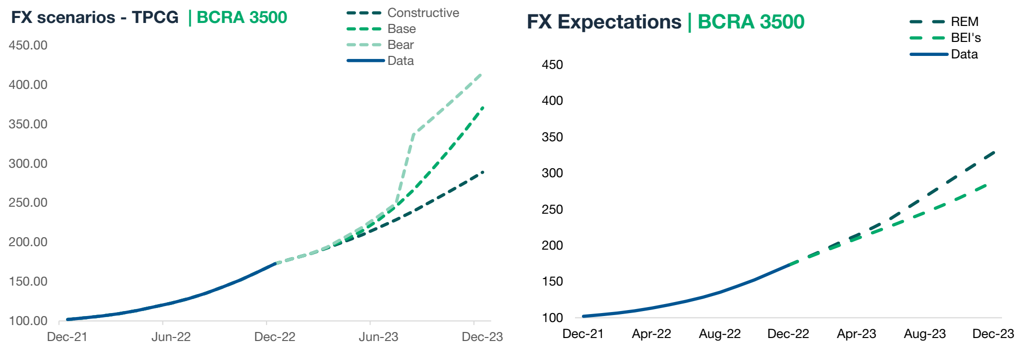


Source: TPCG Research based on BCRA and the TPCG Trading Desk

Our BVAR model points to the FX as the most important determinant of inflation in 2023, tying the evolution of the CPI to the summer crop harvest and the government's ability to prevent a REER correction.

Our BVAR model points to the FX as the most important determinant of inflation in 2023, tying the evolution of the CPI to the summer crop harvest and the government's ability to prevent a REER correction. For our BVAR model, the FX was the single most important driver of inflation in 2022, contributing almost 40pp of the 95% inflation print. We expect 2023 to be no different. In 2022 we had to adjust our BVAR model to accommodate two different kinds of passthrough. Traditionally, our model only included the official fixing as a determinant of inflation. Once we controlled for the official fixing, any other FX we included was not statistically significant. This changed in 2022. Throwing the BCS into the mix yielded significant estimates for the first time. The most likely explanation for this shift would be that, as the government restricted access to the official FX market, the BCS became the pricing reference for entire chapters of the CPI, like durable goods. This created two different pass-throughs. The traditional one, for most goods, is dominated by the BCRA's crawling peg pace, and the other is tied to the evolution of the BCS and the brecha for those importers whose goods the government restricted from the official FX market. In other words, this ties the passthrough to the harvest. Under our constructive set of scenarios, we believe that hard currency availability in the FX market should be enough to allow the government to slow down the pace of the crawling peg to about two-thirds of the 2022 inflation, or roughly in line with the government's 60%yoy government expectation, ending 2023 at USDARS290. In our baseline set of scenarios, despite the hard currency shortage resulting from the drought, we believe that the government can still avoid a REER correction. Still, unlike in our constructive scenarios, there's little margin to slow down the crawling peg. In this scenario, we expect the BCRA to slide the currency in lockstep with inflation, ending the year close to USDARS370. This scenario assumes a tightening of the import compression framework, so the passthrough is higher than just the additional deval, as the BCS becomes relevant for additional sets of goods. The final set of scenarios, on the bear part of our surface, includes the assumption that the drought becomes so severe that maintaining the current FX framework becomes impossible. This scenario assumes not only a one-time FX jump and an accelerated crawling peg but also the most stringent import compression framework, increasing the impact of the BCS on the CPI. Interestingly, the market consensus seems to fall along the lines of our constructive scenarios, signaling that our baseline view is worse-than-consensus.

Figure 30: Given our expectation of a weak harvest, we expect the BCRA to devalue the ARS by more than the market consensus

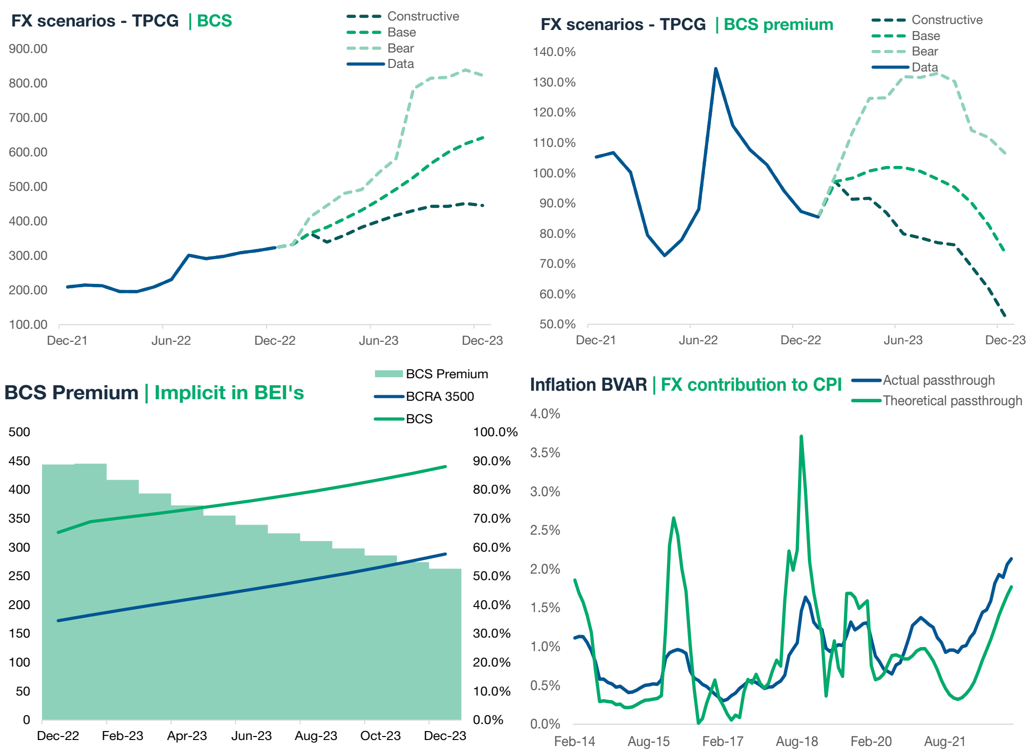


Source: TPCG Research based on BCRA and the TPCG Trading Desk

Our BVAR model points to the FX as the most important determinant of inflation in 2023, tying the evolution of the CPI to the summer crop harvest and the government's ability to prevent a REER correction.

We believe that in our baseline and bear scenarios, the BCS and the "brecha" will be relevant to inflation in 2023. Even with a constant BCS premium, additional import restrictions would increase the passthrough more than the depreciation of the official fixing. The import restriction framework led to a second kind of passthrough: goods that went from being priced at the official fixing to implicitly reflecting the BCS because of the impossibility of paying for them with BCRA reserves. Unlike the traditional passthrough, that's only determined by the crawling peg pace, the BCS passthrough happens even if the parallel FX remains flat or strengthens in real terms because you're going from building prices at USDARS180 to USDARS360. The dynamic of the BCS is not as relevant as the one-time jump. In this context, the impact of the BCS on inflations diverges significantly in our different scenarios. Under our constructive scenario, we expect the BCS to strengthen in real terms, following along the trend of the past few months, ending 2023 at USDARS450, compressing the BCS premium to 55%. Our base scenario sees the BCS accelerating on the back of tighter import controls and a shortage of hard currency in the official market, though still depreciating less than inflation, ending 2023 at USDARS640, with a "brecha" of 73%, almost 15pp tighter than at the end of 2022. Our bear scenario would see the biggest tensions in the FX market, resulting in the BCS premium returning to the highest levels since mid-2022. Under this scenario, we expect the hard currency shortage to result in a substantial tightening of controls that would propel the BCS to the USDARS800 range by 4Q. Still, we expect the BCS premium to tighten in this scenario by the end of the year due to the one-off correction in the official fixing. All in all, under most of our scenarios, we find that the BCS is likely to weigh on the CPI more than it did in 2022. Our BVAR model finds something very interesting. Between 2013 and 2021, the actual passthrough (the contribution to prices of a change in the FX) was highly correlated to the response function of shocking the FX by a similar margin as the official fixing's monthly depreciation. Since mid-2021, however, the passthrough has contributed every month at least twice the contribution suggested by the response function after a shock of the same magnitude as the official fixing's depreciation.

Figure 31: The BCS is likely to add to inflationary pressures, even if it strengthens in real terms



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

A second driver of the CPI in the short run is likely to be income policy. The government is trying to compensate for the negative fiscal impulse with

A second driver of the CPI in the short run is likely to be income policy. The government is trying to compensate for the negative fiscal impulse with wage increases and supplemental payments. Since the 2005 election cycle, Kircherism has been operating like a swiss watch: in election years, fiscal impulse increased between 0.5pp and 1pp of GDP to drive voter support. Even in 2015, an embattled CFK administration increased fiscal impulse significantly to improve Mr. Scioli's chances. 2021 seemed like it could be the exception in a context where Mr. Guzman

wage increases and supplemental payments.

reduced fiscal impulse by almost 0.75pp of GDP in the quarter before the primaries. Still, after suffering the worst defeat in Peronism's history during the August 2021 primaries, the government backtracked on the fiscal consolidation, increasing fiscal impulse by 0.5pp of GDP in three months in a desperate attempt to minimize the damage. Using fiscal policy to drive votes in 2023 looks unlikely. For starters, the IMF program forces the government into compressing the primary deficit by 0.6pp of GPD, yielding a negative fiscal impulse. More importantly, domestic financing is scarce, limiting a more expansive fiscal stance. In this context, the government is pivoting towards replacing fiscal impulse with income policy as its preferred instrument. If we look at the CY23, nominal wages increased in lockstep with inflation. Still, the CY figure hides a turning point in real wages after October. Between January and October, nominal wages increased by 70%, about 7pp less than inflation, resulting in a -4% drop in real wages over the year's first ten months. Over the past two months, on the other hand, nominal wages increased by almost 17pp between wage hikes and the supplemental income that the government enacted in December, almost 7pp faster than inflation. The wage boost drove a 5.8% recovery in real wages. The government is now trying to curb wage negotiations into its 60%yoy inflation target for 2023, but the initial income impulse is too significant. Even if unions agreed to a 30% hike in 1H22, wages would increase 90% June/June, a pace not consistent with a 3%mom inflation. To make matters more challenging, our BVAR model finds that the CPI's response function to a 1% shock to wages is about 40% larger than the response to a 1% shock to fiscal impulse.

Figure 32: Income policy is replacing fiscal impulse as the government's preferred instrument to shore up voter support

	Nominal wages	Inflation	Real wage
Dec-21	100.0	100.0	100.0
Jan-22	104.6	103.9	100.7
Feb-22	109.6	108.8	100.7
Mar-22	118.2	116.1	101.8
Apr-22	125.2	123.0	101.7
May-22	130.2	129.3	100.7
Jun-22	137.7	136.3	101.0
Jul-22	145.1	146.4	99.1
Aug-22	151.7	156.6	96.8
Sep-22	161.2	166.3	96.9
Jan-Sept	61.2%	66.3%	-3.1%
Oct-22	170.0	177.1	96.0
Nov-22	181.9	185.8	97.9
Dec-22	198.3	195.3	101.5
4Q	23.0%	17.4%	4.7%

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

Monetary policy is also likely to add to CPI pressures in a context where money demand is likely to continue deteriorating, and supply is almost inelastic.

Monetary policy is also likely to add to CPI pressures in a context where money demand is likely to continue deteriorating, and supply is almost inelastic. As we saw previously, the BCRA is encumbered with the need to create high-powered money to cover the primary deficit, support the ARS curve, purchase USD, and cover the quasi-fiscal deficit. In other words, the money supply is highly inelastic in a context where sterilization is the BCRA's only instrument to compensate for the growing dominances. On the other hand, money demand is likely to deteriorate. More so in our less constructive scenarios. At the end of the day, the excess ARS results from the difference between an inelastic money supply and a highly elastic money demand. That is, the fewer the USD resulting from the drought, the larger the excess ARS, even if the government keeps money creation as low as possible. Under our base scenario, we assume that real money balances would drop by 2pp of GDP. We also assume a 75% rollover ratio of the Treasury debt and 130% of the CenBank debt (resulting in ARS4.6tn net sterilization). Under these assumptions, we estimate that the need to raise revenue from the inflation tax would increase by almost 10%yoy. Under our bear scenario, the rollover ratio would deteriorate considerably to about 50% on the Treasury debt and 110% on the Central Bank debt, increasing high-powered money creation needs to 14.3tn and capping sterilization to ARS1.8tn. Additionally, we would expect real money balances to deteriorate twice as much as in our base scenario. In this context, the inflation tax revenue required to attain equilibrium in the ARS market would increase by 40%yoy. Only in our more constructive set of scenarios could Mr. Massa achieve his goal of turning monetary policy into an anchor of the CPI. In this scenario, we assume a 90% rollover ratio for the Treasury debt and 150% for the BCRA rate, increasing net sterilization to ARS6.5tn. Under this scenario, FX dominance would be larger, but fiscal and financial dominance lower (because of a better rollover ratio and lower rates), cutting high-powered money creation to ARS9.9tn. With a more nuanced deterioration in real money balances and additional sterilization, the required inflation tax revenue required to balance the ARS market would drop in this scenario by almost 6% in real terms.

Figure 33: In most of our scenarios, the BCRA would need higher revenue from the inflation tax to balance the monetary market

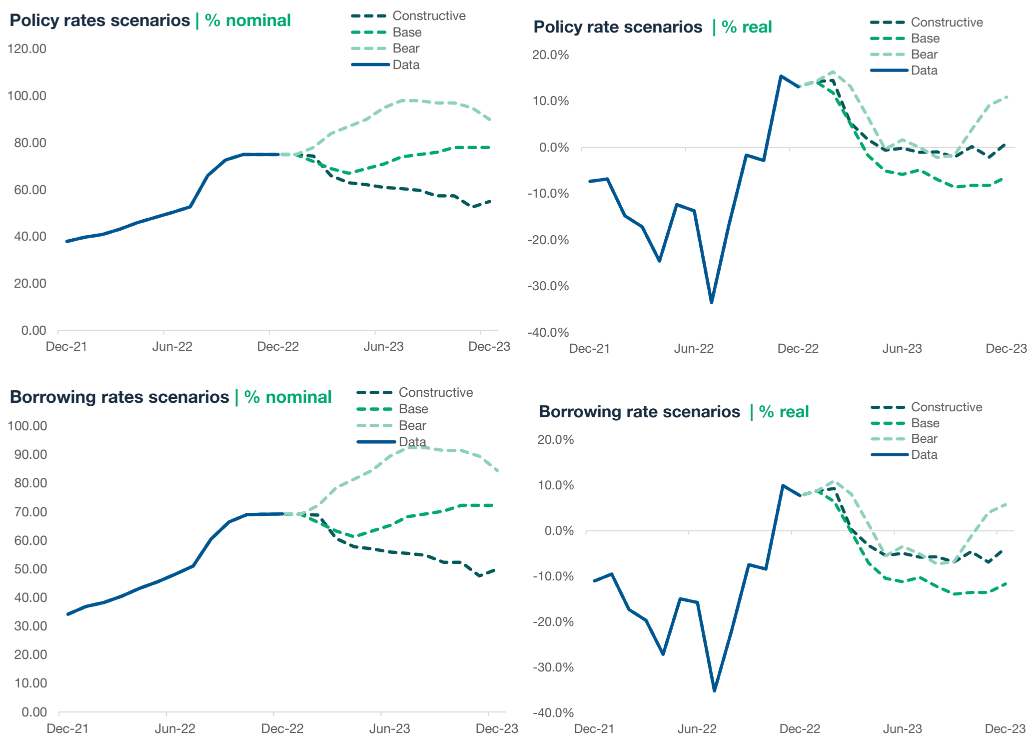
	2022		Constructive		2023 (f) Baseline		2023 (f) Bear	
	ARSbn	pp of GDP			ARSbn	pp of GDP	ARSbn	pp of GDP
High-powered money creation uses	6,524,756	7.9%	9,981,600	7.7%	12,081,600	8.2%	14,383,000	9.8%
Fiscal dominance	1,875,310	2.3%	2,083,000	1.6%	3,883,000	2.6%	6,883,000	4.7%
FX dominance	1,479,274	1.8%	1,898,600	1.5%	1,398,600	1.0%	500,000	0.3%
Financial dominance	3,170,173	3.8%	6,000,000	4.6%	6,800,000	4.6%	7,000,000	4.8%
High-powered money creation sources	6,524,756	7.9%	9,981,600	7.7%	12,081,600	8.2%	14,383,000	9.8%
Sterilization (+ means increase in BCRA remunerated liabilities)	4,975,040	6.0%	6,500,000	5.0%	4,556,000	3.1%	1,800,000	1.2%
Seigniorage	-1,171,717	-1.4%	-2,000,000	-1.5%	-4,320,000	-2.9%	-7,200,000	-4.9%
Slippage to the money multiplier and credit	-8,457,288	-10.2%	-11,000,000	-8.5%	-10,000,000	-6.8%	-8,000,000	-5.4%
Required inflation tax	11,178,722	13.5%	16,481,600	12.7%	21,845,600	14.8%	27,783,000	18.9%

Source: TPCG Research based on BCRA

The government hiked the policy rate into positive territory. Still, in this context of dropping money demand and inelastic dominances, we find that more hawkish rates have little traction on inflation.

The government hiked the policy rate into positive territory. Still, in this context of dropping money demand and inelastic dominances, we find that more hawkish rates have little traction on inflation. With inflation decelerating in 4Q22 and the BCRA holding the policy rate, real rates turned markedly positive by the end of the year, with the policy rate reaching about 1400bp above inflation and the borrowing rate close to 800bp. Looking at 2023, all of our scenarios assume that real rates will begin to ease from the current high points as (i) inflation begins to pick up and (ii) high-powered money creation accelerates. Our baseline set of scenarios is the one presenting the most challenging balance. In this scenario, where the monetary equilibrium may be attainable with a somewhat higher revenue of the inflation tax, despite a deteriorating context, we believe that the government is likely to allow rates to drop back into moderately negative territory, trying to balance out the growth of the quasi-fiscal deficit and the limits to sterilization with stabilizing money demand. Under our constructive and bear scenarios, we expect rates to be around zero in real terms, though through very different paths. In our constructive scenario, a more supportive outlook would allow the BCRA to begin easing its policy stance. In our bear scenario, despite the BCRA hiking rates, we expect it to remain behind the curve until 4Q23.

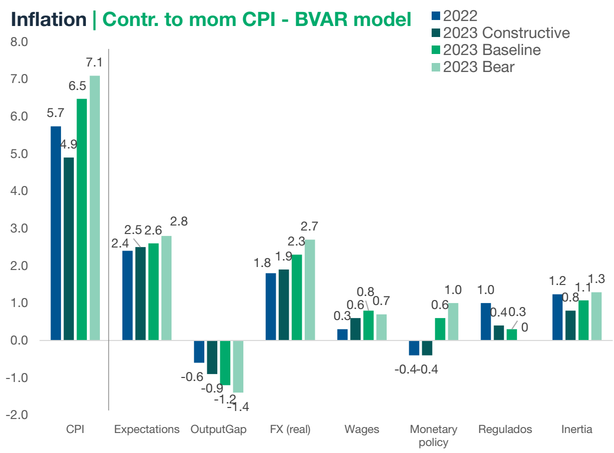
Figure 34: The BCRA has pushed rates into positive territory in 4Q22



All in all, our BVAR model identifies that expectations and the FX should explain about 80% of 2023's inflation. The contribution of wages to the CPI should increase, while the impact of monetary policy will be conditional on each scenario.

All in all, our BVAR model identifies that expectations and the FX should explain about 80% of 2023's inflation. The contribution of wages to the CPI should increase, while the impact of monetary policy will be conditional on each scenario. In most ways, our BVAR model suggests that the 2023 inflationary process will be similar to that of 2022, only faster. Expectations and inertia will continue to explain about half of the monthly inflation print. We expect the FX's contribution to increase marginally under our baseline scenario, from 30% of the monthly print to 35%, on the back continued passthrough of the BCS into the CPI. We expect the contribution of wages to double, from 6% of the monthly print to 12%. We expect the contribution of regulated prices to weaken in 2023, in a context where the government unfroze public services' tariffs in 2H22, and increases are likely to remain below inflation on average in 2023. The contribution of the output gap is likely to become more negative in 2023 as the growth slows below potential (or even slides into recession) and import restrictions create new bottlenecks. Our constructive and bear scenarios share similar dynamics, albeit with higher contributions of expectations and the FX, offset in varying degrees by the output gap. Most of the variability comes from monetary policy. Under our constructive scenario, we believe the BCRA has a shot at maintaining the policy bias adopted since Mr. Massa took office, anchoring inflation. Under our baseline scenario, we expect the monetary policy bias to ease, shifting to a positive contribution to inflation. Under our bear scenario, monetary policy would become even more supportive, adding almost a full percentage point to monthly inflation (up from -0.4pp in 2022)

Figure 35: Our BVAR model suggests that the 2023 inflationary process will not be that dissimilar to 2022's, but most drivers will push for an acceleration.

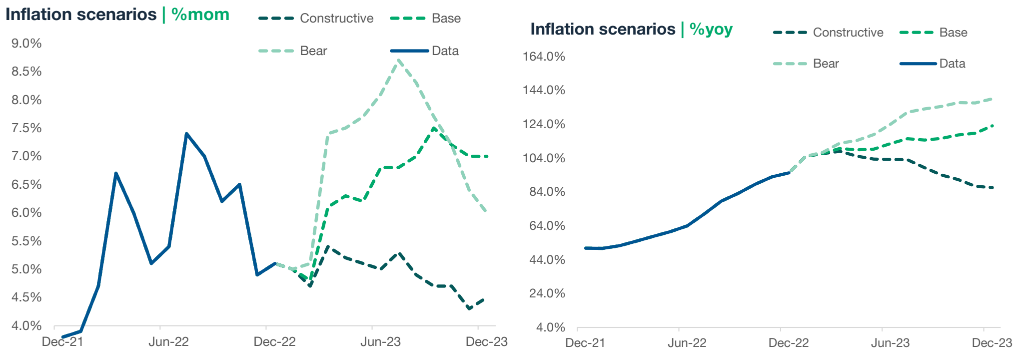


Source: TPCG Research based on Indec, BCRA, the Treasury, and IMF.

Under our baseline scenario, we expect inflation to re-accelerate starting March, ending the year at about 120%yoy. In our constructive scenario, inflation could decelerate about 10pp into the mid-80s. In our bear scenario, inflation could accelerate to around 140-150%yoy.

Under our baseline scenario, we expect inflation to re-accelerate starting March, ending the year at about 120%yoy. In our constructive scenario, inflation could decelerate about 10pp into the mid-80s. In our bear scenario, inflation could accelerate to around 140-150%yoy. Mr. Massa is banking his political fortunes on inflation easing to under 4%mom by April and 60%yoy in 2023. Our BVAR model yields an estimate about twice as high under our baseline set of scenarios. We run the distribution of outcomes under our baseline scenario, and the probability of inflation running 60pp below our point estimate is a little under 10%, suggesting that, as in 2022, the inflationary process is biased to the upside. Under our baseline scenario, we expect inflation to stabilize around 5%mom in January and February. By March, with the prospect of the harvest souring and more clarity on the hard currency shortfall, we expect inflation expectations to reset upwards, driven by the view of a higher probability of a REER correction. We expect monthly inflation to peak after the primaries in our baseline set of scenarios. By then, the most critical part of the ARS maturity schedule will be behind us, for better or worse. More importantly, money demand will likely begin pricing a regime change, stabilizing by the end of the year. In 2Q-3Q, instability would be even more marked under our bear set of scenarios. As we model a seizing of the ARS market, we would expect inflation to peak in July, but at the highest levels in over thirty years. Even in our more constructive scenario, our BVAR model suggests that inflation is likely to remain stubbornly above Mr. Massa's target, even if below the 2022 figures.

Figure 36: In most of our scenarios, the BCRA would need higher revenue from the inflation tax to balance the monetary market



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

EXD Strategy: Time to take a breather.

In our view, with the regime change fully priced into the ARGENT curve, the effects of an elusive ARS equilibrium only partially priced, and the impact of the drought severy underestimated, we believe that Globals have a substantial drawdown risk in the short term.

In our view, with the regime change fully priced into the ARGENT curve, the effects of an elusive ARS equilibrium only partially priced, and the impact of the drought severy underestimated, we believe that Globals have a substantial drawdown risk in the short term. We spent most of 2022 OW on the ARGENT curve. On the one side, polls were increasingly showing that the odds of a regime change were improving. On the other, Mr. Massa's set of policies was improving the next administration's starting condition, with a tighter primary deficit and some correction in relative price distortions (REER and public services' tariffs). In other words, we remain highly constructive of the post-2024 Argentina and continue to see an upside even in the simulations where we assume a credit event with probability 1. The problem is not the medium run but rather getting there. Of the three drivers of the idiosyncratic performance of the past few months' rally, the regime change seems to be fully priced in, meaning that there's little juice left in that lemon. Further gains from the regime change will depend critically on the next administration's execution of a stabilization program. On the other hand, we feel that the market underestimates the impact of a negative outcome in the ARS market, assuming that it would only boil down to a domestic problem, leading to a higher BCS premium and inflation. The problem with that view is that it assumes that the government would be willing to tolerate inflation that accelerates to the point that's politically crushing. With Mr. Massa banking his competitiveness on bringing down inflation, the government may go to great lengths to prevent inflation from spiraling out of control. The last few months suggest that the easiest path to disinflation is to ease import restrictions and access to international reserves to contain the BCS passthrough into the CPI. In other words, a tradeoff between reserves and prices could spill over into a credit risk for EXD. That credit risk is maximized by the fact that the market underestimates the drought's effect and the drop in Agri-flows. Before accepting the need for a REER correction, to keep the current account, especially the trade balance, running, we expect the government to fully clot the financial account, even if that means entering arrears. In this context, with bonds already above 30c, we see a substantially front-loaded drawdown risk to the ARGENT curve. While we see some chance that bonds could remain around the 30c mark under our constructive scenario (the one that most closely matches what the market is currently pricing), under our baseline scenario, we would expect bonds to weaken back into the low-20s. In our bear scenarios, the drop could bottom out in the teens. While the government might believe that the repurchase could add a little gas to the rally's tank, we believe that it might backfire, providing a catalyst for those trying to find a way off to exit the trade. All in all, we like how the Argy story is shaping up post-2023, but we feel that the short-term outlook will give us a much more attractive entry point during 1H23. If we look beyond the 1H23 downside risks, we remain constructive, with end-year price targets in the mid-30s for the ARGENT curve and low-40s for 2024.

Annex A: Summary of our Constructive scenario

		Inflation						Official Fixing			BCS		BCS Premium		Leliq rate	Badlar Rate	MonPol Funding rate spread
		%mom			%yoy										TPCG View		
		TPCG View	REM BCRA	BEI's	TPCG View	REM BCRA	BEI's	TPCG View	REM BCRA	BEI's	TPCG View	BEI's	TPCG View	BEI's			
Dec-22	Data	5.1%	5.1%	5.1%	95.3%	95.3%	95.3%	172.62	172.62	172.62	323.39	323.39	87.3%	87.3%	74.00	68.06	593.75
Jan-23	Estimates	5.0%	5.6%	4.4%	105.1%	98.5%	96.9%	179.09	182.85	182.32	336.33	344.75	87.8%	89.1%	72.00	69.20	280
Feb-23		4.7%	5.7%	4.4%	106.7%	100.4%	96.3%	185.11	193.00	191.60	349.24	351.51	88.7%	83.5%	74.40	68.90	550
Mar-23		5.4%	6.2%	4.3%	108.0%	99.5%	91.9%	192.68	203.99	200.58	354.08	358.47	83.8%	78.7%	66.00	60.70	530
Apr-23		5.2%	6.0%	4.3%	105.1%	99.5%	88.9%	200.81	213.92	209.40	360.99	365.68	79.8%	74.6%	63.00	57.80	520
May-23		5.1%	5.9%	4.3%	103.4%	100.9%	87.4%	209.15	225.26	218.20	363.20	373.21	73.7%	71.0%	62.20	57.10	510
Jun-23		5.0%	5.8%	4.3%	103.2%	101.7%	85.4%	218.68	237.40	227.08	365.75	381.13	67.3%	67.8%	61.00	56.00	500
Jul-23		5.3%	6.8%	4.3%	103.0%	100.6%	80.1%	228.64	252.55	236.18	376.62	389.48	64.7%	64.9%	60.50	55.50	500
Aug-23		4.9%	6.4%	4.3%	98.3%	99.5%	75.6%	239.37	267.70	245.58	373.41	398.35	56.0%	62.2%	59.80	54.80	500
Sep-23		4.7%	6.0%	4.4%	94.0%	99.1%	72.6%	251.40	282.86	255.42	364.31	407.79	44.9%	59.7%	57.40	52.40	500
Oct-23		4.7%	5.7%	4.4%	91.3%	97.6%	69.3%	263.52	298.01	265.78	350.91	417.87	33.2%	57.2%	57.40	52.40	500
Nov-23		4.3%	5.4%	4.5%	87.3%	98.4%	68.6%	275.88	313.17	276.78	343.28	428.67	24.4%	54.9%	52.60	47.60	500
Dec-23		4.5%	5.1%	4.6%	86.6%	98.4%	67.2%	288.82	328.32	288.53	335.92	440.26	16.3%	52.6%	55.00	50.00	500

Annex B: Summary of our Baseline scenario

		Inflation						Official Fixing			BCS		BCS Premium		Leliq rate	Badlar Rate	MonPol Funding rate spread
		%mom			%yoy										TPCG View		
		TPCG View	REM BCRA	BEI's	TPCG View	REM BCRA	BEI's	TPCG View	REM BCRA	BEI's	TPCG View	BEI's	TPCG View	BEI's			
Dec-22	Data	5.1%	5.1%	5.1%	95.3%	95.3%	95.3%	172.62	172.62	172.62	323.39	323.39	87.3%	87.3%	74.00	68.06	594
Jan-23	Estimates	5.0%	5.6%	4.4%	105.1%	98.5%	96.9%	179.09	182.85	182.32	336.33	344.75	87.8%	89.1%	72.00	66.06	594
Feb-23		4.8%	5.7%	4.4%	106.8%	100.4%	96.3%	185.11	193.00	191.60	349.24	351.51	88.7%	83.5%	70.00	64.06	594
Mar-23		6.1%	6.2%	4.3%	109.6%	99.5%	91.9%	193.02	203.99	200.58	366.28	358.47	89.8%	78.7%	67.00	61.06	594
Apr-23		6.3%	6.0%	4.3%	108.8%	99.5%	88.9%	202.74	213.92	209.40	384.75	365.68	89.8%	74.6%	65.00	59.06	594
May-23		6.2%	5.9%	4.3%	109.2%	100.9%	87.4%	214.06	225.26	218.20	403.83	373.21	88.7%	71.0%	67.00	61.06	594
Jun-23		6.8%	5.8%	4.3%	112.6%	101.7%	85.4%	228.61	237.40	227.08	425.80	381.13	86.3%	67.8%	70.00	64.06	594
Jul-23		6.8%	6.8%	4.3%	115.4%	100.6%	80.1%	245.71	252.55	236.18	448.96	389.48	82.7%	64.9%	71.00	65.06	594
Aug-23		7.0%	6.4%	4.3%	114.6%	99.5%	75.6%	266.35	267.70	245.58	474.10	398.35	78.0%	62.2%	72.00	66.06	594
Sep-23		7.5%	6.0%	4.4%	115.6%	99.1%	72.6%	290.33	282.86	255.42	481.69	407.79	65.9%	59.7%	74.00	68.06	594
Oct-23		7.2%	5.7%	4.4%	117.7%	97.6%	69.3%	315.41	298.01	265.78	489.39	417.87	55.2%	57.2%	75.00	69.06	594
Nov-23		7.0%	5.4%	4.5%	118.7%	98.4%	68.6%	341.90	313.17	276.78	497.23	428.67	45.4%	54.9%	75.00	69.06	594
Dec-23		7.0%	5.1%	4.6%	123.1%	98.4%	67.2%	370.62	328.32	288.53	505.18	440.26	36.3%	52.6%	75.00	69.06	594

Annex C: Summary of our Bear scenario

		Inflation						Official Fixing			BCS		BCS Premium		Leliq rate	Badlar Rate	MonPol Funding rate spread
		%mom			%yoy										TPCG View		
		TPCG View	REM BCRA	BEI's	TPCG View	REM BCRA	BEI's	TPCG View	REM BCRA	BEI's	TPCG View	BEI's	TPCG View	BEI's			
Dec-22	Data	5%	5.1%	5.1%	95.3%	95.3%	95.3%	172.62	172.62	172.62	323.39	323.39	87.3%	87.3%	74.00	68.06	594
Jan-23	Estimates	5%	5.6%	4.4%	105.1%	98.5%	96.9%	179.09	182.85	182.32	336.33	344.75	87.8%	89.1%	75.00	66.06	894
Feb-23		5%	5.7%	4.4%	107.4%	100.4%	96.3%	185.11	193.00	191.60	349.24	351.51	88.7%	83.5%	78.00	72.30	570
Mar-23		7%	6.2%	4.3%	112.8%	99.5%	91.9%	193.58	203.99	200.58	394.46	358.47	103.8%	78.7%	84.00	78.50	550
Apr-23		8%	6.0%	4.3%	114.4%	99.5%	88.9%	205.78	213.92	209.40	448.12	365.68	117.8%	74.6%	87.00	81.50	550
May-23		8%	5.9%	4.3%	117.8%	100.9%	87.4%	218.53	225.26	218.20	466.91	373.21	113.7%	71.0%	90.00	84.50	550
Jun-23		8%	5.8%	4.3%	124.0%	101.7%	85.4%	233.39	237.40	227.08	514.06	381.13	120.3%	67.8%	95.00	89.50	550
Jul-23		9%	6.8%	4.3%	131.1%	100.6%	80.1%	249.27	252.55	236.18	525.25	389.48	110.7%	64.9%	98.00	92.50	550
Aug-23		8%	6.4%	4.3%	133.0%	99.5%	75.6%	336.51	267.70	245.58	716.75	398.35	113.0%	62.2%	98.00	92.50	550
Sep-23		8%	6.0%	4.4%	134.5%	99.1%	72.6%	355.44	282.86	255.42	667.91	407.79	87.9%	59.7%	97.00	91.50	550
Oct-23		7%	5.7%	4.4%	136.7%	97.6%	69.3%	374.63	298.01	265.78	701.17	417.87	87.2%	57.2%	97.00	91.50	550
Nov-23		6%	5.4%	4.5%	136.5%	98.4%	68.6%	394.30	313.17	276.78	675.94	428.67	71.4%	54.9%	95.00	89.50	550
Dec-23		6%	5.1%	4.6%	139.0%	98.4%	67.2%	415.00	328.32	288.53	673.57	440.26	62.3%	52.6%	90.00	84.50	550

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